

# **ASEAN Economic Community: Issues and Challenges \***

**5<sup>th</sup> ASEAN Leadership Forum  
In the Wake of the ASEAN Charter**

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\* The views expressed here are those of the author and do not necessarily reflect the views of the Asian Development Bank (ADB) or ADB's Board of Governors or the countries they represent.

# Contents:

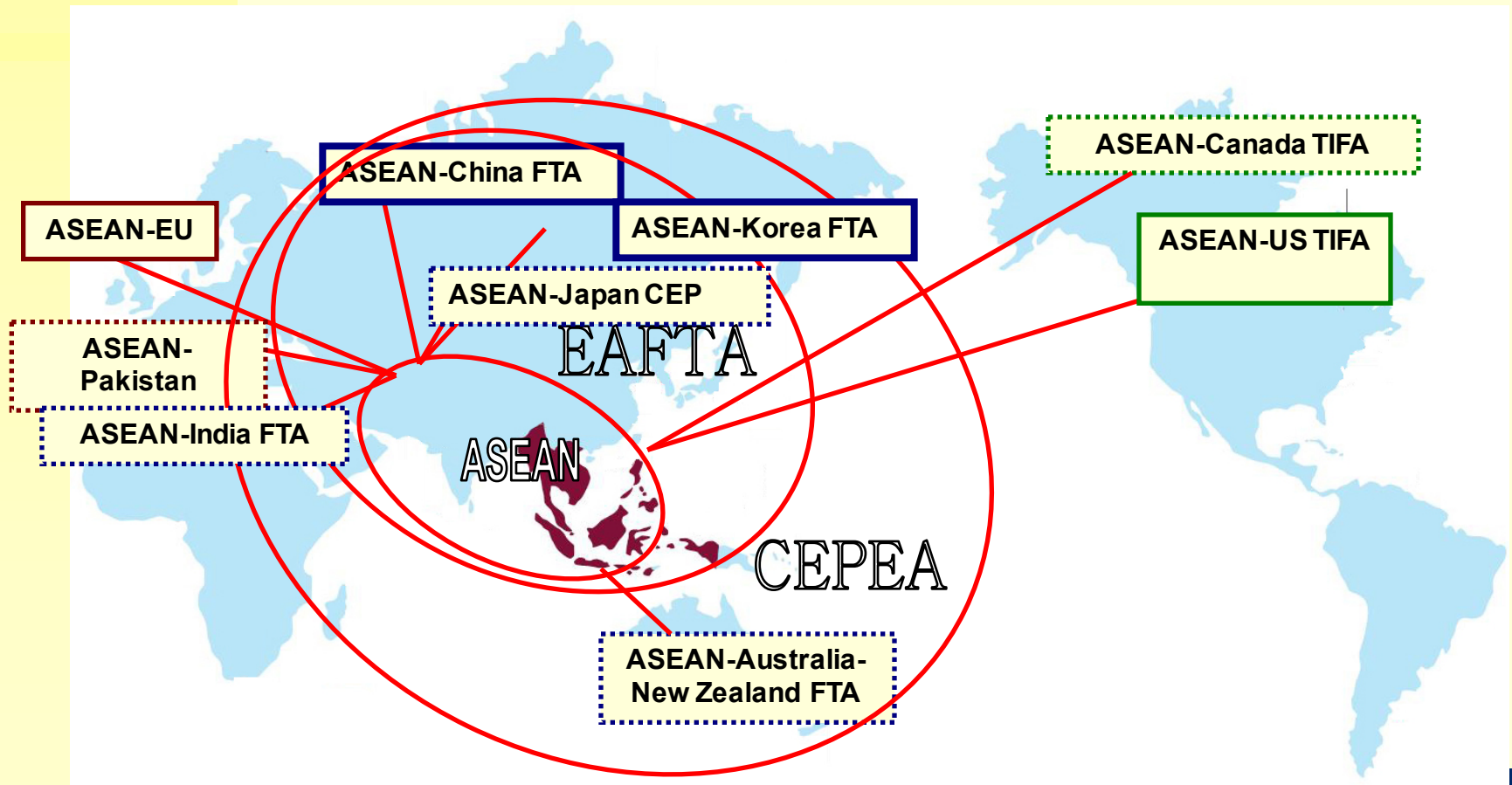
- ASEAN: a driving force for Asia's integration?
- The AEC Blueprint: the four pillars
- AEC vs. EU: What's different?
- Making the AEC work

# Regional economic cooperation and integration is key to ASEAN's future development strategy

- Pragmatic institutions and policies key components of success
- Outward-oriented, open approach to global economy central to ASEAN's economic clout
- Regional-level initiatives increasingly complement national level policies, helping drive ASEAN's global engagement
- Regional cooperation and integration must be addressed and managed systematically
- Natural for ASEAN to look upon Europe as global benchmark on regional integration—both for what went right and what didn't



# Beginning with trade integration



# ASEAN integration is deepening...

- **Trade:** tariffs for most traded goods within ASEAN between 0 to 5 %—internal ASEAN trade \$434 billion in 2007 (\$181 billion in 2000)
- **Investment:** Rebound in FDI since 1997/98 financial crisis—2006 FDI inflow to ASEAN \$51 billion (\$24 billion in 2000)
- **Finance:** Cross-border capital flows within ASEAN-5 expand—\$28 billion in 2006 (\$12 billion in 2001)

# ...due to pioneering initiatives

- Spearheaded Asia's first efforts at regional economic integration
- Despite political, economic, cultural diversity, ASEAN created a structured regional dialogue
- Substantial tariff reduction and first regional free trade area in Asia
- Open regionalism e.g., voluntary multilateralization of tariff reduction
- And, of course, the new Charter gives ASEAN legal status and moves it toward a more rules-based regional institution

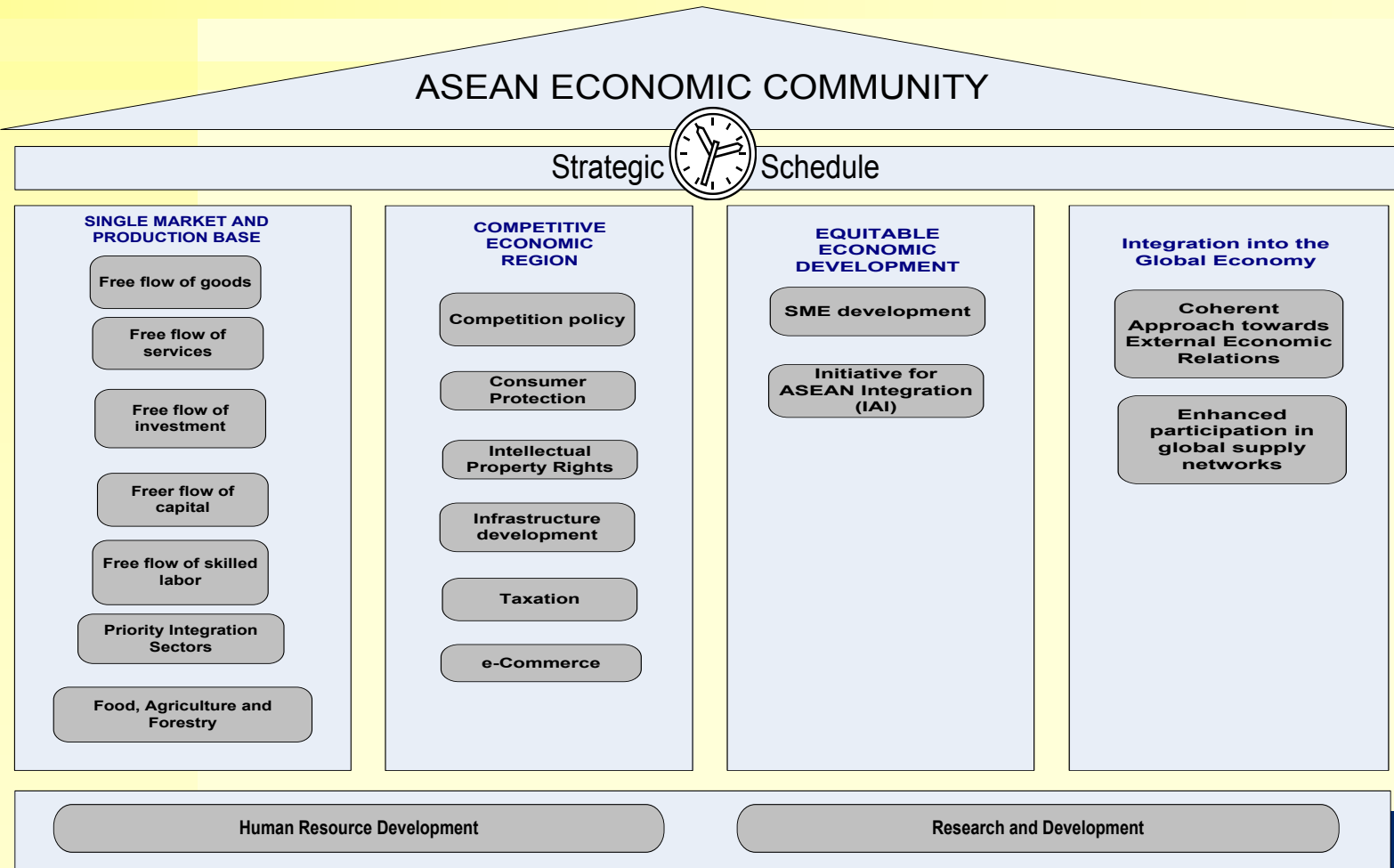
# Building the AEC is crucial for future Asian Integration...

For ASEAN to be an effective “driving force” for Asia, it needs to further deepen its own integration:

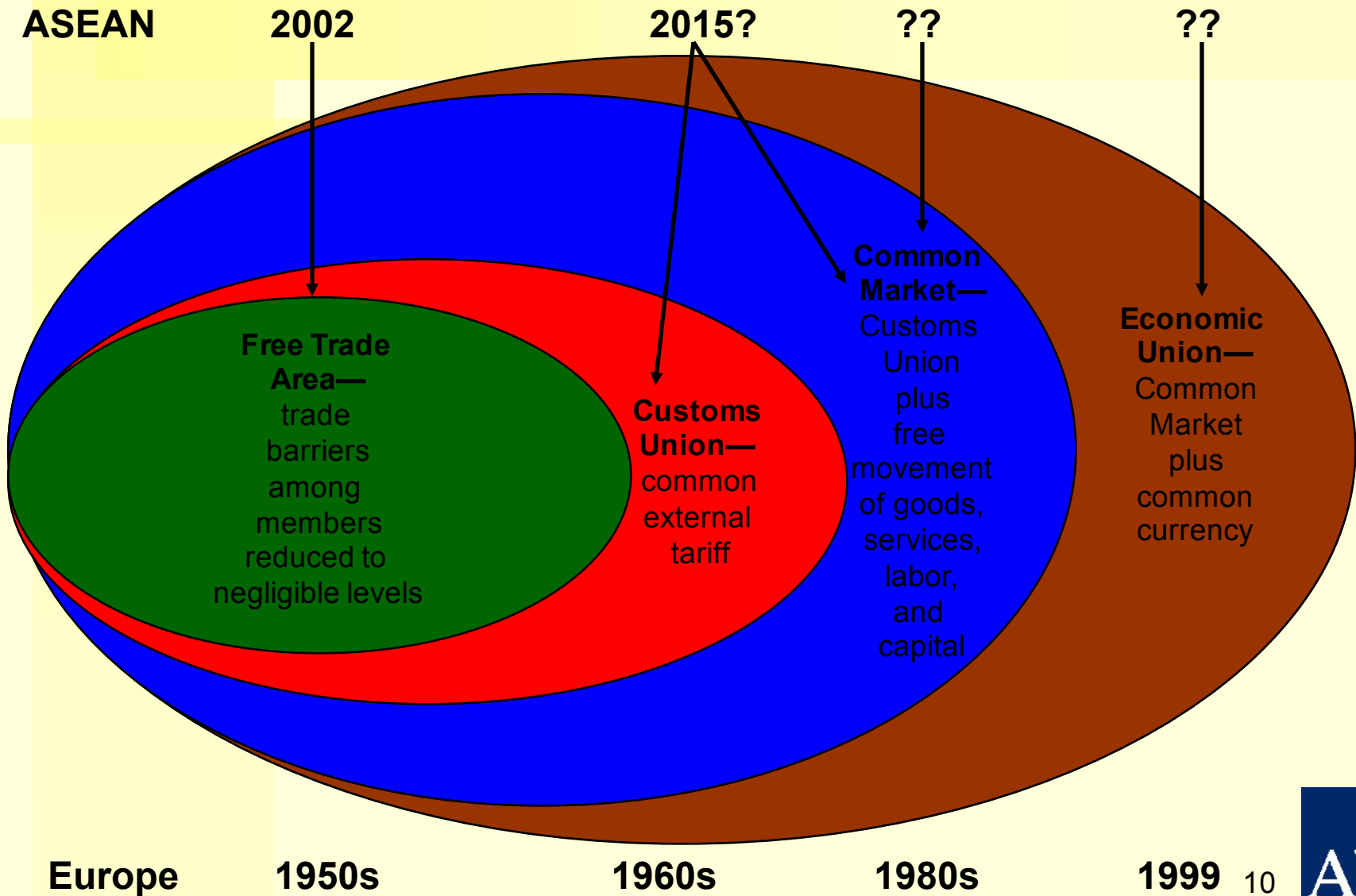
- reduce transaction costs
- enhance investment climate
- improve trade and “Doing business” parameters
- upgrade private sector competitiveness; and
- strengthen the institutional structure— including dispute settlement mechanisms



# ...and the AEC Blueprint could pave the way



# AEC vs. EU: What's different?



# AEC vs. EU: What's different?

## The four "S"s

- **Sequence:** Freer capital flows means financial integration in tandem with trade, not afterward as in Europe
- **Style:** Cultural, social, and political diversity works against regional institutions to absorb national sovereignty
- **Scope:** Most practical for ASEAN integration—a multi-track, multi-speed approach firmly anchored on subregional integration
- **Speed:** ASEAN likely to benefit more from an "open method" of cooperation and coordination instead of European "community method"

# Making the AEC work: issues and challenges

- How to close the development gap within ASEAN
- The AEC budget and how to finance it
- ASEAN Secretariat (ASEC) funding is hampered by the equal annual contribution scheme
- Institutional support for AEC implementation remains weak

# How to build the capacity to bridge the ASEAN development gap?

- Aid-For-Trade (AfT) can help ASEAN tackle the development gap
- Alternative schemes are needed to finance the operations of ASEAN Secretariat
- Vibrant and integrated capital markets can build regional financial stability and better allocate resources
- Subregional cooperation programs such as GMS, BIMP-EAGA, and IMT-GT can help fast track integration

# How does ADB fit in?

- MOU and joint work program with ASEAN Secretariat
- Helped AEC Blueprint and ASEAN Charter
- Training on FTA negotiations, financial programming, and macroeconomic surveillance
- Helps ASEAN Secretariat monitor AEC implementation
- Supports the ABMI on regional and local currency bond markets
- Internal realignment to serve ASEAN better; and
- RCI Strategy supports ASEAN as driving force for Asian economic integration.

**Thank you**

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