W[h]ither the ASEAN Economic Community?

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This was presented in the policy forum ***"National Interest and the ASEAN Economic Community: Convergence or Competition?"*** *organized by* ***the University of the Philippines (UP) Asian Center's Bugkos Institutional Research Program*** and *funded by the UP Emerging Interdisciplinary Research (EIDR) Grant.*

Overview: Moving ASEAN and AEC Forward beyond 2015

With gratitude to: Ponciano Intal, Jr., Fukunari Kimura, Yoshifumi Fukunaga and Dionisius Narjoko
Economic Research Institute for ASEAN and East Asia

ERIA

Main Components of AEC

"The AEC Blueprint will transform ASEAN into 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."

- ATIGA – ASEAN Trade in Goods Agreement
- AFAS – ASEAN Framework Agreement on Services
- ACIA – ASEAN Comprehensive Investment Agreement

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Priority AEC Measures for 2015. ERIA proposes ASEAN to put high priority for implementation of the following ten policy measures

- Tariff and Non-Tariff Measures;
- Trade facilitation;
- Services liberalization and domestic reform;
- Investment liberalization and facilitation;
- Connectivity and transport facilitation;
- SME development;
- Initiative for ASEAN Integration (for CLM countries); and
- Regional Comprehensive Economic Partnership

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AEC Measures Mainly beyond 2015

- standards and conformance
- capital market development and financial market integration
- MRAs on professional services and labor mobility
- ICT
- energy
- IPR
- competition policy
- agriculture
- others (e.g., consumer protection and taxation).

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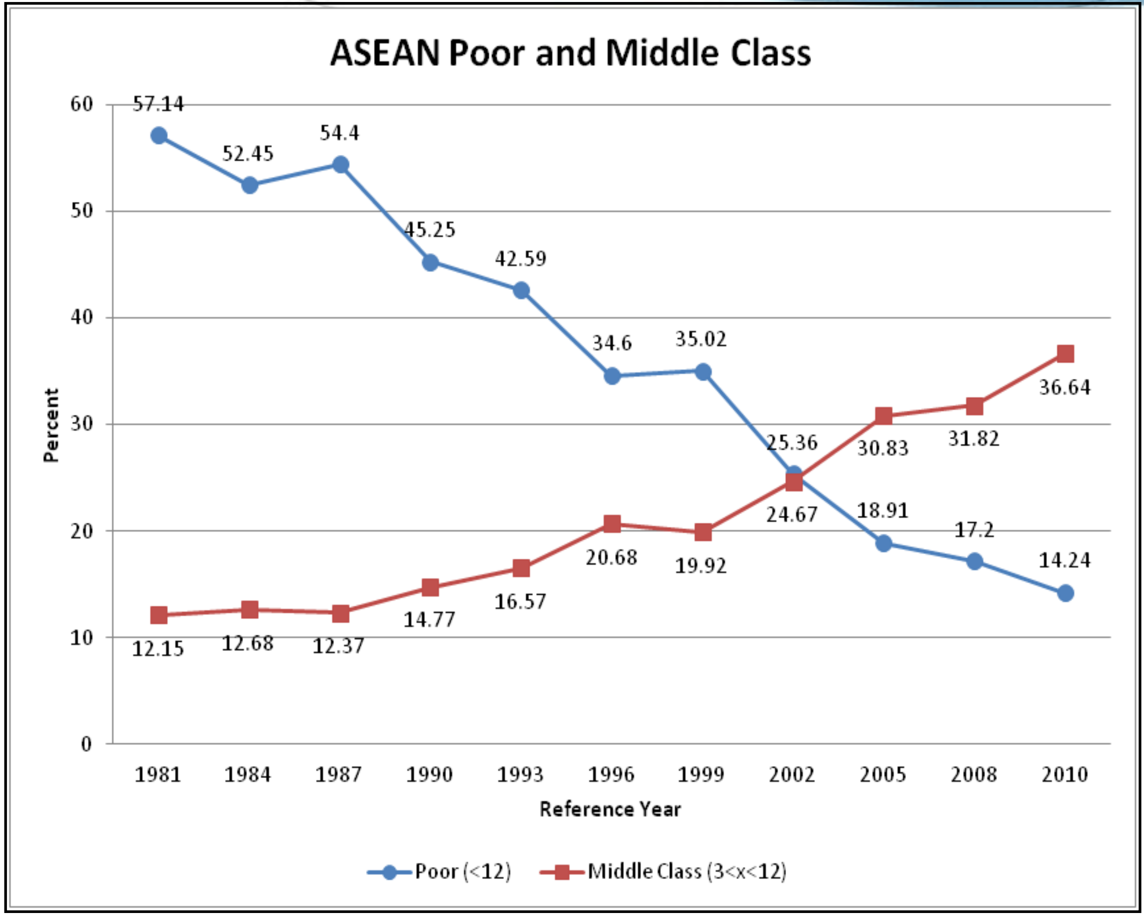
ASEAN Progress (1)



- ASEAN poverty rate:
  - 1990: 45%
  - 2010: 14%
- ASEAN poverty gap:
  - 1990: 14%
  - 2010: 3%
- ASEAN middle class:
  - 1990: 15%
  - 2010: 37%
- ASEAN 3rd largest EA economy
- ASEAN 3rd most populous in world

Source: Estimated from PovcalNet, World Bank

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ASEAN Progress

- CEPT rates very low to nearly zero
- NSW operational in 5 AMSs (?)
- ATIGA ROOs business friendly
- ASEAN + 1 FTAs/RCEP
- Chiang Mai Initiative
- Roadmap for Integration of Air Travel Sector (RIATS) in force under ASEAN - X

Intra-ASEAN trade has been increasing

Intra-Regional Trade in East Asia						
	1980	**1985**	**1990**	**1995**	**2000**	**2004**
ASEAN (X)	17.4	18.6	19.0	24.6	23.0	22.0
ASEAN (M)	14.4	17.2	15.2	18.3	22.5	22.5
ASEAN+3 (X)	29.0	26.4	26.8	35.0	33.7	34.9
ASEAN+3(M)	29.0	32.3	30.6	39.5	41.6	43.5
NOTE: X – exports; M – imports *Source of Basic Data: IMF Direction of Trade Statistics (DOTS) CD-ROM, June 2005*						

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Losing momentum in recent years

	ASEAN's Total Trade, USD Billion				
	2006	2010	2014	2015	2016
Intra-ASEAN	353	511	609	544	521
Extra-ASEAN	1,052	1,498	1,921	1,727	1,698
Total	1,405	2,009	2,530	2,270	2,219
Share in ASEAN's Total Trade					
	2006	2010	2014	2015	2016
Intra-ASEAN Share, %	25.1	25.4	24.1	24.0	23.5
Extra-ASEAN Share, %	74.9	74.6	75.9	76.0	76.5
Total Trade, US$ billion	1,405	2,009	2,530	2,270	2,219
Source	ASEANstats, as of April 2017				

Intra-ASEAN FDI increasing

	Total FDI Inflows to ASEAN, US$ million					
	2007	2008	2009	2010	2015	2016
Intra-ASEAN	8,434.5	8,987.5	8,807.8	16,306.4	21,350.9	23,947.9
Dialogue Partners	48,997.4	24,779.0	19,932.5	65,108.5	75,086.3	75,622.5
Australia	2,046.9	1,016.6	124.7	3,958.6	1,934.9	3,433.2
Canada	561.3	538.2	1,344.4	1,303.3	1,149.3	295.9
China	1,997.9	732.7	2,068.7	3,488.6	6,412.2	9,210.5
European Union 28	21,485.1	10,408.7	5,659.9	21,145.2	20,833.6	30,464.5
India	2,738.8	1,441.5	283.1	3,801.2	961.6	1,048.6
Japan	8,822.9	5,512.3	3,451.1	12,987.0	14,738.5	13,989.4
New Zealand	105.6	-45.8	-140.8	339.5	22.2	-467.9
Pakistan	19.6	7.1	15.1	29.4	-19.9	45.2
Republic of Korea (RO	2,273.4	1,397.0	1,804.1	4,319.3	5,704.0	5,889.7
Russian Federation	28.0	85.5	141.5	54.5	-28.9	56.6
USA	8,917.9	3,685.2	5,180.8	13,682.1	23,378.8	11,656.6
Rest of the World	*21,454.3*	*15,246.1*	*14,625.1*	*26,759.3*	*25,184.0*	*-2,847.6*
Total	78,886.3	49,012.6	43,365.4	108,174.2	121,621.1	96,722.7
Source	ASEANstats, as of 14 June 2017					

Current State: AEC 2025 Blueprint

AEC 2025 Consolidated Strategic Action Plan (CSAP)

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Towards “ASEAN Miracle”: Sustained high and equitable growth

Proposed 4 key pillars and one strong foundation for ASEAN moving forward beyond 2015

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One Strong Foundation and 4 Pillars (eventually 5 Pillars)

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Commitments and Degree of Compliance

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Integrated and highly cohesive ASEAN

Non-protective NTMs

More efficient trade facilitation

Highly contestable services and investment; competition policy

Facilitative Standards & Conformance

Connectivity and transport facilitation

Greater mobility of skilled labor

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What PH has done On Tariffs

- EO 850 was passed in December 2009 which brought down tariffs on imports from ASEAN, to 0 % in 2010, except for a short 'sensitive' list of products

AHTN	Product description	2010 CEPT (%)
1006.10.00	Rice in husk- suitable for sowing	40
1006.20.10	Husked brown rice- Thai Hom Mali rice	40
1006.20.90	--- other	40
1006.30.15	Fragrant rice- Thai Hom Mali	40
1006.30.19	Other semi or wholly milled rice	40
1006.30.20	Parboiled rice	40
1006.30.30	Glutinous rice	40
1006.30.90	--other	40
1006.40.00	Broken rice	40
1701.11.00	Cane sugar	38
1701.12.00	Beet sugar	38
1701.99.11	- - - - - Containing over 65% by dry weight of sugar	38
1701.99.19	- - - - - Containing over 65% by dry weight of sugar	38
1701.99.90	- - - - other	38

Source: Tariff Commission

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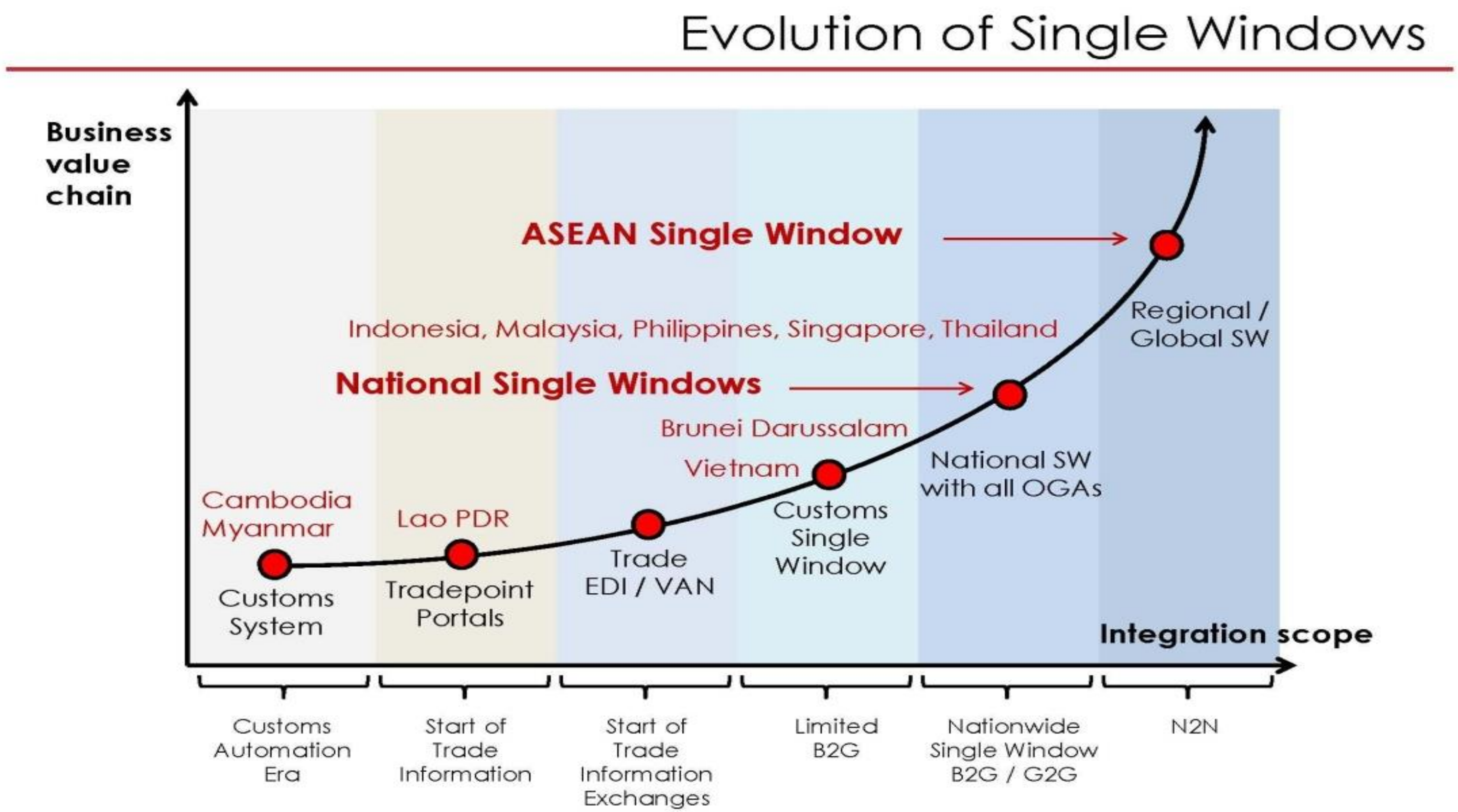
Trade Facilitation and Logistics:
Evolution of Single Window



Source: *Koh and Hogg (2012)*

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Status of National Single Window in the Philippines

- Phase 1 (October 2009) – 30 government agencies that issue permits, licenses and clearances for import or export purposes; in 2010, the NSW reached the stage where 40 regulatory agencies could participate in the system
- Phase 2 (stalled) – declaration processing, rationalization, simplification and harmonization by linking NSW and the BOC's electronic to mobile (e2m) system which computerizes the customs clearance process.

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Myths and Realities of the AEC

AEC is vulnerable
3 Main Reasons

- Structural and Historical factors
- Agreements are "flexible"
- Divergent perceptions, expectations, and aspirations among different sectors of society

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Structural Factors

- Historical animosities
- Cultural differences
- Desker (2017): "Loyalties are centered on the local level." If national identity is evolving, regional identity is still far behind
- Wide development gap in the region (IAI is underfunded)

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“Flexible Agreements”

- ASEAN resilience: musyawarah and mufakat , consultation and consensus
- Leads to “flexible agreements” which create loopholes
- ASEAN-X principle
- Example: AFTA has been described as “weak” and “trade light”

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Example (2): AFAS

- the service sector liberalization goals established in the AEC are far from ambitious
- liberalization parameters specified under the AEC Blueprint are not binding, as they are not subject to the dispute settlement mechanism
- actual implementation is far behind the milestones established in the AEC, perhaps because of the flexibility clause that permits back-loading of liberalization commitments and the non-binding nature of the liberalization goals.
- foreign equity limitation, the only liberalization parameter being negotiated in services liberalization thus far, is not the only major barrier to services trade.

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"Balassa" Scheme for Regional Integration: What does "deeply integrated" mean?

Stage 1	**Free trade area (FTA)**	Elimination of internal barriers to trade of goods and services
Stage 2	**Customs Union (CU)**	Elimination of internal barriers to trade + adoption of a common commercial policy
Stage 3	**Common Market (CM)**	Customs Union + Free movement of labor and capital
Stage 4	**Complete Economic Union**	Common Market + Common Currency and Monetary Policy + Harmonized Fiscal and other Economic Policies
Stage 5	**Full Political Union**	Common Economic, Financial, Fiscal, Social, Security, External Policies, etc.

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Overall Evaluation of AEC

- Liberalization in ASEAN has been ongoing for 25-30 years
- AEC is less ambitious than the EU6, EU15 and even EU28
- The AEC has three "practical" economic objectives:
  - Enabling ASEAN to jointly take advantage of the opportunities provided by China and India; at the same time to jointly meet the challenges
  - Attract more FDI into the region, mainly by trade facilitation
  - Provide leverage to policymakers to accelerate domestic reform

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Overall Evaluation of AEC

- AEC is a work in progress; 2015 was a milestone
- Rationale of regional agreements are primarily political in nature, forum for collective action
- ASEAN's signature achievement: environment of regional security and growing mutual confidence among AMS
- Treaty of Amity and Cooperation (1976)
- ASEAN Charter (2007)

Overall Evaluation of AEC

- There are of course economic benefits accompanying collective action:
- Aforementioned economic objectives of AEC
- Support for MSMEs
- Physical connectivity
- Cooperation on gender issues (human trafficking)

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How the Philippines can benefit from AEC

Thrust of manufacturing roadmap: Greater participation in Regional Production Networks

Policy Options for Inclusive Growth

- AEC is an opportunity to attract more FDI
- AEC will generate regional public goods, especially in infrastructure
- Comprehensive Roadmap for Industry: address horizontal and vertical constraints, coordination failure
- Emphasis on facilitating involvement of SMEs in regional production networks

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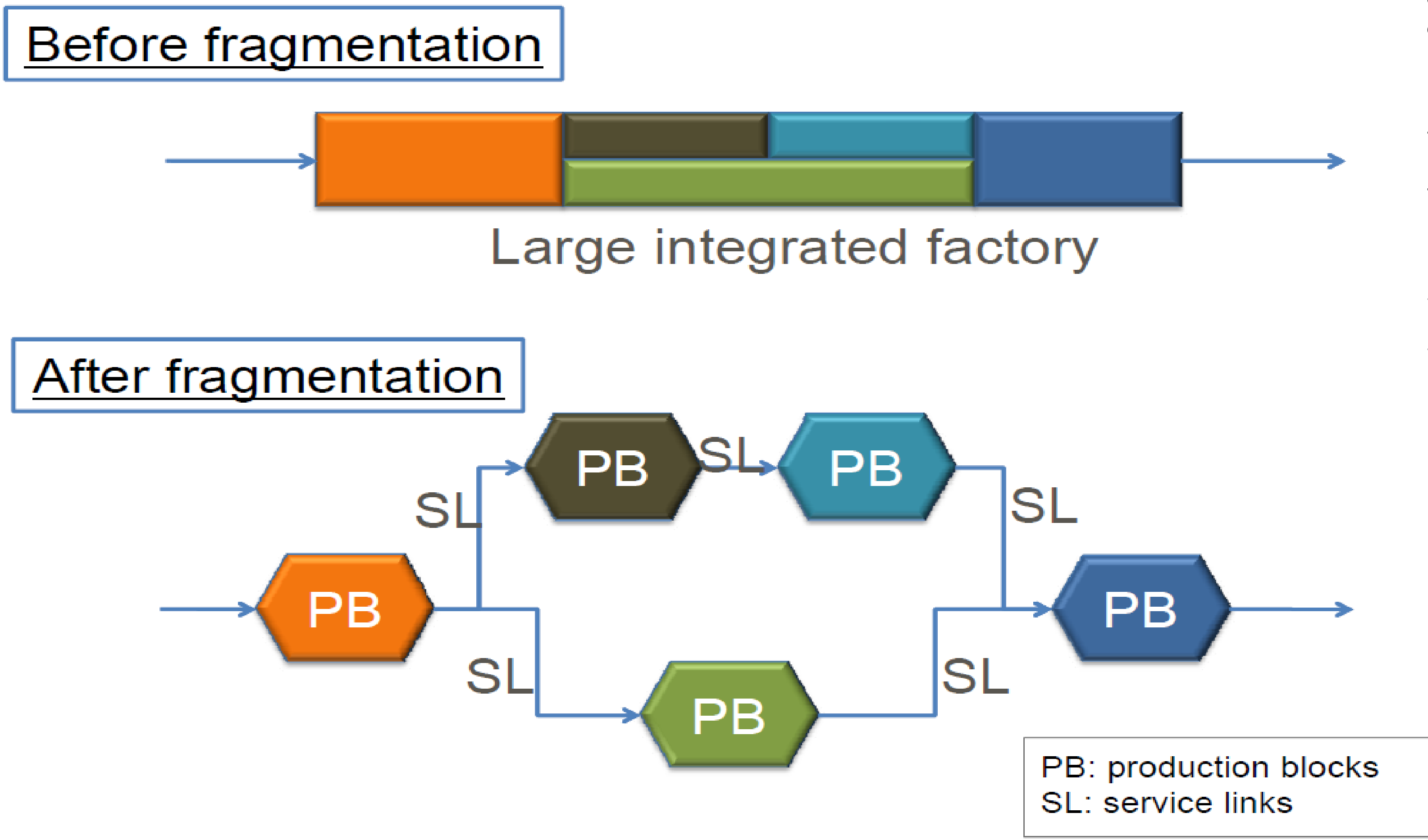
Structure of Regional Production and Distribution Networks

➤ The fragmentation theory: Production blocks and service links



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AFTA contributed to RPNs(Okabe and Urata, 2013)

- AFTA has been effective in promoting intra-ASEAN trade
- increasing trend in the intra-ASEAN import shares in intermediate and capital goods indicate the formation of regional production networks in ASEAN
- declining trend in intra-ASEAN export shares in these intermediate goods indicates the presence of a production network involving ASEAN and China, which has become an increasingly important destination of ASEAN exports of capital goods.

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Export Structure of the Philippines is geared towards these RPNs…

Export structure of selected Asia-Pacific countries

	Global value chain participation rate (%), 2010	Domestic value added embodied in gross exports (%), 2000	Domestic value added embodied in gross exports (%), 2009
China	59	81.2	67.4
Hong Kong	72	67.4	71.5
India	36	87.2	78.1
Indonesia	44	80.6	85.6
Malaysia	68	57.0	62.1
Republic of Korea	63	67.0	59.3
Philippines	56	54.1	61.6
Singapore	82	49.3	50.1
Thailand	52	65.2	65.5
Viet Nam	48	70.4	63.3
Australia	42	-	-

Notes: Global value chain participation rate indicates the share of a country's exports that is part of a multistage process by adding to the foreign value added used in a country's own exports and also the value added supplied to other countries' exports. Domestic value added is the part of exports created in-country, i.e. the part of exports that contributes to GDP.
Sources: Global value chain participation rate was obtained from UNCTAD, 2013, Table IV.13. Domestic value added is from OECD. Available at: http://stats.oecd.org/Index.aspx?DataSetCode=TIVA_OECD_WTO [2 Dec. 2013].

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…but lacks the scale…

FDI inward stock in Asia-Pacific (Million USD)

	1990	2000	2009	2010	2014	2015
Indonesia	8,732	-	108,796	160,735	227,755	224,843
Malaysia	10,318	52,747	78,995	101,620	135,798	117,644
Philippines	3,268	13,762	22,931	25,896	56,646	59,303
Singapore	30,468	110,570	506,179	632,760	962,671	978,411
Thailand	8,242	30,944	106,934	139,286	192,220	175,442
Viet Nam	243	14,730	49,004	57,004	90,991	102,791
China	20,691	193,348	473,083	587,817	1,085,293	1,220,903
Australia	80,364	121,686	439,387	527.064	562,810	537,351

Source: UNCTAD, FDI/TNC database, http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx, accessed on 01 December 2016

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…and scope of other East Asian economies.

Merchandise Exports, selected Asia-Pacific countries (Million USD)

	1995	2000	2005	2010	2014	2015
Japan	441,538	479,320	595,696	767,825	689,916	624,681
Korea	125,058	172,268	284,419	466,384	572,665	526,757
Indonesia	45,418	62,124	85,660	157,779	175,981	150,366
Malaysia	73,865	98,229	141,595	198,325	233,868	199,705
Philippines	17,447	38,078	41,255	51,498	62,102	58,648
Thailand	56,444	69,152	110,360	192,937	225,157	211,048
China	148,780	249,203	761,953	1,577,754	2,342,293	2,274,950
Hong Kong	173,753	201,855	289,325	390,134	473,654	465,092
Taipei	111,405	151,458	199,807	277,413	318,869	283,469
Viet Nam	5,449	14,483	32,447	72,237	150,217	162,017
Australia	-	63,980	106,211	212,027	239,708	187,525

Source: Key Indicators for Asia and the Pacific 2016, https://www.adb.org/sites/default/files/publication/204091/ki2016.pdf, accessed on 02 December 2016

Main Outcome: Lack of Economic Transformation

Share of manufacturing in GDP in selected Asia-Pacific countries(%)

	1980	1985	1990	1995	2000	2010	2013	2014	2015
China	39.9	34.4	32.3	33.4	31.8	31.5	29.7	-	-
Indonesia	13.5	18.1	19.9	24.1	27.7	22.0	21.0	21.1	21.0
Malaysia	21.9	19.7	24.2	26.4	30.8	23.4	22.8	22.9	22.8
Philippines	25.7	25.2	24.8	23.0	24.5	21.4	20.4	20.6	20.0
Thailand	21.5	21.9	27.2	26.5	28.4	31.1	27.7	27.8	27.6
Viet Nam	16.1	16.4	12.3	15.0	18.6	18.0	17.5	17.5	-
Australia			15.0	14.4	12.6	8.6	7.1	6.9	6.8

Source: UN Statistics Division [http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx; accessed, 03 December 2016] and World Bank [http://data.worldbank.org/indicator/NV.IND.MANF.ZS ; accessed, 12 July 2017]
China: 1980-2000 share is composite of mining, manufacturing, utilities

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Comparing Per Capita GDP

Per Capita GDP (in constant 2010 USD)

	1960	1980	1990	2000	2010	2015	2016
China	189	345	726	1,761	4,560	6,497	6,894
Hong Kong	NA	10,727	18,251	23,016	32,550	36,191	36,726
Indonesia	577	1,096	1,653	2,143	3,113	3,828	3,974
Korea, Republic of	1,103	3,911	8,795	15,105	22,087	24,871	25,459
Malaysia	1,408	3,309	4,492	6,939	9,071	10,740	11,028
Philippines	1,059	1,687	1,526	1,607	2,129	2,616	2,753
Singapore	3,390	13,309	22,179	33,390	46,570	52,245	52,601
Thailand	571	1,404	2,503	3,473	5,075	5,734	5,901
Viet Nam	NA	NA	446	788	1,334	1,685	1,770
Australia	19,306	29,795	35,827	44,223	51,874	54,942	55,671

Source: World Bank's World Development Indicators, http://data.worldbank.org/indicator. accessed on 16 November 2016

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AEC will help because of importance of ASEAN to PH…

Country	1975	1995	2000	2005	2009	2010	2012
Exports-ASEAN (share in %)	2.7	13.6	15.7	17.3	15.2	22.4	18.8
Imports-ASEAN (share in %)	5.0	11.9	15.5	18.7	25.4	28.2	22.8

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…particularly in intra-industry trade

Major Philippine Exports to ASEAN: 2012		
F.O.B. Value in Million US Dollars	2012	
	Value	**Share**
TOTAL	**9,807.60**	**100.0**
Electronic Products [1/]	4,221.71	43
Metal Components	974.55	9.9
Petroleum Products [2/]	282.51	2.9
Cathodes and Sections of Cathodes, of Refined C	251.16	2.6
Fertilizers, Manufactured	117.61	1.2

Major Philippine Imports from ASEAN: 2012		
F.O.B. Value in Million US Dollars	2012	
	Value	**Share**
TOTAL	14,208.48	100
Electronic Products [1/]	3,361.64	23.7
Mineral Fuels, Lubricants and Related Materials	2,514.38	17.7
Transport Equipment	1,668.39	11.7
Plastics in Primary and Non-Primary Forms	644.72	1.5
Industrial Machinery and Equipment	507.10	3.6

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Illustrative CSAP Strategic Measures, Key Action Lines, and Corresponding Philippine Initiatives

	Strategic Measures	Key Action Lines	Corresponding Philippine Initiatives
1. A Highly Integrated and Cohesive Economy			
No. 3	Speed up and deepen trade facilitation measures	Put in place TF measures; ASEAN Single Window; ASEAN Trade Repository	-Customs Modernization & Tariff Act (RA 10863) -Philippine National Trade Repository -Philippine National Single Window -Philippine Tariff Finder -Customs Regulated Imports List -Championing of ASEAN Trade Facilitation Index
2. A Competitive, Innovative, and Dynamic ASEAN			
No. 27	National Competition Laws of world standards	Complete in all ASEAN member states	-Philippine Competition Act (RA 10667) and IRRs; fully-functioning Philippine Competition Commission -Clarify respective mandates of PCC and sector regulators on sectoral competition issues
No. 45	Strengthen MSMEs through improved science and technology	Establish mentorship and incentive programs for S&T support for MSMEs	- DOST Academe Technology-based Enterprise Development (DATBED) - Small Enterprise Technology Upgrading Program - DOST OneExport, OneLab, OneStore programs

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감사합니다

Maraming Salamat!!!

Terima Kasih

ขอบคุณครับ

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Cảm ơn rất nhiều

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謝謝你。

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THANK YOU !!!