

ASEAN: building an Economic Community

Compared to the EU, cooperation between the ten ASEAN (Association of Southeast Asian Nations) member states is fairly loose and unstructured. However, in 2007 ASEAN decided to move towards closer integration by establishing an ASEAN Economic Community (AEC) by 2015 as one of its three pillars (the other two being the Political-Security and Socio-Cultural Communities). What will this mean and to what extent will the AEC resemble the EU's Single Market?

Before the ASEAN Economic Community – some cooperation...

In 1992 ASEAN established an ASEAN [free trade area](#). This was followed in 2006 by visa exemption for intra-ASEAN travel, a measure which has considerably boosted tourism in the region.

In 1999 ASEAN, together with China, South Korea and Japan (ASEAN Plus Three, [APT](#)), launched an [Economic Review and Policy Dialogue](#) mechanism to coordinate macroeconomic policies. With the APT group, it has set up a multilateral [Chiang Mai Initiative](#), pooling currency reserves with the goal of preventing a repeat of the 1997/98 Asian financial crisis.

...but little integration

Of course, all this falls far short of a genuine economic community. Impressive economic performance (average GDP growth, 1980-2009: 5.3%) has not translated into closer economic integration: in 2010 intra-regional trade accounted for just 25% of ASEAN's total trade, compared to nearly 70% for intra-EU trade.

Despite a proliferation of bilateral free trade agreements with non-ASEAN partners, ASEAN countries do not have a common external trade regime. This means that non-ASEAN companies operating in the region have to deal with up to ten different systems.

Other aspects of economic integration are even less advanced, with for example limited labour mobility and poor intra-regional road and rail infrastructure.

Huge economic disparities remain – for instance, per capita income is 61 times higher in Singapore than in Myanmar – even though these are gradually diminishing due to fast [economic growth](#).

The vision

In 2007, ASEAN decided to move towards closer integration. It adopted a new [Charter](#) together with a detailed [Blueprint](#) for an ASEAN Economic Community built on four pillars, with clear parallels to the European Economic Community:

A single market and production base, with free (or freer) movement of goods, services, capital and skilled labour.

Measures under this pillar include eliminating intra-ASEAN tariffs and non-tariff barriers, establishing an 'ASEAN Single Window' as a single point of contact for intra-ASEAN customs clearance procedures, harmonising technical standards, and introducing mutual recognition of professional qualifications in certain sectors (such as medicine).

A competitive economic region: To ensure fair cooperation in ASEAN markets, it is proposed to establish competition regulators in all ASEAN countries and coordination amongst them.

It is also proposed to develop intra-regional infrastructure. New road and rail links such as a Singapore-Kunming railway and an ASEAN Highway Network are to connect national transport networks. Other proposals include an ASEAN Open Sky and a Trans-ASEAN grid and gas pipeline.

Equitable economic development: On similar lines to the EU's Structural Funds (but with only a tiny percentage of their budget), an [Initiative for ASEAN Integration](#) is to facilitate efforts such as infrastructure projects in ASEAN's less developed member states, which as with the EU were also the most recent to join

Integration into the global economy: ASEAN states are to coordinate their external trade policies to ensure a more coherent approach.

Why an ASEAN Economic Community?

As a single market and production base, ASEAN, with a total population of over 600 million and GDP of over US\$2 trillion, will become a highly competitive destination for trade and investment. In addition, the proposed reforms will cut business costs, open up markets and promote economic integration, all of which should stimulate economic growth.

Although ASEAN leaders (in contrast to the founding fathers of the EEC) do not see the AEC as a stepping stone to closer political integration, economic cooperation is likely to spill over into other policy areas. Closer links between ASEAN countries could consolidate peace and stability and help build regional identity.

How could the EU benefit?

ASEAN is the EU's third largest trade partner, but so far only one free trade agreement has been concluded (with [Singapore](#)). An ASEAN economic community could open the door to an FTA between the EU and the entire ASEAN region.

Parliament's [Resolution](#) on the future of EU-ASEAN relations (15 January 2014) encourages ASEAN to continue building an Economic Community, which will make it comparable to other large markets in the world, such as the EU, and calls for liberalisation of ASEAN's labour markets.

Will it actually happen?

Since 2007, considerable progress has been made, for example on eliminating tariffs, but many challenges remain. According to ASEAN's [AEC Scorecard](#) report on measures to prepare for the AEC, only 76.5% of targets due for 2013 were met on time, suggesting that the [deadline of 2015](#) for establishing the AEC will be missed. For example, the ASEAN Single Window for customs clearance is taking longer than expected to set up.

Even if all the measures set out in the AEC Blueprint are adopted, objectives such as developing intra-regional infrastructure and narrowing the development divide will take decades to achieve, and are dependent on national measures given that ASEAN has virtually no resources of its own.

Another problem is that the AEC remains entirely government-led. The people and businesses of the region have not been involved, and [surveys](#) consistently show a lack of awareness.

The EU relied on supranational legislation and institutions to develop its single market. By contrast, ASEAN only has a small permanent secretariat (in 2009, a budget of just [US\\$9 million and 240 staff](#)), and no supranational powers. Issues such as technical standards, dispute settlement and policing of the single market are to be dealt with through cooperation between national authorities rather than a single ASEAN-wide institution comparable to the European Commission. This lack of clear governance could make it difficult to enforce and develop the AEC once it is in place.

In any case, the AEC is a much less ambitious project than the European Economic Community. For example, it envisages mutual recognition of qualifications in certain professions rather than general labour mobility. Similarly, national external trade policies are to be coordinated rather than replacing them with a customs union.

Outlook

The ASEAN Economic Community is unlikely to be ready in time for the 2015 deadline. Even once in place, ASEAN's single market will still be much less integrated than the EU's. Moreover, governance could be problematic given ASEAN's loose intergovernmental structure.

On the other hand, ASEAN countries and their trading partners will benefit from the economic reforms and closer cooperation introduced under the AEC agenda.

This is one of a trio of publications on ASEAN; the others cover [the developing Socio-Cultural Community](#) and [the Political-Security Community](#).