

understanding the

asean
economic
community

a primer

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THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)

ASEAN is envisioned as "... A concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies."¹

It is composed of ten (10) Southeast Asian nations. The five (5) founding members, which established ASEAN in 1967 were Indonesia, Malaysia, the Philippines, Singapore and Thailand; Brunei Darussalam (joined in 1984), Vietnam (1995), Lao People's Democratic Republic (Lao PDR) and Myanmar (both joined in 1997) and Cambodia (joined in 1999).

ASEAN is a region of significant economic and strategic importance, located in the heart of Asia and centered on important trading routes between Europe and Asia and the Pacific – a situation which saw the region dominated by Western colonial powers for much of the 19th and 20th centuries.

It is also a region characterized by a wide diversity of land, people, political systems and languages – as well as divergences in terms of economic activity and stages of development.

Indonesia, for example, is among the world's largest nations in terms of land area and population (4th largest in population and 15th in land area) – with Singapore among the smallest in land (184th out of 214 countries) while Brunei ranks among the lowest in population (172 out of 214 countries). Each country also has its own official language (or languages) although English is recognized as a common language for official and business communications.

ASEAN governments also include Marxist-Leninist governments (Vietnam and Lao PDR), monarchies (Brunei Darussalam, Cambodia and Thailand – although the latter two are constitutional monarchies with parliamentary systems of government) as well as democratic institutions (both parliamentary and presidential forms). (Table 1)



Table 1. ASEAN at a Glance; Sources: WB World Development Indicators (WDI) database and Wikipedia

| | Land Area | | Population | | Government | Official Language |
|--------------------------|-----------------|----------------------------|-------------|--------------------------------|-------------------------|------------------------------|
| | Total (sq. mi.) | Total Global Ranking (214) | TOTAL | Global Ranking (214) (sq. mi.) | | |
| Brunei Darussalam | 5,270 | 167 | 412,238 | 172 | Monarchy | Malay |
| Cambodia | 176,520 | 88 | 14,864,646 | 66 | Parliamentary/ Monarchy | Khmer |
| Indonesia | 1,811,570 | 15 | 246,864,191 | 4 | Presidential | Bahasa Indonesia |
| Lao PDR | 230,800 | 79 | 6,645,827 | 103 | Marxist-Leninist | Lao |
| Malaysia | 328,550 | 64 | 29,239,927 | 44 | Federal Parliamentary | Bahasa Malaysia |
| Myanmar | 653,260 | 39 | 52,797,319 | 24 | Presidential | Burmese |
| Philippines | 298,170 | 71 | 96,706,764 | 12 | Presidential | Filipino/English |
| Singapore | 700 | 184 | 5,312,400 | 115 | Parliamentary | English/Malay/Mandarin/Tamil |
| Thailand | 510,890 | 49 | 66,785,001 | 19 | Parliamentary/ Monarchy | Thai |
| Vietnam | 310,070 | 66 | 88,775,500 | 14 | Marxist-Leninist | Vietnamese |

¹ ASEAN Vision 2020, adopted by the ASEAN Leaders on the occasion of the 30th Anniversary of ASEAN, Kuala Lumpur, 15 December 1997

The region's diversity is even more noticeable when one considers key economic indicators and levels of human development. Indonesia's nominally high ranking in terms of Gross Domestic Product (GDP) where it stands 16th out of 179 reporting countries in 2012, is counterbalanced by its high population count – pulling its per capita GDP down to 121 out of 179 countries. Singapore's GDP is around ¼ of Indonesia in 2012 – but its small population results in much higher per capita GDP, placing it 19th out of 179 countries.

This, among other factors, results in the disparate rankings of the ASEAN economies in the United Nations' Human Development Index or HDI² - with Singapore ranking Very High (18 among 47 countries in this category (along with Brunei Darussalam) – and Indonesia in the mid-range of the Medium ranked nations under the UN Human Development Index. (Table 2)

Table 2. ASEAN At a Glance; Sources: World Bank WDI, ITC Trademap, UNDP

| | Nominal GDP (2012) In current USD Bn | | Per Capita GDP In current USD | | 2012 UN HDI | |
|--------------------------|---|---------|----------------------------------|---------|-------------|-------------|
| | Values | Ranking | Values | Ranking | HDI Ranking | HDI Indices |
| Brunei Darussalam | 16.95 | 105 | 41,126.6 | 29 | 30 | Very High |
| Cambodia | 14.04 | 112 | 944.4 | 163 | 138 | Medium |
| Indonesia | 878.04 | 16 | 3,556.8 | 121 | 121 | Medium |
| Lao PDR | 9.42 | 128 | 1,417.1 | 152 | 138 | Medium |
| Malaysia | 305.03 | 32 | 10,432.1 | 69 | 64 | High |
| Myanmar | - | - | - | - | 149 | Low |
| Philippines | 250.18 | 38 | 2,587 | 133 | 114 | Medium |
| Singapore | 274.7 | 33 | 51,709.5 | 19 | 18 | Very High |
| Thailand | 365.97 | 30 | 5,479.8 | 95 | 103 | Medium |
| Vietnam | 155.82 | 52 | 1,755.2 | 146 | 127 | Medium |

A question often asked when presented with the above data is this – why (or even, how) did a region of such diversity in their history, governments, people, languages, and economic development come together to form a regional alliance?

WHY AN ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)?

The simplest reason for forming ASEAN lies in an age-old reality: people and nations come together for mutual protection, support, and cooperation.

The Association of Southeast Asian Nations was formed at a time of an ideologically-driven global conflict marked by proxy wars between the then - superpowers of the United States and the Union of Soviet Socialist Republics (USSR) – with one such proxy war in the region's own backyard.³

ASEAN was established on 8 August 1967 when the Foreign Ministers of Indonesia, Malaysia, the Philippines, Singapore and Thailand, meeting in Bangkok, signed the Bangkok Declaration of 1967, considered ASEAN's Founding Document, which states:

² The UN Human Development Index (HDI) is a composite statistic of life expectancy, education and income indices used to rank countries into 4 tiers of human development: Very High (ranked 1-47), High (48-94), Medium (95-141) and Low (142-186) and was used as the basis for the creation of the UN's Millennium Development Goals (MDG). It is considered a factor in determining a country's stage of economic development, providing a "human dimension" to "cold" economic statistics of capital, production and trade.

³ The Vietnam War (or the Indochina Conflict) was initially a struggle for independence by the Vietnamese people against their French colonial masters which ended with the independence of Vietnam in 1954. International politics saw the country divided into North and South Vietnam, with the North supported by the USSR and China, and the latter backed by the United States and its allies. The resulting conflict as North Vietnam sought the reunification of the country became the Vietnam War (which saw heavy US involvement and eventually encompassed Cambodia and Laos) which lasted until 1976 and the fall of Saigon (capital of South Vietnam, now Ho Chi Minh City) and the reunification of the country.

*“... in an increasingly interdependent world, the cherished ideals of peace, freedom, social justice and economic well-being are best attained by fostering good understanding, good neighborliness and meaningful cooperation among the countries of the region already bound together by ties of history and culture ...”*⁴

The Declaration established the key precepts of ASEAN: unity, cooperation and collaboration with each other. In other words, it would be better for the region to think of itself as a diverse whole, rather than separate, individual countries.

In 1976, the 5 founding members of ASEAN signed a Treaty of Amity and Cooperation in Southeast Asia which established the key principles of the Association:

- (i) mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations,*
- (ii) the right of every State to lead its national existence free from external interference, subversion or coercion,*
- (iii) non-interference in the internal affairs of one another,*
- (iv) settlement of differences or disputes by peaceful means,*
- (v) renunciation of the threat or use of force, and*
- (vi) effective cooperation among themselves.*⁵

All ASEAN members are signatories to the Treaty, acceding to it before or upon joining the bloc; the Treaty, however, was open to accession by countries outside the bloc with such accession conditioned on the consent of all member-states.⁶

Articles 6 and 7 of the Treaty, however, would gain major significance in the coming years:

Article 6

The High Contracting Parties shall collaborate for the acceleration of the economic growth in the region in order to strengthen the foundation for a prosperous and peaceful community of nations in Southeast Asia. To this end, they shall promote the greater utilization of their agriculture and industries, the expansion of their trade and the improvement of their economic infrastructure for the mutual benefit of their peoples. In this regard, they shall continue to explore all avenues for close and beneficial cooperation with other States as well as international and regional organisations outside the region.

Article 7

*The High Contracting Parties, in order to achieve social justice and to raise the standard of living of the peoples of the region, shall intensify economic cooperation. For this reason, they shall adopt appropriate regional strategies for economic development and mutual assistance.*⁷

⁴ Bangkok Declaration of 1967; sourced from ASEAN Secretariat website (www.asean.org)

⁵ Many people see the Treaty of Amity and Cooperation as the formal expression of “The ASEAN Way”, an effort by the Association to describe a regional method of multilateralism. The ‘ASEAN way’ is said to contribute durability and longevity within the organisation, by promoting regional identity and enhancing a spirit of mutual confidence and cooperation. (Wikipedia, http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#The_ASEAN_way)

⁶ As of 2012, over 16 countries outside ASEAN have acceded to the treaty including the United States (2009), China (2003), India (2003), Japan (2004), South Korea (2004), New Zealand (2005), Australia (2005), Russia (2004), France (2006) and the European Union (2012). Source: Wikipedia, http://en.wikipedia.org/wiki/Treaty_of_Amity_and_Cooperation_in_Southeast_Asia

⁷ Treaty of Amity and Cooperation in Southeast Asia, 24 February 1976, sourced from www.asean.org

These articles form the foundation or initial building blocks for the establishment of an ASEAN Economic Community.

FROM POLITICS TO ECONOMICS: THE ROAD TO THE ASEAN ECONOMIC COMMUNITY (AEC)

Trade, business and economics are recurring themes in ASEAN discussions. The year after the signing of the Treaty of Amity and Cooperation in Southeast Asia saw the holding of the 1st ASEAN Economic Summit in Manila which saw agreements signed on the basic instruments of ASEAN economic cooperation, one of which is an Agreement on Preferential Trading Arrangements (PTAs).⁸

Global developments also saw a shifting of focus away from the ideological conflicts of the 20th century towards more attention being given to economic and trade concerns. Among these developments were:

- a. *China's "opening to the world" following the ascendancy of Deng Xiaoping and his "black cat/white cat" policy in the early 1980s;*
- b. *Multinational companies strategy of manufacturing in low cost locations;*
- c. *Japan's strategy of shifting its production of manufactured goods to Southeast Asia;*
- d. *European economic integration and offshore manufacturing;*
- e. *USA's globalization drive.*⁹

In 1992, ASEAN nations (with Brunei Darussalam which joined the association in 1984) signed the Framework Agreement on Enhancing Economic Cooperation which called for the establishment of an ASEAN Free Trade Area (AFTA) within 15 years with a Common Effective Preferential Tariff (CEPT) scheme as the main mechanism for AFTA.

At the same time, the shift towards trade and economics gained momentum with the establishment of the European Union in 1993, the North American Free Trade Area (NAFTA) in 1994 and the World Trade Organization (WTO) in 1995.

On the 30th Anniversary of the founding of ASEAN, in 1997, the Leaders issued "ASEAN Vision 2020," stating their concept of a "... concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies," and affirming their commitment to seeing the vision achieve reality.

In 2003, the ASEAN leaders¹⁰ issued ASEAN Concord II (Bali Concord II)¹¹ which affirmed the members' commitment to ASEAN Vision 2020 and established the general directions and principles for the establishment of an ASEAN Community. The key provision of Bali Concord II was:

"An ASEAN Community shall be established comprising three pillars, namely political and security cooperation, economic cooperation, and socio-cultural cooperation that are closely intertwined and mutually reinforcing for the purpose of ensuring durable peace, stability and shared prosperity in the region."

⁸ Agreement on ASEAN Preferential Trading Arrangements, 24 February 1977. The document may seem basic by today's standards, providing only broad guidelines and agreements on a range of subjects (including extension of tariff preferences and liberalization of non-tariff measures on a preferential basis) but is an indication of the importance placed by the ASEAN economies on the subject.

⁹ Ambassador Ong Keng Yong, Director, Institute of Policy Studies, Singapore and former ASEAN Secretary-General (2003-2007). "ASEAN Community 2015: Business, Opportunities and Challenges," presentation at the Siam Intelligence Unit (SIU) sponsored seminar "Looking Towards ASEAN Community 2015: Constraints, Obstacles and Opportunities," April 2011, Bangkok.

¹⁰ ASEAN had, by now, expanded to its current membership with the accession of Vietnam in 1995; Lao PDR and Myanmar in 1997 and Cambodia in 1998.

¹¹ Bali Concord I (signed on 24 February 1976) was a statement establishing the working mechanism and cooperative arrangements of ASEAN – including establishment of an ASEAN Secretariat, schedule of regular meetings at national and ministerial levels, and other matters.

The vision of an ASEAN Economic Community (AEC) was also fleshed out with the following provision in Bali Concord II:

“The ASEAN Economic Community shall establish ASEAN as a single market and production base, turning the diversity that characterises the region into opportunities for business complementation making the ASEAN a more dynamic and stronger segment of the global supply chain. ASEAN’s strategy shall consist of the integration of ASEAN and enhancing ASEAN’s economic competitiveness. In moving towards the ASEAN Economic Community, ASEAN shall, inter alia, institute new mechanisms and measures to strengthen the implementation of its existing economic initiatives including the ASEAN Free Trade Area (AFTA), ASEAN Framework Agreement on Services (AFAS) and ASEAN Investment Area (AIA); accelerate regional integration in the priority sectors; facilitate movement of business persons, skilled labour and talents; and strengthen the institutional mechanisms of ASEAN, including the improvement of the existing ASEAN Dispute Settlement Mechanism to ensure expeditious and legally binding resolution of any economic disputes.”¹²

The Concord also reaffirmed the Member States’ commitment to make ASEAN Vision 2020 a reality by the year 2020.

At the 12th ASEAN Summit (Cebu, January 2007), the ASEAN Member States made the decision to accelerate the establishment of the ASEAN Community – particularly the ASEAN Economic Community – by 2015.

At the 13th ASEAN Summit (Singapore, November 2007), the ASEAN Member States adopted the ASEAN Economic Community (AEC) Blueprint, a comprehensive document that lays out the overall vision as well as the goals, implementing plans and strategies (actions) as well as the strategic schedule (timeline) for achieving the establishment of the AEC by 2015.

¹² Bali Concord II, Article 3, Section 2 (ASEAN Economic Community)

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FREQUENTLY ASKED QUESTIONS (FAQS) on the ASEAN ECONOMIC COMMUNITY (AEC)

Q. What is the ASEAN Economic Community?

A. The ASEAN Economic Community or AEC is the embodiment of the Association of Southeast Asian Nations' vision of "... a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities."¹³

Q. Is there a difference between AEC and AEC 2015?

A. AEC 2015 is a tagline or catchphrase that came about as a means to remind people that the target date for establishing the AEC is in 2015 – thus "AEC 2015."

Q. Is the AEC similar to the European Union (formerly the European Economic Community)?

A. There are major differences between the European Union and the ASEAN Economic Community (AEC). Among these are:

| EU | ASEAN - AEC |
|--|--|
| <ul style="list-style-type: none"> • Composed of 27 economies located primarily in Europe | <ul style="list-style-type: none"> • Composed of 10 Southeast Asian economies |
| <ul style="list-style-type: none"> • Operates through a system of supranational independent institutions such as the European Commission, which functions as the EU's executive body – proposing legislation affecting the Union, implementing decisions reached and upholding the Union's treaties and day-to-day operations | <ul style="list-style-type: none"> • Does not have similar supranational bodies. ASEAN decisions are reached by consensus by the Association's political leaders and implemented through their governments with an ASEAN Secretariat functioning primarily as a monitoring and coordinating body |
| <ul style="list-style-type: none"> • A single market which guarantees the free movement of goods, services, capital and people within the members of the union; | <ul style="list-style-type: none"> • Is working towards the attainment of a single market: AEC has established a tariff-free regime on goods traded and originating from its members but is still working towards addressing issues like Non-tariff Measures (NTM), Sanitary and Phytosanitary (SPS) measures, and others ASEAN allows for visa-free entry for ASEAN citizens (free movement of people) but still imposes certain requirements on across the border employment. The same applies to the freer movement of capital across borders (e.g., in the form of intra-ASEAN investment) |
| <ul style="list-style-type: none"> • A monetary union with a common currency administered by a central monetary authority (the European Central Bank or ECB) that can determine policy across the 27 member-economies | <ul style="list-style-type: none"> • An ASEAN Common Currency is still a long way off, much less a central monetary authority along the same lines as the ECB |
| <ul style="list-style-type: none"> • A customs union with a single or common tariff applied on goods imported into the union | <ul style="list-style-type: none"> • An ASEAN single common tariff is applied on goods originating within the region; each economy applies its own tariff regime on goods imported from other countries outside the Association |

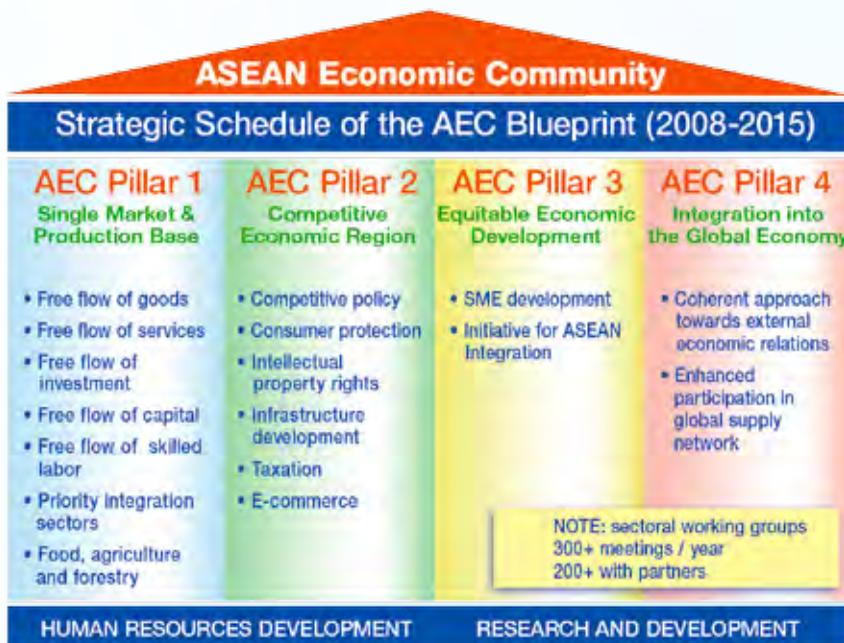
¹³ AEC Blueprint, 2007

Q. What are the goals and objectives of the AEC?

A. The AEC's goals are embodied in the 4 pillars that form the strong foundation for building and establishing ASEAN economic integration:

- ASEAN will establish itself as a single market and production base that will ensure the free movement of ASEAN and ASEAN partners' goods, people, capital and services across their national borders;
- ASEAN will form a cooperative and collaborative regional entity that can effectively compete in the global market;
- An ASEAN that is fully integrated into the global economy, speaking as one voice in international trade conferences and negotiations;
- All of which will contribute to a region of equitable economic development that will benefit all its citizens.¹⁴

These goals (pillars) are inter-related and mutually reinforcing and were established in accordance with the principles of an open, outward-looking, inclusive, and market-driven economy consistent with multilateral rules as well as adherence to rules-based systems for effective compliance and implementation of economic commitments.



Q. How will ASEAN achieve the goal of an ASEAN Economic Community by 2015?

A. The formulation of an AEC Blueprint (with clearly stated goals, timelines and implementing strategies) which the ASEAN Leaders ratified during the 13th ASEAN Summit in Singapore in November 2007, established the members' commitment to a common goal as well as ensuring compliance with stated objectives and timelines.

¹⁴ This is a re-phrasing or a re-statement of the key characteristics of the AEC: Pillar 1: single market and production base; Pillar 2: a highly competitive economic region; Pillar 3: a region of equitable economic development; and Pillar 4: a region fully integrated into the global economy.

The AEC Blueprint lays out the overall vision as well as the goals, implementing plans and strategies (actions) as well as the strategic schedule (timeline) for achieving the establishment of the AEC by 2015.

The AEC is the realization of the end goal of economic integration as espoused in the Vision 2020 (brought forward to 2015), which is based on a convergence of interests of ASEAN Member States to deepen and broaden economic integration through existing and new initiatives with clear timelines. In establishing the AEC, ASEAN shall act in accordance to the principles of an open, outward-looking, inclusive, and market-driven economy consistent with multilateral rules as well as adherence to rules-based systems for effective compliance and implementation of economic commitments.

The value of an AEC Blueprint is that it showed the world that ASEAN was serious about its plans and goals.

Q. How far along is the Philippines in implementing the AEC Blueprint?

- A.** The Blueprint incorporates a Scorecard which serves as a mechanism to track implementation of the various measures under the AEC Blueprint and its strategic schedules.

As of August 2013, the Philippines has reached 87.2% of its targets as of the same period. (Table 3).

Table 3. ASEAN Economic Community Scorecard (As of October 2013)

| <i>ASEAN Member State</i> | <i>Implemented</i> | <i>Not Implemented</i> | <i>Implemented Ahead</i> | <i>Ongoing</i> | <i>Total Measures</i> | <i>Implementation Rate</i> |
|---------------------------|--------------------|------------------------|--------------------------|----------------|-----------------------|----------------------------|
| Brunei Darussalam | 297 | 48 | 18 | 71 | 434 | 86.8% |
| Cambodia | 290 | 56 | 17 | 72 | 435 | 84.6% |
| Indonesia | 289 | 58 | 18 | 72 | 437 | 84.1% |
| Lao PDR | 287 | 57 | 16 | 74 | 434 | 84.2% |
| Malaysia | 307 | 44 | 20 | 69 | 440 | 88.1% |
| Myanmar | 294 | 51 | 17 | 72 | 434 | 85.9% |
| Philippines | 302 | 47 | 19 | 71 | 439 | 87.2% |
| Singapore | 304 | 38 | 19 | 69 | 430 | 89.5% |
| Thailand | 307 | 43 | 20 | 69 | 439 | 88.4% |
| Vietnam | 307 | 41 | 16 | 73 | 437 | 88.7% |

Q. Will ASEAN be able to achieve 100% of its targets by 2015?

- A.** ASEAN is aware that it will be unable to meet 100% of its targets by end 2015, given the wide range of institutional, legal and even socio-political barriers that each Member State has to contend with on the road to regional integration.

The Philippines, for example, has legal and constitutional issues that limit certain key areas of the economy to Filipino ownership, which conflict with the AEC's goal of opening up domestic industries or sectors to at least 70% ownership by ASEAN citizens.

Other ASEAN Member States (AMS) have similar or even more restrictive laws which have to be resolved by their citizens and governments.

Nevertheless, ASEAN has achieved a high level of accomplishment within its stated timeframes.

Q. What will happen in 2015?

A. ASEAN will officially declare the establishment of an ASEAN Economic Community by end December 2015.

For the ASEAN economies and citizens, it will be business as usual – mainly because the key agreements and regulations that will govern our business and economic relationships under the AEC are already in place and operational.

Q. What are these key agreements that are already operational? How are Philippine industries benefiting from ASEAN economic integration?

A. These key agreements include:

- The ASEAN Trade in Goods Agreement (ATIGA) which came into force on 17 May 2010; the Philippines signed the ATIGA in February 2009. This means that:
 - In terms of trade in goods, 99.65% of goods sourced from ASEAN are already being traded without any tariffs among the Philippines, Malaysia, Thailand, Singapore, Indonesia, and Brunei Darussalam.
 - The rest of the ASEAN - Cambodia, Myanmar, Laos and Vietnam (CLMV), are not far behind - offering 0-5% duties on 98.86% of goods sourced within the region. CLMV countries have until 2018 to reduce tariffs to zero.
 - For the Philippines, agricultural products such as rice, sugar, live swine, live chicken, meat of swine, meat of chicken, manioc (cassava) and sweet potatoes, and maize are exempt from duty elimination.
- Packages within the ASEAN Framework Agreement on Services (AFAS) have been in negotiation since 2007. Rather than negotiate for blanket coverage of the services sectors, ASEAN is taking a focused approach – opening up based on specified thresholds.
- ASEAN Mutual Recognition Arrangement (MRAs) have also been negotiated and agreed on in the following areas:
 - Engineering Services
 - Nursing Services
 - Architectural Services
 - Surveyors
 - Medical Practitioners
 - Dental Practitioners
 - Accountancy Services
 - Tourism

Q. So, if I am an engineer or a medical doctor in the Philippines, does AEC allow me to practice my profession anywhere in the ASEAN Member States? And vice versa?

- A.** AEC facilitates practice of profession by harmonizing qualification standards and establishing a directory of qualified professionals. However, ASEAN professionals would still have to comply with domestic licensing and professional regulatory rules in the other ASEAN Member States (AMS).

The seven (7) MRAs are ways of ensuring mobility of professionals across the region while each ASEAN Member State maintains its rights to implement its own regulatory function on professional services. Such policy is consistent with the preservation of existing domestic regulations that affect the professional sector. Note, however, that ASEAN is striving to enhance the facilitation mechanism on the mobility of professionals by developing initiatives that allow ASEAN professionals to understand the existing domestic regimes in various AMS.

Such is the case of medical and nursing practitioners wherein regulatory bodies exchange information governing the practice of profession which includes, among others, (a) Policies of Temporary Licensing in ASEAN Member States, (b) Definition of Temporary License/Permit, (c) Post Basic Qualifications, (d) Requirement of Continuous Professional Development and (e) Requirements for Registration/Licensing Process. Once details of the previously stated elements are completed, ASEAN Member States will then conduct information exchange for public reference. The goal is to ensure that the public knows the existing regulations governing the professional sectors in ASEAN.

Q. Pundits say that the AEC will flood the country with cheap foreign goods which will put the country's industries and sectors out of business.

- A.** AEC provides PH industries with critical inputs - raw materials, intermediate and capital goods - to be more competitive. Imported goods are products brought into the country for a specific purpose - either as inputs for further production or manufacture or used (without need for further processing) by consumers or by companies or corporate entities.

In 2012, we imported a total of USD 65.3 billion in goods of which **87.5% (USD 57.2 billion)** were needed by domestic industries or manufacturers for their businesses. These are primary, intermediate goods and capital goods. (Table 4 provides an overview of Philippine imports in 2012, using the Broad Economic Category classification)

The bulk of our imports are for the use of domestic industries for their manufacturing requirements (whether for the domestic or export market). Note, especially, that fuel and lubricants (both primary or 'crude' and processed fuel) constitute almost 22% of our imports in 2012, equivalent to almost USD14 billion.

Much of the imported consumer goods (including food products and consumer non-durables) supplement domestic needs such as dairy (milk, cheese, etc.) products, wheat (for flour) and even pharmaceuticals and medicaments which the domestic economy is unable to provide.¹⁵

Consumer goods comprise 12.4% (8.1 billion) of Philippine imports in 2012, a rather substantial part of our purchases from the world. Three sub- categories (Food and beverages, passenger motor cars and non-durable consumption goods) account for the bulk of our imports of consumer goods, comprising some USD 6.0 billion or 9.02% of our total imports in 2012.

¹⁵ Pharmaceuticals and medicaments came to around USD 918 million in 2012 – and comprise more than 50% of the imported consumption goods n.e.s, non-durable category. The Philippines also does not have an adequate dairy industry to meet domestic demands; thus the importation of fresh and processed dairy products from abroad.

Table 4. 2012 Philippine Imports
Source: World Bank World Integrated Trade Solutions Database

| <i>BROAD ECONOMIC CATEGORIES</i> | <i>Values in USD Thousands</i> | <i>% Share to Total Imports</i> |
|--|------------------------------------|-------------------------------------|
| PRIMARY GOODS | 11,371,937.8 | 17.4% |
| – Food and beverages, primary, mainly for industry | 1,188,736.4 | 1.8% |
| – Industrial supplies nes, primary | 1,783,643.0 | 2.7% |
| – Fuels and lubricants, primary | 8,399,558.3 | 12.9% |
| INTERMEDIATE GOODS | 39,588,106.8 | 60.6% |
| Semi-Finished (Semi-Processed) Goods | 20,183,896.1 | 30.9% |
| – Food and beverages, processed, mainly for industry | 993,994.9 | 1.5% |
| – Industrial supplies nes, processed | 13,499,574.4 | 20.7% |
| – Fuels and lubricants, processed | 5,690,326.7 | 8.7% |
| Parts and Components (Accessories) | 19,404,210.7 | 29.7% |
| – Parts and accessories of capital goods (except transport equipment) | 17,929,653.5 | 27.4% |
| – Parts and accessories of transport equipment | 1,474,557.1 | 2.3% |
| FINAL GOODS | 14,337,061.1 | 21.9% |
| Capital Goods | 6,214,839.1 | 9.5% |
| – Capital goods (except transport equipment) | 4,088,240.1 | 6.3% |
| – Food and beverages, primary, mainly for industry | 1,188,736.4 | 1.8% |
| – Industrial supplies nes, primary | 1,783,643.0 | 2.7% |
| – Fuels and lubricants, primary | 8,399,558.3 | 12.9% |
| – Transport equipment, other, Industrial | 39,588,106.8 | 60.6% |
| Consumer Goods | 8,122,222.0 | 12.4% |
| Food and beverages, primary, mainly for household consumption | 446,899.0 | 0.7% |
| Food and beverages, processed, mainly for household consumption | 2,668,497.5 | 4.1% |
| Transport equipment, passenger motorcars | 1,686,817.5 | 2.6% |
| Transport equipment, other, non-Industrial | 257,167.3 | 0.4% |
| Consumption goods nes, durable | 526,223.6 | 0.8% |
| Consumption goods nes, semi-durable | 849,505.4 | 1.3% |
| Consumption goods nes, non-durable | 1,687,111.7 | 2.6% |
| GOODS, n.e.s. | 52,674.9 | 0.1% |
| TOTAL PHILIPPINE IMPORTS IN 2012 | 65,349,780.5 | 100.0% |

Q. What are the opportunities and challenges of the AEC?

- A.** The biggest opportunity that AEC offers is a market of more than 600 million people, all potential consumers of Philippine products. More businesses and manufacturers across ASEAN will be made aware of the Philippines' capacity and capability of producing better quality goods at less cost, with the ease of transporting these goods to their destinations given the country's proximity and rapidly improving infrastructure.

The challenge is to look at the ASEAN Economic Community from a vantage point – where the AEC provides a golden opportunity to improve capacities and capabilities of Philippine industries and services and to become major players in the global economy.

For example, almost a little over 80% of PH exports (USD 41.6 billion out of the USD 52 billion exported) in 2012 are intermediate and capital goods – products which the importing countries need, to produce goods whether for domestic consumption or for export. As their trading partner, PH is providing the parts and components they need. (Table 5)

The Philippines must be a high-value, contributing partner of the ASEAN Economic Community and needs to approach the AEC in the spirit of community that ASEAN fosters – a spirit of cooperation, collaboration and complementation – where integration strengthens the region’s capacity to compete as one.

Table 5. 2012 Philippine Exports

Source: Computed from data sourced from World Bank World Integrated Trade Solutions (WITS) Database

| <i>2012 PHILIPPINE EXPORTS</i> | <i>Values (in USD Thousands)</i> | <i>% Share of Total Exports</i> |
|---|--------------------------------------|-------------------------------------|
| PRIMARY GOODS | 2,609,236 | 5.0% |
| - Food and beverages, primary, mainly for industry | 216,865 | 0.4% |
| - Industrial supplies nes, primary | 1,630,825 | 3.1% |
| - Fuels and lubricants, primary | 761,545 | 1.5% |
| INTERMEDIATE GOODS | 30,978,163 | 59.6% |
| Semi-Finished (Semi-Processed) Goods | 11,122,598 | 21.4% |
| - Food and beverages, processed, mainly for industry | 613,714 | 1.2% |
| - Industrial supplies nes, processed | 10,010,310 | 19.3% |
| - Fuels and lubricants, processed | 498,573 | 1.0% |
| PARTS AND COMPONENTS | 19,855,565 | 38.2% |
| - Parts and accessories of capital goods (except transport equipment) | 17,449,230 | 33.6% |
| - Parts and accessories of transport equipment | 2,406,336 | 4.6% |
| FINAL GOODS | 18,374,736 | 35.3% |
| Capital Goods | 10,658,775 | 20.5% |
| - Capital goods (except transport equipment) | 9,590,155 | 18.4% |
| - Transport equipment, other, Industrial | 1,068,620 | 2.1% |
| CONSUMER PRODUCTS | 7,715,961 | 14.8% |
| - Food and beverages, primary, mainly for household consumption | 1,031,788 | 2.0% |
| - Food and beverages, processed, mainly for household consumption | 1,663,018 | 3.2% |
| - Transport equipment, passenger motorcars | 56,330 | 0.1% |
| - Transport equipment, other, non-Industrial | 20,313 | 0.0% |
| - Consumption goods nes, durable | 890,074 | 1.7% |
| - Consumption goods nes, semi-durable | 2,924,697 | 5.6% |
| - Consumption goods nes, non-durable | 1,129,741 | 2.2% |
| GOODS, n.e.s. | 33,089 | 0.1% |
| TOTAL PHILIPPINE EXPORTS IN 2012 | 51,995,224 | 100.0% |

Q. If our ASEAN neighbours are not our competitors, who are?

- A.** Outside ASEAN are economies or trade blocs that produce goods that other nations or consumers need. And this is what we, in ASEAN, should primarily consider as competition. These blocs and economies outside of ASEAN will be marketing products similar to the ones the ASEAN produces and we must be able to compete with these trade blocs effectively and efficiently, by integrating and transforming our ASEAN production into a more aggressive one.

A key pillar of the AEC is the establishment of ASEAN as a single production base, where goods and services from the different ASEAN Member States complement each other in the manufacture or production of goods and services that our domestic markets need – and which markets outside ASEAN will want to buy.

For the Philippines, this means improving or upgrading our capabilities and capacities so that we can effectively complement our ASEAN neighbours in the competition for the global market. It is a key reason behind the formation of the ASEAN Economic Community – by working together, we can more effectively compete in the global market.

Q. What steps have been taken to further facilitate trade outside of the AEC?

- A.** At the recently concluded WTO meeting in Bali last December 2013, a key agreement reached was on the matter of trade facilitation which would (a) allow countries like the Philippines to access non-traditional markets like Russia and others; and, (b) provide us with another avenue to strengthen and facilitate domestic trade facilitation initiatives especially with regard to Customs reforms.

Observers have pointed out that the advantage of this agreement lies with those who already have a high level of trade facilitation (e.g. the developed economies as well as Freeport economies like Singapore and Hong Kong) or those who have started working on their National Single Window (NSW) facilities – such as the Philippines.

The Philippines has been working on fine-tuning our National Single Window, an initiative that began as part of our AEC commitment to establish an ASEAN Single Window by 2015. In other words, the Philippines is ahead of the game because of initiatives started through our participation in ASEAN and the ASEAN Economic Community.

Q. Are there problems or challenges for the Philippines with the AEC?

- A.** During a recent discussion with the Philippine Chamber of Commerce and Industry (PCCI),¹⁶ the chamber outlined the following key concerns and their recommended actions for these:
- **Address the high cost of power** by crafting a roadmap for the power sector premised on achieving reliable and sustainable power supply and competitive power rates;
 - **Address the high cost of logistics and lack of quality transportation infrastructure** by accelerating the implementation of the PPP projects and the adoption of a national transportation plan;
 - **Reform the Bureau of Customs** to reduce smuggling and make the necessary laws for us to comply with the Revised Kyoto Convention;

¹⁶ Source: AEC presentation by Bureau of Small and Medium-Scale Enterprise Development (BSMED)

- **Address conflict between national laws and local laws** to ensure the consistency of LGU issuances with national policies in mining activities, valuation process in property assessments, and granting of business permits, among others;
- **Address the weak competition culture and regulatory capture** by adopting a sound and coherent competition policy and passage of a competition law;
- **Review existing incentive-giving laws**, to assess, reconsider and harmonize them for them to be more efficient and effective and;
- **Work with the judiciary to reform procedures and practices** that will ensure consistency, objectivity and sustainability of decisions that impact on business and the economy.

One of their recommendations – **the adoption of an industrial roadmap for Philippine industries** to be able to compete with the forthcoming ASEAN integration – has been addressed by the Department of Trade and Industry when the Industry Development Program and the Industry Roadmap Project were initiated in 2012.

The concerns expressed by the business community are being addressed - with or without the AEC - and require collaboration between government agencies and the private sector to ensure their success. That is why there is a need to converge on a national AEC Game Plan to harmonize and calibrate all our efforts and resources to meet the challenges and seize the opportunities of the AEC.

Q. What is the role of Small- and Medium-Scale Enterprises (SMEs) in the AEC?

- A.** SMEs will play a key and essential role in the future of the ASEAN Economic Community. SMEs in the Philippines, like the rest of ASEAN, constitute the bulk of business and commercial establishments. Unfortunately, they are often overlooked because of the few, huge companies that seem to dominate the economic landscape.

SMEs, by their very nature, would lend themselves well to the current business model of fragmented production and supply networks and chains. The problem is that their potential to be high value, contributing members of an ASEAN production network remains hugely untapped.

It is for this reason that we are allocating resources and looking into ways and means to integrate our SMEs into the mainstream of manufacturing, production and services that a global production chain requires. Also, SME Development is a core component of the AEC Blueprint's Pillar 3 (Equitable Economic Development) and has always been at the forefront of the ASEAN leadership's minds.

Q. What has ASEAN as a whole done for SMEs?

- A.** The Philippines was the chair of the 2012 meetings of the ASEAN SME Working Group (SMEWG), wherein the SMEWG continues to conduct a review of the Strategic Action Plan for ASEAN SME Development 2010-2015 with the objective of making it more responsive to the needs/concerns of SMEs.

Regional cooperation under this plan seeks to ensure that by 2015, ASEAN SMEs shall be world-class enterprises which are capable of integration into the regional and global supply chains,

are able to take advantage of the ASEAN economic community building, and are operating in a policy environment that is conducive to SME development, exports and innovation.

Some of the regional or ASEAN cooperation activities vis-à-vis SMEs:

- Developed a Roadmap focused in 6 key dimensions, namely; (1) access to finance; (2) access to market and internationalization; (3) access to human resources; (4) access to information and advisory services; (5) access to technology and innovation; and (6) SME publications and directory
- Assigned country coordinators for each dimension, as follows:
 - Access to Finance – Indonesia and Malaysia
 - Access to Market and Internationalization of SMEs – Singapore and Thailand
 - Access to Human Resources – Brunei Darussalam
 - Access to Information and Advisory Services – Thailand
 - Access to Technology and Innovation – Viet Nam
 - Publications and Directory - Philippines
- Encouraged the establishment of national SME development funds in each ASEAN member-state (AMS) in lieu of the ASEAN SME Regional Development Fund (SRDF).

Aside from these, ASEAN has met the timelines for delivering the following projects:

- Establishment of a Common Curriculum for Entrepreneurship in ASEAN, which has 3 components:
 - Education Program – application of the COBLAS¹⁷ approach
 - Annual Seminar – annual seminar to share knowledge and information on entrepreneurship education, exchange of ideas, and to build a network in ASEAN
 - Curriculum Development – formulation of curriculum and textbook on entrepreneurship education based on the real situation of each ASEAN country

The De La Salle University (DLSU) implemented the pilot run of the program in the Philippines. According to Dr. Aida L. Velasco of DLSU, COBLAS has been very successful in meeting the objective of helping SMEs and in attracting students' attention and interest in choosing entrepreneurship as a career. At the same time, the program enhances the students' ability and capability in handling real business issues and situations. The project has also been successful in enhancing industry-academia collaboration.

- Feasibility Study on Integrating SME Service Centers, which compared the best practices at local, national, regional levels with SME service centers in Japan, EU and AMS; and,
- Development of a Multimedia, Self-Reliant System Toolkit Package, which seeks to facilitate the development of a quality culture in SMEs and create awareness on the necessity of providing high quality products or services to customers.

¹⁷ Consultant Based Learning for ASEAN SMEs" (COBLAS) was developed by Dr. Takeru Ohe, a former professor at Waseda University Graduate School of Commerce. The main feature of the program is practical entrepreneurship education via localized skills and tools with the university with the goal of eventually making the business promotion program sustainable.

Q. Those activities are ASEAN-wide. What is the Philippines doing, specifically, for its SMEs?

A. The Bureau for MSME Development, which is DTI's lead agency for SME Development, has crafted the 2011-2016 SME Development Plan to:

- address the key challenges and constraints that continue to prevent the Micro, Small and Medium Enterprise (MSME) sector from realizing its full potential and boosting the country's industrial growth
- propel SME involvement in key industrial areas such as tourism, BPO, electronics, agribusiness and logistics, among others

The SME Development Plan aims to: (a) generate employment by helping create 2 million new and sustainable jobs by 2016; and (b) raise the economic contribution of SMEs to 40% of gross value added, to make PH SMEs at par with their ASEAN counterparts.¹⁸

The SME Development Plan has the following key components:

- Improvement of the business environment for SMEs by streamlining of business regulatory processes, including facilitating or cutting down on red tape in business and business name registrations (this includes assisting LGUs to streamline their business registration procedures). BMSMED has also published various information materials along this line
- Advocacy of SME laws, such as the Magna Carta for Micro, Small and Medium Enterprises (RA 6977 as amended by RA 8289 and RA 9501) and the Barangay Micro Business Entrepreneurs Act of 2002 (RA 9178)
- Establishment of SME Assistance Centres and Desks in DTI regional and provincial offices
- Access to Finance or the A2F program through various SME lending programs such as Access of Small Enterprise to Sound Lending Opportunities (ASENSO) Program, the Mandatory Allocation of Credit Resources to MSMEs (RA 9501), Agri-Agra Reform Credit Act of 2010 and the Barangay Micro Business Enterprises Act of 2002

BMSMED is also actively assisting MSMEs in facilitating business partnerships through the One Town One Product (OTOP) program as well as helping them gain access to markets through enhanced participation in trade fairs and exhibits.

The DTI has also undertaken what we call the SME Roving Academy, a regional roadshow that brings together national government agencies and private sector institutions whose programs are SME-based and focused. The roadshows are undertaken to improve SME access to government programs and private initiatives, especially in areas where there is limited provision of business development services.

Q. Those programs are for MSMEs. Does the DTI have a program or programs for the rest of the country, especially given the advent of AEC 2015?

A. The Philippine strategy for AEC focuses on 3 Cs: Compliance of Commitments, Enhancement of Competitiveness and Intensive Communication to Stakeholders.

¹⁸ Currently, SMEs contribute only 35.7% of gross value added to the country's GDP

Compliance involves more targeted efforts to address “national” measures, increase capacity to participate in “regional” initiatives, and strengthen inter-agency coordination.

Enhancement of Competitiveness focuses on DTI’s efforts in addressing supply chain gaps, and increasing productivity and competitiveness; improving our business environment by, among others, working to increase our rankings based on competitiveness indicators such as the WEF GCR; and, reducing the cost of doing business. In these, the DTI assigned the National Competitiveness Council (NCC) to spearhead the process under a public-private partnership approach. Seven of the 10 NCC Working Groups are working closely on improving transparency and governance such as simplifying government transactions like acquiring business permits and licenses, simplifying customs transactions through the National Single Window, and an integrated, on-line business registration system or the Philippine Business Registry.

On the other hand, the Industry Development Program (IDP) of the DTI-BOI was launched in January 2012 to forge strategic partnerships with industry stakeholders, particularly, the private sector for the crafting of sectoral roadmaps that would contain among others, the industry’s vision, goals/targets, and strategies for the short, medium, and long term growth of their industries and the required interventions from government to reach the industry’s goals/targets. The roadmaps will help government identify critical supply chain gaps that will move industries up the value chain or allow deeper participation in the global supply chain. These sectoral roadmaps are developed through the lens of competitiveness and are the building blocks of the Manufacturing Industry Roadmap (MIR) and the Comprehensive National Industrial Strategy (CNIS).

Intensive Communication to Stakeholders aims to raise awareness & promote proper knowledge of the AEC & PH commitments (Blueprint and FTAs) under it; increase awareness & understanding of DTI initiatives (Industry Roadmaps, IPP, Competitiveness, Trade Negotiation Agenda, Legislative Agenda, Policy Reforms) for AEC preparedness; foster dialogue & obtain insights/ideas promoting closer public & private sector collaboration in the implementation of PH AEC commitments; mobilize support, integrate & harmonize public-private efforts toward taking full advantage of opportunities under the AEC; and, provide guidance & support for industries to ably address the challenges and opportunities of the AEC.

Moreover, the DTI developed and implemented a unified industry development and international trade strategy framework that rests on three process pillars:

- Stakeholder engagement in trade policymaking – One Country, One Voice;
- Expanding and building capacity of our trade policy research institutions – One Country, One Network; and,
- Enhanced inter-agency cooperation on trade policy – One Country, One Team.

Under these three pillars, the DTI—together with civil society and business support organizations (including the PCCI)—has been undertaking national and regional consultation sessions on various issues (e.g. PJEPA review and impact of possible PH-EU FTA) and developed a Code of Conduct for Public Consultations.

The DTI also signed a memorandum of agreement with the Philippine Institute for Development Studies for convening and expanding the Trade and Industry Policy Research Network currently consisting of 12 academic research institutions. This network has completed the impact study on a possible FTA negotiation; and has presented this in a public consultation workshop. In addition, it provides technical support for the industry roadmap project.

These pillars are supported by advocacy and communications initiatives and projects such as the Doing Business in Free Trade Areas (DBFTA), which was launched in 2010. The DBFTA

generates awareness and propagates knowledge on FTA rules and how exporters can take advantage of these agreements. One of the more popular modules of our DBFTA continues to be the Doing Business in the ASEAN Economic Community.

All these plans and processes—the roadmaps, the three pillars, and the DBFTA—are integrated into DTI's main trade policy document, the Philippine Export Development Plan or PEDP. The DTI has already started work to assess the implementation of 2011-2013 PEDP and to draft the 2014-2016 PEDP, which will have a heavy focus on the AEC both as a market and production base.

Q. How would you describe the Philippines' participation or role in the AEC in a single word?

- A.** Complementation. The central pillar of the AEC is the establishment of a single market and production base that can compete effectively in the production, manufacture and delivery of goods and services needed by our domestic markets and the global economy.

Complementation – which involves closer cooperation and collaboration with our ASEAN partners – is the key to a successful, thriving and competitive ASEAN Economic Community.

Q. What agency oversees and coordinates all initiatives on the PH strategy for AEC?

- A.** The Committee for ASEAN Economic Community (CAEC) is the inter-agency body that coordinates the formulation and implementation of policies related to PH-ASEAN trade and economic engagements, including the PH Strategies for AEC. The CAEC is chaired by the DTI with 16 member agencies.

The CAEC, was created under Administrative Order 20 signed by His Excellency President Benigno S. Aquino III in 06 September 2011.

The PH Strategies for AEC are **(1) Compliance** with commitments (PH & ASEAN); **(2) Enhancement of competitiveness**; and **(3) Intensive communication** with stakeholders.

Corollary to its mandate, the CAEC collaborates with the ASEAN Business Advisory Council (ABAC). The ABAC, on the other hand, was formed by ASEAN Leaders at the 7th ASEAN Summit and launched in April 2003. ABAC provides private sector feedback and guidance to boost ASEAN's efforts towards economic integration, identifies priority areas for consideration by the ASEAN Leaders, and provides policy recommendations to the ASEAN Leaders.

The ABAC represents the Philippines in the Regional ASEAN BAC.