

ASEAN INTEGRATION: Challenges, Implications

Gilberto Llanto

Philippine Institute for Development Studies

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Outline

- ASEAN integration: vision
- Four pillars; priority measures
- Implications on Philippine industries
- Implications on the labor market
- Challenges
- Recommendations

AEC Vision

Single ASEAN market and production base

Integration to address:

- Core issues: Small market, transactions costs, policy consistency and stability
- Domestic issues: especially related to priority integration sectors

ASEAN ECONOMIC COMMUNITY

SINGLE MARKET AND PRODUCTION BASE

Free flow of goods

Free flow of services

Free flow of investment

Freer flow of capital

Free flow of skilled labor

Priority Integration Sectors

Food, Agriculture and Forestry

COMPETITIVE ECONOMIC REGION

Competition policy

Consumer Protection

Intellectual Property Rights

Infrastructure development

Taxation

e-Commerce

EQUITABLE ECONOMIC DEVELOPMENT

SME development

Initiative for ASEAN Integration (IAI)

INTEGRATION INTO THE GLOBAL ECONOMY

Coherent Approach towards External Economic Relations

Enhanced participation in global supply networks

Human Resource Development

Research and Development


Take away messages

- AEC 2015
 - ❑ Free flow of goods, investment, & services, movement of skilled labor, freer flow of capital
 - ❑ Removal of tariff & non-tariff barriers, restrictions & regulations affecting services & investment, skilled labor, harmonization & standardization, trade facilitation, transport connectivity, etc

- ❑ Consumers: biggest winners
- ❑ Businesses including SMEs: winners, losers
- Need critical reforms
 - ❑ Policy, institutional & regulatory environment
 - ❑ Businesses to move up the value chain


Priority AEC Measures for 2015

- Tariffs and NTMs
- Trade facilitation
- Services liberalization and domestic reforms
- Investment liberalization and facilitation
- Connectivity and transport facilitation



Central and fundamental elements of AEC

- SME development
- Initiative for ASEAN Integration
- RCEP



Leaders' initiatives for equitable growth



East Asia: an integral partner

Many important AEC measures beyond 2015

- standards and conformance
- capital market development and financial market integration
- MRAs on professional services and labor mobility
- ICT
- energy
- IPR
- competition policy
- agriculture
- others (e.g., consumer protection and taxation)

Advancing Free Flow of Goods

Initiatives

Status

- AFTA
 - Non-tariff barriers
 - Standards
 - Trade Facilitation
 - Customs
- 0% CEPT tariff for ASEAN-6 from 12.7% in 1993; for all ASEAN countries: average of 1.95% from 4.43% in 2000.
 - Enhanced legal agreements: ASEAN Trade in Goods Agreement (ATIGA) and ASEAN Comprehensive Investment Agreement (ACIA)
 - ASEAN Framework Agreement on MRAs ratified
 - “ASEAN Single Window” (to facilitate customs clearance/ processing)

Free Flow of
Goods



Advancing Free Flow of Services

Initiatives

- AFAS (ASEAN Framework Agreement on Services (AFAS))

Status

- Progressive liberalization through successive rounds of negotiations until 2015, with foreign equity up to 70%
- Eight (8) packages of commitments signed; work underway to implement commitments with higher levels of liberalization in various sectors (e.g., tourism, logistics, e-ASEAN)
- Need to focus on trade in services facilitation

Free Flow of
Services



Trade in Services

- Services is one of our strengths (competitive advantage).
- In 2011, the Philippines ranked 27th among exporters of services and 36th among importers of services.
- Fastest growing sector in PH economy: 55.8% of GDP for Q1 of 2013; 52.6% of labor force.
- Under the ASEAN Framework Agreement on Services (AFAS), successive rounds of negotiations to liberalize trade in services with increasingly higher levels of commitments.
- To date, 8 packages of commitments have been made, to finalize the 9th package soon
- Cover liberalization of business services, professional services, construction, distribution, education, environmental services, healthcare, maritime transport, telecommunications, and tourism.

Advancing Free Flow of Labor

Initiatives

Status

- Mutual Recognition Arrangement (MRA)
 - ASEAN Agreement on Movement of Natural Persons
- MRAs for seven professional services have been completed
 - Engineering and architect MRAs are currently being implemented while arrangements are underway to implement the surveying, accounting, medical, dental, and nursing MRAs
 - MPN Agreement being negotiated

Free Flow of
Labor



Encouraging Freer Flow of Capital

Initiatives

Status

ASEAN Comprehensive Investment Agreement

- Roadmap for Monetary and Financial Integration of ASEAN
 - Country blueprints and milestones being developed to enhance financial market integration (financial services, capital market, capital account lib)
 - Capital Market Implementation Plan has been developed to guide integration of equities markets
 - Launch of ASEAN Exchanges (linkage of ASEAN stock markets)
- ASEAN Capital Market Forum (ACMF)
 - Establishment of US\$700 million Credit Guarantee and Investment Facility to enhance local currency bond markets
- Asian Bond Markets Initiative (ABMI)

Freer Flow of
Capital



Implications

- Market access opportunities for Filipino firms to expand
 - ❑ Filipino companies can sell to 600 million people
- Investment liberalization, facilitation, promotion, protection, national treatment, most favoured nation treatment
 - ❑ Can own 100% of companies in other ASEAN countries
 - ❑ Should be able to own 70% (maybe more) of services companies
 - ❑ Access to capital markets, repatriation of profits & dividends
 - ❑ Should be treated equally as local companies/people
 - ❑ Likely to be many non-ASEAN companies looking for entry
- Labor mobility: visa, economic test
 - ❑ May be able to bring in workers easier (complementary to services)
- Transport & logistics, trade facilitation, product standardization & conformance: lower transaction costs
 - ❑ Improved administrative processes (customs, mutual recognition)
 - ❑ Easier/less costly movement goods

Challenges & threats

- Competition from new entrants to the market
 - ❑ Bigger with more financial capability; better technical products/ service systems; competitive
- How to manage short term adjustment costs?
 - ❑ **Winners: firms** that gain from market expansion & improved competitiveness, **workers** who get employed in growing sectors, **government** with higher revenue, **consumers**, wider choice, lower prices
 - ❑ **Losers: inefficient, uncompetitive sectors**

Is SME survival at risk?

- ❑ Lack of access to finance, technology, skilled labor, inability to comply with standards
- ❑ Weak linkages to high tech sectors
- ❑ Penetrating export market a major challenge

Recommendations

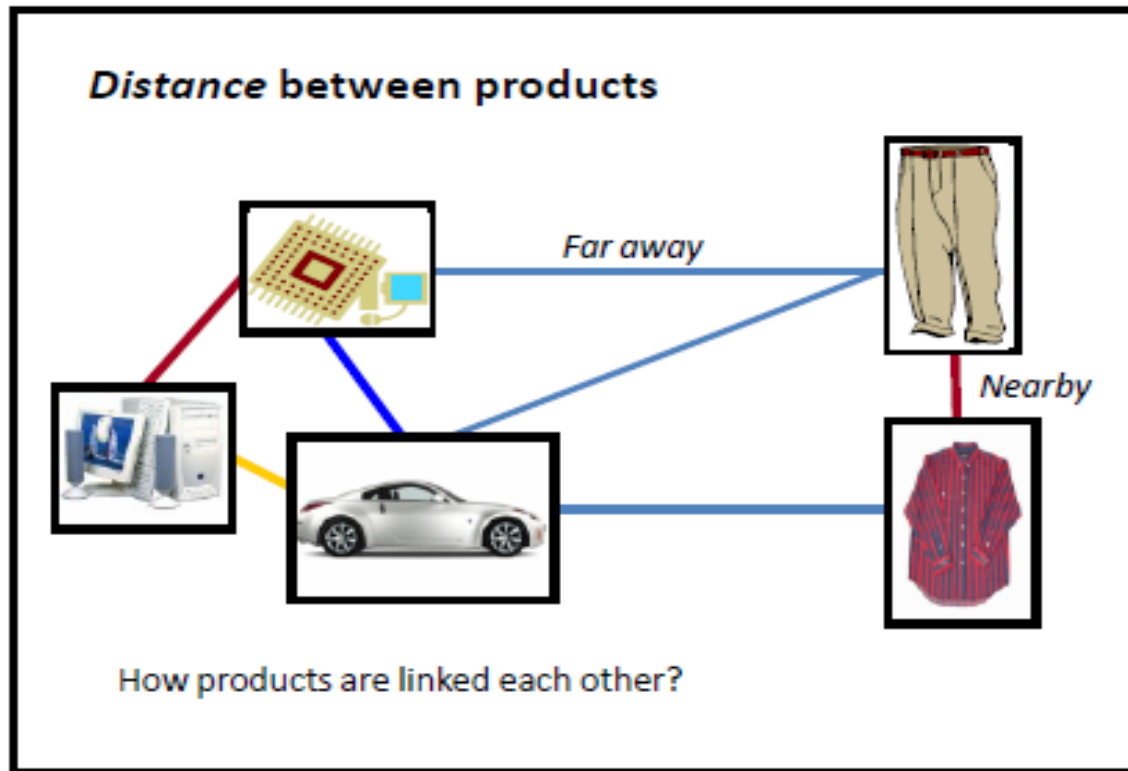
- Policy, institutional, regulatory reforms
- Industrial upgrading and structural transformation
- Human resource development
- Hard and soft infrastructure
- Government coordination, public-private dialogue, (identifying sector-specific constraints), e.g., roads, ports, phyto-sanitary regulations, etc.

Usui (2012) from Hausmann

"Lego" and Development

Products			
Capabilities			
Country			

Usui (2012) from Hausmann



Thank you!

