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Strategies towards an ASEAN economic community

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Abstract

The ASEAN has come a long way since its establishment in 1967. After achieving a significant milestone in its history when it reached its original target of a free trade area in 2002, the ASEAN is again embarking on yet another ambitious goal – an ASEAN Economic Community (AEC) by 2020. Moving beyond political statement to form an economic community is now therefore a great challenge to the ASEAN. This paper identified strategies on how to move towards the goal of an AEC. The strategies identified address the remaining issues that have kept the region so fragmented that a deeper integration had become elusive all these years.

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Strategies towards an ASEAN economic community[*]

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1. Introduction

The ASEAN has taken center stage during the past few years in view of its emerging role in developing the foundation for an East Asian community. This role started in 1997 with the ASEAN Plus Three process linking the ASEAN-10 and China, South Korea and Japan. Nonetheless, the past two years saw the ASEAN effectively becoming a hub for bilateral, sub-regional and regional trading arrangements in East Asia. In September 2002, the ASEAN signed an agreement with Australia and New Zealand to establish the AFTA-CER Closer Economic Partnership. In November 2002, the ASEAN and China signed the Framework Agreement on ASEAN-China Comprehensive Economic Cooperation, which provides the basis for the negotiation of an ASEAN-China Free Trade Area. Also in November 2002, the ASEAN and Japan agreed to develop the framework for the ASEAN-Japan Comprehensive Economic Partnership, that includes the possibility of a free trade area. In October 2002, the US proposed the "Enterprise for ASEAN Initiatives" that will provide a framework for the US to negotiate both bilateral and regional free trade agreements with the ASEAN. India has also offered to start free trade talks with the ASEAN.

Many observers have suggested that the ASEAN's bilateral and regional trade agreements will serve as the building blocks for an East Asian Free Trade Area, and eventually, an East Asian community. The ASEAN, therefore, is becoming a critical element in the development of an East Asian community. But can the ASEAN rise up to this challenge? The ASEAN itself, after reaching its original target of a free trade area in 2002, is also embarking on yet another ambitious goal - an ASEAN Economic Community (AEC) by 2020.

The AEC is one of the three pillars of an ASEAN Community embodied in the Declaration of ASEAN Concord II (or the Bali Concord II) adopted during the ASEAN Leaders Summit in October 2003[1]. The ASEAN leaders emphasized that the AEC would be the realization of the end goal for the ASEAN Vision 2020. The vision is one of "ASEAN as a concert of Southeast Asian nations, outward looking, living in peace,

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[*] Paper presented during the International Conference on *"Creating an East Asian Community: Prospects and Challenges for Fresh Regional Cooperation"*, organized by the Department of Japanese Studies, National University of Singapore, 8-10 January 2004. An earlier version of the paper was also presented during the regional seminar on *"ASEAN Economic Community: Prospects and Implications"*, organized by the Ministry of Foreign Affairs of Vietnam and Hanns Seidel Foundation, 26 August 2003, Hanoi, Vietnam.

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[1] The other two pillars of ASEAN Community are ASEAN Security Community and ASEAN Socio-cultural Community. The concept of an ASEAN Community was first conceived during the ASEAN Summit on 4 November 2002 in Phnom Penh, Cambodia.

stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies" (ASEAN 2003). To realize this, a single market and production base, with free flow of goods, services, investment, labor and capital, will characterize the AEC.

Moving beyond the political statement to form an economic community is, therefore, now a great challenge to the ASEAN. Concrete steps need to be defined on how to move towards the goal. This paper will attempt to offer some propositions. Section 2 of the paper examines the forces driving the AEC. Section 3 discusses the building blocks for the AEC by examining the accomplishments under the core agreements driving economic integration in the region. Section 4 offers some propositions on strategies towards the AEC. The final section presents the summary and conclusion.

2. Economic forces driving AEC

Why has the ASEAN become more anxious to deepen regional integration? Great challenges continue to confront and pressure the ASEAN to stay competitive. These include the rapid emergence of China as an economic power and the growing attraction of India to foreign investment. The high economic growth of China is disruptive to some sectors in the ASEAN, especially in labor-intensive industries. Rising wages and costs in the ASEAN reduce its comparative advantage under the current industrial structure and shift the balance to China and India (Austria 2003a). The presence in the region of international production networks of multinational companies (MNCs) creates an incentive to reduce transaction costs through the progressive elimination of rules of origin requirements, reduced trade barriers, and greater capital and labor mobility. Otherwise, these MNCs will move out of the region. This requires an integration deeper and more comprehensive than what is currently aimed at the ASEAN Free Trade Area (AFTA), the ASEAN Framework Agreement on Services (AFAS) and the ASEAN Investment Area (AIA). Thus, a deeper integration through the AEC is a good strategy for ASEAN to position itself as an economically integrated region that would make it an attractive alternative to China and India.

Another challenge is the growing expansion of bilateralism and regionalism, both geographically (almost everywhere around the globe) and functionally (going beyond traditional trade liberalization). The proliferation of bilateral and regional trading arrangements (RTAs) in North America and Europe has created many new competitors for the ASEAN, both for export markets and sources of foreign direct investment (FDI). The ASEAN members know that they face discriminatory deals from such arrangements in which they are not members. Thus, a stronger and more competitive ASEAN is necessary to overcome this differential treatment, and to strengthen the ASEAN's negotiation leverage against other RTAs (Munakata 2002).

Finally, the cathartic effect of the Asian crisis calls for a higher level of economic integration and greater cooperation in the ASEAN. The crisis experience has shown that the existing high degree of interdependence and interconnectedness of the ASEAN economies could turn into a drawback where there is no cooperation strong enough to manage the existing integration.

All the above factors point the ASEAN to rethink its position as an economically integrated region. This would mean that the ASEAN has more work to do if it wants to sustain, if not strengthen, the competitiveness of the region.

3. Building blocks for the AEC

The ASEAN has already made substantial progress in its earlier efforts at integration, both in terms of the areas of integration as well as the process of cooperation. In terms of the areas of integration, the accomplishments under the AFTA, AIA and AFAS show the level and extent of integration already achieved in the region. In terms of the process of cooperation, the experience in recent years has shown the ASEAN adopting some degree of flexibility from the "ASEAN-Way of doing things". All these are important building blocks to the formation of the AEC. In short, the AEC is the logical extension of the earlier integration efforts of the ASEAN.

Areas of integration

Trade. With the goal of increasing its competitive edge as the production base for the world market, the AFTA, through the Common Effective Preferential Tariff (CEPT) scheme, has succeeded in lowering the average tariff rates from 11.44 percent in 1993 to 2.89 percent in 2002 for the original AFTA signatories, i.e. ASEAN-6 (Table 1). The rates are expected to decrease further to 2.39 percent in 2003. The average is a little higher (3.33 percent in 2003) if the new members are included.

In 1999, the AFTA's original goal of 0-5 percent has been deepened by targeting a zero-ending tariff rates on all products by 2010 for the original members, five years earlier than the original schedule of 2015; and by 2015 for the new members, three years ahead of the original date of 2018. Further acceleration of the schedule was made in 2002. The Leaders, through the ASEAN Integration System of Preferences, agreed to grant Cambodia, Laos, Myanmar and Vietnam (CLMV) tariff-free access to the markets of the more developed ASEAN members by 2003, seven years ahead of the original schedule of 2010.

As of 2002, about 98.4 percent of the tariff lines of the ASEAN-6 have been included into the CEPT scheme, or 10 percentage points more than the number of tariff lines included in 1993 (Table 2). In terms of tariff structure, about 96.46 percent of the tariff lines of the ASEAN-6 are already under the 0-5 percent tariff rate as of 2002 (Table 3). The new members, however, still have a lot of work to do as more than 44 percent of their tariff lines still have rates higher than 5 percent.

The lowering of tariffs to minimal levels was accompanied by an expansion of intra-regional trade. Intra-ASEAN exports increased from 19.8 percent of the total ASEAN's exports in 1991 to 23.2 percent in 2000 (Figure 1). On the other hand, intra-ASEAN imports went up from 16.3 percent of total ASEAN imports in 1991 to 21.8 percent in 2000. Despite the increase, however, critics are quick to argue that AFTA's effect on intra-ASEAN export is small and hence, conclude that the region is not that important to the economy of its members.

Table 1. Average CEPT rates by country 1993-2003 (percent)

Country	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Brunei D.	3.78	2.64	2.54	2.02	1.61	1.37	1.55	1.26	1.17	0.96	1.04
Indonesia	17.27	17.27	15.22	10.39	8.53	7.06	5.36	4.76	4.27	3.69	2.17
Malaysia	10.79	10.00	9.21	4.56	4.12	3.46	3.20	3.32	2.71	2.62	1.95
Philippines	12.45	11.37	10.65	9.55	9.22	7.72	7.34	5.18	4.48	4.13	3.82
Singapore	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Thailand	19.85	19.84	18.16	14.21	12.91	10.24	9.58	6.12	5.67	4.97	4.63
ASEAN-6	**11.44**	**10.97**	**10.00**	**7.15**	**6.38**	**5.22**	**4.79**	**3.64**	**3.22**	**2.89**	**2.39**
Cambodia								10.39	10.39	8.89	7.94
Lao PDR						5.00	7.54	7.07	7.08	6.72	5.86
Myanmar						2.39	4.45	4.43	4.57	4.72	4.61
Vietnam				0.92	4.59	3.95	7.11	7.25	6.75	6.92	6.43
CLMV				**0.92**	**4.59**	**2.98**	**6.31**	**7.51**	**7.17**	**6.77**	**6.22**
ASEAN-10				**7.03**	**6.32**	**4.91**	**5.01**	**4.43**	**4.11**	**3.84**	**3.33**

Source: ASEAN Secretariat.

However, one needs to compare the AFTA with other regional trading arrangements in order to have a proper perspective on the issue. As shown in Table 4, the AFTA in fact, generated a higher intra-regional trade among its members than the Andean, EFTA or even CER did to their members in the 1990s[2]. In addition, intra-ASEAN trade grew much faster than trade within the NAFTA, EU, EFTA, or CER, over the same period as shown in Table 5 and Table 6. The same tables show that the ASEAN achieved a rapid growth in its extra-regional trade alongside intra-ASEAN trade. Such could only be the product of the outward-oriented policies of its members. Thus, what is often considered a failure of AFTA can in fact be regarded as its great achievement.

The increasing integration of the region during the 1990s is also supported by the increasing intra-industry trade (IIT) index for manufactures (Table 7). Theoretically,

[2] The Andean Community includes Colombia, Venezuela, Peru, Ecuador and Bolivia. The European Free Trade Area (EFTA) includes Norway, Switzerland, Liechtenstein and Iceland. The Closer Economic Relations (CER) includes New Zealand and Australia.

intra-industry trade occurs when countries export and import the same but differentiated products (i.e. horizontal integration). Production of such products is driven by economies of scale and imperfect competition, such as is happening in developed economies. However, the growing trade between low-wage and high-wage economies is also classified as intra-industry in the sense that these countries export and import parts and components that are classified under the same product category, even though trade is driven by comparative advantage. Because of this, the intra-industry trade occurring in developing economies, like the ASEAN, is sometimes referred to as "pseudo-intraindustry" trade (Krugman and Obstfeld 2000) or special type of intra-industry trade (Grimwade 2000). An increasing IIT index indicates deepening integration since it reflects an increase in the division of labor combined with a reduction in transaction costs (Bora 1996). The increase in the index between 1990 and 1999 was highest between Thailand and Brunei, Malaysia and Indonesia, Singapore and Philippines, Singapore and Malaysia, Thailand and Indonesia, and Thailand and Philippines.

Table 2. Percentage distribution of tariff lines, 1993 & 2003 CEPT package (%)

Country	Inclusion List	Temporary Exclusion List	General Exception List	Sensitive List	Total
1993					
Brunei Darussalam	92.9	3.2	3.1	0.9	100.0
Indonesia	78.4	17.6	0.5	3.5	100.0
Malaysia	87.4	6.2	1.0	5.4	100.0
Philippines	79.6	12.8	0.5	7.1	100.0
Singapore	97.9		2.1		100.0
Thailand	94.0	1.3	0.3	4.5	100.0
ASEAN-6	**88.1**	**7.1**	**1.1**	**3.7**	**100.0**
2002					
Brunei Darussalam	96.7	0.0	3.1	0.2	100.0
Indonesia	98.9	0.0	0.9	0.2	100.0
Malaysia	96.6	2.1	0.5	0.8	100.0
Philippines	98.6	0.0	0.3	1.2	100.0
Singapore	100.0	0.0	0.0	0.0	100.0
Thailand	99.9	0.0	0.0	0.1	100.0
ASEAN-6	**98.4**	**0.5**	**0.8**	**0.4**	**100.0**
Cambodia	45.7	51.6	2.0	0.7	100.0
Lao PDR	59.1	36.4	2.1	2.5	100.0
Myanmar	65.4	33.3	0.9	0.4	100.0
Vietnam	86.1	10.9	2.2	0.8	100.0
New members	**64.3**	**33.0**	**1.8**	**0.9**	**100.0**
ASEAN-10	**87.1**	**11.2**	**1.1**	**0.6**	**100.0**

Source: ASEAN Secretariat; AFTA Reader, 1993.

Some studies have pointed out that the increase in intra-ASEAN trade is actually not due to the AFTA but rather to the economic dynamism of the region (Chia 2000). While this argument is correct, Austria (2003b) argued that the AFTA reinforced the dynamism of the region.

Investment. The Framework on ASEAN Investment Area (AIA), formulated in 1998, is the framework for promoting the inflow of foreign direct investment in region. The agreement binds the member economies to gradually eliminate investment barriers, liberalize investment rules and policies, grant national treatment, and open industries to ASEAN investors by 2010 and to all investors by 2020.

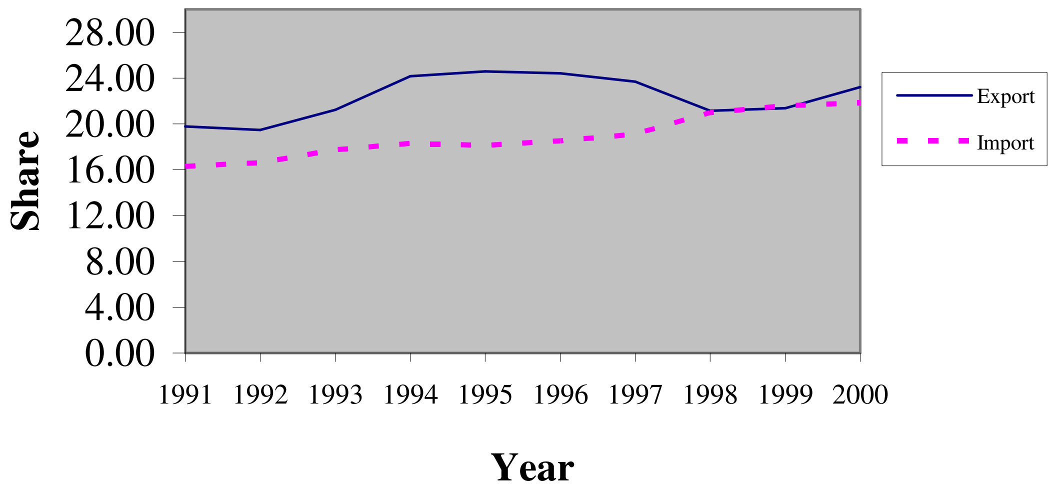
The CLMV are benefiting from intra-ASEAN FDI as shown by the large share of intra-ASEAN FDI in their total of FDI (Table 8). The same cannot be said, however, of the original members.

Table 3. Tariff structure based on the 2002 CEPT package (%)

Country	Number of Tariff Lines			Percentage		
	0 - 5%	> 5%	Total	0 - 5%	> 5%	Total
Brunei Darussalam	6,260	16	6,276	99.75	0.25	100.00
Indonesia	7,139	67	7,206	99.07	0.93	100.00
Malaysia	9,223	816	10,039	91.87	8.13	100.00
Philippines	5,370	206	5,576	96.31	3.69	100.00
Singapore	5,859	-	5,859	100.00	-	100.00
Thailand	8,746	457	9,203	95.03	4.97	100.00
ASEAN-6	**42,597**	**1,562**	**44,159**	**96.46**	**3.54**	**100.00**
Cambodia	238	2,877	3,115	7.64	92.36	100.00
Lao PDR	1,297	803	2,100	61.76	38.24	100.00
Myanmar	2,850	730	3,580	79.61	20.39	100.00
Vietnam	3,623	1,938	5,561	65.15	34.85	100.00
New Members	8,008	6,348	14,356	55.78	44.22	**100.00**
All ASEAN	**50,605**	**7,910**	**58,515**	**86.48**	**13.52**	**100.00**

Source: ASEAN Secretariat.

Figure 1. Share of Intra-Asean Trade to Total Asean Trade, 1991-2000 (%)



Source: PCTAS

One significant achievement in 2003 was the acceleration of the liberalization of the investment regimes of some of the ASEAN members. In particular, Brunei, Indonesia, Myanmar, Philippines and Thailand agreed to phase out their "temporary exclusion list" in the manufacturing sector. Singapore and Malaysia do not have temporary exclusion list. This means that any ASEAN investor can now invest in these countries and enjoy national treatment in the manufacturing sector, including those industries that were previously excluded.

Services. The liberalization of services is being promoted through the ASEAN Framework Agreement on Services (AFAS) signed in 1995. The framework provides for the elimination of intra-regional restrictions on trade in services and the expansion of the scope of liberalization beyond those covered by the WTO-General Agreement on Trade in Services (GATS). Seven sectors were initially covered namely air transport, maritime transport, telecommunications, tourism, business services, construction and financial services. However, unlike the AFTA and the AIA, not much has been achieved under the AFAS.

Table 4. Share of Intra-trade to total trade of the region, 1991-2000 (percent)

Year	AFTA	Mercosur	Andean	EFTA	CER	NAFTA	EU
Exports							
1991	19.77	12.29	5.65	0.76	6.92	40.86	61.95
1992	19.47	15.66	7.82	0.87	7.20	43.89	61.70
1993	21.22	19.75	9.69	0.84	7.93	46.24	57.67
1994	24.16	20.32	9.98	0.80	8.80	48.27	57.88
1995	24.57	21.24	12.52	0.74	9.02	46.49	57.60
1996	24.42	24.17	10.33	0.80	8.94	47.48	67.55
1997	23.70	25.69	11.80	0.78	8.76	49.14	66.99
1998	21.15	26.03	13.90	0.91	8.26	51.69	67.34
1999	21.36	21.71	9.18	0.76	9.32	54.67	68.14
2000	23.22	22.78	9.05	0.59	8.26	56.21	66.31
Imports							
1991	16.28	14.90	6.22	0.96	7.50	34.53	58.76
1992	16.62	19.92	7.64	1.14	7.33	36.01	59.42
1993	17.75	20.18	8.99	1.04	7.70	36.82	56.22
1994	18.31	20.70	10.88	0.89	8.15	37.34	56.80
1995	18.12	22.23	12.87	0.87	7.96	37.77	56.60
1996	18.51	21.24	13.43	0.97	8.47	39.17	67.88
1997	19.10	21.70	13.41	0.90	8.37	39.92	66.38
1998	20.97	22.17	11.52	0.92	6.72	40.28	66.40
1999	21.58	21.07	11.63	0.84	7.58	40.35	65.11
2000	21.83	22.60	13.90	0.75	6.83	40.05	60.91
Total Trade							
1991	17.87	13.27	5.88	0.86	7.21	37.41	60.31
1992	17.90	17.58	7.74	1.00	7.27	39.57	60.53
1993	19.20	19.95	9.34	0.93	7.81	40.99	56.95
1994	20.87	20.51	10.40	0.84	8.46	42.11	57.35
1995	20.77	21.53	12.70	0.80	8.46	41.67	57.11
1996	20.79	22.60	11.70	0.88	8.70	42.91	67.71
1997	20.97	23.51	12.57	0.84	8.56	44.03	66.69
1998	20.69	23.92	12.63	0.91	7.45	45.21	66.88
1999	21.03	21.38	10.29	0.80	8.36	46.33	66.64
2000	22.30	22.69	11.01	0.66	7.51	46.61	63.60

Source: Calculated by the author based on PC-TAS database, 2000.

Table 5. Annual change in intra-regional and extra-regional exports (percent)

RTAs	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00
Intra-regional exports									
AFTA	11.87	24.68	40.08	25.24	3.23	0.69	-18.00	9.64	27.77
Andean	55.44	30.41	20.57	28.86	4.71	19.68	-3.46	-26.54	29.77
EFTA	21.14	-8.98	4.73	8.30	14.48	-6.00	10.94	-11.13	-13.38
CER	6.04	10.47	23.79	14.66	11.22	1.02	-16.83	13.04	4.26
NAFTA	17.22	10.59	16.37	11.17	9.87	14.00	4.89	11.30	16.80
EU	5.76	-14.65	14.65	11.77	20.28	-0.31	3.22	0.37	-0.28
Extra-regional exports									
AFTA	13.42	11.84	18.49	21.61	6.66	4.24	-4.20	7.98	16.22
Andean	9.63	3.16	16.68	-0.21	30.15	3.01	-20.01	17.38	31.76
EFTA	5.24	-5.70	10.58	17.46	5.13	-3.86	-4.39	5.60	12.36
CER	1.67	-0.49	10.55	11.61	12.18	3.38	-11.31	-0.95	19.02
NAFTA	3.54	0.61	7.25	19.43	5.58	6.65	-5.26	-1.26	9.74
EU	6.90	0.93	13.67	13.05	-21.51	2.28	1.59	-3.24	8.34

Source: Calculated by the author based on PC-TAS database, 2000.

Table 6. Annual change in intra-regional and extra-regional imports (percent)

RTAs	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00
Intra-regional imports									
AFTA	10.47	20.74	23.92	22.16	8.49	2.87	-18.36	10.89	26.85
Andean	88.08	28.82	26.64	47.12	-0.93	21.04	-11.03	-19.59	29.26
EFTA	18.30	-15.97	-3.37	15.84	11.60	-8.27	7.90	-11.78	-7.56
CER	4.87	8.30	21.60	12.82	13.38	-0.84	-24.13	24.81	-3.86
NAFTA	15.69	10.80	16.23	11.37	10.75	14.15	6.25	11.66	18.33
EU	6.00	-19.75	14.63	9.14	22.94	-2.09	4.75	-0.21	-1.44
Extra-regional imports									
AFTA	8.98	13.38	20.32	27.17	4.29	-2.51	-28.05	7.88	20.50
Andean	50.78	7.94	2.47	21.59	-5.70	21.22	5.84	-20.48	5.43
EFTA	-0.51	-7.69	12.33	18.57	0.78	-1.55	5.52	-3.01	3.51
CER	7.44	2.73	14.37	15.70	6.06	0.40	-3.86	9.70	7.55
NAFTA	8.42	7.03	13.65	9.35	4.37	10.63	4.66	11.35	19.81
EU	3.14	-8.51	11.96	10.03	-24.14	4.81	4.65	5.66	18.05

Source: Calculated by the author based on PC-TAS database, 2000.

Table 7. Intra-industry trade index for manufactures, ASEAN-6, 1990 and 1999.

	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand
Brunei		0.4	8.3	..	9.2	34.5
Indonesia	..		57.5	17.3	..	55.4
Malaysia	3.9	27.1		47.8	78.0	59.8
Philippines	1.2	23.4	34.1		55.6	56.6
Singapore	6.2	..	59.3	39.4		46.5
Thailand	0.1	23.7	47.3	15.5	70.3	

Note: The IIT index in the lower diagonal refers to 1990 while the upper diagonal refers to 1999.
Source: NAPES

Table 8. Share of Intra-ASEAN FDI in total FDI, by host country, 1995-2000 (%)

Host Country	1995	1996	1997	1998	1999	2000	1995-2000
Brunei	53.4	54.0	54.9	43.1	46.2	36.2	48.3
Cambodia	-	-	-	-	-	-	-
Indonesia	14.0	3.1	5.8	10.4	15.6	5.1	5.0
Lao PDR	7.4	80.2	74.6	62.5	62.9	41.0	57.2
Malaysia	30.2	19.8	41.2	15.4	11.4	4.6	23.3
Myanmar	30.4	39.4	36.8	22.5	13.5	35.4	30.8
Philippines	13.0	4.5	10.8	6.1	6.7	5.1	7.5
Singapore	7.0	3.7	20.6	2.4	4.1	2.5	7.8
Thailand	8.0	13.6	8.2	7.7	9.3	11.9	9.3
Vietnam	21.8	18.2	21.2	23.5	19.5	15.7	20.2
ASEAN	15.1	10.1	19.7	9.6	8.4	9.3	12.8

Source: Statistics of Foreign Direct Investment in ASEAN, 2002 Edition.

Process of cooperation

The decision-making process in the ASEAN has always been guided by what is commonly referred to as the "ASEAN-Way", which involves the ASEAN norms of voluntarism, consensus, non-interference and informality (Akaha 1999; Soesastro 2002; Okfen 2003). The ASEAN-Way is the hallmark of the ASEAN process, the practice having guided and sustained cooperation in the region. However, the ASEAN-Way has often been criticized since the process is slow and time-consuming, producing decisions that are neither swift nor drastic. On hindsight, this *go-slow approach* was necessary during the formative years of the ASEAN. Considering the diversity among the members, the "approach has proved useful in solving differences, harmonizing divergent interests, and managing conflicts among member states (Soesastro 2002:5).

During the past few years, however, there is a general recognition that the consensus-based decision making process has become a weakness that the ASEAN should address. This is best illustrated by the slow and indecisive reaction of the ASEAN to the financial crisis of 1997 to 1998. Having recognized this weakness, the ASEAN has adopted some degree of flexibility to the ASEAN-Way by following the "coalition of the willing" approach". This is best exemplified when ASEAN adopted in 2002 the *"ASEAN Minus X principle"*, in the liberalization of services and investment. Under the principle, two or more members can move ahead with services liberalization, and the others can join in a later date whey they are ready. In addition, during the Leaders Summit in 2003, the leaders proposed the idea of adopting the *"2+X approach"*, where two members that are ready to cooperate on specific sectors could work together first.

4. Strategies towards AEC: Some propositions

The ASEAN has yet to decide on the form of economic integration that the AEC will take. The concept paper prepared by the ISEAS (2003) proposed a *Free Trade Area Plus* while a similar paper by the ASEAN-ISIS (2003) proposed a *Common Market Minus*. The former is a zero-tariff ASEAN free trade area that includes some elements of a common market (i.e. free movement of capital and labor). The latter, on the other hand, is a common market with some kind of a negative list. However, regardless of the ultimate form the AEC will take, the ASEAN needs to put its house in order first so as to keep the interests of its dialogue partners. Below are proposed strategies towards building an AEC.

- *Accelerate implementation of the unfinished agenda of the AFTA, AIA and AFAS.*

  Tariffs on sensitive agricultural products have yet to fall to 0-5 percent. The delay in the tariff reduction for automobiles continues to be an issue raised against AFTA. Likewise, the substantive work in the areas of investment is just starting to pick up. While liberalization in investment has been accelerated last year, the current program under the ASEAN Investment Area (AIA) includes only manufacturing. The coverage of the program should be extended to the other sectors (services and agriculture) as well.

  On the other hand, the liberalization of trade in services has not kept pace with the liberalization efforts on goods and investment. Since services (transportation, power, telecommunication, banking, etc.) are also inputs to the production of industries, their inefficiency weakens the competitiveness of the manufacturing sector and hence, can be costly to each member economy as a whole. In short, the efficiency of the services sector is crucial to the efficiency of the manufacturing sector. Hence, unless the services sector is competitive, the manufacturing sector cannot be internationally competitive. The issue on efficiency becomes all the more crucial as the AEC envisaged the ASEAN to be a single market and production base, and a more dynamic and stronger segment of the global supply chain.

  In all three areas (trade, investment and services), the ASEAN should enhance the implementation capability of its members and ensure compliance. This calls for a monitoring and compliance mechanism that requires members to be committed to the implementation of targets.

- *Intensify regional efforts of bringing in the CLMV into the integration process.*

  A more fundamental issue for the ASEAN at this stage is the possible distributive effects among the members of an accelerated integration. For a community to survive, there must a sense of belongingness, mutual trust and a collective sense of identity (Okfen 2003). However, such would not materialize unless the members do not equitably share the benefits from integration.

  Considering the diverse stages of development of the members, there is no guarantee that the costs and benefits of a deeper and accelerated integration will be equitably distributed among the members. It is possible that one member would sacrifice rather than gain benefits. The probability could be large if one looks at the stark differences between the democratic prosperous original members versus the partly socialist and poor new members. This is one agenda that the ASEAN should seriously consider because it could not only hamper economic integration but also threatens its success as a whole. Ultimately, the AEC will be judged not by the complete implementation of the various agreements but by the economic prosperity it brings to the entire membership.

  An initial effort along this area is the Initiative for ASEAN Integration (IAI) Work Plan adopted in 2000. The idea is to assist the CLMV so that they keep up with the original members in the integration process. Considering the importance that this can contribute to the success of the integration process, priority must be given to the immediate implementation of the projects and programs identified last year in the six-year work program covering the areas of infrastructure, human resource development (HRD), information, communication and technology (ICT), and regional economic integration.

- *Pooling of sovereignty*

  As pointed out earlier, the adoption of some degree of flexibility in the ASEAN-Way of doing things is one crucial factor in moving towards building an economic community. Needless to say, an economic community would require much more than a 10-X principle, if one were to take the experience of the European Union. The ASEAN-Way may no longer work in a European-style economic integration. The high level of the new integration being aimed at would require the willingness of the ASEAN members to sacrifice at least a minimum of national autonomy for the sake of pursuing the collective action or subordinate particular interests under the umbrella of a shared agenda.

  Some of these areas include the harmonization of national policies and regulatory systems.

- *Formulate a common framework for bilateralism and regionalism*

  The recent years saw individual ASEAN members pursuing bilateral trading arrangements, and the ASEAN as a group pursuing ASEAN+X agreements. These occurred without the guidance of a common framework. The absence of common framework in all these efforts could be potentially dangerous for the ASEAN as it could lead to a series of agreements that are very different from each other. This could give rise to the "spaghetti bowl" effects, where each agreement differs in scope and tariff reduction schedules, rules of origin, etc. This could make the cost of doing business in the region more expensive.

  But there is another facet to the bilateral arrangements. They run counter to the logic of building an ASEAN community. It exemplifies the kind of cooperation operating in the region – talking regional but acting bilateral (Munakata 2002). This raises the issue of whether the approach would help enhance mutual trust, which is an essential element in building a community. Clearly, the politics of bilateralism does not promote a spirit of community (Okfen 2003).

  However, the above issues can be overcome by adopting a common framework to bilateralism and regionalism. The use of a common framework will facilitate the amalgamation and the eventual convergence of the different agreements to the bigger AEC.

- *Formulate an institutional framework*

  The institutionalization of the ASEAN has evolved through time, adapting to changes within the region itself and to the external environments. However, unlike the EU where there is a supranational policy coordination under the direction of the European Commission, the ASEAN is devoid of such a body to implement its programs. Instead, the ASEAN process involves numerous meetings between its members at all levels involving heads of governments, foreign ministers, economic ministers and committees. This has always been the case as ASEAN economies are ambivalent towards the process of a formal institution and opt for easier, more flexible and less fundamental solutions.

  Building an economic community, however, would mean more complex issues on the ASEAN agenda. And it is doubtful whether the ASEAN-Way will still be effective. Thus, there is a need to formulate an institutional framework for building and supporting the economic community.

  The concept paper of the ASEAN-ISIS proposed the transformation of the ASEAN from an inter-governmental cooperation structure into a regional institution. In addition, there is a need for legally binding agreements that would help constrain sovereignty.

5. Summary and conclusion

The ASEAN has come a long way since its establishment in 1967. After achieving a significant milestone in its history when it reached its original target of a free trade area in 2002, the ASEAN is now faced with a much bigger challenge of becoming an economic community. And with the current trend of bilateral initiatives involving the ASEAN, it is not far fetched that such initiatives could make the ASEAN the anchor of an East Asian Community.

Given such a big challenge, this paper identified strategies towards an ASEAN economic community. What the ASEAN needs now is a strong political commitment to move beyond the political statement to achieve economic integration. The strategies herein identified include the acceleration of the unfinished agenda in the AFTA, AIA and AFAS; intensification of efforts to bring into the integration process the CLM; pooling of sovereignty; adoption of a common framework for bilateralism and regionalism so as to ensure that the initiatives become building blocks for an East Asian community; and the formulation of an institutional framework. The strategies themselves address the remaining issues that have kept the region so fragmented that a deeper integration had become elusive all these years.

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