

# **Keynote Speech by H.E. S. Pushpanathan, Deputy Secretary-General of ASEAN for ASEAN Economic Community, at the Asian Development Bank Institute Annual Conference 2010 on "The Political Economy of Asian Regionalism"**

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## **"Challenges Facing the ASEAN Economic Community"**

Dr. Masahiro Kawai, Dean and CEO, Asian Development Bank Institute

Distinguished Speakers and Delegates

Ladies and Gentlemen,

### **Introduction**

At the outset, I would like to thank the Asian Development Bank Institute for giving me the opportunity to address this important Annual Conference 2010 on "The Political Economy of Asian Regionalism"

The issue of Asian Regionalism has captured the imagination of the world as the centre of global growth shifts to Asia. The G-20 and ongoing developments in the multilateral sphere are strong indications of the recognition of Asia's ascendance as well as the developing world. As such, I see this forum and the work ADBI is undertaking as important steps to better understand how we can forge a sustainable partnership in Asia to propel our own brand of regionalism. That is, a regionalism that can work for Asia given our diversity, different levels of development, political and economic systems, institutions and respective national interests. This means we will have to take a more multi-dimensional approach to regionalism, including institution building, in Asia taking into account the experiences of the region that would certainly encompass ASEAN.

## **ASEAN Economic Integration**

I have been asked to speak this afternoon on the challenges facing the ASEAN Economic Community or AEC in short. In this regard, I would like to focus my remarks briefly on three aspects: ASEAN's efforts to establish the AEC in the year 2015; the challenges ASEAN faces in this respect; and how ASEAN economic integration complements and contributes to Asian regionalism.

With the ASEAN Charter in effect now providing the much needed rules-based regime for economic community building, ASEAN is placing concerted efforts in implementing the AEC Blueprint adopted in 2007. The Blueprint seeks to put in place a competitive and outward looking Single Market and Production in ASEAN that will facilitate free flow of goods, services, investment, skilled labour and freer flow of capital within the region by the year 2015. Narrowing the development gaps will be an integral aspect of this economic community building.

Despite the financial crisis, ASEAN economies have been able to weather the storm and continue to perform well due to their concerted efforts in reshaping their macro-economic policies after the 1997-98 financial crisis, their stimulus packages as well as strengthening regional cooperation that is now a key contributor of growth for the region, in particular intra-ASEAN trade and intra-ASEAN investment. In fact, this year ASEAN has achieved a number of milestones that serve as catalyst for ASEAN Member States to press-on with the community building efforts. ASEAN has now become attractive again and is being courted by the world from Asia-Pacific, Europe, the Gulf, and Latin America to Africa.

Allow me to enumerate briefly these achievements as well as the key progress ASEAN has made so far. In the area of trade in goods, the ASEAN Free Trade Area or AFTA was realised on 1 January 2010, as the ASEAN-6 comprising Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand have eliminated tariffs for ASEAN originating products on 99.65% of total tariff lines.

Riding on the momentum of the realisation of AFTA, the ASEAN Trade in Goods Agreement (ATIGA), which supersedes the CEPT-AFTA Agreement, entered into force on 17 May 2010. With this Agreement, the trade in goods component of ASEAN economic integration has expanded beyond the coverage of the CEPT-AFTA Agreement as it now brings into one single Agreement substantive provisions on an enhanced Rules of Origin; disciplines on the application of non-tariff measures and the elimination of non-tariff barriers; a trade facilitation work

program; standards, technical regulations and conformity assessment procedures; and sanitary and phyto-sanitary measures. ATIGA is basically the legal framework for liberalising and facilitating trade in goods with the view to achieving free flow of goods within the AEC by the year 2015.

ASEAN cooperation on standards, technical regulation and conformity assessment, a key component for trade facilitation, has produced several Mutual Recognition Arrangements, most notably of which are in the electrical and electronic and the cosmetic sectors. In order to support expeditious customs clearance of goods that have conformed to the ASEAN Harmonised Technical Regulations/Requirements, a conformity-marking scheme is being developed.

The ASEAN Single Window (ASW) is one of ASEAN's flagship initiatives in the area of trade facilitation. It is an ambitious project that entails the setting-up of National Single Windows that would serve as a platform for the establishment of an ASEAN Single Window. Most Member States have established their National Single Windows already. With this development, a Memorandum of Understanding for an ASW Pilot Project has been finalised and will be signed soon.

The area of trade in services is one of the most difficult areas under the liberalisation component of ASEAN economic integration. Notwithstanding this, ASEAN Member States have managed to conclude 7 packages of specific commitments to liberalise the service trade. The Protocol to Implement the 8th Package of Commitments under the ASEAN Framework Agreement on Services has been signed at the sidelines of the 17th ASEAN Summit in October 2010. The signing of this Protocol seals the commitment of ASEAN Member States not only to liberalise 15 more services subsectors but also to increase the foreign investors' equity in the 80 subsectors already liberalised. Cognisant of the need to achieve free flow of services by 2015 and the fact that liberalising the remaining services subsectors becomes more and more difficult to most of the ASEAN Member States, work is progressing on finalising the parameters to further liberalise services commitments under the AFAS.

It is my hope that this mandate will further enhance the implementation of the MRAs that have to date been concluded on seven professional services, namely: engineering services, architecture services, nursing services, medical practitioners, dental practitioners, accountancy and surveying.

Conscious that free flow of investments is one of the core elements of the ASEAN single market and production base, ASEAN Member States have signed the ASEAN Comprehensive Investment Agreement (ACIA), which is, as the name suggests, a comprehensive investment agreement that not only enhances the 1998 ASEAN Investment Agreement (AIA) and the 1987 ASEAN Agreement for the Promotion and Protection of Investments (also known as the ASEAN Investment Guarantee Agreement or ASEAN IGA) but also brings into one single Agreement liberalisation, protection, facilitation and promotion as it relates to investment. In fact, ASEAN's share of global FDI has increased from 2.8% in 2008 to 3.6% in 2009 despite the financial crisis.

The Chiang Mai Initiative Multilateralisation (CMIM) is another important milestone for ASEAN. The US\$ 120 billion CMIM, implemented on 24 March 2010, has been established to address balance of payment and short-term liquidity problems in the region and supplement existing international financial arrangements. This will enable the region to guard against downside risks and challenges that may potentially hit not only the regional economy but the global economy as well. ASEAN, together with its Plus Three partners – China, Japan and the Republic of Korea have also established the US\$ 700 million Credit Guarantee and Investment Facility (CGIF), which would help develop deep and liquid local currency and regional bond markets. The ASEAN Infrastructure Fund is also in the final works and is expected to be launched next year. It will help finance the development of major infrastructure projects in ASEAN.

Competition policy is slowly getting into ASEAN's regional agenda. Convinced of the importance of competition policy in improving further the regional business environment for domestic and multinational enterprises operating in the region, ASEAN launched in August 2010 two important documents, these are, the ASEAN Regional Guidelines on Competition Policy and the Handbook on Competition Policy and Law in ASEAN for Business. We hope this is a small but important step will help to bring about a level playing field needed to further improve business environment in the region and attract high value-added investments.

Equitable economic development is the third pillar of the AEC. Small and Medium Enterprises (SMEs) are a priority for ASEAN under this pillar. That is not to say that other sectors are less important. ASEAN believes that SMEs should also be able to gain from the fruits of economic integration. For this sector, ASEAN has achieved significant progress. In particular, a Strategic Plan of Action of ASEAN Small and Medium Enterprises (SME) Development 2010-2015 was developed to replace the ASEAN Policy Blueprint for SME Development 2004-2014. ASEAN

has established an SME Advisory Board, comprising Heads of ASEAN SME Agencies and private sector representatives, to serve as the forum for networking and for deliberating possible inputs and policy matters on SME-related projects and activities.

ASEAN's efforts towards building a competitive economic region through liberalising and facilitating the free movement of goods and services, investment, capital and people would all be rendered inefficient and ineffective if Member States are "not well connected". This is one of the fundamental rationale behind the Master Plan on ASEAN Connectivity that the ASEAN Leaders adopted at their 17th ASEAN Summit in October 2010.

The Master Plan on ASEAN Connectivity identifies ASEAN's key strategies and actions towards promoting connectivity in the region in three dimensions: physical; institutional; and people to people. By deepening and broadening ASEAN connectivity, ASEAN will be able to reinforce its position as the hub of economic integration in the East Asia/Asia Pacific region and narrow the development divide in the region.

Let me reflect here on ASEAN open skies as it is closely related to connectivity. Last month in Brunei Darussalam, the ASEAN Transport Ministers signed the ASEAN Multilateral Agreement on the Full Liberalization of Passenger Air Services (MAFLPAS) and its two Protocols as part of continuing efforts to facilitate and liberalise air services in ASEAN. The MAFLPAS expands the scope of an earlier Agreement, the ASEAN Multilateral Agreement on Air Services (MAAS), to include other ASEAN cities. It can be recalled that ASEAN earlier on signed the ASEAN Multilateral Agreement on the Full Liberalisation of Air Freight Services, which entered into force in October 2009. These documents augur well for ASEAN as it works towards an ASEAN Single Aviation Market and Open Skies Policy in line with the region's AEC objectives. Similarly, we will be looking at an ASEAN Single Shipping Market and will be drawing-up a roadmap for this purpose.

ASEAN economies are too small for even the envisaged AEC to matter. The AEC alone may not be able to change the world trade map but can play a catalytic role for economic integration in the East Asia/Asia Pacific region that could significantly impact on global trade and investment. Here, the fourth pillar in AEC comes into play as it seeks to integrate ASEAN into the global economy and vice versa.

At the core of ASEAN's efforts to integrate into the global economy are the ASEAN free trade agreements or FTAs with its major trading partners: China, India, Japan, Korea and Australia and New Zealand. Given the strategic position of ASEAN right in the middle of a dynamic East Asia/Asia Pacific region, it is expected that these Plus One FTAs could potentially lay down the foundation for the emerging architecture for economic integration in the East Asia/Asia Pacific region. In order to achieve this however, ASEAN has to work hard on improving and maintaining its competitive edge to be able to leverage on these FTAs in the evolving regional architecture.

### **The Challenges Facing the AEC**

The progress made thus far shows that ASEAN is able to only comply with 74% of its commitments for the first phase of 2008-2009 based on the AEC Scorecard. Even after another year, compliance of commitments the first two years inched to 83% with 17% of commitments still remaining outstanding.

Noting this lag in meeting the set targets under the AEC Blueprint, the ASEAN Chair, H.E. Prime Minister Nguyen Tan Dung of Viet Nam called for a "compliance culture" to urge Member States of the need to ensure the effective and timely implementation of their commitments. That in essence captures the challenge ASEAN is facing on its road to the AEC by 2015. I see this as a reminder to ASEAN that it must remain on target for the realisation of the ASEAN Community by 2015.

The single key issue in ASEAN is the timely implementation of commitments under the AEC as any lag will mean achieving the 2015 target will become more difficult. This is partially due to the sequential nature of the implementation of the measures under the Blueprint. Allow me to highlight the major impediments to timely implementation of the AEC measures.

First, the development divide among the ASEAN Member States is a challenge to ASEAN economic integration. While we see the AEC Blueprint as a tool to narrowing the development gaps among the ASEAN Member States, the gap itself significantly influences the quality of economic integration initiatives as ASEAN often seeks a common denominator in pursuing economic integration. It is true that economic cooperation programs are being designed to help ASEAN Member States implement commitments. However, with the tremendous resource constraints, ASEAN's absorptive capacity, and the numerous targets to implement across the various sectors will have an impact on meeting the 2015 goal if

concerted efforts are not taken by ASEAN. This requires better coordination at the national and regional levels; an effective resource mobilisation resource strategy; and further enhancement of the compliance culture in ASEAN.

Second and linked to the first on timely implementation of commitments is the difficulty faced by Member States in transposing regional commitments, both intra-ASEAN and extra-ASEAN commitments, into domestic laws and regulations. This is where political will is being tested to the maximum, although ASEAN Member States have inked and ratified the agreements. This may require changes in policies, regulations and laws at the national level and Member States, which is not always easy. However, without full implementation of the regional commitments at the national level, regional economic integration cannot progress.

I must mention here too that it is always not the lack of political commitment that impedes implementation but the capacity to implement the measures, especially for the less developed ASEAN Member States. Here, capacity building will be a crucial requirement and ASEAN is already looking at this aspect to assist these countries meet the integration targets.

Third, the consensus approach that ASEAN is taking in resolving economic issues would be another cause for the delay in the commitments. That is waiting for one or two Member States to domestically convince their constituents before the final action is taken to comply with the agreed commitments. While the use of ASEAN-X implementation formula is enshrined in the Charter, it is seldom used, for good reasons, to keep ASEAN unity and to ensure all Member States implement their commitments on a timely manner, although with some delays.

Fourth, the lack of private sector engagement and utilisation of the benefits that could be reaped from AEC is an area that requires more effort from ASEAN collectively. There is general perception that only the MNCs are benefitting and not the SMEs that form more than 90% of the private sector in ASEAN. Recognising this, the AEC Council has called all sectors under the AEC to fully engage the private sector in economic integration. The ASEAN Economic Ministers have done it through "leadership by example" in engaging the private both at the sectoral and private sector associations' levels. They have had dialogue sessions with ASEAN wide sectoral associations such as the textiles & clothing, automotive and logistic services and the ASEAN Business Advisory Council, East Asia Business Council, US Advisory Business Council and lately the engagement of the Federation of Japanese Chambers of Commerce and Industries in ASEAN by the Secretary-General of ASEAN. Nevertheless, more needs to be done to reach

out to the private sector, both MNCs and SMEs and dedicated resources should be mobilised for this endeavour by ASEAN.

The move by ASEAN to establish the ASEAN Community in 2015 has generated a lot of interest and has put tremendous pressure on ASEAN to deliver what it has committed to accomplish. Failing this expectation could cause a serious dent to ASEAN's credibility and impact on ASEAN centrality. ASEAN, therefore, has only one choice, which is to move forward and deliver its commitments.

### **AEC and Asian Regionalism**

The success of the AEC is critical to Asian regionalism and in setting the direction and path of the evolving regional architecture with ASEAN in the driver's seat. It can be recalled that at the 4th East Asia Summit, the then Australian Prime Minister Kevin Rudd and then Japanese Prime Minister Yukio Hatoyama articulated their respective visions of regionalism in the Asia Pacific/East Asian region, i.e. the Asia Pacific community and the East Asia Community, respectively. These are over and above the East Asia Free Trade Area (EAFTA) and the Comprehensive Economic Partnership for East Asia (CEPEA) whose proposed membership are ASEAN Plus Three (China, Japan and Korea) and ASEAN Plus Six (Plus Three, Australia, India and New Zealand), respectively.

The ASEAN's Plus one FTAs with these countries technically makes ASEAN as the hub of any regional architecture formulation that one could come up with for the very reason that only ASEAN is successfully and directly connected to the main players in the East Asian economies and there is no "other" regional groupings that has achieved what ASEAN has done.

Further, ASEAN's FTA partners and Dialogue Partners including the EU, the US and Russia have openly acknowledged and continue to acknowledge the centrality of ASEAN in the development of the next level of regional economic architecture. Even though some of these countries have their own views on how to progress the Asian regional economic architecture, they have so far supported the directions that ASEAN has taken on the road towards the East-Asian regional architecture.

Without an economically integrated ASEAN, there is a possibility that ASEAN may not be able to drive the regional architecture and the ASEAN leadership is aware of this. This is one of the main reasons which have compelled AEC Council to emphasis on timely implementation of commitments and continued close monitoring and reporting of sectors that are lagging behind in implementation so that ASEAN stays on-track towards achieving its economic integration goals.



The ASEAN Plus Three and EAS processes are still anchored by the institutional mechanisms established by ASEAN. Both are recognised to be viable vehicles for integrating the markets in Asia but much of it would still depend on the success of ASEAN's own community-building efforts and the Plus One FTAs. For now, there appears to be no other viable option and major economies of the world continue to see ASEAN as the key to the wider regional integration process.

## **Conclusion**

In closing, I would like to underscore that ASEAN has the right ingredients for building the AEC and achieving its 2015 goal. It has the vision, the plan (AEC Blueprint) and the mechanisms and institutions. What is needed, I believe, is a greater sense of urgency, stronger political will and a firmer resolve at every level to actually bring the vision to fruition as well as the resources to support this effort. I believe these challenges are not insurmountable. As long as there is the strategic "buy-in" to the mantra, "national interest to regional action and regional interest to national action", the goal of achieving the AEC will be within the grasp of ASEAN.

Thank you for your attention

(Source:<http://www.asean.org/news/item/keynote-speech-by-he-s-pushpanathan-deputy-secretary-general-of-asean-for-asean-economic-community-at-the-asian-development-bank-institute-annual-conference-2010-on-the-political-economy-of-asian-regionalism> retrieved 8/2/2014)