

What is the ASEAN Economic Community?

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Session 2: Key Questions

What is the ASEAN Economic Community (AEC)? If the AEC is not the ASEAN Economic Community but simply the ASEAN Economic Partnership Agreement (AEP), then it will constitute a part of the EAFTA; and hence, EAFTA will be created after an AEC is set-up. Is this scenario correct?

I. Introduction: The *ASEAN Way*

The Association of Southeast Asian Nations (ASEAN) was established in 1967, in a context described by former Philippine President Fidel V. Ramos as a leap-of-faith, at a time when “Indonesia was in a virtual state of war with both Singapore and Malaysia” and “Manila and Kuala Lumpur were estranged over Sabah.”¹ Originally conceived as a political association, it was slower than most regions to engage each other economically.

The ASEAN is a unique organization that groups together countries which are at the same time similar and diverse.

First, at the economic level, its members manifest varying stages of development. The per capita income of its richest member is 95 times higher than that of the poorest member.

Second, ASEAN countries have different levels of experience in terms of trade integration. On one hand are countries whose experience with regional blocs are limited

¹ “The Path to East Asian Integration: Prospects and Challenges,” keynote address by Hon. Fidel V. Ramos to the International Symposium on “An Integrated Road Map to East Asian Free Trade Agreement,” organized by the Asian Institute of Management Policy Center and the Japan Economic Foundation. Makati City, February 2005.

primarily to ASEAN; while other ASEAN members, because of their economic structure, are quite advanced by way of having negotiated trade agreements with non-ASEAN countries.

Third, the specific historical and cultural context of Southeast Asia has led to a regional entity that highly values mutual respect for each country's sovereign concerns. Thus, in contrast to other regional blocks, ASEAN's governance structure is less deterministic.

Its decision making process—sometimes characterized as slow—is based on consensus. The *ASEAN Way* revolves on *Musyawarah* (discussion and consultation) and *Mufakat* (decision by consensus). In contrast, other regional integration initiatives operate on the “overriding principle of using a formal, detailed, and binding institutional structure to prepare, enact, and execute policies for economic integration.”²

All of these factors contribute to a more measured and deliberate pace of processes in ASEAN. Integration among its members is dictated to a large part by the capacity of the most affected members to keep abreast with faster developments in other countries. The process may be slow; but the extended “curing” time strengthens the structural integrity of ASEAN and cements the relations of its members.

With the varying levels of development contrasted against the importance placed on consensus, agreements are arrived at by seeking the most common denominator among the individual positions of the members. While the long-term strategic importance of its unique governance system has proven to be an important ingredient of ASEAN's success, it also potentially hinders the optimization of transient yet real opportunities.

In this environment, ASEAN has evolved unique ways of doing things, intended primarily to suit the individual needs of its members under a consensus-building governance process.

Standards, accuracy, and precision had to be blended with flexibility, accommodation and a tradition of genuine friendship and trust among the members.

However, as the region seeks to expand by engaging countries outside of the ASEAN, it will necessarily formalize its processes to promote a clearer common understanding of issues. A critical requirement, obviously, is the adoption of precise definitions that will be understood even by non-ASEAN member economies.

II. Defining an Economic Community

There are several stages of economic and monetary integration. Economic and political literature have traditionally mentioned five (5) stages:

² Report of the First Meeting of the High Level Task Force on ASEAN Economic Integration, p13. Thailand. (2003)

- (1) Preferential Trading Area (PTA)
- (2) Free Trade Area (FTA)
- (3) Customs Union
- (4) Common Market, and
- (5) Economic and Monetary Union (Economic Community)

Economic Partnership Agreements (EPA) are not specifically mentioned in traditional economic and political literature as a mode of economic integration. Rather, EPAs have evolved from how trade negotiations and relations actually took shape. This is a classic example of how “actual practice” overtook the “academia.”

As currently used today, an EPA can be loosely defined as an “FTA-plus.” This means that, in addition to the free flow of trade (goods and services), an EPA extends to include the free flow of investments, capital and labor, and cooperation in other socio-economic spheres. However, it does not cover the following: common tariffs and trade policies, common monetary and fiscal policies, and a single currency—aspects of economic integration which are, on the other hand, covered in an Economic Community.

III. The Vision for an ASEAN Economic Community

The key question that has to be answered, in the context of defining stages of economic integration, is:

“How should the ASEAN Economic Community (AEC) be categorized—as an FTA-plus (or an EPA) or as an EC?”

The vision for an AEC was contained in the Hanoi Plan of Action (ASEAN Vision 2020), unveiled in 1998. ASEAN Vision 2020 envisaged “*a stable, prosperous and highly competitive ASEAN Economic Region in which there is free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities.*”³

The ASEAN Vision is anchored on the following general strategies:

- full-implementation of the ASEAN Free Trade Area (AFTA), the ASEAN Framework Agreement on Services (AFAS) and the ASEAN Investment Area (AIA);
- intensification and expansion of sub-regional cooperation in existing and new sub-regional growth areas;
- further consolidation and expansion of extra-ASEAN regional linkages to strengthen the multilateral trading system; and,
- reinforcement of the role of the business sector as the engine of growth.

³ Hanoi Plan of Action: ASEAN Vision 2020, p.12, (1998), as cited in The Report of the First Meeting of the High Level Task Force on ASEAN Economic Integration. Thailand. (2003)

The concrete mechanisms to attain the ASEAN Vision 2020 are so far based on the successful implementation of current initiatives to fully integrate trade in goods and services, flow of investments and capital, movement of workers and tourists⁴, and harmonization of standards and customs procedures. While the ASEAN Vision 2020 is broad enough to eventually evolve into a full-blown Economic Community; no mechanisms are currently programmed to realize this.

Any move to articulate a program to form the AEC will be dependent on two critical prerequisites:

- (1) Early settlement of remaining issues impeding the full-implementation of ASEAN FTA-plus or ASEAN EPA, specifically an agreement for a clear deadline on the AFAS; and,
- (2) The development of an institutional infrastructure to facilitate economic integration in the region, including the political act of granting this infrastructure with suitable supranational powers.⁵

IV. Conclusion

While the ASEAN Vision 2020 is broad enough to include an Economic Community; its programmed mechanisms—when aggregated—can more precisely define the ASEAN by 2020 as an FTA-plus (or Economic Partnership Agreement). However, with the strong relational foundation of the ASEAN—based on decades of consensus-building, it is still not surprising to see a full-blown ASEAN Economic Community in two decades.

Nevertheless, even if this should not materialize, the ASEAN itself is based on a cooperative principle that is actually—in a generic sense—deeper than an Economic Community. As articulated by former Philippine Pres. Fidel V. Ramos, the aspiration is actually based on “a sense of community at the people-to-people level.” This overwhelming spirit has been the guiding principle behind ASEAN since it was founded in 1967.

⁴ Economic literature has traditionally captured the “free flow of labor and capital” under Common Markets and Economic and Monetary Unions.

⁵ The institutional infrastructure may include institutions similar to the European Union, i.e., The European Parliament (legislative), The European Commission (executive) and The European Court of Justice (judicial).

Annex. Summary Matrix of ASEAN - EAFTA Initiatives

Coverage	Economic Community	<ul style="list-style-type: none"> - Vientiane Action Plan (2004-2010), in particular Bali Concord II (2003) - Asian Bond Market Initiative - ASEAN Swap Agreement (Chiang Mai Initiative) 		
	Economic Partnership Agreement	<ul style="list-style-type: none"> - ASEAN Vision 2020 (1998) 		
	Free Trade Area	<ul style="list-style-type: none"> - CEPT-AFTA (signed 1992; to be achieved in 2010 for ASEAN6, LMV in 2012 and 2018 for Cambodia) - AFAS (signed 1995, with four packages of commitments finalized in 2004; 2015 as target date for liberalization of all services sectors) - AIA (signed, 1998) 	<p><u>ASEAN plus 3:</u></p> <ul style="list-style-type: none"> - Joint Declaration on East Asia Cooperation (1999) <p><u>Japan</u></p> <ul style="list-style-type: none"> - Framework for Comprehensive Economic Partnership between ASEAN and Japan (2003) <p><u>China</u></p> <ul style="list-style-type: none"> - Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China (2002) - Agreement on Trade in Goods (2004) - Agreement on Dispute Settlement Mechanism (2004) <p><u>Korea</u></p> <ul style="list-style-type: none"> - Joint Declaration on Comprehensive Cooperation Partnership between ASEAN and Korea (2004) 	<ul style="list-style-type: none"> - Joint Declaration of the Leaders at the ASEAN-Australia and New Zealand Commemorative Summit (2004) - Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India (2003)
		<ul style="list-style-type: none"> - ASEAN 	<ul style="list-style-type: none"> - Japan - China - Korea, Rep. 	<ul style="list-style-type: none"> - India - Australia & New Zealand - Korea, Dem. People's Rep. & Taiwan
Geographical Scope				

Notes:

* FTA = Goods plus Services, Investments, etc.

** EPA = FTA plus closer Economic Cooperation e.g., in energy, transport, food security, etc.

*** Economic Community = Common Economic & Monetary Policies