

Challenges and
prospects for the
asean economic
community
economics essay



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Free trade is a significant stimulus to regional production, linkages and competitiveness. ASEAN has made significant progress in that regard since the implementation of the ASEAN Free Trade Area (AFTA) from 1993. The AFTA initiative has been particularly successful in reducing tariffs in the trade in goods.

Currently, some 99.8 per cent of the products in the Inclusion Lists of ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) have been brought down to the tariff range of 0-5 per cent, with about 65 per cent of those products having zero import tariffs.

Meanwhile, 91 per cent of the products traded by the CLMV countries (Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam) under the Common Effective Preferential Tariff package have been moved into their respective Inclusion Lists. About 77 per cent of those products are already within the 0-5 per cent tariff band.

However, regional free trade alone is not sufficient to release the full energies and the inherent potential of ASEAN. All of us now have to take a further step forward. Deeper economic integration is necessary for ASEAN to cope effectively with the unprecedented opportunities as well as the unprecedented challenges, on both scale and depth, unleashed by globalisation.

China and India have altered the global economic landscape through huge market openings and greater competition, too. Meanwhile, interlinked supply networks have proliferated all over the world, among many other innovative and more efficient ways in value creation and industrial

organization. Last but not least, there are the freer and often instant movements of new ideas, people and resources across national boundaries.

The ASEAN Economic Community. In the midst of two giant economies, ASEAN Leaders made a historic resolution in December 1997 to leverage the region's potential by building an economic community (ASEAN Vision 2020). Henceforth, ASEAN is to be transformed into a stable, prosperous, and highly competitive region with equitable economic development, and reduced poverty and socio-economic disparities.

Notably, that resolution took place in the midst of a severe financial and economic crisis in ASEAN. This underscored once again ASEAN's common perception of the critical importance of greater regional cohesion and complementation in coping with good as well as bad times.

Subsequently at the Bali Summit in November 2003, ASEAN Leaders declared that the AEC would be the end-goal of regional economic integration (Bali Concord II). This Community shall weld together 10 separate entities as a single market and production base by 2020. The ASEAN Economic Ministers have recently recommended that the target year be sped up to 2015.

Put it simply, there will be a free flow of goods, services, investment and a freer flow of capital in the AEC. This is to be complemented by freer movements of skilled human resources — including regional business persons, professionals, and cultural and artistic talents.

The consequent gains from deeper and broader integration are substantial in ASEAN. They are estimated by McKinsey and Co to cut as much as one-fifth of production costs of consumer goods in the region.

As such, the AEC building process will empower ASEAN to remain a dynamic and competitive player in the regional and global supply chains. But the same process is also predicated on wide-ranging adjustments and reforms to be carried out by Governments and the business sector, among other stakeholders in the region.

The commitments so far made include, to name just a few, the ASEAN Free Trade Area of 1992; the ASEAN Framework Agreement on Services of 1995; the ASEAN Agreement on Customs and the ASEAN Customs Vision 2020 of 1997; the Framework Agreement on the ASEAN Investment Area and the ASEAN Framework Agreement on Mutual Recognition Agreements, both of 1998; the Initiative for ASEAN Integration of 2000; the ASEAN Framework Agreement for the Integration of Priority Sectors of 2004; and the ASEAN Policy on Standards and Conformance of 2005.

ASEAN has three key strengths in the economic arena. We have abundant natural resources in our region. We have large supplies of professionals and talented people. And, we have the capability to adopt, adapt and advance technology. By leveraging on these strengths the AEC is likely to be realised sooner than later.

ASEAN Charter. A key development complementing the AEC work is the process to establish the ASEAN Charter. A Charter is certainly not a

panacea. But at a minimum, it is going to facilitate the transformation of <https://assignbuster.com/challenges-and-prospects-for-the-asean-economic-community-economics-essay/>

ASEAN into a rules-based regional organization with a legal personality. Provisions in the Charter to establish robust mechanisms for monitoring implementation and ensuring compliance would contribute greatly to ASEAN's effectiveness. Through the Charter, ASEAN will be able to enshrine the values and principles that shaped by our history and experiences in the last 39 years. It will virtually become our new and official birth certificate in the sense that we are re-born as the ASEAN Community. Such a Charter would also serve to make ASEAN a more responsive, dynamic and integrated regional organisation. In short, the Charter will define ASEAN's future.

The ASEAN Eminent Persons Group (EPG) has been working on its recommendation for the drafting of the Charter. In a few days, the EPG's report will be considered by the ASEAN Leaders during the 12th ASEAN Summit in Cebu, the Philippines, from 11-12 December 2006. In that report, the EPG will recommend what should go into an ASEAN Charter. And at the upcoming Summit, a High-Level Task Force is expected to be mandated by the ASEAN Leaders to start drafting an ASEAN Charter, taking into account recommendations of the EPG, among other things.

This achievement would not only become a benchmark for the region to further enhance its cohesiveness and coherence, but also would venture forth a new cooperative spirit for the community building in the region. To be sure, there is a lot more work to do, especially in converging the different levels of ambition. Yet, I am optimistic ASEAN is on the threshold of a quantum leap in collective development and growth.

ASEAN-EU economic interaction. Against that backdrop of dynamic changes and developments within ASEAN, the EU has remained, among other roles, an important partner in trade and investment and a major source of technical assistance to ASEAN. The EU's valued roles will continue to be very helpful to AEC building efforts in the coming decade.

As a market, for example, the EU-15 economies took in some US\$ 78 billion worth of ASEAN exports in 2005, a steady growth of 5 per cent a year since 2000. The EU was the third largest trading partner, with an average share of 12 per cent of ASEAN trade in the last two years (or just about one percentage point behind Japan and the U. S. A. during 2004-2005). Germany, Netherlands, the United Kingdom, and France are the most important EU traders with ASEAN.

Likewise, the EU-15's foreign direct investment (FDI) in ASEAN has been significant, with the largest share of 57 per cent of the FDI hosted by our region in 2000 (totalling US\$ 23. 5 billion). However, this share fell to 19 per cent of the FDI flows to ASEAN (US\$ 38. 1 billion) in 2005. Singapore, Indonesia, Malaysia, Viet Nam and Thailand were the main destinations of FDI from the EU.

<http://www.aseansec.org/19001.htm> - 30 MAC 2011