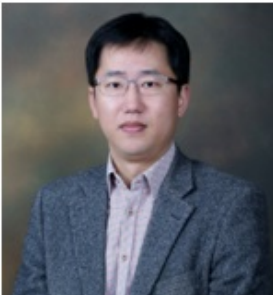



Challenges for ASEAN Economic Community after 2015



Taeyoon Kim

Ph.D, Research Fellow, Head of Southeast Asia Team
Korea Institute for International Economic Policy 

Current economic conditions of Southeast Asia countries seem to be very promising with the ASEAN5ⁱ registering a 5.7%ⁱⁱ growth rate in 2012, surpassing the world average of 3.2% for the same year. The reasons for high economic growth include governments' expansionary policies, recovering domestic demand and a revival in external markets, which have improved business expectations and consumer confidence in this region. At the same time, efforts to establish the ASEAN economic community (AEC) by 2015 has progressed to 74.5% implementation rate in 2012, which leads us to the question whether AEC would actually contribute to regional economic cooperation. The answer to that question is: 'Of course, it will.'

There is strong economic motivation for the Association of Southeast Asian Nations (ASEAN) to upgrade its status by forming the ASEAN political-security community, ASEAN socio-cultural community and the AEC; which will become the three pillars of ASEAN community by 2015. Since ASEAN was officially established with 5 countries including Indonesia, Malaysia, Philippines, Singapore and Thailand in 1967ⁱⁱⁱ mainly focusing on enhancing peace, security and stability; they have learned the importance of regional economic development only through trial and error^{iv}. In 1992, ASEAN Free Trade Area (AFTA) became much more attractive to other neighboring countries. Later, Vietnam joined ASEAN in 1995, which was followed by Laos and Myanmar in 1997, and Cambodia in 1999. They all recognized the outside environment where regionalism was on the rise, which could contribute to increased regional trade and investment.

In 2003, AFTA's basic principal of reducing tariffs on goods traded within ASEAN was developed further into the concept of AEC, which aims for creating a single market and production base, a highly competitive economic region, a region of equitable economic development and a region fully integrated into the global economy. Much progress has already been made when it comes to tariff reductions because ASEAN6^v already removed all tariffs in 2010 except for those items in the highly sensitive and general exception list, and other ASEAN countries such as Cambodia, Laos, Myanmar and Vietnam (CLMV) are expected to remove all tariffs in the beginning of 2015.

However, there are still challenges related to completing the AEC by 2015. First of all, an elimination of non-tariff barriers (NTBs) is much more difficult than tariff reductions. For instance, on December 2012, Indonesia issued a regulation regarding the importation of cellular phones, handheld computers and tablets for safety and environmental reasons as well as the country's own industrialization of cellular phones and computer. It is expected to complicate the importation process in Indonesia according to Global Trade Alert^{vi}. ASEAN is also aware of the importance of eliminating barriers against trade and investment. Thus they have encouraged the officials to improve ASEAN non-tariff measurements (NTMs) database in 2012 in order to finalize the roadmap on ASEAN NTMs.

Another challenge for AEC is to implement the ASEAN single window (ASW) for each member country, which would greatly facilitate regional trade volume by using a standardized process with less documentation. However, the process is behind schedule, as it was supposed to have been complete not only among ASEAN6 countries but even in CLMV countries by no later than 2012. A legal and operational system for ASW

is now urgently needed. Also, there is the issue of harmonization with various customs and transport protocols, which was recognized at the 21st ASEAN summit.

On the other hand, many people in ASEAN have doubts as to completing AEC by the end of 2015. Thus, increasing people's awareness is important for achieving AEC. Since it prioritizes action on facilitating free flow of skilled labor, educating people for appropriate job skills is a first step for overcoming that doubt. ASEAN agreement on movement of natural persons (MNP) signed at the 21st ASEAN's summit in 2012 might be a catalyst with respect to people's engagement in trade in goods, services and investment in the region, which can eventually increase people's awareness of the AEC.

Last but not least, regional economic development should result in reducing development gaps among and within ASEAN member countries. Cambodia, Vietnam and Indonesia recently adopted green growth as a national policy, which will lead this region towards an AEC that is more equitable and resilient. Initiatives for ASEAN integration (IAI) that has contributed mainly to CLMV countries' development should be maintained with full support from ASEAN as well as international development agencies.

It is expected that the AEC will be completed by 2015 just as the other two major economic partnerships, the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) are concluded. We all recognize that although EU recently endured a fiscal crisis, EU's experience has provided significant lessons especially on the importance of developing and operating economic policy together as a region. Republic of Korea is now participating in the negotiation for RCEP as well as the China-Korea (CK) FTA and China-Japan-Korea (CJK) FTA. Japan recently announced to participate in the negotiation of TPP as well as RCEP, CJK FTA and EU-Japan Economic Partnership Agreement (EPA). Regardless of the shape or form of regional economic cooperation that will emerge, challenges arising from AEC after 2015 must be overcome in concert, because sustainable economic development in this region may depend on it. **KIEP**

ⁱ ASEAN5 indicates Indonesia, Malaysia, Philippines, Thailand and Vietnam.

ⁱⁱ World Economic Outlook Update, Jan. 2013. IMF

ⁱⁱⁱ Brunei joined ASEAN in 1984.

^{iv} ASEAN Industrial Projects (1976), Preferential Trading Arrangement (1977), ASEAN Industrial Complementation (1981), ASEAN Industrial Joint Venture (1983).

^v ASEAN6 indicates Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand.

^{vi} Global Trade Alert provides real time information on state measures taken during the current global downturn that are likely to affect foreign commerce. For more details, go to the website (www.globaltradealert.org).