

▶ Chapter 1

## ASEAN, Aiming to Create an Economic Community (AEC)

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### Key Points

- The ASEAN Economic Community (AEC), which ASEAN will establish in 2015, is proceeding according to a blueprint with tasks towards establishment. The blueprint is a comprehensive action program for 2008-2015, and has the four characteristics (targets) of: 1) a single market and production base; 2) a competitive economic region; 3) equitable economic development; and 4) integration into the global economy.
- The AEC has a far broader target range than economic partnership agreements (EPAs), as in addition to building infrastructure and integrating in the areas of transport and energy, there is engagement in reducing disparities. The rate of progress in Phase II (2008-2011) as announced in March 2012 was just 67.5%, and it will be difficult to achieve 100% by 2015.
- The Japanese government should promote the reduction of intra-regional disparities through improving distribution infrastructure in the CLM countries (Cambodia, Laos, and Myanmar), which are the least developed countries in the region, and should provide lateral support for the building of the AEC. Also, while Japanese businesses take advantage of the liberalization/facilitation of trade and strengthen operations in the ASEAN region, it is necessary to put effort into reinforcing the cultivation of human resources and research and development, and to contribute to the economic integration of ASEAN as an important location of business deployment.

The work towards founding the AEC is behind  
(Scorecard evaluation with respect to the blueprint)

	Phase I	Phase II	Phases I and II
Single market and production base	93.8%	49.1%	65.9%
Competitive economic region	68.7%	67.4%	67.9%
Equitable economic development	100.0%	55.5%	66.7%
Integration into the global economy	100.0%	77.8%	85.7%
Overall	86.7%	55.8%	67.5%

Source: ASEAN Economic Community Scorecard: Charting Progress Towards Regional Economic Integration, Phase I (2008—2009) and Phase II (2010—2011), March 2012

## 1. What is the ASEAN Economic Community?

### 1.1 From Vision 2020 to the Vientiane Action Programme

ASEAN is aiming to create a community by 2015. The ASEAN Community is made up of three communities: a Political-Security Community, an Economic Community, and a Socio-Cultural Community. It was the ASEAN Vision 2020 that first mapped out the concept of ASEAN unification in three areas.

The ASEAN Vision 2020, which was adopted at the Second Informal Summit of ASEAN in December 1997, cited “A Partnership in Dynamic Development” as the goal in the area of the economy for 2020, presenting the idea of achieving the creation of “a stable, prosperous and highly competitive ASEAN Economic Region” realizing “a free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities.”

It was the Declaration of ASEAN Concord II, adopted at the Ninth ASEAN Summit in October 2003, which upheld an ASEAN Community made up of three communities as a goal. This declaration clarified the target of an ASEAN Community made up of an ASEAN Security Community (ASC), an ASEAN Economic Community (AEC), and an ASEAN Socio-Cultural Community (ASCC). By creating the AEC, ASEAN would become “a single market and production base, turning the diversity that characterises the region into opportunities... making the ASEAN a more dynamic and stronger segment of the global supply chain.”

The Vientiane Action Programme (VAP), which is an action plan towards creating a community, was adopted at the 10<sup>th</sup> ASEAN Summit in November 2004, and the Framework Agreement for the Integration of Priority Sectors was also signed. The VAP targets 2004-2010. It clarifies a strategic objective of three communities making up an ASEAN Community with a theme of being “towards shared prosperity and destiny in an integrated, peaceful and caring ASEAN community,” and presents an action plan for achieving this objective.

### 1.2 The AEC Blueprint and Master Plan on ASEAN Connectivity

The VAP was a plan until 2010, and the Framework Agreement for the Integration of Priority Sectors only targeted 12 priority sectors and was not comprehensive. Consequently, it was the AEC Blueprint that was created as a comprehensive action plan covering all sectors until 2015.

The blueprint was adopted in November 2007, and cites four characteristics of the AEC: 1) a single market and production base, 2) a competitive region, 3) equitable economic development, and 4) integration into the global economy. Also, 17 items were cited as core elements ranging from the free flow of goods to participation in the global supply network. The blueprint is made up of a

presentation of measures and a schedule for each core element of the four characteristics, to which is added implementation mechanisms and a strategic schedule (Figure 1). The strategic schedule consists of four stages from phase 1 in 2008-2009 to phase 4 from 2014-2015. The core of the strategic schedule is the single market and production base, which takes up 22 of the 35 pages.

Figure 1: The makeup of the economic community blueprint

1. Introduction	(Core Elements)
2. Characteristics and Elements of AEC	
A. Single Market and Production Base	① Free flow of goods, ② Free flow of services, ③ Free flow of investment, ④ Freer flow of capital, ⑤ Free flow of skilled labor, ⑥ Priority integration sectors, and ⑦ Food, agriculture, and forestry
B. Competitive Economic Region	① Competition policy, ② Consumer protection, ③ Intellectual property rights, ④ Infrastructure development, ⑤ Taxation, and ⑥ E-commerce
C. Equitable Economic Development	① SME development and ② Initiative for ASEAN integration
D. Integration into the Global Economy	① External economic relations and ② Participation in global supply networks
3. Implementation Strategic Schedule	Implementation Mechanism, Resources, Communications, and Review

Source: Produced from the ASEAN Community Blueprint from the ASEAN Secretariat

The Master Plan on ASEAN Connectivity (MPAC) was adopted at the 17<sup>th</sup> ASEAN Summit in October 2010. The MPAC strengthens and complements the AEC Blueprint. The goals of the MPAC are: 1) to enhance integration and cooperation of ASEAN; 2) to enhance global competitiveness of ASEAN through stronger production networks; 3) to enhance the well-being and livelihood of the ASEAN peoples; 4) to enhance rules and good governance for ASEAN; 5) to enhance connections to economic centers both within the ASEAN region and within individual Member States and narrow the development gaps; 6) to enhance local economic and social development; 7) to enhance efforts to tackle climate change as well as promote sustainable development; and 8) to address the negative impacts of Connectivity.

The three types of connectivity are: 1) physical connectivity (transport, ICT, energy network); 2) institutional connectivity (agreements, legal and institutional mechanisms); and 3) people-to-people connectivity (education, cultural exchanges, tourism). To promote these, 19 strategies (projects) are presented.

### 1.3 What is the ASEAN Economic Community: Market integration and the promotion of development

The AEC is configured from four characteristics (pillars), but its subject areas can be organized into the following five sectors: 1) market integration for the free and smooth flow of trade, investment, services, capital, and skilled labor; 2) integration and cooperation (institutions and infrastructure) in transport, energy, ITC, and the like; 3) a common policy for consumer protection, competition policy, intellectual property rights, and the like; 4) reducing disparities; and 5) FTAs outside of ASEAN. Infrastructure and reducing disparities are also development policies. The feature of market integration is similar to the EPAs that the Japanese government is signing, but the target sectors are far wider ranging.

The foundation is market integration. AFTA was mostly realized in 2010, and the free flow of goods progressed to a substantial level. However, only goods satisfying the rules of origin are targeted, and it is not the case that all goods can flow freely. Mutual acceptance of standards has only been for an extremely limited range of items. There is the goal of eliminating non-tariff barriers, but as discussed below, achievement by 2015 is doubtful. The opening up of government procurement is completely excluded.

The flow of services is to be liberalized for all fields (sectors), but equity participation limits remain in Mode 3 (flow of commercial presence), and it is not clear whether implementation will be to the degree of Mode 4 (flow of service providers). Minimal restrictions will remain for investment, and the flow of people is limited to skilled labor. There is no goal of introducing common external tariffs or a common currency.

Regional integration that achieves the free flow of goods, services, capital, and people is referred to as a common market, but the AEC is incomplete as a common market, and can be considered to be an “FTA Plus.” Indeed, its contents are close to the Economic Partnership Agreement (EPA) that the Japanese government has signed with ASEAN.

The greatest difference in the principles of integration is that in the EU, national sovereignty is transferred to the EU in terms of market integration and currency integration, while ASEAN does not transfer national sovereignty and has a basis in non-interference in the domestic matters of other states. This is delaying progress in integration extending to domestic institutions and policies such as elimination of non-tariff barriers, liberalization of trade in services, and unification of rules.

Figure 2: Subject sectors of the ASEAN Economic Community (AEC) and other regional integration

	EU	AEC	EPA	FTA (narrow definition)
Abolition of tariffs	○	○	○	○
Common external tariffs	○	×	×	×
Elimination of non-tariff barriers	○	○	△	△
Liberalization of trade in services	○	○	△	×
Harmonization of rules/standards	○	△	△	×
Liberalization of the flow of people	○	△	△	×
Trade facilitation	○	○	○	△
Flow of investment	○	○	○	×
Flow of capital	○	△	△	×
Liberalization of government procurement	○	×	△	×
Protection of intellectual property rights	○	△	○	×
Competition policy	○	△	△	×
Cooperation	○	○	○	×
Common currency	○	×	×	×
Transfer of sovereignty	△	×	×	×

Note: A ○ indicates being included, a △ indicates being included in a limited fashion, and a × indicates not being included. However, these are not strict categorizations. Among FTAs, those signed by the US stipulate wide-ranging liberalization of trade in services, protection of intellectual property rights, and the like. Whether or not the AEC will be able to implement measures towards its goals is a large issue, and here it is supposed that this is achieved.

Source: Created by author

## 2. Implementation rate of 67.5% in Phase I and Phase II

### 2.1 What is the scorecard?

Two scorecards have been released evaluating the state of implementation of the AEC Blueprint. One targeting Phase I (2008-2009) was released in March 2010, and one targeting Phase II (2010-2011) as well as Phase I and Phase II together was released in March 2012.<sup>1</sup> In this paper, the 2012 scorecard is used.

The scorecard evaluates the state of implementation of measures based on reports by member countries. The ratio of implemented measures to all the measures to implement is expressed as a percentage, and the primary measures implemented (achievements) as well as measures that have not

<sup>1</sup> ASEAN Secretariat (2010a) and (2012).

been implemented (issues) are presented. Also, the state of implementation overall is evaluated for each member state by core element (primary sector).

The scorecard notes the following issues:

- ① The detailed implementation state by country and by sector is not known.
- ② The data is self-reported, and is not an objective third-party evaluation.
- ③ It is not known whether the measures are implemented on the ground in each country. Various measures are signed as an agreement in ASEAN meetings, ratified/brought into effect and made into law or policy domestically, and then implemented on the ground. However, measures are evaluated as having been implemented at the stage before implementation on the ground.
- ④ Measures are not weighted by importance. Reduction of tariffs, building infrastructure, holding seminars, and the like are treated as single measures.

However, the scorecard is the only public ASEAN document evaluating the state of implementation of the Blueprint, and it is realistic to evaluate the state of deployment of the AEC based on the scorecard, and supplementing with other documents such as the MPAC.

## 2.2 Scorecard evaluation

The implementation rate for all the measures in Phase I and Phase II is 67.5% (Figure 3). “Integration into the global economy” is high at 85.7%, but the other three areas stand at 66-67%. The implementation rates of “single market and production base,” and “competitive economic region” were high in Phase I, but lower in Phase II.

Figure 3: Implementation rate for measures in Phase I and Phase II

	Phase I	Phase II	Phases I & II
Single market and production base	93.8%	49.1%	65.9%
Competitive economic region	68.7%	67.4%	67.9%
Equitable economic development	100.0%	55.5%	66.7%
Integration into the global economy	100.0%	77.8%	85.7%
Overall	86.7%	55.8%	67.5%

Source: ASEAN Secretariat (2012)

Next, let us examine the situation by strategic objective. For “single market and production base,” the implementation rates for flow of goods, services, and investment are low at the 50% level (Figure 4). These are the most important sectors, and have a large number of measures. The implementation rate in Phase II is less than 50%, and it can be understood that as the level of

liberalization increases, implementation becomes more difficult.

For “competitive economic region,” the overall implementation rate is high, but for transport, which has the greatest number of measures, it is low at 53.8% (Figure 5). This is because the main contents of the measures for the sector of transport is signing/ratifying agreements and building infrastructure such as roads, and so the sector has many difficulties such as domestic coordination and fundraising. Consumer protection also has many measures and a low implementation rate. Taxation has only one measure (network of agreements on avoidance of double taxation), but it has not been implemented so the implementation rate is 0%.

For “equitable economic development,” the implementation rate for SMEs is on the low side, and external economic relations has the highest implementation rate since there has been progress in the signing of ASEAN+1 FTAs (Figure 6).

Figure 4: Implementation rates for single market and production base (Phases I and II)

	Implementation rate (# of measures)		Implementation rate (# of measures)
Flow of goods	57.1% (56)	Skilled labor	100.0% (1)
Services	53.5% (43)	Priority integration sectors	100.0% (29)
Investment	52.6% (19)	Food, agriculture, and forestry	68.4% (19)
Capital	100.0% (6)	Overall	65.9% (173)

Source: Same as Figure 3.

Figure 5: Implementation rates for competitive economic region (Phases I and II)

	Implementation rate (# of measures)		Implementation rate (# of measures)
Competition policy	100.0% (4)	Minerals	100.0% (8)
Consumer protection	63.6% (11)	ICT	100.0% (6)
Intellectual property rights	80.0% (5)	Taxation	0% (1)
Transport	53.8% (39)	E-commerce	100.0% (1)
Energy	66.7% (3)	Overall	67.9% (78)

Source: Same as Figure 3.

Figure 6: Implementation rates for equitable economic development (Phases I and II)

	Implementation rate (# of measures)		Implementation rate (# of measures)
SMEs	62.5% (8)	Initiative for ASEAN integration	75.0% (4)
Overall (equitable economic development)	66.7% (12)		
External economic relations	85.7% (14)		

Source: Same as Figure 3.

### 3. The state of progress in the primary sectors: Contents pertaining to “single market and production base”

#### 3.1 Free flow of goods

(Elimination of ASEAN-6 intraregional tariffs)

Intraregional tariffs for the ASEAN-6 were eliminated on January 1, 2010. AFTA, which began in 1993, achieved the lowering of tariffs to 0-5% (for the ASEAN-6) by 2002 as an initial goal, and eliminated tariffs as planned in January 2010. Tariffs were eliminated for 99.65% of all tariff lines, and the average intra-regional tariff rate for the ASEAN-6 dropped from 3.64% in 2000 to 0.05% at the end of 2011.<sup>2</sup> With the abolition of tariffs for the six countries constituting 90% of ASEAN intra-regional trade, it can be said that AFTA has nearly been realized. Tariffs will be eliminated for the remaining four CLMV countries by 2015 (a subset that is no more than 7% of items by tariff line by 2018). There are cases where AFTA is not regarded very highly, but it should be noted that the liberalization rate in AFTA for the leading six countries is higher than that in Japan’s EPAs.<sup>3</sup>

(Launch of ATIGA)

In Phase I, the Common Effective Preferential Tariff (CEPT) agreement, which was the institutional mechanism for implementing AFTA, was to be reviewed and a comprehensive agreement created, and so the ASEAN Trade in Good Agreement (ATIGA) was launched as planned. By contrast with the CEPT agreement, which comprised only 10 articles, ATIGA grew considerably in size to 11 chapters and 98 articles, its provisions also expanded and became more detailed, and new provisions were added such as for trade facilitation, customs, standards, sanitary and

<sup>2</sup> The ASEAN-6 lowered tariff rates to 0.5% by 2010 for sensitive items and highly sensitive items, and the plans is for Vietnam to lower rates to 0-5% by 2013, Laos and Myanmar by 2015, and Cambodia by 2017.

<sup>3</sup> The liberalization rate (ratio of items for which tariffs have been eliminated) of the ASEAN-6 by tariff line is 99.65%, while Japan’s EPAs are around 85%.

phytosanitary measures, trade remedy measures, and the like.<sup>4</sup>

(Elimination of non-tariff barriers)

The five countries of Singapore, Malaysia, Thailand, Indonesia, and Brunei were supposed to eliminate non-tariff barriers by 2010 and the Philippines by 2012. But according to the scorecard: 1) Malaysia and Thailand implemented the third round of a three-tranche elimination plan in 2011; 2) the non-tariff barrier database is being reviewed and updated; and 3) dialogue is being conducted to identify non-tariff barriers with industry groups in the areas of automobiles, electronics, and textiles. ATIGA stipulates for the ASEAN-5 an elimination of non-tariff barriers in three tranches by 2008, 2009, and 2010, for the Philippines in three tranches by 2010, 2011, and 2012, and for the CLMV countries in three tranches by 2013, 2014, and 2015 (Article 42). Thailand and Malaysia completed this elimination as planned, but there is no explanation for what the state of implementation is in the other three countries.

(Rules of origin)

The blueprint plans the improvement of the CEPT rules of origin, the simplification of issuance, and a review of the rules of origin of member countries. Already, 1) the 2009 revised product specific rules (PSR) have been approved, 2) the display of the FOB value in Form D, which is the AFTA certificate of origin, has been abolished, and 3) a pilot project for self-certification has been implemented (with Brunei, Malaysia, Singapore, and Thailand participating). Regarding number 3, a pilot project 2 (with Laos, Indonesia, and the Philippines participating) was signed in 2012. The MPAC cites 1) the facilitation of certificates of origin through electronic processing and the like (2012), and 2) harmonization of issuance procedures in each country (2012). It can be said that rules of origin are making steady progress.

(Trade facilitation and the Single Window)

A “Comprehensive Trade Facilitation Work Program” was established to simplify, harmonize, and standardize trade and customs procedures. A National Coordinating Committee on Trade Facilitation was founded, the ASEAN Trade Repository was developed, and trade facilitation was assessed at the country level. In the facilitation of customs procedures, the ASEAN Customs Declaration Document, the ASEAN Custom Transit System, ASEAN Cargo Processing Model, and measures for pre-arrival clearance and cargo release were implemented. However, a series of measures are cited as issues in the scorecard, and continue to be implemented as incomplete measures.

(Standards and mutual recognition)

A Good Manufacturing Practice (GMP) Mutual Recognition Agreement (MRA) proceeded for inspection of manufacturers of medicinal products, and an MRA for electronic and electrical

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<sup>4</sup> With regards to ATIGA, see Ishikawa (2009), pp. 44-67.

equipment (ASEAN EE MRA) was implemented. As a result, conformity assessment bodies were listed and approved, a number of standards and rules were harmonized in the priority integration sectors, and the domestic legislation of the ASEAN Cosmetic Directive was performed. As a result, a number of the primary measures in Phases I and II were implemented.

Issues in Phases I and II include; 1) establishing an MRA for processed food and automobiles; 2) establishing an ASEAN Medical Device Directive Agreement; and 3) approving and nationally legislating the ASEAN Regulatory Framework on Traditional Medicines and Health Supplements.

The MPAC lists actions including: 1) establishing common rules for standards and conformity assessment (2015); 2) introducing the ASEAN Conformity Mark (2015); 3) harmonizing national standards with international standards and develop ASEAN standards (2015); and accelerating the operationalization of MRAs for priority and selected items.

### 3.2 Services

(Promise to liberalize 80 sectors)

First is an explanation of the mechanisms for liberalizing trade in services in ASEAN.<sup>5</sup> This has been implemented through the ASEAN Framework Agreement on Services (AFAS), which was signed in December 1995. The liberalization negotiations proceeded through three years of rounds, and were held through the fifth round. Since the fifth round, it has been performed according to the plans and goals of the blueprint. The plan is to liberalize 128 subsectors by 2015.

In the blueprint, there are the goals of: 1) eliminate essentially all restrictions for Modes 1 (cross-border services) and 2 (consumption abroad); 2) set the foreign equity participation rate to 70% and remove other market access limitations for Mode 3 (cross-border commercial presence); and 3) determine the range of liberalization for national treatment limitations, mode 4 (cross-border service providers), and limitations in the horizontal commitments for each round. For Phase II, the plan is: 1) the liberalization of and an equity participation rate limit of 70% for four priority services sectors (air transport, e-ASEAN, healthcare, and tourism); 2) an equity participation rate limit of at least 51% for other sectors; and 3) the scheduling of liberalization commitments according to agreed parameters for national treatment limitations, Mode 4, and limitations in horizontal commitments.

(Mutual recognition of qualifications)

The Mutual Recognition Agreements (MRAs) signed at Economic Ministers Meetings are as follows: 1) Engineering Services (December 2005); 2) Nursing Services (December 2006); 3) Architectural Services (November 2007); 4) Framework Arrangement for the Mutual Recognition of Surveying Qualifications (November 2007); 5) Mutual Recognition Arrangement Framework on Accountancy Services (February 2009); 6) Medical Practitioners (February 2009); and 7) Dental

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<sup>5</sup> For details, see Sukegawa (2010) and ASEAN Secretariat (2009).

Practitioners (February 2009). According to the scorecard, the engineering and architectural MRAs have been implemented, and work towards implementation of the other MRAs is underway.

### 3.3 Investment

The goal is to achieve a free and open investment regime with only minimal restrictions by 2015. In the blueprint, the plan was to produce the ASEAN Comprehensive Investment Agreement (ACIA)<sup>6</sup> in Phase I and to reduce/eliminate investment restrictions and impediments in three phases, completing phase I in 2010 (2011 for Laos and Myanmar) and commencing phase II in the same year. According to the scorecard, the ACIA was ratified, but the reservation lists (table indicating the sectors for which liberalization is not implemented) have not been produced, with completion planned for the first quarter of 2012. The joint statement of the 2012 ASEAN Economic Ministers Meeting mentions the entry into force of ACIA on March 29 of the same year, and it is believed that the reservation lists were put in order as well. A modality for eliminating investment restrictions and impediments (method for furthering future negotiations) was created, and its cooperation towards promoting and facilitating investment is considered to have been strengthened.

### 3.4 Capital

The goal is to integrate capital markets and promote the flow of capital. Specifically, an action program is cited for: 1) harmonizing capital market standards (debt securities, disclosure of information, distribution rules, and the like); 2) cross-recognition of qualifications of market professionals; 3) flexibility in language and law for securities issuance; 4) withholding taxes for broadening the investor base in debt issuance; and 5) market-driven promotion of exchange and debt market linkages. An action program for each phase is not indicated. The scorecard notes that the marketing campaign for the ASEAN Exchanges Initiative began in 2011, and that the ASEAN Bond Market Development Scorecard was developed.<sup>7</sup> Also, it is stated that a Credit Guarantee and Investment Facility (CGIF) for development of local-currency bond markets was established in October 2011, and an agreement was signed for a \$485 million ASEAN Infrastructure Fund (AIF).

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<sup>6</sup> Regarding the ASEAN Comprehensive Investment Agreement (ACIA), see Ishikawa (2010), pp. 3-20.

<sup>7</sup> The ASEAN Exchanges is a securities market integration concept launched jointly by seven securities exchanges of Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam (Hanoi and Ho Chi Minh) in 2011. It began in 2012 with the three countries of Malaysia, Singapore, and Thailand, and the plan is for Indonesia and Vietnam to join in 2013. It is planned that 30 blue-chip stocks from each country will be selected, resulting in 210 stocks traded under the name ASEAN Stars.

#### 4. Will the ASEAN Economic Community be realized?

##### 4.1 The conditions in 2015.

The implementation rate through Phase II of the blueprint is 67.5%, which is considerably behind what was planned. In addition to the economic disparities and diversity of ASEAN, there are many issues such as the difficulty of domestic coordination, insufficient funds, and insufficient human resources. Although it was decided at the April 2012 Summit Meeting to redouble efforts towards the 2015 founding date, it will be difficult to reach 100% implementation by 2015. The completion date for a subset of targets including building infrastructure has been deferred to 2020.

(Single market and production base)

The ASEAN-6 have, as planned, eliminated intra-regional tariffs in 2010, and it is believed that tariff elimination approaching 100% will be achieved as planned for all ASEAN member countries (a subset of tariff lines for the CLMV countries are set for 2018). A system for changing tariff numbers has already been applied to rules of origin, the display of the FOB value in Form D has been eliminated, experimental introduction of self-certification has begun, and the like, which are improving the situation to more easily-used institutions. In the initial plan, non-tariff barriers were supposed to be abolished by 2012 for the ASEAN-6, but this is considerably behind schedule. It is thought that the situation is at the stage where an establishment for engagement towards eliminating non-tariff barriers such as through updating and completing a non-tariff barrier list using the latest international classification, creating guidelines such as quotas, and the like is possible by 2015. Governmental procurement has not been opened at all.

A national single window is being completed for the ASEAN-6. In ASEAN, for the seven non-CLM (Cambodia, Laos, and Myanmar) countries, an institutional framework and infrastructure aiming for operation at selected ports are being completed, and it is expected that operation will stall at the stage of starting for a subset thereof.

For trade in services, liberalization will occur in all fields in Mode 1 and Mode 2, but there remain doubts about whether the target of a 70% equity participation rate in Mode 3 will be achieved in all sectors. It appears that the work is lagging in Mode 4, and it is unclear to what extent opening up will be achieved by 2015. Agreements have been signed in eight professions through MRAs pertaining to qualifications, but with an optional participation modality (ASEAN-X or 2+X), it is believed that implementation for ASEAN as a whole will be delayed.

Skilled workers are the subject for flow of people, and unskilled labor is not included. If the Agreement on Movement of Natural Persons is promulgated, what degree of free flow will be achieved will be understood to some extent. It is expected that exemption of visas for intra-regional travel will be achieved with the optional participation modality.

Investment liberalization is to leave minimal restrictions, and the state of liberalization is expected to be understood through the ACIA reservation lists planned for release in 2012. Integration of capital markets is progressing through harmonization of capital market standards, cross-recognition of qualifications of professionals, and the like.

#### 4.2 Japanese corporations and the AEC

Will Japanese corporations be able to benefit from the liberalization and facilitation of the AEC? With respect to trade in goods, if it is possible to satisfy rules of origin, it will be possible to enjoy the merits of tariff abolition and the like. Separate benefits will be reaped through the elimination of non-tariff barriers and the mutual recognition of qualifications (MRAs). The liberalization of trade in services results from the denial of benefits under the AFAS. Article 6 of AFAS (Denial of Benefits) stipulates, “The benefits of this Framework Agreement shall be denied to a service supplier who is a natural person of a non-Member State or a juridical person owned or controlled by persons of a non-Member State constituted under the laws of a Member State, but not engaged in substantive business operations in the territory of Member State(s).” Accordingly, Japanese corporations engaging in business operations in ASEAN countries will be able to reap the benefits of the liberalization of trade in services under the AFAS.

Next, the liberalization of investment results from the stipulation of the denial of benefits under ACIA. According to Article 19 (Denial of Benefits), the subjects of denial are: 1) “an investor of another Member State that is a juridical person of such other Member State and to investments of such investor if an investor of a non-Member State owns or controls the juridical person and the juridical person has no substantive business operations in the territory of such other Member State;” 2) “an investor of another Member State that is a juridical person of such other Member State and to investments of such investor if an investor of the denying Member State owns or controls the juridical person and the juridical person has no substantive business operations in the territory of such other Member State;” and 3) “an investor of another Member State that is a juridical person of such other Member State and to an investment of such investor if investors of a non-Member State own or control the juridical person, and the denying Member State does not maintain diplomatic relations with the non-Member State.” The definition of “own” is according to the laws and policies of the Member States, and the definition of “control” is when an investor has the authority to name a majority of directors. Japanese corporations that are engaging in substantive business operations will be able to enjoy the benefits of investment liberalization. There is no explanation for what “substantive business operations” are and the definition of ownership is in accordance with the laws of each country, and so the actual operation of services and investments must be confirmed with the government of each country.

## 5. ASEAN goals from 2015 onward

### 5.1 The next target year is 2020

ASEAN following 2015 is indicated in the Bali Declaration on ASEAN Community in a Global Community of Nations (“Bali Concord III”) adopted at the 19<sup>th</sup> ASEAN Summit Meeting held in Bali in Indonesia in November 2011.<sup>8</sup> It includes a commitment to realize an ASEAN common platform on global issues by 2022, and the raising of ASEAN’s profile and constructive role on an international level. With the target date of 2022, raising ASEAN’s role, voice, and profile through actively engaging in global issues on a regional and global level became the next target after the founding of the ASEAN Community in 2015.

Meanwhile, as was made clear in the discussion of the scorecard and the MPAC, it is evident that the implementation rate of the blueprint and MPAC targets will fall short of 100% in 2015. In the MPAC and the Brunei Action Plan, the items that are not completed have a target date of 2020. It is likely that in 2015, the AEC will be evaluated as having been largely implemented, and the implementation of the action plan of liberalization, facilitation, and infrastructure building will be continued with the next target date of 2020.

### 5.2 Recommendations

Finally, the following are recommendations for Japanese cooperation with the founding of the AEC.

- ① Have suggestions regarding impediments to integration and solutions to them from the perspective of Japanese businesses: when creating a unified market in the EU, obstacles to market integration were eliminated, the “Completing the Internal Market” white paper was produced, and market integration was made into policy. In order to achieve the goals of the AEC Blueprint in the field, it would be beneficial for Japanese corporations that are building production networks in the ASEAN region to identify and propose solutions for impediments to integration that they are facing on the ground. It would be realistic for JETRO, which conducts an annual survey of Japanese corporations in ASEAN, to take a central role in implementing an investigation with the cooperation of ERIA and the ASEAN Secretariat.
- ② Support distribution facilitation: promote support for the Comprehensive Asian Development Plan and strengthening connectivity.
- ③ Promote ASEAN standards agreements and MRAs: ASEAN’s MRAs are still limited. Cooperation is desired from the perspective of ties to all of East Asia for a wide range of items.

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<sup>8</sup> <http://www.aseansec.org/26719/htm/documents/19th%20concord%20III.pdf>

- ④ Assist the building of a qualification system: support the creation of qualification systems of various types for ASEAN based on Japan’s experience and accumulation. This will be useful in fostering human resources and increasing the level of technology, but creating common qualifications for ASEAN will promote a freer flow of people.
- ⑤ Foster human resources and distribution infrastructure for the CLM countries: causing the CLM countries to participate in the East Asian production network will contribute to promotion of exports, technology transfers, reducing disparities, and the like. In addition to building infrastructure including roads, bridges, and ports, putting in place industrial complexes for industries that move in lockstep with distribution infrastructure should be furthered, and the cultivation of human resources in the distribution sector in addition to luring foreign capitalized firms should be promoted.
- ⑥ Expand engagement by Japanese corporations: Japanese corporations have thus far taken advantage of the trade liberalization measures that ASEAN has furthered including AFTA, AICO, ASEAN+1 FTAs, and the like. In the future, the liberalization and facilitation measures towards building the AEC of trade in goods, as well as services, investment, MRAs, the flow of people, customs procedures, and the like should be more actively taken advantage of. Meanwhile, it is necessary to put effort into fostering human resources, engaging in research and development, as well as sourcing parts from local businesses in the ASEAN region, and to support the realization of an AEC aiming for a “single market and production base” and a “competitive economic region.” The more ASEAN economic integration proceeds, the more benefits will be experienced in the operation of Japanese corporations, which have many bases of business in the region. It is vital to build a “win-win” relationship with ASEAN.

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