

ASEAN Economic Community: Progress and Global Perspective

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- AEC—Pillars and progress

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- AEC—Prospects and challenges



ASEAN—A selective characterization

- Size and diversity
- Trade
- FDI

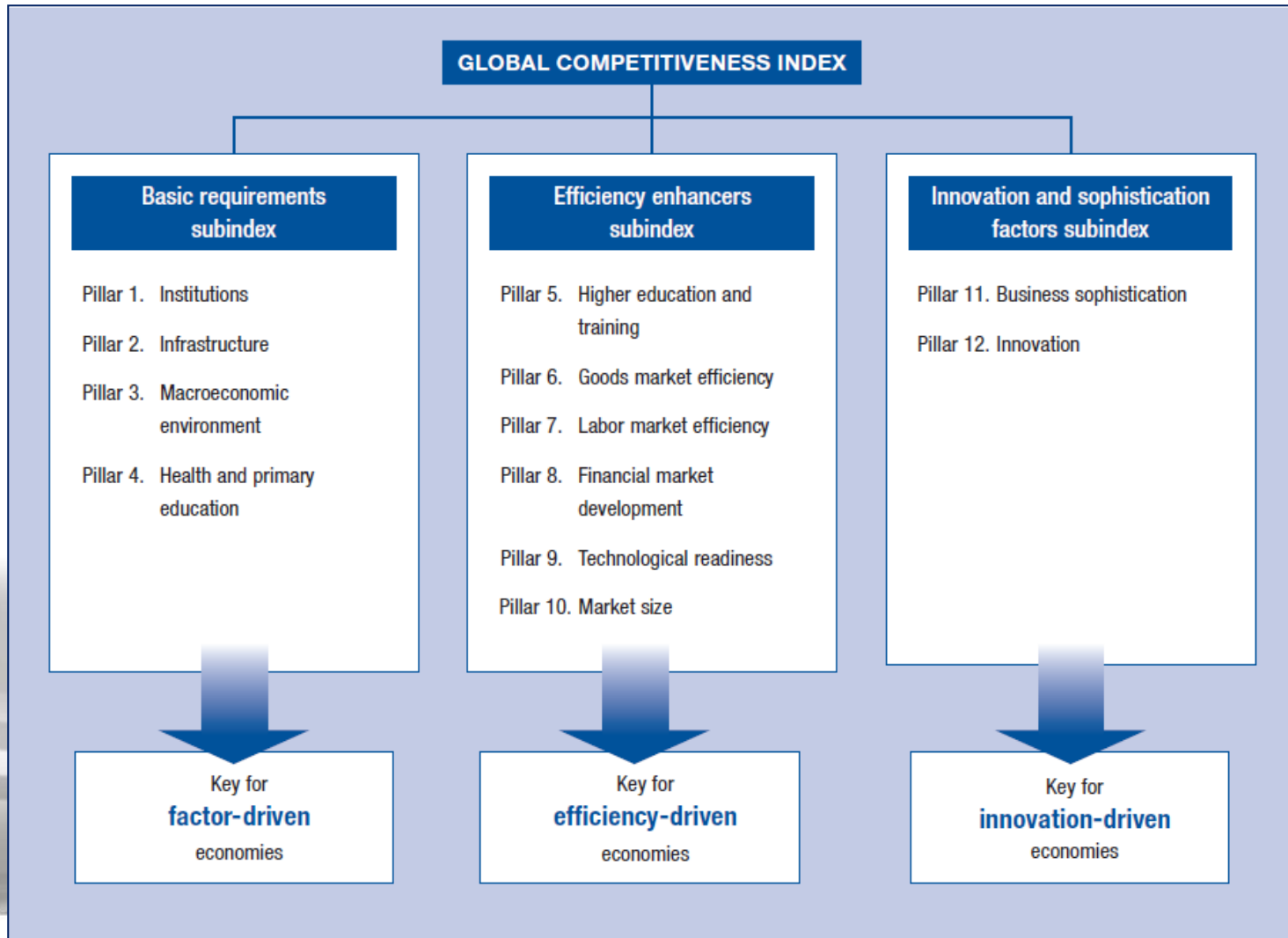


Size and Diversity

Country	Total land area	Total population ^{1/}	Population density ^{1/}	Gross domestic product at current prices	GDP per capita at current prices	International merchandise trade ^{3/}			FDI inflow ^{4/5/}
	km ²	thousand	persons per km ²	US\$ million	US\$ PPP ^{2/}	Exports	Imports	Total trade	US\$ million
	2011	2011	2011	2012 ^{/p}	2012 ^{/p}	2012 ^{/p}	2012 ^{/p}	2012 ^{/p}	2011
Brunei Darussalam	5,765	422.7	73	16,968	50,953	13,182	3,674	16,856	1,208
Cambodia	181,035	14,521.3	80	14,411	2,426	7,435	11,229	18,664	892
Indonesia	1,860,360	237,670.7	128	878,223	4,866	190,032	191,691	381,723	19,242
Lao PDR	236,800	6,385.1	27	9,412	3,051	1,902	3,124	5,027	301
Malaysia	330,252	28,964.3	88	305,154	16,828	227,387	196,616	424,003	12,001
Myanmar	676,577	60,384.0	89	53,999	1,400	7,928	6,732	14,660	2,057
Philippines	300,000	95,834.4	319	250,620	4,434	51,995	65,386	117,382	1,816
Singapore	714	5,183.7	7,257	276,610	62,829	408,301	378,973	787,273	55,285
Thailand	513,120	67,597.0	132	366,076	9,731	229,545	247,576	477,120	7,776
Viet Nam	331,051	87,840.0	265	141,669	3,648	114,511	113,283	227,793	7,519
ASEAN	4,435,674	604,803.1	136	2,313,143	5,790	1,252,218	1,218,283	2,470,501	108,096

Sources: ASEAN Finance and Macro-economic Surveillance Unit Database, ASEAN Merchandise Trade Statistics Database, ASEAN Foreign Direct Investment Statistics Database (compiled/computed from data submission, publications and/or websites of ASEAN Member States' national statistics offices, central banks and relevant government agencies, and from international sources)

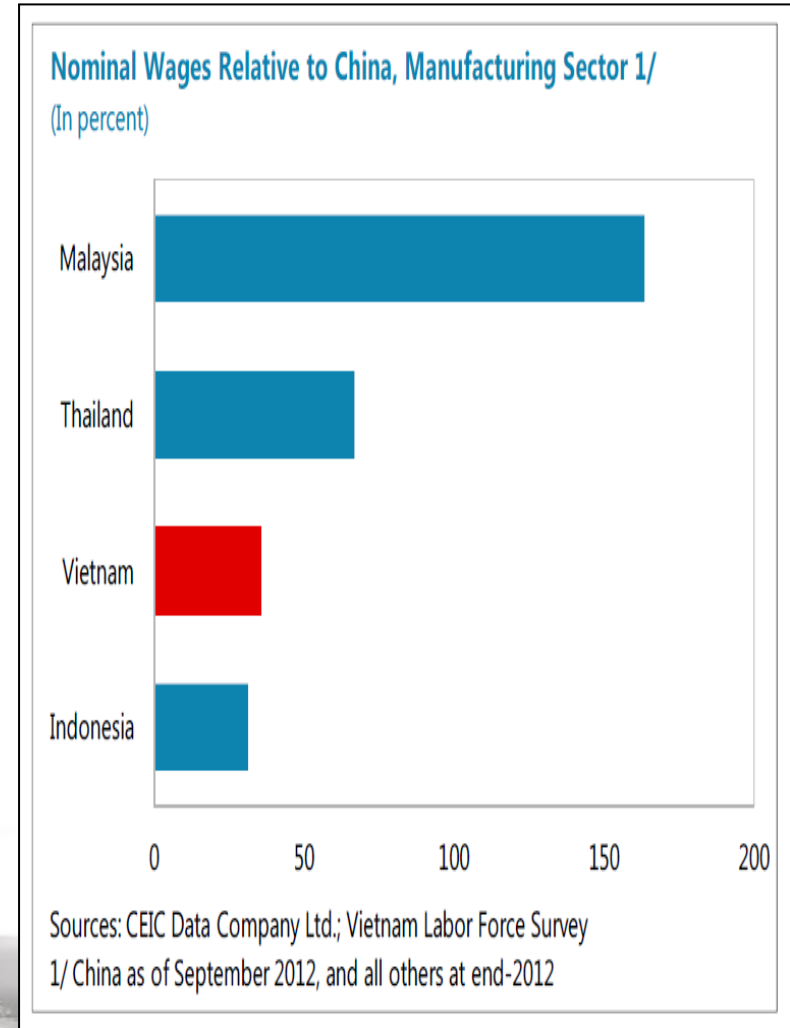
Size and Diversity



Source: The Global Competitiveness Report, 2013-14.

Size and Diversity

Factor-driven economies	Transition	Efficiency-driven economies	Transition	Innovation-driven economies
Per capita income (US\$)				
< \$2,000	\$2,000-2,999	\$3,000-8,999	\$9,000-16,999	> \$17,000
Myanmar Cambodia Lao PDR Vietnam	Philippines Brunei	Indonesia Thailand	Malaysia	Singapore



Source: The Global Competitiveness Report, 2013-14.

Trade

Country	Growth rate of gross domestic product at constant prices	International merchandise trade		
		Ratio of exports to GDP	Ratio of imports to GDP	Ratio of total trade to GDP
	percent	percent	percent	percent
	2012 ^{/p}	2012 ^{/p}	2012 ^{/p}	2012 ^{/p}
Brunei Darussalam	0.9	77.7	21.7	99.3
Cambodia	7.0	51.6	77.9	129.5
Indonesia	6.2	21.6	21.8	43.5
Lao PDR	8.2	20.2	33.2	53.4
Malaysia	5.6	74.5	64.4	138.9
Myanmar	5.9	14.7	12.5	27.1
Philippines	6.6	20.7	26.1	46.8
Singapore	1.3	147.6	137.0	284.6
Thailand	6.5	62.7	67.6	130.3
Viet Nam	5.1	80.8	80.0	160.8
ASEAN	5.7	54.1	52.7	106.8

Country	Intra-	Extra-	Intra-	Extra-	Intra-	Extra-
	Share to total exports	Share to total exports	Share to total imports	Share to total imports	Share to total trade	Share to total trade
Brunei Darussalam	13.2	86.8	43.6	56.4	19.8	80.2
Cambodia	13.3	86.7	37.0	63.0	27.6	72.4
Indonesia	22.0	78.0	28.1	71.9	25.1	74.9
Lao PDR	44.1	55.9	33.3	66.7	37.9	62.1
Malaysia	26.8	73.2	28.0	72.0	27.4	72.6
Myanmar	35.1	64.9	44.1	55.9	39.3	60.7
The Philippines	18.9	81.1	22.9	77.1	21.1	78.9
Singapore	31.8	68.2	21.0	79.0	26.6	73.4
Thailand	24.7	75.3	17.3	82.7	20.9	79.1
Viet Nam	15.2	84.8	18.4	81.6	16.8	83.2
ASEAN	25.8	74.2	22.7	77.3	24.3	75.7

Trade

value in US\$ million; share in percent

Partner country/region	Value			Share to total ASEAN trade		
	Exports	Imports	Total trade	Exports	Imports	Total trade
ASEAN	323,535.6	277,425.1	600,960.7	25.8	22.7	24.3
Australia	45,777.5	23,781.9	69,559.4	3.7	1.9	2.8
Canada	6,581.2	5,762.2	12,343.5	0.5	0.5	0.5
China	141,554.3	177,002.7	318,557.0	11.3	14.5	12.9
EU 28 ^{1/}	125,015.9	117,850.2	242,866.0	10.0	9.7	9.8
India	43,840.3	27,724.4	71,564.7	3.5	2.3	2.9
Japan	126,305.4	136,116.6	262,422.0	10.1	11.2	10.6
Republic of Korea	54,992.4	76,006.3	130,998.7	4.4	6.2	5.3
New Zealand	5,568.9	3,661.6	9,230.5	0.4	0.3	0.4
Pakistan	5,251.3	1,049.0	6,300.3	0.4	0.1	0.3
Russia	4,866.0	13,293.8	18,159.8	0.4	1.1	0.7
US	108,114.1	92,076.2	200,190.3	8.6	7.5	8.1
Total selected partner countries/region	991,403.1	951,749.8	1,943,152.9	79.1	78.0	78.5
Others ^{2/}	262,600.5	268,920.8	531,521.3	20.9	22.0	21.5
Total ASEAN	1,254,003.6	1,220,670.7	2,474,674.3	100.0	100.0	100.0

Source: ASEAN Merchandise Trade Statistics Database (compiled/computed from data submission, publications and/or websites of ASEAN Member States' national ASEAN Free Trade Area (AFTA) units, national statistics offices, customs departments/agencies, or central banks)



FDI

value in US\$ million; share in percent

Country	2011 ^{2/}			Share to total net inflow to ASEAN, 2011			Share of Intra-ASEAN, 2011		
	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow
Brunei Darussalam	67	1,141	1,208	0.3	1.3	1.1	5.6	94.4	100.0
Cambodia	224	668	892	0.9	0.8	0.8	25.1	74.9	100.0
Indonesia	8,338	10,904	19,242	31.7	12.4	16.9	43.3	56.7	100.0
Lao PDR	54	247	301	0.2	0.3	0.3	17.9	82.1	100.0
Malaysia	2,664	9,337	12,001	10.1	10.6	10.5	22.2	77.8	100.0
Myanmar	-	-	-	-	-	-	-	-	-
The Philippines	(107)	1,369	1,262	-0.4	1.6	1.1	-8.5	108.5	100.0
Singapore	13,213	50,784	63,997	50.3	57.8	56.1	20.6	79.4	100.0
Thailand	317	7,461	7,778	1.2	8.5	6.8	4.1	95.9	100.0
Viet Nam	1,499	5,931	7,430	5.7	6.8	6.5	20.2	79.8	100.0
Total	26,271	87,840	114,111	100.0	100.0	100.0	23.0	77.0	100.0
ASEAN 5 ^{1/}	24,426	79,854	104,280	93.0	90.9	91.4	23.4	76.6	100.0
BLCMV ^{1/}	1,845	7,986	9,831	7.0	9.1	8.6	18.8	81.2	100.0

AEC—Pillars and Progress

- Pillar 1: Single market and production base
- Pillar 2: Competitive economic region
- Pillar 3: Equitable economic development
- Pillar 4: Integration into the global economy



Pillar 1: Single market and production base

- Free flow of goods
- Free flow of services
- Free flow of investment
- Freer flow of capital
- Free flow of skilled labor
- Priority integration sectors
- Food, agriculture and forestry

Pillar 2: Competitive economic region

- Competition Policy
- Consumer Protection
- Intellectual Property rights
- Infrastructure development
- Taxation
- e-commerce



Pillar 3: Equitable economic development

- SME development
- Initiative for ASEAN Integration

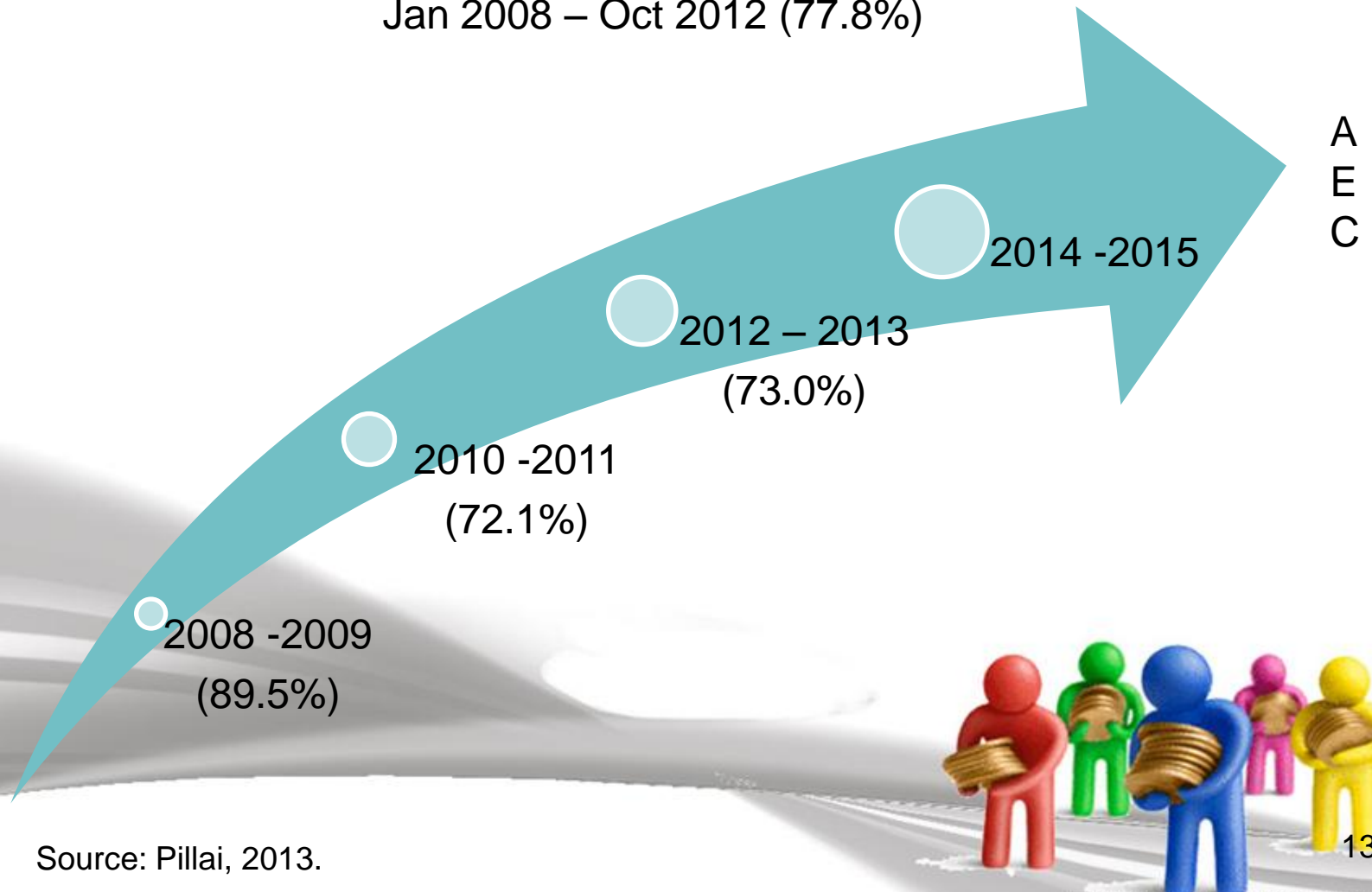
Pillar 4: Integration into the global economy

- Coherent approach towards external economic relations
- Enhanced participation in global supply networks



AEC Pillars: Progress

ASEAN Scorecard: AEC Initiatives Implemented
Jan 2008 – Oct 2012 (77.8%)



Source: Pillai, 2013.

AEC Pillars Progress: Evaluation

- Scores highest for integration into global economy but less for other pillars
- Scorecard publication in current form not useful for businesses or analysts
 - ✓ Implementation: only national ratification of AEC agreements and measures; translate regional initiatives into domestic laws, strengthen internal coordination mechanisms, and put agreements/measures into action.
 - ✓ Compliance by individual countries on specific measures? Penalties for non-compliance?
- Only relates to compliance on the specific actions in the AEC Blueprint; no indication of how far objectives of AEC are being realized
- Need well-targeted capacity building and technical assistance program to assist newer AMS-CLMV



AEC—Prospects and challenges

- Economic effects of AEC
 - Welfare gains
 - Business cycle synchronization
- Agenda and challenges



Welfare gains

Country	AEC (US\$billion, 2004 prices)	AEC (% of baseline GDP)
Brunei	0.5	7.0
Indonesia	27.6	6.2
Malaysia	5.7	3.0
Philippines	4.5	3.2
Singapore	15.1	9.7
Thailand	12.2	4.9
Cambodia	0.6	6.3
Laos	0.2	3.6
Myanmar	0.6	4.4
Vietnam	2.4	2.8
ASEAN10	69.4	5.3

Source: Plummer-Chia (2009)



Welfare gains

<i>Scenario</i>	<i>Name</i>	<i>Description</i>
A	AFTA	Completion of the AFTA agreement through the elimination of remaining intra-ASEAN tariffs. Because the base year of the data is 2004, these effects might include changes that have been already implemented by the time of this writing.
B	AFTA+	Intensification of AFTA through the removal of NTB, including regulatory barriers, such as diverging standards and testing requirements. In the absence of detailed information on such barriers, they are modeled by assuming a horizontal reduction in trade costs of 5 percent of trade values.
C	AEC	Reforms that improve the investment climate. They are modeled by increasing FDI inflows to levels expected in 'model' countries with a strong investment climate (the methodology is described in Appendix II).
D	AEC+	Bilateral FTA between the AEC and East Asian Summit countries (Australia, New Zealand, India, Japan, China and South Korea). Barriers remain in place among the non-ASEAN partner economies (these too would be eliminated under the proposed Comprehensive Economic Partnership of East Asia).
E	AEC++	Further bilateral FTA between the AEC and the USA and the European Union. Barriers remain in place among non-ASEAN partners.

Welfare gains

Table 6 Welfare gains relative to the baseline (2015)

	<i>AFTA</i>	<i>AFTA+</i>	<i>AEC</i>	<i>AEC+</i>	<i>AEC++</i>
A. US\$billions, 2004 price, EV					
ASEAN	10.1	38.0	69.4	115.6	151.0
Cambodia	0.3	0.5	0.6	0.7	1.2
Indonesia	1.0	6.2	27.6	36.5	43.2
Laos	0.0	0.1	0.2	0.2	0.2
Myanmar	0.0	0.2	0.6	0.7	1.4
Malaysia	2.7	2.9	5.7	21.1	27.9
Philippines	0.9	2.2	4.5	4.4	5.9
Singapore	2.6	14.0	15.1	18.1	19.0
Thailand	1.6	9.8	12.2	19.5	25.8
Vietnam	0.9	1.6	2.4	13.8	25.7
Brunei	0.2	0.4	0.5	0.6	0.7
Partners					
China	0.4	-4.6	-7.8	-6.5	-12.2
Japan	0.1	-1.3	-1.6	9.2	7.3
Korea	-0.2	-1.4	-2.7	10.6	9.1
India	0.8	0.1	-0.8	23.9	23.5
Australia	0.0	-0.2	0.2	0.3	0.1
New Zealand	-0.1	-0.1	-0.1	-0.1	-0.2
USA	0.2	-2.8	-1.8	-3.7	-3.6
Europe	-0.3	-7.1	-2.3	-5.4	-6.2
World	11.4	19.4	52.7	143.4	166.8

Welfare gains

Table 6 Welfare gains relative to the baseline (2015)

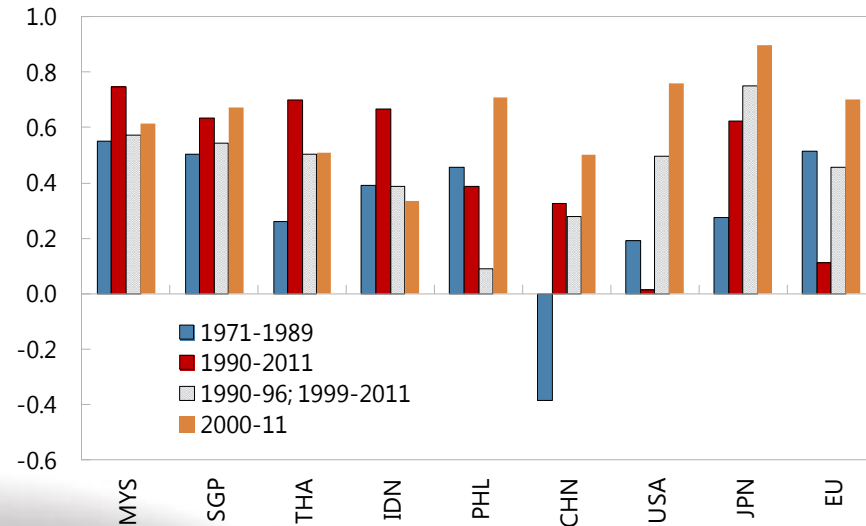
	<i>AFTA</i>	<i>AFTA+</i>	<i>AEC</i>	<i>AEC+</i>	<i>AEC++</i>
B. EV as percentage of baseline GDP					
ASEAN	0.8	2.9	5.3	8.9	11.6
Cambodia	2.7	5.4	6.3	7.2	12.3
Indonesia	0.2	1.4	6.2	8.2	9.7
Laos	0.6	2.5	3.6	3.8	4.6
Myanmar	0.3	1.2	4.4	4.8	9.3
Malaysia	1.4	1.5	3.0	11.2	14.7
Philippines	0.6	1.6	3.2	3.2	4.3
Singapore	1.6	9.0	9.7	11.6	12.2
Thailand	0.6	3.9	4.9	7.8	10.4
Vietnam	1.1	1.8	2.8	16.0	29.8
Brunei	2.6	5.4	7.0	9.3	10.6
Partners					
China	0.0	-0.1	-0.2	-0.1	-0.3
Japan	0.0	0.0	0.0	0.2	0.1
Korea	0.0	-0.1	-0.3	1.1	0.9
India	0.1	0.0	-0.1	1.7	1.6
Australia	0.0	0.0	0.0	0.0	0.0
New Zealand	0.0	-0.1	-0.1	0.0	-0.1
USA	0.0	0.0	0.0	0.0	0.0
Europe	0.0	0.0	0.0	0.0	0.0
World	0.0	0.0	0.1	0.3	0.3

Source: Petri, et. al., 2012.

Business cycle synchronization (BCS)

GDP Growth Correlations for ASEAN-5

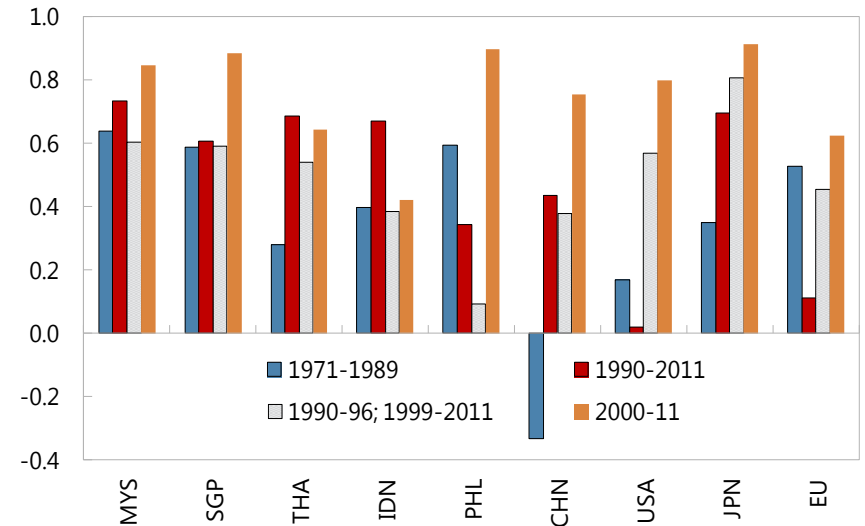
(for ASEAN members the correlations are with respect to the rest of ASEAN-5)



Sources: IMF, World Economic Outlook; and IMF staff calculations.

GDP Growth - Adjusted Correlations for ASEAN-5

(for ASEAN members the correlations are with respect to the rest of ASEAN-5)



Sources: IMF, World Economic Outlook; and IMF staff calculations.

Methodology. Sample pair-wise Pearson correlation coefficients (ρ) where ρ^{ij} is the contemporaneous correlation coefficient for countries i and j , estimated over 10-year rolling windows. Adjusted Pearson correlation coefficients (ρ^*), where the following adjustment is made:

$$\rho_{Ts}^{ij*} = \frac{\rho_{Ts}^{ij}}{\sqrt{1 + \delta[1 - (\rho_{Ts}^{ij})^2]}}$$

and

$$\delta = \frac{\text{Var}(x_{it}^{Ts})}{\text{Var}(x_{jt}^{Ts})} - 1$$

where x is the growth rate in GDP, T_s is any 10-year sub-period, and T is the whole sample period.

Data. Annual real GDP data for the period 1970-2011.



Business cycle synchronization (BCS)

- ASEAN-5 countries exhibit very strong contemporaneous co-movement in GDP growth among each other and with key trading partners (except China).
- The co-movement seems to have grown stronger → no evidence of “decoupling”.
- The low, though increasing, degree of BCS with China reflects the low volatility of the Chinese economy but also suggests that the latter is mostly a conduit for global shocks to ASEAN.



Agenda

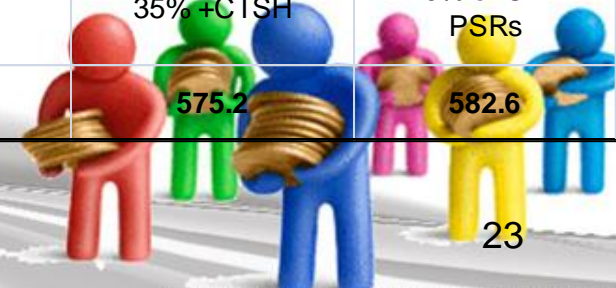
- Trade in goods
 - ✓ Focus on NTB effects of NTMs
 - ✓ Self Certification Pilot Project
 - ✓ ASEAN Agreement on Customs and Single Window
- Services/Investment
 - ✓ Services : Enhancement of 8th ASEAN Framework Agreement on Services (AFAS); ASEAN Agreement on Movement of Natural Persons
 - ✓ Investment : ASEAN Comprehensive Investment Agreement (ACIA)
- Finance & Capital Market Integration
 - ✓ Capital Market Development & ASEAN Capital Market Forum: ASEAN Exchanges
 - ✓ Capital Account Liberalization: Mutual assessment on rules to liberalize FDI and portfolio flows
 - ✓ Financial Services Liberalization: Sixth package of commitments being negotiated
- Competition policy/Intellectual property rights/Infrastructure (Transport, ICT, Energy)



ASEAN Bilateral FTAs: Agenda

	ASEAN FTA	ASEAN-China FTA	ASEAN-Korea FTA	ASEAN-Japan comprehensive economic partnership	ASEAN-India FTA	ASEAN-Australia/NZ FTA
Entry into force	1993	2005	2007	2008	2010	2010
Market size (million)	599	1,939	647	726	1,814	625
Econ size (US\$, trillion)	1.9	7.7	2.9	7.3	3.4	3.2
Coverage	Goods Services Investment	Goods Services Investment	Goods Services Investment	Goods. Services, Investment ASEAN wide-under negotiation	Goods. Services, Investment negotiations completed; to be signed	Goods Services Investment
Duty phase out date (A6+DP/CLMV)	2010/2015 (2018)	2012 2018	2012 2016/2017 (THA) 2018 (VNM) 2020 (CLM)	2018 2021 (CLM)	2016 2019 (PHL) 2021 (CLMV)	2020 2022 (VNM) 2025 (ICLM)
ROO	40% or CTH PSRs	40% Limited PSRs	40% or CTH PSRs	40% or CTH PSRs	35% +CTSH	40% or CTH PSRs
Total trade (US\$, billion)	519.8	751.8	618.4	726.4	575.2	582.6

Source: Pillai, 2013.



Challenges

- Implementation issues in AFTA, AFAS and AIA
- Shared vision among governments? Little pressure from national private sectors due to traditional extra-ASEAN orientation of economies and businesses
- Uneven commitments to promote liberalization and cooperation programs—awareness of benefits, timely submission of information, representation at negotiations to make decisions
- Diverse national interests, particularly when are perceived conflicts among interest groups
- Necessary national legislations and regulatory reforms are time-consuming
- Diverse institutional capacity and human resource for implementation
- Removing tariffs relatively easy compared to NTBs, reforming and streamlining customs, improving transportation and logistics, services liberalization, trade facilitation, free flow of skilled labor
- Deepening into a customs union and common market? FTA /customs union debated since AFTA implementation. No easy solution given differences in MFN tariff and NTB levels
- Implementing skilled labor commitments a challenge; free movement of unskilled labor even more challenging
- Monetary and financial integration a long way off; cautionary lessons from the EU



THANK YOU

