

# Accelerating ASEAN Economic Integration: Moving Beyond AFTA

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## ABSTRACT

Progress and realisation of the ASEAN Economic Community (AEC) can only be achieved if there is a clear blueprint, which identifies the end goal, the process to reach the end goal and a framework for proper assessment of the costs and benefits of an ASEAN Economic Community. AEC should not be based on the AFTA in which an agreement was reached first and the details negotiated afterwards earning it the nickname of “Agree First Talk After”. A “new ASEAN way” will have to be developed and accepted as the rule of the game before the AEC has any serious chance of fulfilling the role of making ASEAN more competitive and attractive for world business.

Keywords: *ASEAN Economic Community (AEC), regional integration, economic cooperation*

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# **ACCELERATING ASEAN ECONOMIC INTEGRATION: MOVING BEYOND AFTA**

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## **Introduction**

There are compelling reasons why ASEAN must accelerate its economic integration. The idea of an ASEAN Economic Community (AEC), as contained in the ASEAN Bali Concord II of November 2003, is about deepening ASEAN economic integration. It is a logical extension of the historic decision in 1992 to form an ASEAN Free Trade Agreement (AFTA). The realisation of an AEC needs to be based on a blueprint. If ASEAN is to progress towards AEC it needs to break with its past approach to economic integration by ensuring that firstly the blueprint defines the end goal clearly and obviously it has to be much broader and deeper than the removal of barriers to trade and investment through the AFTA and the ASEAN Investment Area (AIA) projects. Second, the process or roadmap to reach the goal needs to also be spelled out.

In the recent past, ASEAN economic integration has been driven by the process itself whereby ASEAN has progressively advanced the completion date of AFTA and moved to a zero tariff end goal. The initial decision by ASEAN leaders in 1992 was to complete AFTA within 15 years, from 1993 to 2008. Not long thereafter they agreed to accelerate the implementation and set 2003 as the completion date. In response to the 1997/98 financial crisis, ASEAN leaders agreed to bring the completion date forward to 1 January 2002 for the six original members of ASEAN. When joining ASEAN, the new members of ASEAN must also participate in the AFTA integration project, but they were given a longer time frame of 10 years to bring down most of their tariffs to 0-5 percent. More recently ASEAN also changed the end goal from 0-5 percent to zero-tariffs by 2010 for the original six members and by 2018 (2015 for most products) by the newer members. A

number of factors account for this progressive development: increased confidence with the process, leading to greater willingness to move faster; to provide a signal of the region's commitment to retaining open markets in the aftermath of the financial crisis; and to enhance the competitiveness of the region to face increased competition from China.

However, the implementation of economic integration under AFTA to date has been less impressive. Despite the fact that a large percentage of intra ASEAN trade is eligible for low or zero tariffs, only a very small percentage of intra-ASEAN trade in fact utilises the lower AFTA preferential rates. Whilst this may have been caused by declining margins of preference as MFN (most favoured nation) rates have also come down at the same time, other factors such as lack of private sector awareness, lack of clarity in the application of the Rules of Origin (ROO), problems with customs procedures, and lack of dispute settlement mechanisms may be equally important. Most worrying, however, has been the backtracking from the original commitment by some members. Furthermore there has been little progress on the removal of non tariff barriers because there has been no agreement on what this entails.

Given the past experience with ASEAN economic integration, it is clear that progress and realisation of AEC can only be achieved if there is a clear blueprint, which identifies the end goal, the process to reach the end goal and a framework for proper assessment of the costs and benefits of an ASEAN Economic Community. AEC should not be based on the AFTA in which an agreement was reached first and the details negotiated afterwards earning it the nickname of "Agree First Talk After".

### **Towards an ASEAN Economic Community**

The ASEAN Economic Community (AEC) is one of the three pillars of an ASEAN Community, the other pillars being the ASEAN Security Community (ASC) and the ASEAN Socio-Cultural Community (ASCC). As stated in the Declaration of ASEAN

Concord II (Bali Concord II), the AEC is the realisation of the end-goal of economic integration as outlined in the ASEAN Vision 2020. Thus the vision for AEC “is to create 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 in year 2020.”

The end goal to achieve this vision in turn is for AEC to achieve the following: “establish ASEAN as a single market and production base, turning the diversity that characterises the region into opportunities for business complementation making ASEAN a more dynamic and stronger segment of the global supply chain.” The challenge to realisation of the AEC is twofold, one is to have more specifically defined end goals which make it clear what the obligations of members are, and second is to define clearly the means or roadmap and action plans to achieve the end goals.

Recommendations from the McKinsey study on competitiveness and the ASEAN High Level Task Force that preceded the Bali Concord offered some ideas regarding the framework and actions needed to realise the AEC. It was recognised that bolder and deeper integration will be needed within the existing initiatives and the need to introduce new ones, and that implementation will necessitate the creation of an underlying institutional mechanism.

McKinsey’s ASEAN Competitiveness Study (2003) proposed that given the difficulties of agreeing on cross sectoral broad and deep liberalisation, ASEAN should prioritise a number of sectors to undertake the bold liberalisation. In each of these priority sectors four initiatives should be pursued. These are: (a) ***elimination of non-tariff barriers***, including efforts to increase the efficiency of customs, harmonise or mutually recognise product and technical regulations, and remove duplication in testing and licensing procedures; (b) ***enhance tariff reform***, including the elimination of internal tariffs as well as closer alignment of each member country’s external tariffs; (c) create a ***level playing field for capital***, by eliminating restrictions on cross-border investments within ASEAN and introducing an ASEAN-wide competition policy, and (d) improve ***regional***

*collaboration*, including the promotion of an easier flow of skilled labour across the region and better mechanisms to provide development and technical assistance to the newer members.

The High Level Task Force (HLTF) proposed a set of recommendations as a first step towards the realisation of the AEC. The first is to strengthen cooperation under current (existing) economic cooperation initiatives in the areas of trade in goods, including customs and standards, trade in services, investment, intellectual property rights, and capital mobility. The second part proposes new initiatives and measures. These include identifying 11 priority sectors for integration (wood-based products, rubber-based products, agro-based products, fisheries, textiles and apparels, automotives, electronics, air travel, tourism, healthcare, and e-ASEAN). The third part relates to institutional strengthening, including the establishment of an effective Dispute Settlement System. The fourth part proposes the need for an outreach program to promote better appreciation and understanding of ASEAN economic issues among business/investor community and public sector agencies. The last set of recommendations deal with development and technical cooperation to address the development divide and to accelerate the economic integration of ASEAN newer members.

A number of their recommendations have been taken up by the ASEAN Ministers and Leaders, and the Bali Concord identified the following three major tasks:

- a) To institute new mechanisms and to strengthen the implementation of existing economic initiatives (including AFTA, AFAS, and AIA); accelerate regional integration in the priority sectors; facilitate movement of business persons, skilled labour and talents; and strengthen the institutional mechanism of ASEAN.
- b) To ensure that deepening and broadening integration be accompanied by technical and development cooperation in order to address the development divide and accelerate the economic integration of the CLMV members.

c) To implement both liberalisation and cooperation measures in realising a fully integrated economic community. These should also cover other areas such as human resources development and capacity building; recognition of educational qualifications; closer consultation on macroeconomic and financial policies; trade financing measures; enhanced infrastructure and communications connectivity; development of electronic transactions; integrating industries across the region to promote regional sourcing; and enhancing private sector involvement.

It was also agreed that the integration of the priority sectors should be accelerated. The adoption of a fast-track approach rests on the argument that reforms across the entire economy are politically difficult as well as risky. Instead, a well-targeted approach, focusing on sectors is intended to demonstrate the benefits of integration and generate the subsequent necessary political support for extending the program more broadly. The 11 sectors are the ones mentioned above and a roadmap is being developed for each of the 11 sectors and be implemented with the active involvement of the private sector. Different ASEAN members were also tasked to coordinate the preparation of the roadmaps for the eleven priority sectors.

The premise of AFTA and now the AEC is on the creation of a single market and production base. As such, there should be a clear idea what this constitutes, especially given the changing regional context with the emergence of China, changing behaviour of multinational companies and developments in technology.

The Concord clearly stated that ASEAN's strategy consists of the integration of ASEAN and enhancing ASEAN's economic competitiveness. This dual-track strategy can be seen as an attempt to open up and expand the region's *consumption side* by creating a single market and to open up and expand the region's *production side* by establishing a single production base.

On the consumption side, the AEC envisions a region in which consumers have full freedom to select from amongst the range of products and services that are produced from

within the region as if they were produced in their home country. This means that there should be no barriers that would hamper the free flow of goods and services. This is the essence of integration. This effort had begun modestly and selectively in ASEAN with the introduction of the PTA (preferential trading arrangement) in 1977 and followed more ambitiously with the decision to form an AFTA in 1992. The AEC is a logical extension of the above efforts. It will cover all goods, including agriculture, and services.

On the production side, the AEC envisions a region in which there are increased backward and forward linkages amongst various production facilities and networks that are dispersed throughout the entire region. As ASEAN members exhibit different endowments, levels of development and capacity, a dynamic division of labour can be developed amongst them if a smooth and efficient exchange of inputs to production can be assured. The elimination of barriers to trade thus plays an important role in facilitating this exchange. However, the dynamic division of labour amongst the ASEAN members will result primarily from sustained flows of investment, including the trans-migration of industries from the more developed to less developed members, and the continuous expansion and upgrading of regional production networks. Efforts need to be made to ensure that these regional production networks can become more dynamic and stronger segments of the global supply chain. Investment, in particular foreign direct investment (FDI), plays a critical role here. A single production base in the region implies that production activities in each of the ASEAN members will become regionalised and internationalised.

Opening up and expansion of the consumption side should go hand in hand with the opening up and expansion of the production side. For the less developed members of ASEAN (CLMV) the opening up of the consumption side will be facilitated by an expansion of the consumption side. In turn, the expansion of the consumption side will result mainly from an expansion of the production side. The latter can be facilitated by its opening up, by hooking up to the regional production networks. This has been the experience of the other ASEAN members and China, and before them of the other East Asian countries (Japan and Korea).

The formation of regional/international production and distribution networks in East Asia resulted from drastic changes in development strategies of and the adoption of a set of policies by countries in the region. In one way or another they have applied a kind of dual track approach, namely to foster both import-substitution (IS) industries and export-oriented (EO) industries at the same time. The latecomers in Southeast Asia and China have actively utilised FDI. This was not the case with the forerunners, Japan and Korea. However, what all these countries did was to change, over time, the weights between IS and EO. This approach requires a complicated policy package. In today's world, industrial capacity and strength can no longer be built through IS policies. The challenge today is to get hooked up to international production and distribution networks. The CLMV countries should exploit this opportunity.

In fact, this is the challenge for ASEAN as a whole. ASEAN Governments need no convincing that in order to be able to attract export-oriented foreign investment, they must provide location advantages. Lessons can be drawn from past experience. First, trade protection negatively affects location advantages. Second, since in many developing countries the supporting industries are very weak, aggressive policy to invite foreign SMEs helps in the formation of industrial clusters and gradually also strengthen local SMEs. Third, sufficient public resources should be used to build economic infrastructure. Most importantly, efforts to foster local firms, SMEs and otherwise, can be done through enhancing their capacity to penetrate into vertical production chains.

In East Asia the trade pattern is no longer simply one-way trade based on international differences in resource endowments. Rather, sophisticated vertical production chains as well as distribution connection are extended to region-wide networks. Fragmentation is at work. The networks consist of both intra-firm geographical extension and inter-firm business relationships. One of the motivations for fragmentation in East Asia is to take advantage of factor price differences. It should be noted that SL cost and agglomeration effects also appear to be important. The CLMV countries have not been fully involved with the networks as yet. These countries have substantially low wage levels but have not

been successful in attracting labour-intensive production processes. This suggests the need for policies to reduce SL costs and to encourage agglomeration in order to hook up to the regional production and distribution networks.

The ASEAN economies should position themselves to make best use of both internal resources and international opportunities. This is a complex issue. ASEAN needs to develop a strategic vision aimed at *maintaining international competitiveness in external trade; simultaneously promoting intra-regional trade and in particular intra-industry trade (IIT); and finally attracting increased levels of strategic, efficiency-seeking FDI that should be complementary to both internal and external aspects of trade performance.*

The policy direction for ASEAN can be derived from the above examination. ASEAN has to address the problem of existing high tariffs for a number of import substitution industries (IS) industries, namely automobiles, domestic electric appliances, petrochemicals, and iron and steel. Also, even if tariffs are removed, cross-border transactions costs are high for various reasons. To improve the business climate they have give proper attention to the development of physical infrastructure in transportation and telecommunications; trade facilitation measures in customs clearance and other bureaucratic procedures; and improve legal systems and economic institutions such as standards, IPR protection, and dispute settlement facilities. Finally, the sophistication of networks and the development of agglomeration require extensive involvement of local indigenous firms. There is a role for governments to assist local firms to penetrate into regional/international vertical production chains.

ASEAN's agenda should focus on integration measures that will make the region a genuine single production base. Economic integration in ASEAN has always been motivated by the need to make the region an attractive production base. By leveraging the complementarities that exist among member countries to achieve economies of scale, ASEAN aims to become a single production base that would act as a magnet for foreign

direct investments (FDI). The role FDI has played as a driver of economic growth in ASEAN providing capital, expertise, technology and employment is well documented.

The need for deeper economic integration is rendered even more urgent now as there are concerns that ASEAN's position as a production base could be overtaken by emerging market economies such as China and India. Given the rising economic challenges especially from China, economic integration in ASEAN should be driven by the need to cut operating costs while raising labour productivity. An integrated regional production base would provide greater scope for division of labour and industrial activities across the ASEAN region, creating opportunities for greater industrial efficiency and cost competitiveness in a wide array of products as well as some services.

Although China has become the world's most attractive investment destination especially in manufacturing, MNCs would nevertheless diversify their risk by spreading out their operations. Rather than "put all their eggs in one basket", MNCs would also consider investing in an alternative regional production base. Through the AEC, ASEAN should therefore reinforce its position as an attractive regional production base and alternative to China.

In order to establish a single production base, ASEAN needs to promote regional production networks in the region. Global trends in manufacturing indicate a shift towards adopting flexible production techniques and integrated production chains. Intense competition means it is no longer cost effective for all manufacturing activities to be done in in-house or in a single country. In order to shorten production cycle time and speed-up delivery to the market, MNCs are integrating their manufacturing activities across several locations and introducing innovative Just-In-Time management techniques, often through international subcontracting. Such global production trends mean that MNCs are not only seeking large consumer markets but also regional sites where they can establish efficient production networks.

Emerging features in the strategy of MNCs that are planning to use the region as a production base include:

- Targeting more sales volume in the ASEAN market
- Components procurement on an ASEAN-wide basis
- More product specialisation to achieve economies of scale.
- Greater emphasis on profitability using ASEAN-wide operations.

An analysis of intra-ASEAN trade reflects the emergence of a regional production base in ASEAN. A decline in the share of resource-based products in intra-ASEAN trade over the past 20 years has been accompanied by an increase in the shipment of electrical and electronic products, which today account for almost half of intra-ASEAN trade flows – most of which are parts and components. Such trends show clear potential for further mutually beneficial production sharing as part of a regional production network.

Aside from MNCs, domestic enterprises – including small and medium-sized enterprises (SMEs) – would play an important role in creating a single production base in ASEAN. However, the SME sector in ASEAN is largely underdeveloped. Economic strategies over the past three decades were mainly focused on promoting large export-orientated manufacturing industries and attracting FDIs from MNCs. Investment liberalisation initiatives should therefore take into account of domestic enterprises especially with regards to strengthening the industrial linkages between MNCs and domestic industries.

It is also important to make it clear to the less developed ASEAN countries (CLMV) that they would not lose out from deeper regional integration. By leveraging on their cost advantage in the production value chain, the CLMV countries would clearly stand to benefit from being part of a regional production base. However, appropriate resources should be allocated to ensure the full participation of these countries in the integration process. This would include financial and technical assistance, transfer of technology, education and training facilities.

Finally, efforts to expand (and open up) the consumption side must go hand-in-hand with efforts to expand (and open up) the production side because what can be perceived by

outsiders as a “mercantilist” ASEAN production base cannot be sustainable. The creation of an ASEAN single market itself will also make the region more attractive for FDI from the rest of the world.

### **The Building Blocks**

Economic integration initiatives such as AFTA is not just a tariff reduction exercise as it also has two important strategic aims which are: to provide a sizeable consumer market of over 500 million people; and to foster the emergence of an integrated regional production base. Hence, existing initiatives for greater trade and investment liberalisation in ASEAN represent important “building blocks” towards the construction of an ASEAN single market and production base – the end-goal of the AEC.

Given all of the above priorities to realise an AEC and the limitations of ASEAN’s institutional capacity, unless the core elements are identified and implemented, then AEC would just be another grand initiative and new initiatives will continue to be added to the ASEAN without implementation or implemented slowly. Therefore, it is imperative to identify the necessary or “core elements” that constitute the AEC, namely the elements that must be undertaken to achieve the vision of making the region a single market and production base. Regional energies must also be invested in institutional development to effectively implement initiatives, actions, and programs to realising the AEC. Beyond these core elements, ASEAN can agree at a later date on a set of so-called desirable or “defining elements” that would further deepen the integration, depending on how far the region is prepared to go.

It should also be realised that at present, time is not on ASEAN’s side. The core elements of the AEC should ideally be in place much earlier than the 2020 target date of the AEC, and desirably by 2010. Failure to do so will no longer make this exercise meaningful since competitive pressures from China, and soon also from India, are currently already felt. In addition, ASEAN is engaged in a number of free trade areas (FTA) such as the ASEAN-China FTA, which will be completed by 2015, before the target date of the

AEC. This is not to mention the bilateral FTA which individual ASEAN members have signed with other partners. *Therefore, ASEAN must formulate an agenda that focuses on the core elements and be determined to implement them seriously in the shortest time possible. Given the imperative of time and necessity to deliver on bold action plans, it is also recommended that not only should existing schemes of ASEAN economic integration be accelerated, due consideration should be given for existing initiatives to be incorporated within new initiatives under AEC.*

This paper suggests the following five core elements of the AEC

- Free and Open Investment
- Trade and Freeing the Flow of Goods
- Selective Services Sector Liberalisation
- Infrastructure Development
- Institutional Mechanism

As stated above, the core elements of the AEC are defined as those elements of integration that need to be there to make the region a single market and production base. They should desirably be achieved in 2010. Beyond this, ASEAN should agree on a set of so-called “defining elements” that would further deepen the integration. This will depend on how far the region is prepared to go. Success in implementing the commitments in the five core areas of the AEC could strengthen the political will of leaders and broaden the constituency for greater regional integration within each of the Member States.

Two key issues are important in designing the defining elements of the AEC. First, is in regard to the substance (coverage) of economic integration. In comparison to European integration, Mercosur, and NAFTA, the core elements of the AEC are really just the bare minimum. ASEAN governments have many options to broaden and deepen the integration. A number of areas appear to be prospective elements for consideration by ASEAN governments. These include: (a) complete liberalisation of services; (b) adoption of a progressively liberal regime to regulate flows of unskilled labour; (c) financial integration; and (d) macroeconomic policy coordination. Yet, perhaps the most important

decision that ASEAN governments must make in order to move further in a credible fashion is to strengthen the legal base of the undertaking. Short of this, many initiatives and commitments remain on paper and cannot be enforced. Thus, the second issue is the need for ASEAN to develop a “new ASEAN way” in achieving the goal of an AEC, which is part of the broader ideal of an ASEAN Community. By 2010, at the latest, ASEAN governments will have to make the critical decision of whether or not they want to deepen and widen their economic integration on the basis of a treaty.

The traditional ASEAN way, already ill at ease with AFTA when binding agreement became inevitable, will be under increasing tension if and when the AEC is going to be filled in over time. The four strategic choices for treaty designers, discussed in the NAFTA and EU sections above, leave little if any room for the old ASEAN way. The McKinsey Report has clarified that multinational business wants far more legal certainty and a credible compliance system, before a single production base and a single market will be sufficiently attractive.

The most important lesson one can draw from NAFTA and the EU is that, in “deeper” regionalism, commitment and consistency between countries as well as over time is plainly impossible without a number of firm answers to strategic choices which are all incompatible with the ASEAN way as known up until the present moment. To remind, the four strategic choices are:

- The desired nature of economic regionalism?
- The degree of specificity and detail at the outset?
- The system of implementation, compliance and enforcement?
- Room and incentives for deepening and widening (of scope)?

A “new ASEAN way” will have to be developed and accepted as the rule of the game before the AEC has any serious chance of fulfilling the role of making ASEAN more competitive and attractive for world business.

AEC strategists and architects are well advised to try to understand the logic and functioning of NAFTA and the EU well. Once having internalised the systemic thinking of these instances of regionalism, they will be capable to come up with ASEAN-originated ideas and concepts to build up its own unique approach. There is no point in pursuing an advanced and demanding notion as an AEC without deeper and testable commitment of the Member States and stronger institutions or a detailed treaty from the outset. Without endowed ASEAN institutions, without a treaty, without transfer of powers, and without any budget, one should not expect a credible ASEAN Economic Community to emerge. Whatever combination of some of these four ingredients ASEAN intends to opt for, is up to the leaders and the AEC designers, but a denial of all four would augur badly for the prospects of ASEAN as a single production base and a single market.

### **Accelerating ASEAN Integration**

In formulating the roadmap for the realization of the AEC, the following principles should be kept in mind:

- Time is not on ASEAN's side, so that efforts to realise the ASEAN Economic Community, which means the creation of a single production base and a single market, should be pursued with a sense of urgency.
- ASEAN's agenda needs to focus on the essentials so that it is not overloaded.
- Investment and trade liberalisation should be undertaken without hesitation since they are the main drivers of the integration process.
- Measures to enhance transparency and predictability are a key to making the region an attractive economic and investment area.
- Assistance to CLMV countries should be given to enhance their capacity to effectively participate in regional economic integration.
- Effective implementation of initiatives requires the development of institutions and mechanisms beyond those that exist to date.

In realising the AEC, ASEAN's strategy consists of the integration of ASEAN and enhancing ASEAN's economic competitiveness. This dual-track strategy can be seen as an attempt to open up and expand the region's consumption side by creating a single

market and to open up and expand the region's production (supply) side by establishing a single production base. These two efforts must go hand-in hand.

The five core elements are the minimum that ASEAN must implement to develop the region as a single production base and a single market. These core elements are:

- Free and Open Investment
- Trade and Freeing the Flow of Goods
- Selective Services Sector Liberalisation
- Infrastructure Development
- Institutional Mechanism

It is important that these core elements be implemented seriously and in the shortest time possible. The core elements should be in place ideally by 2010 at the latest. Failure to do so will no longer make this exercise meaningful, since pressures from China, and soon also from India, are currently already felt in a number of sectors. ASEAN must deliver on bold action plans. These are outlined below.

In the area of investment:

- To achieve a single investment area by 2010 as an end goal.
- Liberalisation of investment for the whole manufacturing sector by 2010.
- Development of an investment vision for the region as a basis for investment facilitation and promotion.
- Establishment of a regional ASEAN unit for investment.

In trade:

- Complete the removal of tariff in manufacturing by 2010, with earlier timelines for the seven priority sectors.
- Accelerate the removal of non-tariff barriers
- Enhance transparency and predictability of trade by minimising diversities in trade-related regulations and ensuring a quick resolution to disputes.
- Minimise transactions cost through modernised customs administration.
- Establish a comprehensive approach to standards and technical regulations.

In the area of services liberalisation:

- In addition to the four priority services sectors, ASEAN should consider accelerating the opening up of financial services, telecommunications, professional business services, and education.

- ASEAN should look for new modalities to overcome the slow progress under the GATS framework, including under AFAS.
- ASEAN needs to develop a vision for the services sector to support a competitive manufacturing sector as an integral part of the regional production centre and global supply chain as well as to create a regional services centre in its own right.

On infrastructure development:

- ASEAN already produced detailed action plans for cooperation in transport and in energy, but that their implementation lacks political will. Therefore, innovative approaches are called for to develop new institutional arrangements that help build regional constituencies.

On institutional mechanisms:

- Implementation of the ASEAN Dispute Settlement Mechanism (DSM) with high degree of independence, credibility and transparency.
- To enhance investor's confidence, the ASEAN DSM should be expanded to include an investor-state dispute settlement mechanism.
- In the longer term, an ASEAN Court of Justice would completely depoliticise the DSM as well as lay the groundwork for a developed legal infrastructure in ASEAN.
- ASEAN should immediately develop a mechanism to monitor progress of its integration project (the AEC), and the annual monitoring report should be made available to the public.

Beyond implementing the activities in the above core areas, ASEAN should agree on a set of so-called “defining elements” that would further deepen the integration. This will depend on how far the region is prepared to go. Success in implementing the commitments in the five core areas of the AEC could strengthen the political will of leaders and broaden the constituency for greater regional integration within each of the Member States.

A “new ASEAN way” will have to be developed and accepted as the rule of the game before the AEC has any serious chance of fulfilling the role of making ASEAN more competitive and attractive for world business. Without endowed ASEAN institutions, without a treaty, without transfer of powers, and without any budget, one should not expect a credible ASEAN Economic Community to emerge.