

CHAPTER II

ASEAN Economic Community (AEC)

A. AEC background

The ASEAN Economic Community (AEC) is a concept that began to be used in the Declaration of ASEAN Concord II (Bali Concord II) Bali, October 2003. The AEC is one of the pillars of the realization of ASEAN vision 2020, together with ASEAN Security Community and ASEAN Socio-Cultural Community. AEC is the ultimate goal of economic integration designed within ASEAN Vision 2020.

"To create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, service, investment, skilled labor, and a free flow of capital, equitable economic, development and reduced, poverty and socio-economic disparities in year 2020."¹

The fundamental thing of the AEC 2015 is the desire of ASEAN leaders to create an integrated regional trading center as a commitment to create and enhance ASEAN community development in facing global challenges.

The concept of AEC is based on 4 main pillars:

- a. *Free movement of goods and services.* This concept allows the seizure of goods and services without any obstacles (import duties, tariffs, quotas),

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which is an advanced form of free trade area (as AFTA) by removing all remaining trade barriers.

- b. *Freedom of movement skilled and talented labors.* This concept is intended to encourage the mobility of labor in accordance with the market demands and the opportunity to each worker to find the best job in accordance with the qualifications they have.
- c. *Freedom of establishment and provision of services and mutual recognition of diplomas.* This concept ensures every citizen of ASEAN will be free to open the practice of service in every region of ASEAN without any discrimination of citizenship.
- d. *Free movement of capital.* This concept will ensure that capital or capital will be able to move freely among ASEAN countries, which theoretically allows for free and efficient investment.²

The establishment of the AEC cannot be separated from the increasing economic cooperation between countries in ASEAN. Recorded since 2003, intra-ASEAN trade has been steadily increasing in volume. This has become a trigger for closer economic integration among ASEAN countries. In addition, the formation of AEC is due to external and internal dynamics.

²Widyahartanto, Bob. Dari AFTA menuju Komunitas ASEAN. <http://www2.kompas.com/kompascetak/0711/23/opini/4017526.htm>, accessed on 29 December 2014

a. External dynamics

1. There is a trend of global strategic environment change that requires countries in the world to always improve their competitiveness.
2. At the regional level, there is a movement towards the integration of economic forces based on a single market and integrated single production.
3. The emergence of China and India as a world economic power that changed the architecture of world trade, especially in East Asia.

b. Internal dynamics

1. The market potential is quite large.
2. The growth of economic cooperation is still quite low compared to its potential.
3. Implementation of AFTA, AFAS, and AIA is still low (30%)³

The establishment of AEC 2015 aims to make the ASEAN region more stable, prosperous and highly competitive, where there is freedom of goods, services, investment, capital, equitable economic development and reduce poverty and socio-economic disparities by 2015.

B. AEC Making Process

At the 2nd ASEAN Summit on December 15, 1997 in Kuala Lumpur, Malaysia the ASEAN leaders endorsed the ASEAN Vision 2020 by creating a stable, prosperous and stable

³ Badan Pengkajian dan Pengembangan Kebijakan Kementerian Luar Negeri Republik Indonesia (BPPK Kemenlu RI). "AEC Blueprint: Tindakan dan Kesiapan Indonesia menuju implementasi AEC 2015",

ASEAN economic region characterized by the flow of goods, services and services free trade and services, freer capital traffic flows, ease of movement or free labor migration and equitable economic development and reducing poverty and socio-economic disparities.

Subsequently followed by the 6th ASEAN Summit on 16 December 1998 in Hanoi, Vietnam, the ASEAN leaders endorsed the Hanoi Action Plan which is the first step towards realizing the goal of the 2020 ASEAN vision. This Action Plan has a 6 years time limit from 1999 to 2004.

At the 7th ASEAN Summit on 5 November 2001 in Bandar Seri Begawan, Brunei Darussalam agreed to set up a Roadmap of Integration of ASEAN (RIA) to map out important milestones to be achieved following specific steps and timetable. Furthermore, at the 9th ASEAN Summit in Bali in 2003 which approved the establishment of ASEAN Community consisting of three pillars namely, ASEAN Security Community, ASEAN Economic Community, and ASEAN Socio-Cultural Community. The establishment of ASEAN Commitment is part of ASEAN's effort to further strengthen ASEAN's integration. In addition, it is also an ASEAN effort to adjust the way of view to be more open in discussing the domestic problems that affect the region without abandoning the main principles of ASEAN that is mutual respect, not interfere in domestic affairs, consensus, dialogue, and consultation.⁴

During the 10th ASEAN Summit in Vientiane, Laos in 2004, the ASEAN Community Concept progressed with the approval of Vientiane Action Program (VAP) 2004-2010 which is a

⁴ Kementerian Perdagangan Republik Indonesia(Kemendag-RI), *"Menuju ASEAN Economic Community 2015"*, (Kemendag-RI, Jakarta, 2010)

strategy and work program to realize ASEAN Vision. Under the program, the High Level Taskforce (HLTF) is authorized to conduct evaluations and make recommendations in realizing ASEAN as a single market and production base, which is an implementation program for the next 6 years as well as a continuation of HPA to realize the final goal of the ASEAN Vision 2020 and the Declaration Bali Concord-II.⁵

The achievement of ASEAN Community strengthened with the signing of "ASEAN Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015" by ASEAN leaders at the 12th ASEAN Summit in Cebu, Philippines, on January 13, 2007. ASEAN leaders also agreed to accelerate the formation ASEAN Economic Community from 2020 to 2015.

To accelerate the acceleration of economic integration, ASEAN compiled ASEAN Charter as "legal paying" which became the basis of commitment to increase and encourage cooperation among ASEAN member countries in Southeast Asia region. The Charter also contains principles that all ASEAN members must adhere to in achieving the integration objectives in the ASEAN region. The birth of the ASEAN Charter has been started since the launch of the Vientiane Action Program (VAP) at the 10th ASEAN Summit in Vientiane, Laos in 2004 / 12th ASEAN Summit in Cebu, Philippines in 2007 has established High-Level Task Force (HLTF) on the ASEAN charter in charge of formulating the ASEAN charter manuscript by taking into account the recommendations of the Eminent Person Group (EPG) on the ASEAN

⁵ "Memahami Piagam ASEAN dan Cetak Biru Masyarakat Ekonomi ASEAN".

Charter.⁶ The draft of the ASEAN Charter was subsequently signed by ASEAN countries / governments at the 13th Summit in Singapore, 20 November 2007. This ASEAN Charter shall become effective for all ASEAN Member States on December 15, 2008.⁷

C. ASEAN Economic Community (AEC) Blueprint

The ASEAN Economic Ministers Meeting, held in August 2006 in Kuala Lumpur, Malaysia, agreed to develop the ASEAN Economic Community 2015 Blueprint which is a guide for the realization of the AEC. AEC 2015 blueprint is a guideline for ASEAN Member States to achieve AEC 2015 integration, in which each State is obliged to implement commitments in the blueprint. AEC 2015 blueprint contains four main frameworks:⁸

1. ASEAN as a single market and an international production base with free flow elements of goods, services, investment, educated labor and a more free flow of capital
2. ASEAN as a region with high economic competitiveness, with elements of competition rules, consumer protection, intellectual property rights, infrastructure mining, taxation, and e-commerce

⁶ Memahami piagam ASEAN dan Cetak Biru Masyarakat Ekonomi ASEAN <http://asianfarmers.org/wpcontent/uploads/2008/07/indonesia-bahasa.pdf> accessed on 30 December 2014.

⁷ "Ali Alatas, "Piagam ASEAN sebagai Landasan Hukum dan Norma Kerjasama ASEAN". Seminar Nasional dalam rangka Hari ASEAN ke-39, Deplu, Jakarta, 2006, page. 2.

⁸ "ASEAN Economic Community Blueprint Dibahas di Bali", <http://plinplan.com/keuangan/31942/2008/05/02/asean-economic-community-blueprint-dibahas-di-bali/>, accessed on 28 Desember 2014

3. ASEAN as an area with equitable economic development with elements of small and medium enterprise development and ASEAN integration initiatives for CLMV Countries (Columbia, Laos, Myanmar, and Vietnam) and
4. ASEAN as a region fully integrated with the global economy with a coherent element of approach in economic relations outside the region, and increasing participation in global production networks.

The declaration on the ASEAN Economic Community Blueprint, signed on November 20, 2007, contains a strategic schedule for each of the agreed pillars with time arcs divided into four phases, namely 2008-2009, 2010-2011, 2012-2013 and 2014- 2015. The signing of the AEC 2015 blueprint was held with the signing of the ASEAN charter. One of the main topics discussed deeply by ministers and the ASEAN ministers' meeting of economies held in August 2006 in Kuala Lumpur, Malaysia is the mechanism of the ASEAN Economic Community (AEC) Scorecard. This mechanism aims to enforce the discipline of members in implementing the AEC print, to measure the achievement of the AEC 2015, as well as a tool for public communication on the progress and obstacles of ASEAN in realizing the AEC 2015. The various steps adopted by ASEAN based on the time frame specified in the AEC blueprint are assessed in this scorecard, both as a group (ASEAN as a whole) as well as by individual Member States (individually). Because the scorecard is an instrument to measure progress and become a window for various parties to assess the seriousness of ASEAN.

Ministers agreed to make improvements to the appraisal system, such as the specificity of the steps in AEC 2015 (specificity), accurate assessments through checks and rechecks to individual members as well as to the ASEAN working committees and working groups that

address specific issues, as well as the possibility of independent assessments (referred to as Track-2 which distinguishes them from formal processes at government level known as Track-1). The ministers agreed that the AEC Scorecard will be reported by the ASEAN Economic Community Council to the ASEAN leaders at the KRR beginning October 2009. In order to monitor the progress of the AEC implementation, an ASEAN baseline report (ABR) was prepared as a Scorecard with key performance indicators to be reported each year by the ASEAN Secretary-General to the Ministers and Heads of State / Leaders of ASEAN Countries. In addition to the AEC scorecard, the ASEAN Secretariat also explains the latest development and preparation of the AEC Communication Plan.⁹

The AEC Communication Plan is intended to enhance stakeholder awareness of the AEC's initiative and to get feedback and support from them in realizing the AEC. The AEC Communication Plan includes information on the ten benefits of AEC, AEC Media Kits, Frequently Asked Questions, testimony or success stories/feature articles and more. Through the AEC Communication Plan, all ASEAN sector agencies, the private sector, the central and regional governments of ASEAN, universities, and NGOs can and should be actively involved.

D. AEC Development Level

The progress of the AEC creation process is detected with the ASEAN Trade in Goods Agreement (ATIGA) whose scheme is complemented by liberalization and trade facilities. In producing its products, producers in ASEAN will be given a simpler product registration

⁹ Business News, Konsep Final Cetak Biru AEC 2015 Disepakati, 25 Agustus 2007

procedure to ensure more efficient production time. The ASEAN Trade in Goods Agreement (ATIGA), signed on 29 February 2009, integrates all ASEAN initiatives relating to trade in goods into a comprehensive framework, ensuring synergies and consistency among initiatives. ATIGA will increase transparency, certainty and improve the AFTA-rules-based system which is very important for the ASEAN business community.¹⁰

The ASEAN Trade in Goods Agreement (ATIGA) is a codification of the entire ASEAN Agreement on liberalizing and facilitating trade in goods. As such, ATIGA is a replacement for the CEPT Agreement as well as the perfecting of the ASEAN agreement in the comprehensive and integrative trade in goods compliant with the ASEAN Economic Community (AEC) Blueprint deal with the movement of goods flows as one of the elements of a single market and regional production base. The objective and agreement are to achieve the free flow of goods in ASEAN as one of the main means to establish a single market and production base for deeper economic integration of the region towards the realization of the AEC by 2015.

ATIGA is also equipped with major commitments that all member countries must comply with, including the reduction and elimination of tariffs. The elimination of all intra-ASEAN products, except for products included in the Sensitive List (SL) and Highly Sensitive List (HSL) categories, is conducted as per the commitments specified in the CEPT-AFTA agreement and outlined in The Roadmap for Integration of ASEAN (RIA) in 2010 for ASEAN-6 and 2015 for CMLV and competition of post production tariff numbers of each member country included in

¹⁰ ATIGA dilengkapi dengan liberalisasi dan fasilitas perdagangan, ATIGA merupakan prestasi besar terhadap pembentukan sebuah pasar tunggal dan basis produksi di bawah Masyarakat Ekonomi ASEAN 2015

the category of Inclusive List (IL), SL, HSL, Temporary Exclusive List (TEL)¹¹ and the General Expectation List (GEL) in 2009.

The process of traffic of service goods in ASEAN and nationally will be determined through the mechanism of ASEAN Single Window (ASW) and National Single Window (NSW). This mechanism is data processing and trading information will be single and synchronized in order to avoid overlap in processing the data. This mechanism will also apply a single decision-making process in the granting of customs clearance and permit the release of products to be marketed.

Another sign of AEC 2015's progress is a free flow of services between the ASEAN Member States. This free flow of services is realized through GATS Plus and focuses on key integration sectors. Sector-sector of this main integration among others consists of 12 sectors, namely; agricultural products, automotive, e-ASEAN, electronics, fisheries, healthcare, textile and equipment, wood-based products, rubber-based products, tourism, air travel, and logistics. Completion of 5 service trading commitments under AFAS, and the realization of 4 Mutual Recognition Agreements (MRA) including; engineering and nursing services (in 2005), and architectural and survey qualifications.

In an effort to create ASEAN as a highly competitive capital investment area to attract Foreign Direct Investment (FDI) flows from investors within and within ASEAN, it can be done by developing ASEAN Comprehensive Investment Agreement (ACIA). ACIA signed on

¹¹ Hadi Soesantro, "Dari Perdagangan Bebas Menjadi Pasar Tunggal ASEAN", AnalisisCSIS Vol.36, 2007, hal 311.

February 26, 2009, in Cha-am, Thailand. ACIA is essentially an amalgamation between the ASEAN Investment Agreement (AIA) and the ASEAN Investment Guarantee Agreement (IGA) so that ASEAN has a more comprehensive, forward-looking investment agreement and the application of trade rules in accordance with international best practise so as to increase confidence in investors investing in ASEAN.

Furthermore, in the official document containing advice for ASEAN economic integration attached to the Bali Concord II declaration recommends the ASEAN-X formula in the points of investment sector and trade in services. Even at the beginning of the recommendation document, it is explicitly stated that by recognizing not all ASEAN members can fulfill the recommended schedule, it is recommended that there be concessions in the implementation of the economic program so that the ready countries can start first.

In addition to the ASEAN-X formula, it can also be a two-x approach where two ASEAN members ready to integrate within a particular sector can run it first and other members can follow later. In this case, it means that the following States shall accept the terms agreed upon by the two former members. However, it can hamper integration because of the possibility that existing conditions may not necessarily attract ASEAN members who are already familiar with the consensus principle that may hamper the integration process. In addition, due to the slow integration process, it is feared that dissatisfied member countries will regulate trade arrangements with other more profitable State partners.