

# 21st-Century Economic Integration: Learning from ASEAN & a New Vision for APEC

By Andrew Elek



Author Andrew Elek

## Beyond the Bogor Goals

Regional economic integration remains a core objective of APEC, but the Bogor vision of 1994 needs to be updated to reflect a very different world of international commerce.

The relative importance of obstacles to international commerce has changed dramatically since the Bogor goals were established almost 20 years ago. The time has come to draw up a new blueprint for Asia-Pacific economic integration — a blueprint that commits Asia-Pacific governments to measurable progress towards a seamless regional economy.

## Achievements

Concerted unilateral decisions by APEC governments have moved the region a very long way towards free and open trade and investment. Border barriers have declined sharply. Average tariffs of APEC economies are now below 6%. Remaining border barriers are concentrated in a few sensitive agricultural commodities that low-technology manufactures. Global production networks are becoming ever more important and most of the products flowing along these supply chains do not face significant border barriers to trade.

APEC working groups have already designed practical cooperative arrangements to facilitate the international movement of products along supply chains. Better and more harmonized customs procedures, the APEC Business Travel Card and many other APEC cooperative arrangements are already saving billions of dollars per year. The region's "opening to the outside world" has accelerated market-driven economic integration in the Asia-Pacific area, which is now just as integrated in terms of trade as the European Union.

## New Challenges

Progress on trade integration is well ahead of the physical and financial integration of the region. Those dimensions of integration now need more attention to respond to the rapid evolution of production and international commerce.

Richard Baldwin, in his paper *21st Century Regionalism: Filling the Gap between 21st Century Trade and 20th Century Trade Rules* (Centre for Economic Policy Research, Policy Insight No. 56, 2011), describes two significant transformations or "unbundlings" of production. The first of these occurred in the 19th and 20th centuries when steamships replaced sail and commercial aviation appeared. Falling transportation costs then allowed geographical dispersion of

production and international specialization along lines of comparative advantage — although international transactions remained dominated by commodities and goods produced in one location.

The second unbundling of the 21st century was sparked by information and communications technology which made it possible to coordinate complex activities at a distance. Business has moved quickly to take advantage of these new opportunities. Baldwin describes 21st century international commerce as:

*an intertwining of trade in goods, international investment in production facilities, training, technology and long-term business relationships; and the use of infrastructure services to coordinate dispersed production.*

International investment in production facilities has accelerated, and a more sophisticated pattern of international commerce raises new issues, including policies on international investment, competition policy, rights of establishment and greater concern with intellectual and other property rights.

Much of the rapid rise of East Asia since 1994 is due to the invention of, then successful engagement in, international production networks. But the efficiency of the region's production networks is limited by many needless differences in economic regulations relating to these new issues as well as the huge gaps in the infrastructure needed to take full advantage of low border barriers to trade and investment.

The Asian Development Bank (ADB), in a report titled *Infrastructure for a Seamless Asia* (2009), details the infrastructure needed to improve the network of connections (road, rail, sea and air) and the efficiency of ports and airports. It outlines the high economic rates of return on investments to enhance connectivity; it also explains the need for deeper and better integrated regional financial markets that could steer more of the Asia's savings towards such investments to accelerate economic integration.

The business sector is well aware of these new constraints on closer integration. They are telling governments that dealing with these across-the-border problems of connectivity and behind-the-border problems of differences in economic regulations is now more important to them than further trade liberalization.

## A 21st-Century Vision of Economic Integration

Against this background, the time has come to set a new vision for regional economic integration. This new vision should meet some

important criteria, among which are the following:

### 1. Beyond free & open trade & investment

Most importantly, the new vision should respond to the most urgent concerns of the business sector. Therefore attention should move away from past focus on reducing border barriers to trade and investment. Further work to reduce obstacles to trade and investment — at, behind, or across the border — should be part of the new vision. But the drive towards free and open trade and investment needs to be complemented by far greater emphasis on connectivity. That, in turn, will require significant new private sector investment in infrastructure.

### 2. Towards a seamless regional economy

The objective of a seamless regional economy, endorsed by APEC leaders in 2010, can embrace all dimensions of economic integration — trade, investment, finance, people movement and connectivity. A vision of a seamless regional economy is not only broader but also much more ambitious than the Bogor goals of free and open trade and investment. For almost two decades since 1994, the Bogor goals provided a sense of direction for concerted unilateral decisions by Asia-Pacific governments to promote free and open trade and investment. The broader vision of a seamless regional economy can now point to the next phase of efficient regional economic integration. APEC governments can now complement an environment of already largely free trade by focusing on new opportunities to promote economic integration, as illustrated below.

### 3. Realistic & measurable targets

A vision of a single regional economy is an ideal that can be approached but can never be reached — there will always be more to do. Even the EU is a long way from a single regional economy: for example, there is nothing like a single market for services. Therefore, APEC leaders should avoid setting deadlines for achieving the impossible. It is more productive to commit to progress towards clearly defined, medium-term targets for regional economic integration. These targets should be ambitious, but realistic and measurable — with priority on reducing the costs or risks of international commerce (for example, the efficiency of container ports) which are of urgent interest to the private sector.

### 4. Parallel tracks towards economic integration

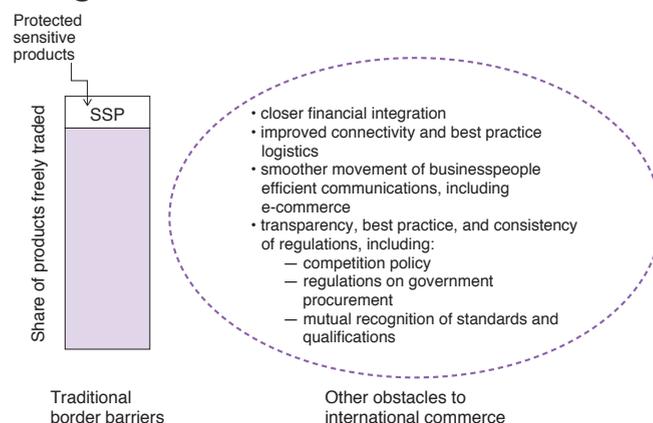
Work towards a seamless regional economy is already proceeding along parallel tracks:

- trade negotiations that try to achieve further trade liberalization and to set rules for some new issues;
- voluntary cooperation within the APEC process on many other ways to make international commerce cheaper, easier and faster.

Defining expectations for the trade negotiations and voluntary cooperation should reflect the comparative advantage and the limits of each of these tracks. Some dimensions of economic integration will require negotiations, but many important ways to reduce

CHART 1

## New opportunities to promote economic integration



Source: Compiled by author

transaction costs of international commerce cannot be achieved by negotiations. A seamless regional economy is a much more comprehensive objective than any free trade area, including a potential Free Trade Area of the Asia Pacific (FTAAP).

## Learning from ASEAN

ASEAN's drive towards creating an ASEAN Economic Community (AEC) is setting a practical example of economic integration that goes well beyond free and open trade and investment. The AEC is designed to deal with the much wider range of issues raised by the dramatic changes in the nature of international commerce since the Bogor goals were set in 1994.

ASEAN economies negotiated an ASEAN Free Trade Area (AFTA) in the early 1990s. Since then, like the EU, they have discovered that a trade deal was just a first step towards meaningful economic integration. Therefore, in 2003 ASEAN leaders agreed to move towards a much more comprehensive AEC to deal with all the issues listed in [Chart 1](#).

ASEAN governments have adopted a detailed blueprint for creating an AEC by 2015. By then, ASEAN wants to be a region with largely free movement of goods, services, investment, capital and skilled labor. These movements are to be made cheaper, easier and faster by greatly improved connectivity.

Working with their private sectors, ASEAN governments have made worthwhile progress towards these objectives. The experience of work towards the AEC has underlined several important realities.

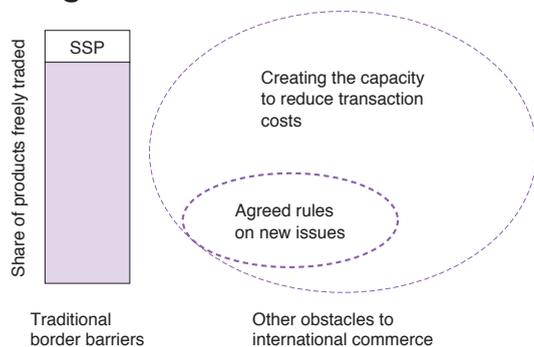
## Capacity-building

One of the early steps towards the AEC was to upgrade AFTA to the ASEAN Trade in Goods Agreement (ATIGA) to cover more products and streamline rules of origin.

ASEAN then moved on to many other important issues needed to create the AEC, including regulatory convergence and better connectivity. Early experience indicates that implementing the AEC blueprint is essentially a consensus-building effort to identify the policy changes needed to deal with across-the-border and behind-the-border issues. Identifying the practical steps to be taken to

CHART 2

## Tackling new issues



Source: Compiled by author

reduce transaction costs then points to the capacity-building needed to upgrade skills and institutions.

Some dimensions of integration can be usefully supported by agreed codes of conduct or rules (especially safety rules). But setting negotiated rules is only one part of a much wider task based on shared willingness to make things work. A free trade area, whether in ASEAN or APEC, will not achieve the connectivity needed for deep economic integration. Creating the environment needed to attract essential private sector interest in financing massive investments in connectivity calls for a very different process of patient and cooperative policy development.

For example, to create a regional gas and electricity grid, ASEAN will need far more than agreed rules on pipe pressures and voltages. Actual construction needs cooperation to raise money and to build the physical links to connect economies. The currently weakest economies need, and can expect, support from the stronger ones.

As shown in *Chart 2*, dealing with the across-the-border and behind-the-border issues needed to create an economic community can be seen as a combination of:

- setting some agreed disciplines or codes of conduct, and
- a comprehensive capacity-building effort.

### Realistic Ambitions

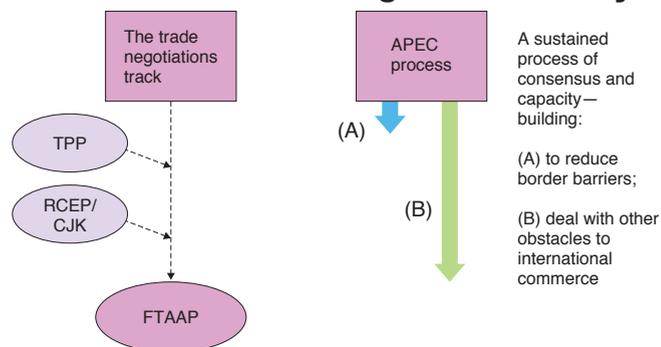
Another lesson of experience from ASEAN is that the 2015 deadline is extremely ambitious. According to the AEC Council, ASEAN has realised 67.9% of the AEC blueprint, including policies for movement of goods across ASEAN countries and the development of the ASEAN Single Window for customs clearance. But some of the hardest parts of implementing the blueprint still lie ahead.

More work will need to be done beyond 2015, but that is hardly surprising. The effort to implement the AEC blueprint is the most comprehensive exercise in economic integration outside the EU. Moreover, it is being pursued in a unique style which, unlike the complex web of EU treaties, seeks to minimize the need for enforcement.

In a world of political constraints and new issues constantly created by new technology, new cooperative arrangements to deepen

CHART 3

## Towards a seamless regional economy



Source: Compiled by author

integration will always be needed, whether in the EU, ASEAN or any group of economies. Nevertheless, 2015 will be an important milestone. ASEAN governments will be able to point to the achievement of, or significant progress towards, the many objectives set in their 2007 blueprint.

By 2015, ASEAN will have much better connectivity, more regulatory convergence, and relatively free movement of people, investment and finance as well as largely free trade in goods and services. ASEAN will be the most integrated group of economies other than the EU and Southeast Asia will have what deserves to be described as an Economic Community.

### Lessons for APEC

The objective of a seamless regional economy in the Asia-Pacific region is being pursued along two parallel tracks: voluntary cooperation in the APEC process itself alongside several trade negotiations, as shown in *Chart 3*.

### The Trade Negotiators Track

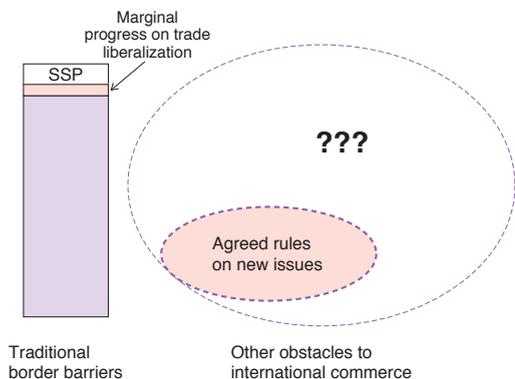
Bilateral and sub-regional preferential trade agreements have proliferated in the Asia-Pacific region. Efforts to draw these together into wider regional agreements include a potential Trans-Pacific Partnership (TPP), a regional comprehensive economic partnership (RCEP) among ASEAN and its Asian trading partners as well as a possible triangular China-Japan-South Korea (CJK) trade deal.

The pace and final outcome of these trade negotiations is quite uncertain. After more than 10 rounds of negotiations, the number of participants and the potential scope of a possible TPP are yet to be determined. The TPP negotiators have made the same mistake as those attempting to negotiate the WTO Doha Round — commitment to reach a single undertaking on almost 30 very different issues. Therefore, nothing can be agreed until all the difficult issues, such as market access and intellectual property rights can be resolved. And there is no sign that the United States is prepared to make any of the significant policy changes needed on difficult issues for a meaningful outcome. Negotiations for a CJK have yet to start and could also experience the same kind of difficulties as the Doha Round.

If high-quality TPP and CJK trade agreements can be concluded,

CHART 4

## Potential value-added from FTAAP



Source: Compiled by author

APEC governments may then decide to commence negotiations towards a potential FTAAP. That would be far greater challenge. An eventual FTAAP could achieve some further liberalization of trade in sensitive products. Chapters on new issues could also set useful region-wide disciplines to reduce needless policy obstacles to international commerce. But, as seen in *Chart 4*, that would only meet part of what the business sector needs to facilitate international commerce.

Negotiating new rules can help solve some problems, but negotiations cannot create the capacity needed to integrate Asia-Pacific economies. For example, trade negotiations can help ensure that governments reform policies that may deter investment in infrastructure. However, the capacity to reform institutions and develop the skills needed to create a high-quality enabling environment for investment will not be created by any free trade area.

Turning to customs procedures, some basic requirements for efficient procedures, including an agreement to create a “single window” for customs clearance, can be written into negotiated economic partnership agreements. But that is not enough to make them work well in practice. The AEC blueprint sets out the many ingredients needed for facilitating customs clearance through an ASEAN single window, including for example:

*Standardisation of data elements based on WCO data model, the WCO data set and United Nation Trade Data Elements Directory (UNTDDED) and acceleration of introduction of information, communication and technology (ICT) for digitalised processing and exchange.* (ASEAN Economic Community Blueprint, paragraph 18)

The first part of this objective can be negotiated, but the efficient use of this provision (outlined in the second part) will need capacity-building, with some members of ASEAN helping others to acquire the necessary expertise.

Mutual Recognition Agreements (MRAs) can also be negotiated. But to maximise their value to business, MRAs need to be complemented by an agreement that economies will accept each other’s testing procedures. That will only be possible, whether in ASEAN or APEC, after adequate institutional development. Therefore, the AEC objective of promoting MRAs is being backed by joint

capacity-building to:

*Enhance technical infrastructure and competency in laboratory testing, calibration, inspection, certification and accreditation based on regionally/internationally accepted procedures and guidelines...* (ASEAN Economic Community Blueprint, paragraph 19)

These are just a few of the examples drawn from the AEC blueprint that show that agreements on some basic codes of conduct or disciplines are useful, but not sufficient ingredients of economic integration. Negotiated disciplines can avoid bad policy decisions, such as needlessly different product standards, that stand in the way of mutually beneficial integration. But rules or guidelines are not sufficient to create the capacity to take full advantage of opportunities to make international commerce cheaper, easier and faster.

### The APEC Track

Whatever a potential FTAAP might achieve, Asia-Pacific economies will still need to invest in a huge, multi-year program of capacity-building. Patient capacity-building is the comparative advantage of APEC’s voluntary process of cooperation. APEC has demonstrated its capacity to bring people together to design policies and cooperative arrangements to reduce the transaction costs of international commerce. This work needs to be continued, while leaving arguments about liberalizing traditional border barriers to sensitive products to trade negotiators.

### Measuring Progress

APEC’s experience since 1994 warns against setting deadlines for achieving the impossible. Although Asia-Pacific governments have made very good progress towards the Bogor vision of free and open trade and investment, APEC is widely regarded as a mere “talking-shop” because it could not meet the 2010 Bogor deadline for developed economies. And it will not be possible for any APEC economies, developed or developing, to remove all obstacles to trade and investment by 2020. Some sensitive agricultural products will face border barriers for a very long time and there will always be more to do in terms of cutting other transaction costs and harmonizing regulations.

Looking ahead, it is possible to find a way to set meaningful targets for progress towards a seamless regional economy, without setting impossible deadlines. ASEAN’s experience in implementing the AEC shows that it is possible to set ambitious but realistic benchmarks for deeper APEC-wide integration.

APEC leaders could agree that their commitment to Asia-Pacific economic integration should be comparable to ASEAN’s commitment to create the ASEAN Economic Community. But rather than setting a deadline for creating an APEC-wide economic community, APEC leaders can set targets for achieving some essential features of a seamless regional economy.

## Medium-term Milestones

Examples of measurable medium-term milestones to be passed on the way towards a seamless regional economy could include:

### Freer trade in goods

The ideal of complete elimination of border barriers to trade remains well out of reach by 2020. But APEC leaders could adopt a realistic objective for what could be expected from further trade negotiations and possible unilateral liberalization. By 2020, more than 98% of the value of products traded among all Asia-Pacific economies should face no border barriers.

### Trade in services & investment

Following ASEAN's example, APEC governments could agree that trade in services should not be restricted, and national treatment should apply to all investment, except for a short negative list of sectors. Once again, 2020 may be a realistic APEC-wide deadline.

To accelerate the reduction of transaction costs, APEC could set a specific early target date for creating a single aviation market.

### Customs procedures & trade facilitation

APEC model chapters set out some useful guidelines and disciplines for efficient customs procedures. All APEC governments could agree that, by 2015, they will apply these provisions to all other economies, whether or not they are partners in any trade agreement or closer economic partnership. It is not efficient to apply different customs procedures to different trading partners. Adopting such guidelines unilaterally will help any economy to participate in international production networks.

APEC economies could also agree to help each other to achieve significant, measurable reductions in the cost and time taken to clear customs. Medium-term targets for each economy should be realistic, taking account of individual characteristics and capacity constraints.

Economy-specific targets can also be set for other indicators of the ease of doing business, aiming at measurable reductions in the transaction costs of international trade or investment.

### Connectivity

APEC leaders could agree to draw up an APEC "Plan on Connectivity" by 2015. Such a plan could be similar in scope to the excellent ASEAN Master Plan on Connectivity, containing measurable medium-term objectives. It should be possible to set ambitious but realistic targets for specific improvements in connectivity, for example, for creating power and gas pipeline grids among some neighboring Asia-Pacific economies.

Setting such targets for all significant dimensions of connectivity should assure the private sector that the APEC process is working on practical ways to help them operate and trade in the region.

An APEC-wide plan for improved connectivity could later be expanded to a broader "APEC Blueprint for Economic Integration". That blueprint, setting out a full set of measurable and realistic medium-term objectives to facilitate all forms of international

commerce, should be comparable in scope and ambition to the blueprint for the ASEAN Economic Community.

## Capacity-building

Making significant progress towards measurable targets, for example to improve connectivity, requires a lot of capacity-building. The capacity-building effort to make significant progress towards connectivity and other dimensions of a seamless regional economy will need to be much larger and much more focused than the current ECOTECH effort.

To make worthwhile measurable progress towards medium-term milestones, such as those listed above, APEC leaders will need to mobilize the resources needed for a very large, decades-long capacity-building effort, geared towards such targets. That is not a matter of more "foreign aid". The funds needed to improve capacity, especially the necessary investments in economic infrastructure, are far too large to be financed from the limited resources of development assistance agencies, including multilateral development banks. The potential returns from investments in capacity are also very large. For example, the World Bank has estimated that bringing the efficiency of all Asia-Pacific economies' ports up to no more than half of the best practice already achieved by some, would lead to a \$280 billion benefit. Therefore, governments, multilateral development banks and the private sector should treat capacity-building as an investment towards reducing the transaction costs of international commerce. They will need to work together to mobilize the necessary resources from international capital markets. **JS**

### Sidebar

The following publications are among the most relevant to the issue of economic integration in the Asia-Pacific region:

*The Politics and Economics of Integration in Asia and the Pacific*, ed. Shiro Armstrong (Routledge, 2011)

*21st Century Regionalism: Filling the Gap between 21st Century Trade and 20th Century Trade Rules* by Richard Baldwin:  
<http://www.cepr.org/pubs/PolicyInsights/PolicyInsight56.pdf>

*Infrastructure for a Seamless Asia* (2009), a joint report of the ADB and the ADB Institute:

<http://www.adbi.org/files/2009.08.31.book.infrastructure.seamless.asia.pdf>

ASEAN Economic Community Blueprint, ASEAN Secretariat (2003): <http://www.aseansec.org/5187-10.pdf>

ASEAN Master Plan on Connectivity:  
<http://www.aseansec.org/documents/MPAC.pdf>

ADB Institute Research Policy Brief 33, June 2011 (detailing practical steps for investment in regional integration):

<http://adbi.org/files/2011.07.08.rpb33.financing.infrastructure.connectivity.asia.pdf>

*Andrew Elek is executive director of Bellendena Partners, an economic consultancy specializing in international economic cooperation issues. He is a research associate of the Crawford School of Public Policy at the Australian National University and member of the Australian Pacific Economic Cooperation Committee (AUSPECC). He has worked extensively in development economics in Asia and the South Pacific, including as senior economist with the World Bank.*