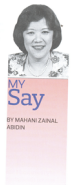


## Asean Economic Community 2015: Where are we now?



Imagine a region with a single market and production base, highly competitive, with equitable economic development and fully integrated into the global economy. That's the Asean Economic Community (AEC) target, and we have less than three years to achieve it.

Malaysia assumes the rotating Asean chairmanship in 2015 and will be tasked to deliver the results of the AEC Report Card, which we hope will be praiseworthy.

How well is AEC doing in achieving its targets? In April this year, the Asean Secretariat published the AEC Scorecard, which measures the progress of the regional integration efforts from 2008 to 2011. The scorecard provides quantitative indicators of the implementation progress of the measures specified in the AEC Blueprint.

Divided into four phases - Phase I (2008/09), phase II (2010/11), Phase III (2012/13) and phase IV (2014/15) - this measurement is made up of four pillars of integration: single market and production base, competitive economic region, equitable economic development and integration into the global economy.

According to the April 2012 AEC Scorecard, 68.2% of the measures in the AEC Blueprint have been successfully implemented. The highest achievement measured was integration into the global economy (85.7%), followed by competitive economic region (69.2%) and equitable economic development (66.7%). The single market and production base pillar scored the lowest at 66.5%.

It is ironic that Asean is integrating better with the outside world rather than forming its own single market and production base. This, however, does not come as a surprise as a number of its members have been signing numerous free trade agreements with partners from outside the region. In 1998, after the Asian financial crisis, Singapore started the trend and admittedly, some member states feared that Asean regional integration might receive less attention.

Notwithstanding that, the group's integration thus far is no small feat considering the diversity of its member countries. The Asean Free Trade Agreement (Afta) has been realised with zero import tariffs with the Asean-6. The Asean Trade in Goods agreements (ATIGA) is now in force, as is the Asean Comprehensive Investment Agreement, the completion of seven packages of services commitments under the Asean Framework Agreement on Services (AFAS) and the launch of the Asean Regional Guidelines on Competition Policy. The full list of achievements is too long to enumerate here.

Somehow, this list of achievement does not correspond with the perception of Asean integration. There is this nagging feeling that the achievements on paper may not match the reality on the ground.

One possible explanation is the shortcomings of the AEC Scorecard. The scorecard is only a compliance tool and is not for assessing the impact of the measures implemented. Most of the

achievements are gauged by member states' compliance in ratifying Asean-wide agreements. However, translating these regional agreements into domestic laws is not measured.

Many of the shortfalls in the achievements of the AEC measures are due to these delays. Hence, even though achievements have been checked at the regional and national levels, the actual measures have yet to be implemented.

The scorecard results are not fully indicative because the data provided is in aggregate scores. No information is available on individual country scores. Perhaps this reflects Asean's stance of not shaming member states for non-compliance. This stance is derived from the group's principle of non-interference. If Asean is truly serious about integration, it must be prepared to provide more detailed information and move away from glossing over individual country performance by using aggregated data.

The scorecard also does not explain the reasons for implementation shortfalls. As such, the Asean public, including the business sector, cannot put pressure on governments to accelerate implementation. The integration process has no mechanism to impose penalties if member states fail to comply or give incentives to encourage them to minimise delays.

Although the method of calculating the AEC Scorecard can be improved, the real achievement in creating a regional economic community goes beyond that. There are fundamental issues and critical areas that need to be addressed if the AEC is to be achieved in 2015.

Asean has made a remarkable achievement in liberalising trade in goods through AFTA, and subsequently, through ATIGA. Unfortunately, the same cannot be said about trade in services. After several rounds of AFAS, trade in services among member states is still insignificant. Among the key reasons for this low level of trade is that the services liberalisation goals under the AEC are far from ambitious, with only partial liberalisation of foreign equity in commercial activities.

Even if foreign equity is liberalised, setting up businesses in Asean countries is not that easy because there are barriers to the rights of foreigners to hold land, hire foreign professionals or obtain business permits. Therefore, there may not be a massive tide of cross-border investment and services trade even though the AEC services goals have been achieved.

Another major future action that can determine the effectiveness of Asean integration is the region's ability to allow free flow of skilled labour. Skilled labour mobility is essential for effective implementation of services and investment liberalisation.

From 2008 to 2009, Mutual Recognition Arrangements (MRAs) for major professional services - architectural services, accountancy services, survey qualifications, medical practical practitioners, and dental practitioners - were completed. MRAs for other professional services are currently being developed.

But having these MRAs inked does not mean that skilled professionals can move freely. There are many reasons why progress on recognising professional qualifications is limited. These include the wide range of practices relating to education and training of professionals, fear of loss of regulatory sovereignty or that recognition will lead to harmonisation of standards/practices at the lowest common denominator. There is also the concern that particular local knowledge may not be adequately reflected in these MRAs.

The flow of skilled workers can be difficult due to the absence of licensing systems for some professions or of formal qualification mechanisms in some countries. In addition, professional associations may be reluctant to be involved in recognition initiatives without clear benefits to their members.

Efforts to ensure free movement of skilled workers, in some cases, have to contend with constitutional and legal provisions that reserve jobs for nationals. For example, in the Philippines, the constitution reserves for its nationals the practice of licensed professions (including engineering, medicine, accountancy and architecture).

There are also other barriers in the form of national treatment limitations where qualifications and restrictions are based on nationality, economic needs test, numerical quotas for each profession, ethnic and religious preferences or language requirements.

One of the biggest laggards in the AEC Scorecard is the transport sector. For example, in the Competitive Economic Region Pillar, of the 25 measures that have not been implemented, 18 are from the transport sector. The primary reason is the slow enactment of the necessary domestic legislations for the various Asean-wide agreements that have been signed.

In addition, Asean countries also find it difficult to reach a common position on implementing other infrastructure-related initiatives such as trade facilitation and customs integration.

Beyond liberalisation in trade in goods, real economic integration is difficult to measure. As such, the AEC Scorecard is still very much needed, even with its existing shortcomings. Its methodology can certainly be improved to go beyond mere compliance. Assessment of the implementation of the measures is essential.

An important area for improvement is the strengthening of the institutions for monitoring the AEC. Monitoring work should not just be carried out by the Asean Secretariat. AEC monitoring units should also be established at the country level, accompanied by enhancing internal coordination among government agencies and market players.

However, Asean economic integration should go deeper than the present AEC measures. Accelerating the ratification of AEC agreements and translating these regional agreements into national laws are very necessary.

Countries must be prepared to amend national constitutions and laws so that these legislations are consistent with the spirit of Asean integration. A dispute settlement mechanism and penalties for noncompliance are very sensitive areas but the grouping should be bold and consider these possibilities. All these will require strong political will.

*Dato' Dr Mahani Zainal Abidin is chief executive at the Institute of Strategic and International Studies*