

towards an economic community IN SOUTHEAST ASIA

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Asia's coming of age has been the development story of the past 40 years. The reasons for this are varied, but some of the more significant factors have been knowledge exchange, technology transfer, and increased economic integration and cooperation between developing economy governments. Asia's success is also in part the result of increased dialogue between regional partners, formalized through institutions such as the Association of Southeast Asian Nations (ASEAN), which expanded from its original five-member core in 1967 to encompass all of Southeast Asia by mid-1999 and aims to establish an ASEAN Economic Community by 2015. In response to the 1997–1998 Asian financial crisis, the People's Republic of China, Japan and the Republic of Korea joined the process, creating ASEAN+3. Further expansion continues through the East Asia Summit process and other initiatives.

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across myriad economic subsets, thereby creating a platform for open, multi-track regionalism. This approach acknowledges different levels of development and needs across the region, and arrives at a consensus on what must be done, how to finance it and how to make it work.

ASEAN initiatives

Broader dialogue and initiatives have also brought greater regional strength. The creation of ASEAN+3 has represented a degree of cooperation difficult to imagine before the 1997–1998 crisis. It has given authorities in the region an impetus to look beyond existing multilateral remedies for help.

ASEAN+3 has spurred a host of monetary and financial cooperation initiatives: the Chiang Mai Initiative, which is a web of bilateral swap arrangements to supply liquidity during a crisis; the Asian Bond Markets Initiative and Asian Bond Funds to develop local-currency bond markets; a system for strengthening macroeconomic surveillance; and an Economic Review and Policy Dialogue.

A range of bilateral and plurilateral free-trade agreements (FTAs) – sometimes referred to as the Asian 'noodle bowl' – has emerged. The region has now put in place a multilateral foreign exchange reserve pooling arrangement – the Chiang Mai Initiative Multilateralization – and also agreed to establish an ASEAN+3 Macroeconomic Surveillance Office.

While ASEAN+3 has made progress on regional financial cooperation and integration, it is also expanding into other economic sectors.

During the 41st ASEAN Economic Ministers (AEM) meeting in Bangkok in August 2009, the long awaited and much anticipated ASEAN FTA was signed. Here are some of the predictions being made regarding the effects of the ASEAN FTA:

- An initial study showed that, if ratified, the FTA would increase economic growth within the Asean+6 countries (including Australia, China, India, Japan, New Zealand and South Korea) by 3.8%. The combined gross domestic product of the Asean+6 countries is US\$ 2.75 trillion.
- Under the ASEAN+6 FTA, the member countries will lift import tariffs on more than 80% of traded products between 2013 and 2016.
- The tariffs on 500–600 items on sensitive lists will be reduced to 5% by 2016, while import duties on five 'highly sensitive' items – palm oil, refined palm oil, coffee, tea and pepper – will be brought down from 70% to 45% by 2019.

To strengthen trade growth within ASEAN, the AEM Meeting also considered an ASEAN Customs Union and setting up trade facilities, including developing rules of origin to provide online certification for ASEAN traders. The ASEAN FTA went into effect on 1 January 2010, and has increased trade between ASEAN members dramatically.

The integration of the ASEAN Economic Community by 2015 will enhance ASEAN's attractiveness to foreign investors, giving multinational enterprises in ASEAN even more opportunities to cut costs and increase revenues. This is, arguably, one of the best means of strengthening national and regional economic growth in the long term.

Aid from outside ASEAN

Responding positively with the ASEAN initiatives, trading partners of ASEAN have also taken measures to further promote trade with the region. A few examples are noted here.

The European Union extended its lower tariff facility, known as the generalized system of preference (GSP), to 2013 for Indonesian exports. The extension was made after the EU reduced the 176 recipient countries to 80 countries still categorized as low-income. Under the GSP facility, the EU imposes no tariff on any Indonesian export.

The United States and ASEAN are boosting trade-finance facilities amid poor uptake of existing facilities by ASEAN exporters – particularly the Philippines – offered at the national level and by the Asian Development Bank. This was the direction the ministers set after they exchanged views on trade facilitation, trade and environment, and trade finance after meeting with United States Trade Representative Office and United States Department of Commerce officials under the Trade and Investment Framework Agreement (TIFA).

Notably, not all ASEAN countries have their own export-import bank, whose primary role is to aid in financing creditworthy entities in the export of goods and services, although other local financial institutions have a blend of services similar to the function of an 'ex-imbank.' The introduction of an ASEAN-wide trade-financing facility or fund that is still nationally based is an emerging idea that could aid in growing ASEAN trade.

ASEAN trade performance

Representing 583.5 million people and a total GDP of US\$ 1,507 billion, ASEAN has a critical political and trade influence. From January, to August 2010, ASEAN countries recorded exports of US\$ 17,293 billion – greater than the EU, China or United States. Furthermore, ASEAN imports totalled US\$ 15,769 billion, over twice

that of China. This surely positions ASEAN as a driving force for growth in Asia and a building block for world trade.

Another supporting factor that needs to be implemented is the ASEAN single window, which establishes one location – implemented at the national level – where exporters can submit any regulatory documentation. This will make a significant contribution to harmonizing and simplifying trade-related processes, resulting in a faster flow of exports and imports, smoother and more predictable production process, lower transaction costs, and more transparent and accessible services.

Looking forward

For all these efforts to escalate trade, an essential question is whether those to date have been able to boost national industrial and business competitiveness. The fact is that foreign influx of goods weakens national competitiveness, while foreign investment tends to benefit the national capital market, rather than improve production. It is demand and not supply that improves, while production increases, if any, are more on raw material exports to meet manufacturing industry needs abroad. The result is a greater disparity between the capital owner

and the financial services sector and the production worker, or so-called real sector.

Having said this, there is a need for a sharpened and more specific Aid for Trade programme to increase manufacturing output and improve mid- to low-income purchasing power. In parallel, trade improvement through tariff reduction should be implemented in a prudent and selective manner, while trade liberalization through FTA regional cooperation should be aimed at improving national industrial and economic competitiveness.

From that perspective, national, regional and global competition policy and law along with competition agencies should be enforced and reinforced. For instance, competition guidance initiated by the ASEAN Expert Group on Competition, created by the ASEAN Consultative Forum on Competition (ACFC), shall be continued and accelerated in order to develop a competition law at the ASEAN level. ⑦

