

Hitotsubashi University and the IMF Regional Office for Asia and the Pacific  
“Advances and Challenges in Regional Integration”  
(March 3-4, 2016)

# Economic Community Blueprint 2025 and Mega-FTAs: Implication for Development Strategies in the New Era

Fukunari Kimura  
Dean, Graduate School of Economics, Keio University  
Chief Economist, Economic Research Institute for ASEAN and East Asia  
(ERIA)

1

## 1. Development strategies and AEC

- ASEAN: unprecedented usage of global value chains (GVCs), presenting a new development model.
- AEC2015 and AEC2025 should be evaluated/elaborated from the viewpoint of the development strategy.

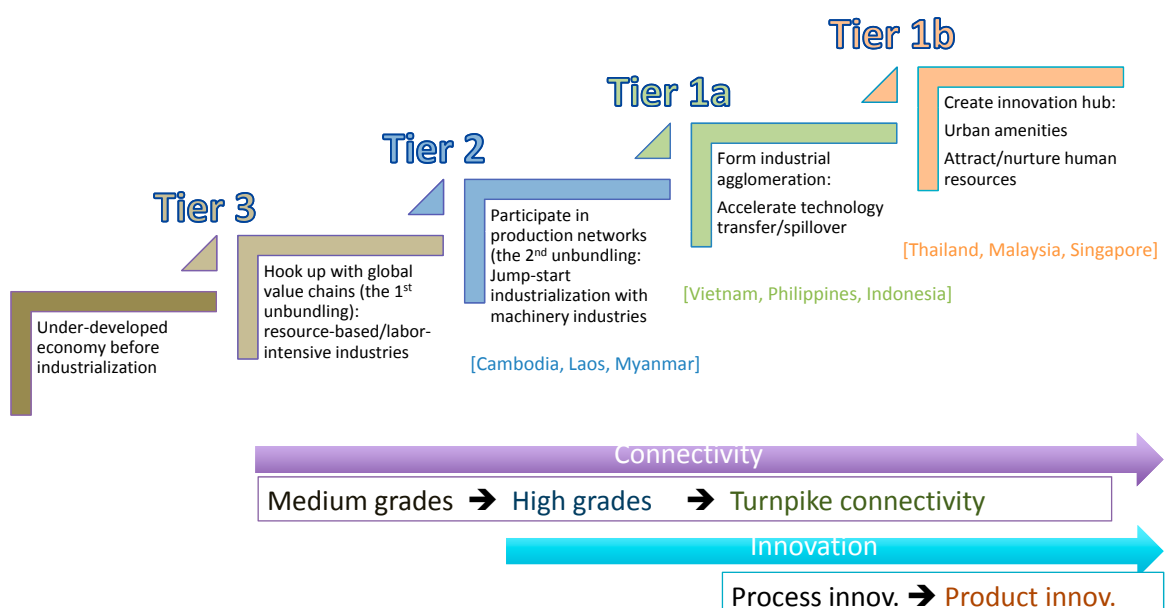
2

## 2. GVCs and development strategies

- The tier structure of the utilization of GVCs
  - Tier 3: hook up with slow GVCs
  - Tier 2: participate in production networks
  - Tier 1a: form industrial agglomeration
  - Tier 1b: create an innovation hub
- Each country has regions/industries in different tiers; a tier as an urgent agenda depends on the level of development.
- Less developed countries in the rest of the world do not necessarily follow such a path.

3

### Development strategy for ASEAN and East Asia



Source: ERIA (2015).

4

GDP per capita in ASEAN Member States  
(in US dollar; nominal prices)

	2009	2010	2011	2012	2013	2014
Singapore	38,577	46,570	53,117	54,578	55,980	56,287
Brunei	28,454	32,063	42,431	42,445	44,560	41,424
Malaysia	7,216	8,515	9,962	10,346	10,420	10,784
Thailand	3,947	4,743	5,116	5,391	5,679	5,436
Indonesia	2,359	2,988	3,498	3,564	3,461	3,901
Philippines	1,829	2,127	2,339	2,568	2,707	2,816
Viet Nam	1,232	1,338	1,543	1,755	1,909	2,055
Lao PDR	913	1,079	1,262	1,443	1,613	1,730
Cambodia	735	785	882	952	1,018	1,105
Myanmar	456	686	1,127	1,190	1,209	1,278

Source: ASEAN Secretariat webpage

(<http://www.asean.org/component/zoo/item/macroeconomic-indicators>).

5

## Tier 3: hook up with GVCs

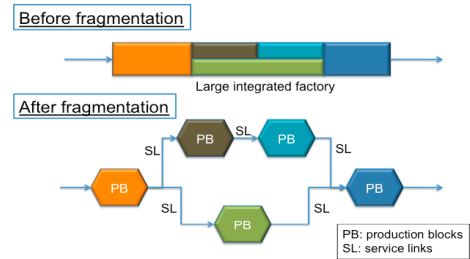
- Remote areas connected with medium-grade connectivity
  - E.g., mountainous areas in Mekong and islands in Indonesia and the Philippines
- Typical industries
  - Agriculture/food processing/bio-energy, fishery, labor-intensive industries such as garment and footwear

6

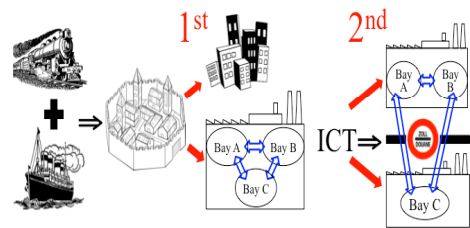
## Tier 2: participate in production networks

- High-grade connectivity
- Machinery industries and others
- The fragmentation theory, the 2<sup>nd</sup> unbundling
  - Improvement of location advantages for production blocks
  - Cost reduction of service links that connect remotely placed production blocks

### The Fragmentation Theory (Jones, et al. (1990))



### The 1<sup>st</sup> and 2<sup>nd</sup> unbundling



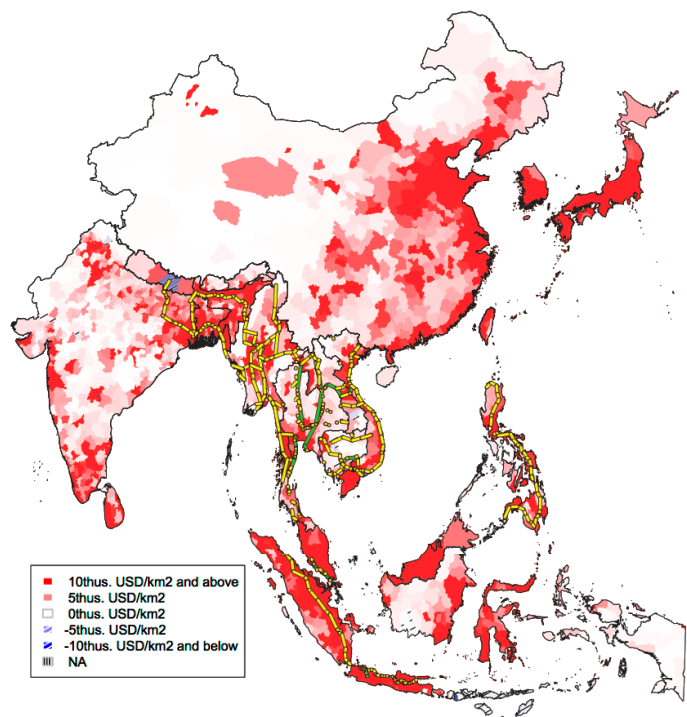
Source: Baldwin (2011).

7

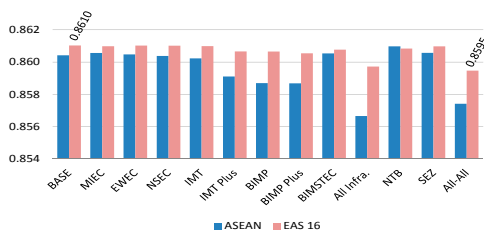
## Geographical simulation model

- Economic impacts of All-All improvements (infrastructure development, NTB reduction, and SEZ development) will be huge.
- Regional disparity will be reduced.

### Economic Impacts of All -All Improvements (2030, Impact Density)



### Economic Impacts on GINI (2030)

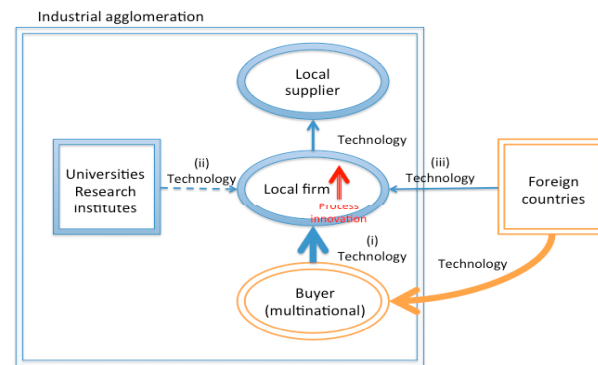
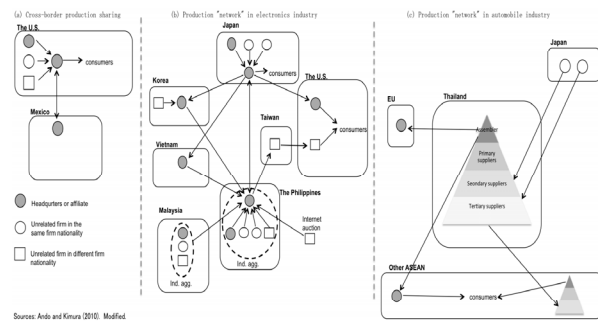


Source: IDE/ERIA-GSM simulation result.

8

# Tier 1a: form industrial agglomeration

- Inter-firm transactions  
-> formation of industrial agglomeration
- Local firm can come into production networks -> technology transfer/spillover -> process innovation
- Importance of metropolitan development



9

## Industrial agglomeration in Bangkok Metropolitan Area

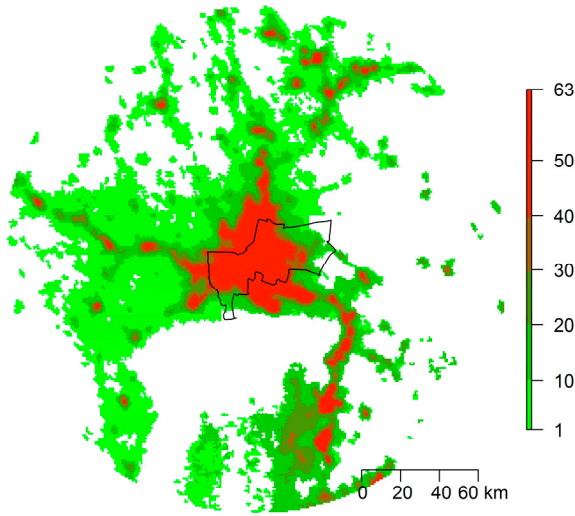


Note: The circle of 100km is added by the author (Original source: Board of Investment, Thailand)  
Source: ERIA (2010).

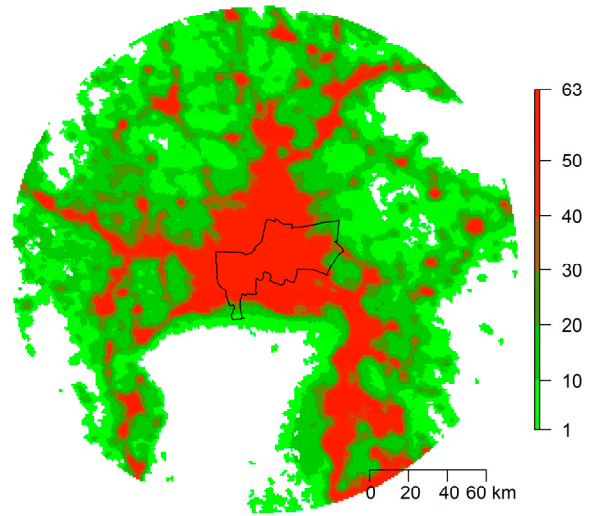
10

City Size with Nighttime Light from Satellite

**Bangkok 1992**



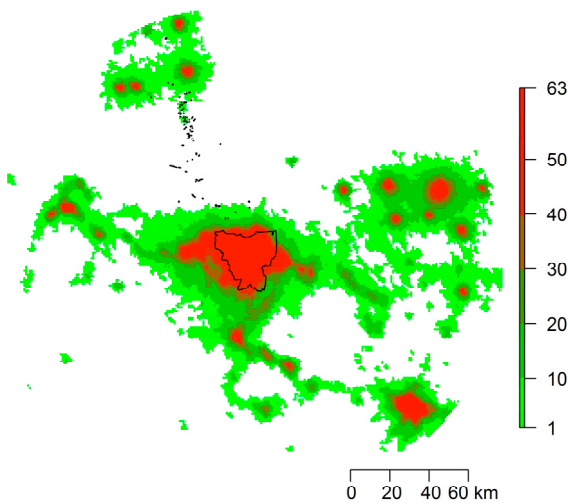
**Bangkok 2012**



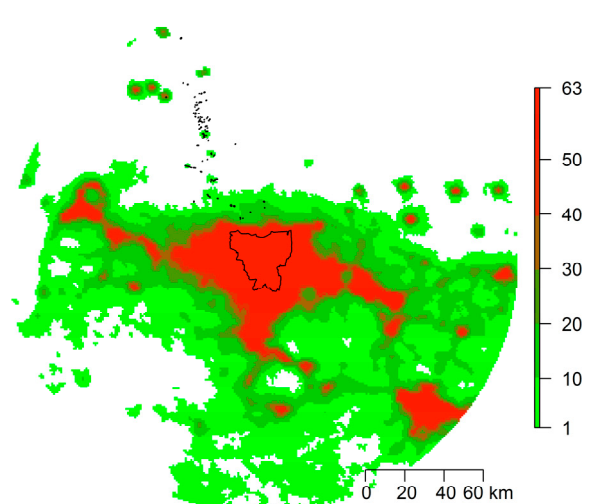
Source: ERIA-IDE GSM Team. Appeared in ERIA (2015).

City Size with Nighttime Light from Satellite (conti.)

**Jakarta 1992**



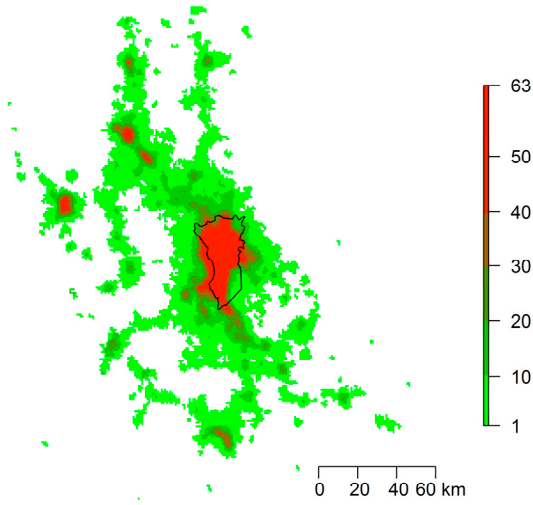
**Jakarta 2012**



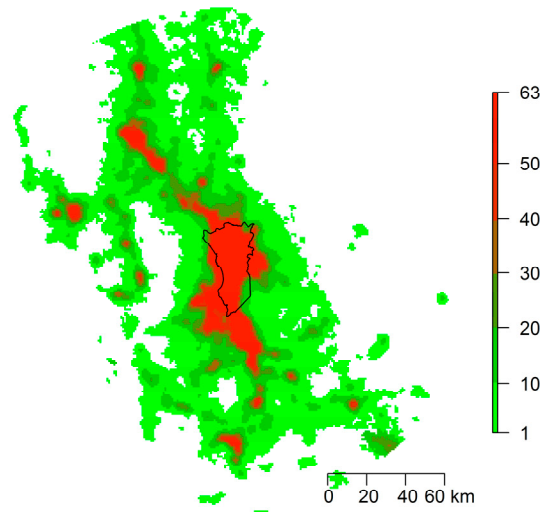
Source: ERIA-IDE GSM Team. Appeared in ERIA (2015).

City Size with Nighttime Light from Satellite (conti.)

**Manila 1992**



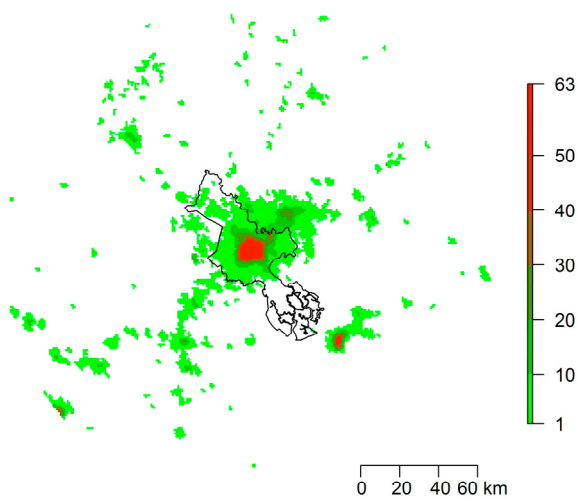
**Manila 2012**



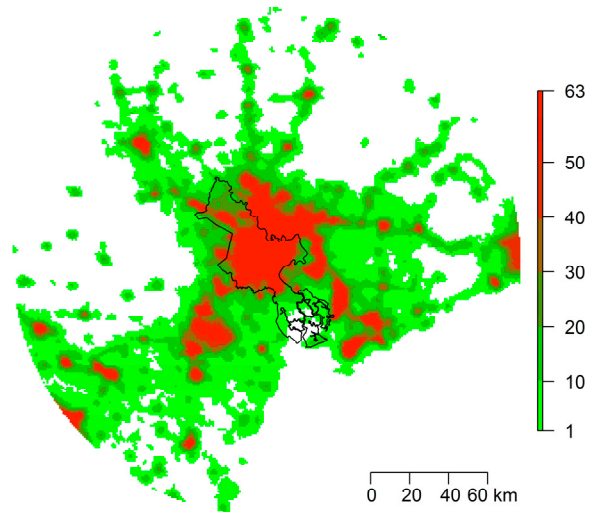
Source: ERIA-IDE GSM Team. Appeared in ERIA (2015).

City Size with Nighttime Light from Satellite (conti.)

**Hochiminh 1992**



**Hochiminh 2012**



Source: ERIA-IDE GSM Team. Appeared in ERIA (2015).

## Forecasted Population Size of Urban Agglomeration in ASEAN (thousands)

Country	Urban Agglomeration	2015	2030
Cambodia	Phnom Penh	1,731	2,584
Indonesia	Jakarta	10,323	13,812
	Surabaya	2,853	3,760
	Bandung	2,544	3,433
	Medan	2,204	2,955
	Semarang	1,630	2,188
	Makassar	1,489	2,104
	Palembang	1,455	1,888
	Batam	1,391	2,486
	Pekan Baru	1,121	1,731
	Denpasar	1,107	1,870
	Bogor	1,076	1,541
	Bandar Lampung	965	1,350
	Padang	903	1,254
	Samarinda	865	1,291
	Malang	856	1,156
	Tasikmalaya	787	1,305
	Banjarmasin	682	955
	Balikpapan	655	973
	Jambi	604	874
	Pontianak	603	844
	Surakarta	504	668
	Mataram	457	662
	Manado	426	579
	Ambon	425	679
	Yogyakarta	385	503
Lao PDR	Vientiane	997	1,782
Malaysia	Kuala Lumpur	6,837	9,423
	Johor Bahru	912	1,249
	Ipoh	737	998
	Kuching	560	755
	Kota Kinabalu	478	673
	Kuantan	440	617
	Seremban	422	585

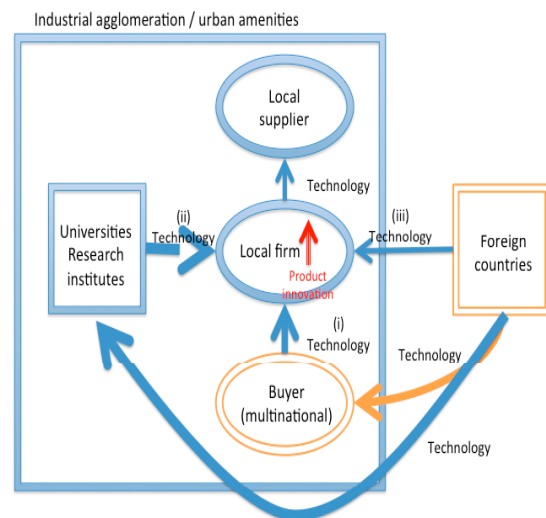
Country	Urban Agglomeration	2015	2030
Myanmar	Yangon	4,802	6,578
	Mandalay	1,167	1,654
	Nay Pyi Taw	1,030	1,398
	Bago	518	783
	Mawlamyine	487	698
	Monywa	478	748
Philippines	Manila	12,946	16,756
	Davao City	1,630	2,216
	Cebu City	951	1,278
	Zamboanga City	936	1,313
	Cagayan de Oro City	688	958
	General Santos City	616	859
	Bacolod	559	753
	Iloilo City	457	611
	Lapu-Lapu City	447	681
	Basilan City	424	570
	Mandaue City	374	521
	Cotabato	351	543
Singapore	Singapore	5,619	6,578
Thailand	Bangkok	9,270	11,528
	Samut Prakan	1,814	3,139
	Udon Thani	526	772
	Chon Buri	518	796
	Nonthaburi	409	526
	Lampang	382	576
	Nakhon Ratchasima	368	505
	Rayong	332	527
Viet Nam	Ho Chi Minh City	7,298	10,200
	Ha Noi	3,629	5,498
	Can Tho	1,175	1,902
	Hai Phong	1,075	1,569
	Da Nang	952	1,365
	Bien Hoa	834	1,225
	Vungtau	351	512

Source: United Nations (2015).

15

## Tier 1b: create an innovation hub

- From process innovation to product innovation
- Nurture human capital and accumulate R&D stock
- Betterment of urban amenities (Glaeser, Kokko, and Saiz (2001)
  - Varieties of services/goods consumption available
  - Aesthetics and physical setting
  - Public policy
  - Speed
  - Singapore model?



16



### 3. Policies required for each tier

- Each tier requires a different set of policies.
- In the following, policies are classified as “international commercial policies” and “development agenda.”

Policies required for each tier: international commercial policies

	Tier 3: Hook up with GVCs	Tier 2: Participate in production networks	Tier 1a: Form industrial agglomeration	Tier 1b: Create an innovation hub
International commercial policies	- Usage of generalized system of preferences (GSP)	- Tariff removal (esp. machineries) - Trade facilitation (e-customs, customs clearance, trucks across borders, and others) - Investment liberalization (esp. machineries)	- Tariff Removal - NTB removal (TBT and others) - Trade/transport facilitation (single windows and others) - Services liberalization (esp. production-supporting services) - Investment liberalization (esp. manufacturing in general, production-supporting services) - Movement of natural persons (esp. businessman)	- NTB removal (SPS, standard and conformance, and others) - Services liberalization (general) - Investment liberalization (general) - Movement of natural persons (highly educated) - IPR protection - Competition policy - SOE reform

## Policies required for each tier: development agenda

	Tier 3: Hook up with GVCs	Tier 2: Participate in production networks	Tier 1a: Form industrial agglomeration	Tier 1b: Create an innovation hub
Development agenda	<ul style="list-style-type: none"> <li>- Investment promotion (export processing zones and others)</li> <li>- Transport infrastructure development (medium grade)</li> <li>- Labor-intensive manufacturing development</li> <li>- SME development (cottage industry and others)</li> </ul>	<ul style="list-style-type: none"> <li>- Investment promotion (one-stop services, special economic zones, and others)</li> <li>- Economic infrastructure services (for SEZs and others)</li> <li>- Transport infrastructure development (high grade, esp. medium distance)</li> <li>- SME development (ag. Exports, tourism, and others)</li> </ul>	<ul style="list-style-type: none"> <li>- Investment promotion (investment prom. Agencies, industrial estate services, and others)</li> <li>- Economic infrastructure services (metropolitan development, mass/stable supplies, and others)</li> <li>- Transport services development (turnpike quality, metropolitan transport network, full-scale port/airport)</li> <li>- Legal system and economic institutions (reducing transaction costs)</li> <li>- SME development (participate in supporting industry)</li> </ul>	<ul style="list-style-type: none"> <li>- Consumer protection</li> <li>- Nurture human capital</li> <li>- Accumulation of R&amp;D stock</li> <li>- Urban amenities: 1) Varieties of consumption (services, consumption goods), 2) Aesthetics and physical setting (culture/art, smart city), 3) Public policy (education, security), 4) Speed (urban transport, international exchange)</li> <li>- SME development (venture business, start-up support)</li> </ul>

19

## 4. AEC2015 and AEC2025

- AEC2015 (ASEAN (2015a, 2015b))
  - The 1<sup>st</sup> pillar “Single Market and Production Base”
    - Leave “single market” for the future and concentrate on “integrated production base.”
    - Cover Tier 3, Tier 2, and a part of Tier 1a.
      - Tariff removal, ROO, trade facilitation
    - A part of Tier 1a and Tier 1b to be the issue in the next round.
      - Services (esp. B-to-C), movement of educated people/skilled labor, NTB removal (SPS, TBT), standard and conformance, and others.
  - The 2<sup>nd</sup> pillar “Competitive Economic Region” and the 3<sup>rd</sup> pillar “Equitable Economic Development”
    - Belong to development agenda.
      - Economic institutions (competition policy, consumer protection, IPR protection), infrastructure development, SME development, IAI.
  - The 4<sup>th</sup> pillar “Integration into Global Economy”
    - ASEAN+1 FTAs, RCEP

20

- AEC2025 (ASEAN (2015c))
  - Priority sectors and connectivity form an independent pillar in order to visualize concrete outcomes, thus having five pillars.
  - Economic integration
    - Go deeper into Tier 1a and Tier 1b.
  - Development agenda
    - Expansion of the scope
    - Emphasis on innovation and “responsive” ASEAN
    - Need more for inclusiveness
    - Need to develop links with ASCC (education, social protection, disaster management, environment, and others)
  - Should work for Tier 3 and Tier 2 continuously and shift some weight on Tier 1a and Tier 1b.

21

Four pillars of ASEAN Economic Community (AEC) 2015

ASEAN Economic Community 2015			
[Single Market & Production Base]	[Competitive Economic Region]	[Equitable Economic Development]	[Integration into Global Economy]
<ul style="list-style-type: none"> <li>• Free Flow of Goods</li> <li>• Free Flow of Services</li> <li>• Free Flow of Investment</li> <li>• Free(r) Flow of Capital</li> <li>• Free Flow of Skilled Labor</li> <li>• Priority Integration Sectors</li> <li>• Food, Agriculture &amp; Forestry</li> </ul>	<ul style="list-style-type: none"> <li>• Competition Policy</li> <li>• Consumer Protection</li> <li>• Intellectual Property Rights</li> <li>• Infrastructure Development</li> <li>• Taxation</li> <li>• E-commerce</li> </ul>	<ul style="list-style-type: none"> <li>• SME Development</li> <li>• Initiative for ASEAN Integration</li> </ul>	<ul style="list-style-type: none"> <li>• Coherent Approach towards External Economic Relations</li> <li>• Enhanced participation in Global Supply Networks</li> </ul>

Source: ASEAN (2015b), p. 5, a bit modified.

22

## ASEAN Economic Community Blueprint 2025

[A Highly Integrated and Cohesive Economy]	[A Competitive, Innovative and Dynamic ASEAN]	[Enhanced Connectivity and Sectoral Cooperation]	[A Resilient, Inclusive, People-Oriented and People-Centered ASEAN]	[A Global ASEAN]
<ul style="list-style-type: none"> <li>• Trade in Goods</li> <li>• Trade in Services</li> <li>• Investment environment</li> <li>• Financial Integration, Financial Inclusion, and financial Stability</li> <li>• Facilitating Movement of Skilled Labor and Business Visitors</li> <li>• Enhancing Participation in Global Value Chains</li> </ul>	<ul style="list-style-type: none"> <li>• Effective Competition Policy</li> <li>• Consumer Protection</li> <li>• Strengthening Intellectual Property Rights Cooperation</li> <li>• Productivity-Driven Growth, Innovation, Research and Development, and Technology Commercialization</li> <li>• Taxation Cooperation</li> <li>• Good Governance</li> <li>• Effective, Efficient, Coherent and Responsive Regulations, and Good Regulatory Practices</li> <li>• Sustainable Economic Development</li> <li>• Global megatrends and Emerging Trade-Related Issues</li> </ul>	<ul style="list-style-type: none"> <li>• Transport</li> <li>• Information and Communications Technology</li> <li>• E-Commerce</li> <li>• Energy</li> <li>• Food, Agriculture and Forestry</li> <li>• Tourism</li> <li>• Healthcare</li> <li>• Minerals</li> <li>• Science and Technology</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening the Role of Micro, Small, and Medium Enterprises</li> <li>• Strengthening the Role of the Private Sector</li> <li>• Public-Private Partnership</li> <li>• Narrowing the Development Gap</li> <li>• Contribution of Stakeholders on Regional Integration Efforts</li> </ul>	

Source: ASEAN (2015c).

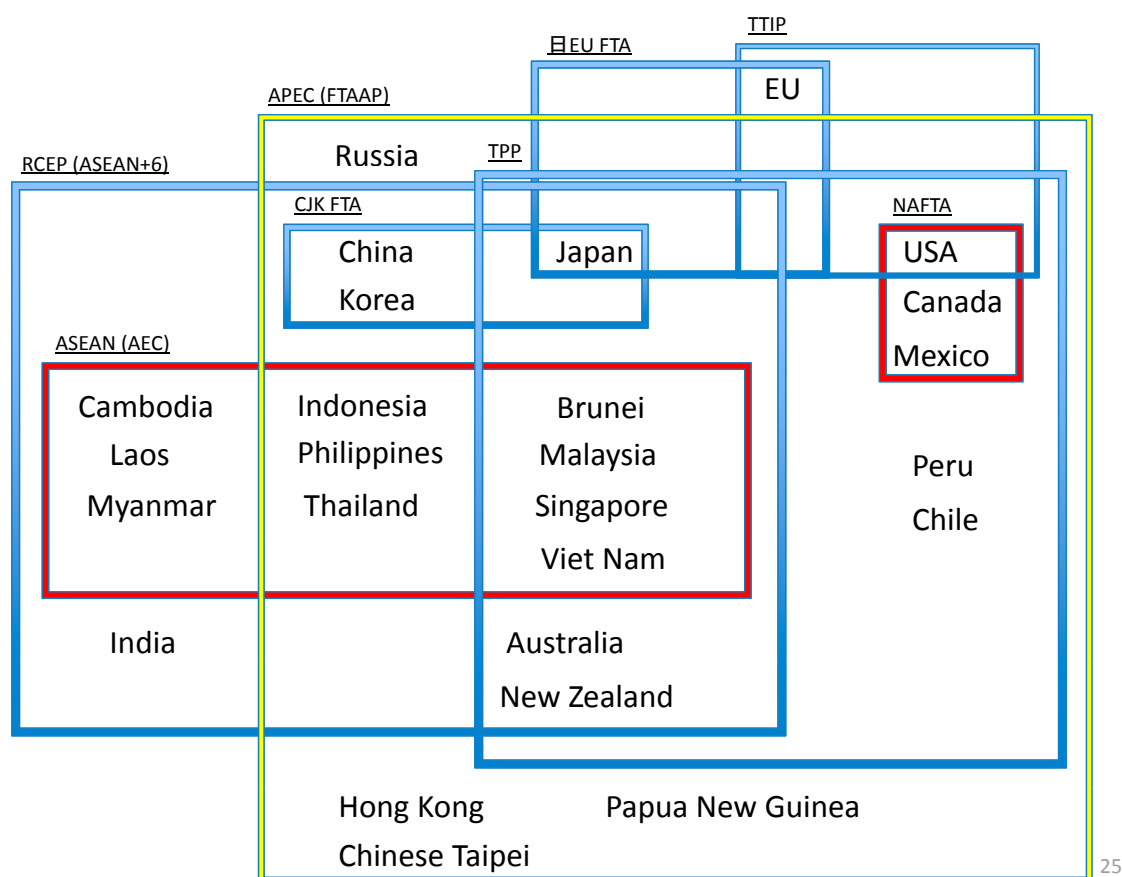
23

## 5. Repercussion of TPP in East Asia

- Domino effects toward TPP
  - South Korea, Chinese Taipei
  - Indonesia, the Philippines, Thailand
  - China? (AIIB, One Belt One Road, ACFTA, and others)
- Studying the draft text
  - Can start high-level liberalization?
    - Tariffs, Services/investment
  - The last obstacles for newly developed / less developed countries
    - IPR protection, investor-state dispute settlements (ISDS)
- Losing momentum for the Regional Comprehensive Economic Partnership (RCEP)
  - Low-level negotiation modality (e.g., 80% tariff removal in 10 years) was set at the Economic Ministers Meeting in August 2015.
  - To avoid being marginalized, RCEP should follow one of the following scenarios.
    - Reset its negotiation modality.
    - Conclude it as a framework agreement as soon as possible and start negotiating a high-level one.
    - Leave international commercial policies for TPP and concentrate on economic cooperation.

24

## Proposed mega-FTAs in East Asia and Asia-Pacific



25

## Tariffs – Based on Final Preferential Tariff Rates

Elimination coverage by country under the ASEAN+ FTAs (**HS 6-digit Base**)

	ASEAN-Korea	ASEAN-China	ASEAN-ANZ	ASEAN-India	ASEAN-Japan	Average	(Excluding AIFTA)
SGP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
BRN	99.2%	98.3%	99.2%	85.3%	97.7%	95.9%	98.6%
MLS	95.5%	93.4%	97.4%	79.8%	94.1%	92.0%	95.1%
THA	95.6%	93.5%	98.9%	78.1%	96.8%	92.6%	96.2%
IDN	91.2%	92.3%	93.7%	48.7%	91.2%	83.4%	92.1%
PHI	99.0%	93.0%	95.1%	80.9%	97.4%	93.1%	96.1%
VTN	89.4%	na	94.8%	79.5%	94.4%	89.5%	92.8%
CAM	97.1%	89.9%	89.1%	88.4%	85.7%	90.0%	90.4%
LAO	90.0%	97.6%	91.9%	80.1%	86.9%	89.3%	91.6%
MYA	92.2%	94.5%	88.1%	76.6%	85.2%	87.3%	90.0%

KOR	90.5%						
CHN		94.1%					
AUS			100.0%				
NZ			100.0%				
IND				78.8%			
JPN					91.9%		
<b>Average</b>	<b>94.5%</b>	<b>94.7%</b>	<b>95.7%</b>	<b>79.6%</b>	<b>92.8%</b>		

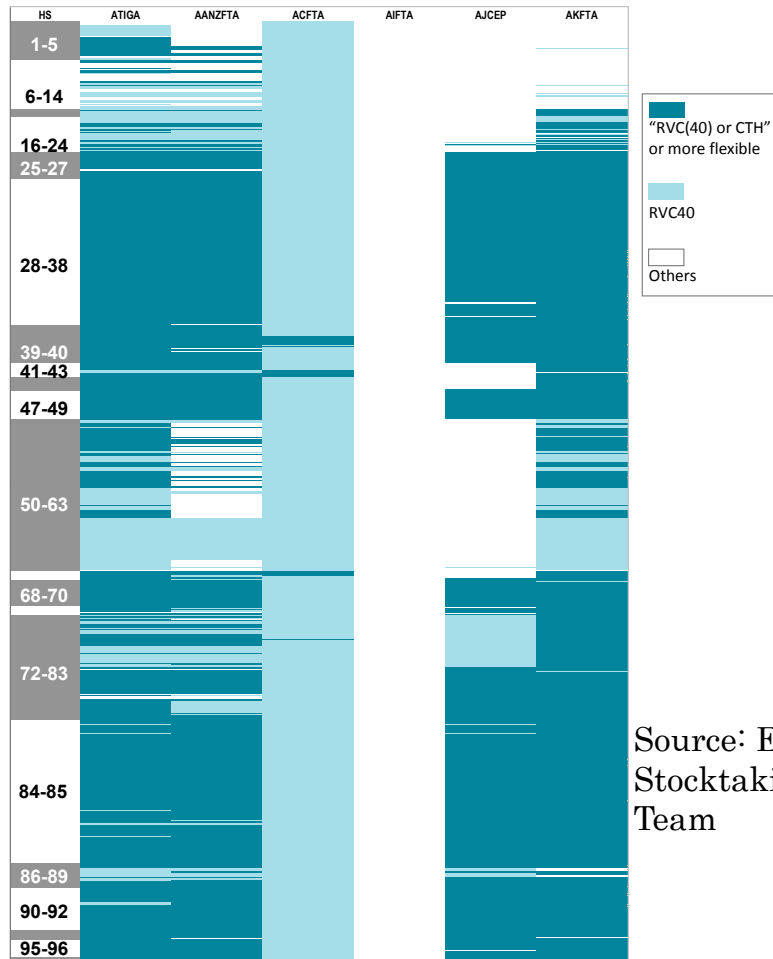
Source: ERIA FTA Stocktaking Study Team

Note: Data on Myanmar under the ASEAN-China FTA is missing for HS01-HS08.

Source: Fukunaga and Kuno (2012).

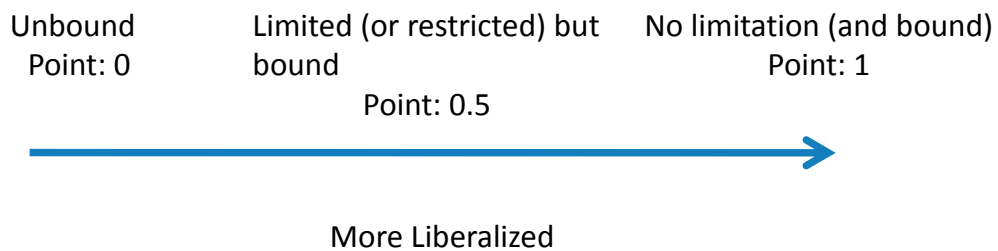
26

Commonality of ROOs



## Services – Restrictiveness Index

- The service chapters of ASEAN+n adopt a GATS-style reporting
- In each service sector, the four modes times two aspects of liberalization i.e., market access (MA) and national treatment (NT), make eight “cells”, to each of which the existence of limitations is indicated.



Level of service liberalization (Hoekman Index, average of all service sectors)

	AFAS(5)	AFAS(7)	AANZFTA	ACFTA	AKFTA
Brunei	0.17	0.23	0.18	0.05	0.08
Cambodia	0.40	0.41	0.51	0.38	0.38
Indonesia	0.18	0.36	0.29	0.09	0.18
Laos	0.09	0.34	0.24	0.02	0.07
Malaysia	0.22	0.34	0.31	0.11	0.20
Myanmar	0.20	0.36	0.26	0.04	0.06
Philippines	0.22	0.33	0.26	0.11	0.17
Singapore	0.28	0.39	0.44	0.30	0.33
Thailand	0.30	0.50	0.36	0.25	NA
Vietnam	0.31	0.38	0.46	0.34	0.32
ASEAN Average	0.24	0.36	0.33	0.17	0.20
Australia			0.52		
New Zealand			0.51		
China				0.28	
Korea					0.31

Note: 1 = fully liberalized, 0 = unbound (government has not committed to liberalize)  
 Note: Specific Commitment Basis and some Horizontal Commitments

Source: Ishido and Fukunaga (2012).

29

## 6. Impact on economic reforms in East Asia

- High-level liberalization
  - Tariffs, Services, investment
- Government procurement
  - Expansion of non-discrimination principles to non-signatories of WTO Government Procurement Agreement.
  - Possibilities of contributing to removing public-private collusion.
  - However, a lot of exceptions are set.
- State-owned enterprises and designated monopolies
  - Great to write down basic principles on the competition against private companies in terms of goods, services, and investment.
    - Not covered by WTO, existing FTAs, investment treaties, or OECD guidelines
  - Can be a reference for SOE reforms and others.
  - However, immediate effectiveness is doubtful with a lot of exemptions in the main text, in addition to country-wise exceptions.
- Enhancing efficiency in bureaucracy and acceleration of regulatory reform
  - Extensive influences are expected.

30

## 7. Impact on development models in East Asia

- Road toward high-income countries: from production networks [Tier 2]/industrial agglomeration [Tier 1a] to the formation of innovation hubs [Tier 1b]
- The importance of varieties of services/goods consumption and B-to-C transactions
  - Removal of non-tariff barriers, trade facilitation (SPS, TBT, and others)
  - Services liberalization (discriminatory, non-discriminatory)
  - E-commerce
- Environment, labor

31

## 8. Conclusion

- AEC should be evaluated from the viewpoint of the development model taking advantage of GVCs.
  - AEC2015 pretty well took care of issues for Tier 3, Tier 2, and a part of Tier 1a.
  - AEC2025 should continue working on Tier 3 and Tier 2 while shifting some weights on Tier 1a and Tier 1b. The role of Singapore is important.
- TPP would affect ASEAN/East Asia in two ways
  - Present a path toward economic reforms
    - Goods/services/investment liberalization, government procurement, SOEs, efficiency in bureaucracy/regulatory reform
  - Help step up a development ladder, particularly for Tier 1b
    - Importance of consumption (services, movement of natural persons, SPS/TBT, standard and conformance, ...)
    - Labor, Environment
- RCEP
  - Need to redefine its role, otherwise being marginalized.

32



# References

- Ando, M. and F. Kimura (2010), 'The Spatial Pattern of Production and Distribution Networks in East Asia', in P. Athukorala (ed.), *The Rise of Asia: Trade and Investment in Global Perspective*, London and New York: Routledge, pp.61–88.
- Association of Southeast Asia Nations (ASEAN). (2015a) *ASEAN Integration Report 2015*. Jakarta: The ASEAN Secretariat (<http://www.asean.org/storage/images/2015/November/media-summary-ABIS/ASEAN%20Integration%20Report%202015.pdf>).
- Association of Southeast Asia Nations (ASEAN). (2015b) *A Blueprint for Growth – ASEAN Economic Community 2015: Progress and Key Achievements*. Jakarta: The ASEAN Secretariat (<http://www.asean.org/storage/images/2015/November/aec-page/AEC-2015-Progress-and-Key-Achievements.pdf>).
- Association of Southeast Asia Nations (ASEAN). (2015c) *ASEAN Economic Community Blueprint 2025*. Jakarta: The ASEAN Secretariat (<http://www.asean.org/storage/images/2015/November/aec-page/AEC-Blueprint-2025-FINAL.pdf>).
- Baldwin, Richard. (2011) "21<sup>st</sup> Century Regionalism: Filling the Gap between 21<sup>st</sup> Century Trade and 20<sup>th</sup> Century Trade Rules." Centre for Economic Policy Research Policy Insight No. 56 (May) (<http://www.cepr.org>).
- Economic Research Institute for ASEAN and East Asia (ERIA). (2010) *Comprehensive Asia Development Plan*. Jakarta: ERIA.
- Economic Research Institute for ASEAN and East Asia (ERIA) (2015) *The Comprehensive Asia Development Plan 2.0 (CADP 2.0): Infrastructure for Connectivity and Innovation*. Jakarta: ERIA.
- Fukunaga, Yoshifumi and Kuno, Arata. (2012) "Toward a Consolidated Preferential Tariff Structure in East Asia: Going beyond ASEAN+1 FTAs" (<http://www.eria.org/ERIA-PB-2012-03.pdf>).
- Ishido, Hikari and Fukunaga, Yoshifumi. (2012) "Liberalization of Trade in Services: Toward a Harmonized ASEAN++ FTA" (<http://www.eria.org/ERIA-PB-2012-02.pdf>).
- Jones, Ronald W. and Kierzkowski, Henryk. (1990) "The Role of Services in Production and International Trade: A Theoretical Framework." In Ronald W. Jones and Anne O. Krueger, eds., *The Political Economy of International Trade: Essays in Honor of Robert E. Baldwin*, Oxford: Basil Blackwell: 31-48.
- United Nations (2015), *World Urbanization Prospects: The 2014 Revision*. New York: United Nations.