



Reporting ERIA's Mid-Term Review on AEC Blueprint

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Executive Summary of ERIA

ERIA was requested by ASEAN Economic Ministers – AEM to undertake this mid-term review

Note: ERIA – Economic Research Institute for ASEAN and East Asia





Mid-term review was undertaken by:

- Large team of ERIA based researchers
- Research team from each AMS under ERIA Research Institute Network
- Individual consultants from ASEAN and Dialogue partner countries

Supported by:

- Govt. officials of AMSs; ASEAN Sec. officials and staffs;
- Business sector; Research community in ASEAN



Executive summary of Mid-term Review includes:

- Introduction
- ASEAN and the AEC: Opportunities and Challenges
- Substantial Achievements in AEC Measures
- Prioritization of AEC Measures and Policy Actions
- Imperatives on the Way Forward toward 2015



Introduction

- **April 2009** : Leaders signed the Cha-am Hua Hin Declaration on the Roadmap for the ASEAN Community (2009 – 2015).
- **April 2012** : Leaders committed in Phnom Penh Agenda for ASEAN Community Building to redouble their efforts and to set priority activities and concrete key actions to realize AEC in 2015.



ASEAN and the AEC: Opportunities and Challenges

- China and India pose a challenge to ASEAN:
 - Both countries are large countries with huge domestic markets.
In Contrast : ASEAN consists of ten countries with varying priorities, policies and institutions
Thus : Potentials for economies of scale are better realized in two large countries as compared to ASEAN;
UNLESS: There is a greater connectivity, efficient facilitation and more common regulatory framework in ASEAN.



Arguably:

- ASEAN's drive towards a single market and production base under AEC can be likened to mimic China and India since ASEAN's population of around six hundred million is a pretty large market by itself.
- The more open, integrated and connected the AMSs among themselves and as well as with the rest of East Asia and beyond, the better would be ASEAN region to be able to respond to the challenges and the opportunities of the two large countries.



Seize the Moment

- China is facing increasingly high wages
- The size of China's labor force is estimated to hit the top and start shrinking in near future which will result in real labor costs as well as fast growing middle class.
- Would firmly shift competitiveness in labor intensive industries toward a number of AMSs.
- ASEAN to seize the moment and grab the opportunity.



Substantial Achievements in AEC Measures

- Tariffs (Average CEPT rates)

ASEAN 6 : virtually zero (0 %)

CLMV : 2.6% (2010)

- Trade facilitation: National Single Window

Five AMSs: Indo, Malay, Phil, Sing , Thai

Have implemented NSWs and full roll out to all significant ports and airports.

Two AMSs: Brunei and Vietnam

In advanced stage of development towards live implementation by 2015.

Three AMSs: Cambodia, Lao PDR, Myanmar

Still in the early stages of NSW implementation and would require huge effort to have a pilot live NSW implementation.



Rules of Origin

- Evolved and become business friendly
- Utilization rate of preferential tariff rates is modest. Partly because largely zero MFN rates.
- Lack of information on RoO
- More information dissemination on RoO may be needed especially to SMEs.



Investment Liberalization and Facilitation

- A relatively open investment regime in goods sector: Agriculture, fishery, forestry, mining and manufacturing.
- Three AMSs- Philippines, Malaysia and Cambodia have liberalization rate of at least 90 % out of 100% .
- Five AMSs- Brunei, Lao, Myanmar, Singapore and Thailand have liberalization rates of at least 85%-89% .
- Two AMSs- Indonesia and Viet Nam have around 80 % of liberalization rate.



Prioritization of AEC Measures and Policy Actions

- Leaders agreed to commit at April 2012 ASEAN Summit:
 - To deepen and broaden its internal economic opportunities;
 - Foster effective cross-border facilitation;
 - Nurture dynamic linkages with the global supply chain and world economy;
 - Attain regional integration;
- End of 2015 is a narrow window to seize the moment of ASEAN;
- Thus, the ASEAN leaders stressed the need to set priority activities and concrete key measures to address the challenge and obstacles in realizing the AEC.



Proposed Two groups of AEC Measures

- Before 2015 measures (or) Priority measures for 2015
- AEC measures mainly beyond 2015



- Before 2015 measures:
 - Measures need to be fully (or) nearly fully implemented by 2015.
- AEC Measures mainly beyond 2015:
 - Measures involve more complex technical or prudential issues which require a more deliberate approach to implement.
(e.g. Financial integration, standards and conformance)
 - Measures which will increase in importance once the AEC becomes operative.
(e.g. IPR, competition policy)
 - Measures involve mainly long term and continuing initiatives.
(e.g. Agriculture)



Priority AEC Measures for 2015

1. Tariff and NTMs
 2. Trade facilitation
 3. Services liberalization and domestic reform
 4. Investment liberalization and facilitation
 5. Connectivity and transport facilitation
 6. SME development
 7. IAI(Initiative for ASEAN Integration); and
 8. Regional comprehensive economic partnership – RCEP
- 1 to 5 are foundational elements and needs major achievements.



- IAI - capacitate newer AMSs to meet AEC obligations
- SMEs - coordinated approach to ensure SMEs in the region adjust well and benefit from AEC
- RCEP - many economic activities are integral at East Asia Region rather than within ASEAN (most likely to be beyond 2015)



AEC Measures Mainly Beyond 2015

- Standards and conformance
- Capital market development and financial market integration
- MRAs (Mutual Recognition Arrangements) on professional services and labor mobility
- ICT
- Energy
- IPR (Intellectual Property Rights)
- Competition Policy
- Agriculture and
- Others ; e.g, consumer protection and taxation



Standards and Conformance

- Varying standards and difficulties in conformity assessment
- Process of harmonization of National standards to International standards; practices and guides; harmonization of mandatory technical requirements and technical regulations and harmonization of conformity assessment procedures are complex and long procedures.



Progress in Conformance Assessment

- Completion of MRAs on two regulated sectors;
i.e. EEE and pharmaceutical
- Agreed TOR of ASEAN food testing laboratories
- Two Agreements on harmonized technical requirements have signed; i.e. cosmetics and EEE
- Inadequate enforcement on Cosmetics Directive resulted apparent flood of relatively “low quality” cosmetics.



Recommendations on the Way Forward

- Trade facilitation:
 - Reduce number of documents required to export and import in most AMSs.
 - Reduce as much as possible the physical inspection rate of goods.
 - Implement pilot NSWs in CLM by 2015.



Country Team Recommendations

- **Services – Financial Sector:**
 - Develop sound financial infrastructure
 - Establish guidelines and supervision to develop the capital market
 - Develop regulatory system and regulatory Body to establish Capital Market
 - Train the Banks' staffs by upgrading with changing environment in ASEAN and global.
 - Hire high potential personnel domestically or abroad
 - Provide regular training courses on capacity building program
 - Central Bank to establish partnership among stakeholders by Seminar, Forum and workshops.
 - Review national/ regional prevailing policies and develop appropriate strategies for its reform.



Trade Facilitation

- Accelerate administrative reform in all organizations dedicated to trade facilitation
- Institutional capacity building will facilitate the reforms of the agencies concerned to be practical and enable to overcome their frustration,
- Myanmar will then be most benefitted from the inclusion of AEC among other members



Investment Promotion and Facilitation

- Fulfill sufficiently both hard infrastructure and soft infrastructure
- Build comprehensive investment environment.



Standard and Conformance

- Provide more technical infrastructure and financial support to each sector
- Design private public partnership programs to implement each sector
- Emphasize quality, safety, efficacy, environmental conservation and awareness programs in implementation of each sector.



Mutual Recognition Arrangements

- Create greater public awareness in the implementation of the MRAs in the country as well as for the participation of all stakeholders including business communities and people in the country.
- Support from related agencies is required for disseminating with MRA related information to nation wide.



Intellectual Property Rights

- Improve the National framework of policies and institutions relating to IPRs.



Agriculture

- Continue capacity building program
- Promote public private partnership
- Improve agricultural infrastructure development for sustainable food production.
- Promote agricultural innovation
- Strengthen national food security programs and activities for shortage relief, and develop national food security reserve initiatives and mechanisms.



Small and Medium Enterprises

- Formulate and enact law on SMEs
- Formulate and implement of SME Development Policies.
- Financial system is not working well for SMEs and at least 90% of SMEs are unable to obtain loans.
- Supply of funds for start-up and existing enterprises is yet to consider
- Should make a special tax system for the income of SMEs.
- Capacity building program is also important.



Initiative for ASEAN Integration

- To provide more technical and financial supports
- To prioritize real life pilot projects
- To design private public partnership programs to implement each and every IAI projects.
- To include the programs relating to SME development and financial sector development in future IAI work program
- To emphasize environmental conservation and awareness program in implementation of IAI projects



Thank you

