

## COMPETITIVENESS TOWARDS ASEAN ECONOMIC COMMUNITY

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### ABSTRACT

*ASEAN Economic Community will be the driving force of an economic integration within ASEAN countries, and between ASEAN countries and the rest of the world. Many believe the economic integration will realize ASEAN framework as a single market and production base, to increase competitive economic region, to support more equitable economic development, and as a stepping stone toward full integration into global economy. Commitments of the implementation of AEC Blueprint by ASEAN member countries will be a crucial role to achieve the objective of the ASEAN Vision, Mission, and Targets.*

**Keywords:** AEC, ASEAN, Economic Community

### INTRODUCTION

Economic integration through trade and investment has been a major driving force for ASEAN's growth and economic development over the past decades. In recognition of the benefits of economic integration and to formalize the process, the ASEAN member countries have been moving forward from ASEAN Free Trade Area (AFTA) towards a creation of ASEAN Economic Community (AEC). The AEC, along with two other pillars, the ASEAN Security Community and the ASEAN Socio-Cultural Community, make up the ASEAN Community as declared in the Bali Concord II and in line with the ASEAN Vision 2020, or possibly even 2015.

ASEAN's activities to realize the AEC focus on: (i) intensifying current economic initiatives and accelerating the integration of eleven identified priority sectors within ASEAN; (ii) removing, to the extent feasible and agreeable to all Member Countries, barriers to the free flow of goods, service, skilled labor, and a freer flow of capital by 2010; (iii) developing essential elements or

conditions for ASEAN to function as a single market and production base through measures that enhance the attractiveness of ASEAN as an investment destination, accelerate the liberalization of trade in goods, improve trade and business facilitation, reduce trade transaction cost, upgrade the competitiveness of ASEAN Small and Medium-sized Enterprises (SMEs), strengthen the ASEAN Dispute Settlement System, and promote regional trade in services, among others; and (iv) pursuing strong external economic relations and terms of trade with Dialogue Partners through the establishment of free trade areas (FTAs) and Closer Economic Partnerships (CEPs).

### ASEAN AND ECONOMIC INTEGRATION

The Association of South-East Asian Nations or ASEAN was established on 8 August 1967 in Bangkok by the five original member countries, namely, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Lao PDR and

Myanmar on 23 July 1997, and Cambodia on 30 April 1999. The ASEAN Secretariat is based in Jakarta, Indonesia.

A decade of political stability and regional security inspired ASEAN member states to foster regional economic growth, reduce poverty and improve living standards by adopting the Industrial Projects Plan (1976), Preferential Trading Arrangement (PTA-1977), Industrial Complementation Scheme (1981), Industrial Joint-Ventures Scheme (1983) and enhanced PTA (1987). This was followed by a more ambitious effort with the signing of Common Effective Preferential Tariff Scheme for ASEAN Free Trade Area (CEPT-AFTA) in 1992, aimed at lowering/eliminating tariff barriers and eliminating non-tariff barriers among the member states.

In the beginning, ASEAN primarily pursued political goals, striving for peace and security in Southeast Asia. ASEAN has indeed largely contributed to the overall stability in Southeast Asia. From the late 1970s onwards, ASEAN countries also started to give thought to closer economic collaboration, but tangible achievements as to that remained limited for a long time. Although a Preferential Trading Agreement (PTA) was agreed upon in 1977, its impact was limited: the tariff concessions that ASEAN countries granted within this PTA framework were just small, or related to products that represented only a marginal proportion of intra-ASEAN trade. At that time, ASEAN countries were not ready to open up yet, mainly due to the development gap that existed between the member states and apparent by the fact that some members scrupulously stuck to import substitution strategies. Moreover, economic growth rates in the region were high anyway, so ASEAN members did not really feel the need to push ahead with trade liberalization efforts. It was only in the second half of the 1980s that trade liberalization seriously started to make way in the ASEAN. By then, ASEAN countries had gained enough self-confidence and to speed up

trade liberalization efforts. Finally, ASEAN members also wanted to arm themselves against the newly developed trading blocs of NAFTA and the EU, as they were concerned about their exports to these huge markets. In January 1992, ASEAN leaders decided to take their trade liberalization efforts to a higher level, by establishing the ASEAN Free Trade Area (AFTA). In 1995 they also concluded the supplementary ASEAN Framework Agreement on Services (AFAS) and in 1998, ASEAN ministers established the ASEAN Investment Area (AIA).

The AFTA Agreement went much further than the former PTA, concluded in 1977: the new agreement aimed at reducing tariffs on a large range of products, but also strived for the elimination of nontariff barriers, quantitative restrictions and other cross-border measures. By eliminating tariff barriers among ASEAN members, AFTA would turn the ASEAN economies into a single production base and would simultaneously create a regional market of 500 million consumers. The AFTA agreement envisioned staged trade liberalization, reducing tariff rates levied on intra-ASEAN imports to no more than five percent over a period of 15 years. Tariff reductions only apply to products that comply with the "ASEAN content requirement". This means that at least 40 percent of the value of a product must originate in ASEAN countries. According to the original plan, AFTA would be fully established by 2008. However, already in 1994 ASEAN Economic Ministers decided to accelerate the process, advancing the completion date to 2003. In 1995, the target date was advanced further to 2002. At the same time, it was decided that tariffs on intra-ASEAN imports should be completely eliminated by 2010 for ASEAN-6 (Indonesia, Malaysia, Philippines, Singapore, Thailand and Brunei Darussalam) and by 2015 for ASEAN CLMV (Cambodia, Laos, Myanmar, and Vietnam).

The Common Effective Preferential Tariff (CEPT) Scheme was introduced to implement the AFTA Agreement in practice. The CEPT Scheme encompassed manufactured and semi-manufactured products, including capital goods and processed agricultural products. Initial target date for completion of CEPT-AFTA was in 15 years (1993-2008). Later, it was brought forward to 2003 in response to 1997/1998 financial crises, the target date was set on 1<sup>st</sup> January 2002 for six original member states (ASEAN-6). Products are grouped under 5 categories: inclusion list (IL), sensitive list (SL), highly sensitive list (HSL), temporary exclusion list (TEL), General Exception List (GEL)

The liberalization process was carried out at different speeds according to the product group: distinction was made between a "fast track" scheme and a "normal track" scheme. Products in the Inclusion List (IL) had to be immediately liberalized through a reduction of the CEPT tariff rates to a maximum of 5 percent by 2002. The ASEAN CLMV countries were allowed to apply less stringent deadlines: Vietnam has to meet this objective by 2006, Laos and Myanmar by 2008 and Cambodia by 2010. The AFTA Agreement also allowed for the exclusion of certain "sensitive" products from tariff reduction under the normal or fast track scheme. Therefore, Temporary Exclusion Lists (TEL), Sensitive Lists (SL) and General Exception Lists (GE) were drawn up by all ASEAN members. Products in the Temporary Exclusion List (TEL) can be excluded from trade liberalization for a limited period of time. In the end, all products in the TEL have to be transferred to the Inclusion List (IL) in order to bring tariffs down to a maximum of 5 percent. The Sensitive List (SL) primarily contains raw (unprocessed) agricultural products.

Trade in these products has to be liberalized by 2010 for the ASEAN-6, while the new members get an even more extensive

time frame. Products in the General Exceptions List (GE) are permanently excluded from trade liberalization on grounds of protection of national security, public morals, public health, environmental protection and protection of articles of artistic, historic or archaeological value. More than 99 percent of the products in the CEPT Inclusion List (IL) of ASEAN-6 now have tariffs of no more than 5 percent. Some of critical product groups are still excluded from the AFTA agreements, such as rice and sugar.

More specifically on the tariff commitments, for the inclusion list, the end rates of within 0 - 5 percent for ASEAN-6 should have been completed by 2002. Quantitative Restrictions (QRs) and Non-Tariff Barriers (NTBs) are being removed. Sixty percent tariffs under IL should have been brought to 0 percent by 2003, 80 percent by 2007/2008 and 100 percent by 2010. For the sensitive list, products under this category be phased in into IL by January 2005 shall have 0 percent - 5 percent tariff rates by January 2010. QRs and NTBs are being removed by January 2010. For the groups of products under highly sensitive list, products under this category should have been transferred gradually into IL by January 2005. Ending rates for remaining HSL should be 20 percent by January 2010. For the groups of products under temporary exclusion list, products excluded temporarily from commitment should have been transferred gradually into IL by January 2005. Groups of products are allowed to be put under general exclusion list. Products excluded from commitment for reasons of: national security, public morals, protection of human, animal, plants and health, protection of articles of artistic, historic and archeological values.

ASEAN Leaders are trying hard to spread the use of the CEPT Scheme among local business sectors. The CEPT Rules of Origin and its Operational Certification Procedures have been recently revised to better suit the

demands of the business environment. The changes include the introduction of a standardized method of calculating local/ASEAN content, a set of principles for determining the cost for ASEAN origin and the guidelines for costing methodologies, a clear and specific treatment of locally-procured materials, and an improved verification process, including on-site verification.

ASEAN leaders also realize that non-tariff barriers remain a major obstacle in the process of arriving at a free flow of goods within the region. The elimination of indefensible non-tariff measures (NTMs) is ongoing. A database on ASEAN NTMs has been set up to get a better overview of the remaining barriers. ASEAN leaders also invited the private sector to notify all unknown or unlisted NTMs so that they can be eliminated subsequently. Another possible obstacle to the free movement of goods is the divergence of product standards and technical regulations. Therefore, the ASEAN Coordinating Committee on Standards and Quality (ACCSQ) has been made responsible for the implementation of the ASEAN Framework Agreement on Mutual Recognition Arrangements and for the harmonization of technical regulations and product standards. Finally, all member states are urged to comply with the WTO Agreement on Import Licensing as soon as possible. The ultimate target of any FTA is to arrive at zero tariff rates and to bring about an integrated market with free circulation of goods. The ASEAN-6 countries should accomplish this target by 2010 and the ASEAN-CLMV countries by 2015.

In 2003, ASEAN leaders also agreed to target 11 Priority Integration Sectors (PIS) to be liberalized by 2010. In 2005 logistic services was added as one of the PIS. The PIS are agro-based products; air travel; automotive; e-ASEAN; electronics; fisheries; healthcare; rubber-based products; textiles and apparel; tourism; and wood-based products, and logistic services

The mechanism of AFTA has been monitored by the AFTA Council which meets on a regular basis. The monitoring applies different criteria of origin of goods, i.e. local/ASEAN content (40 percent), change in tariff classification (CTC), specific process (e.g. for textile, garment and chemicals), ASEAN cumulative rules of origin (threshold 20 percent). Rules of origin are adjusted over time to respond to changing nature of production and trade. The principle applied in the monitoring is "adopt rules that are liberal if not more liberal than the rules in ASEAN FTAs".

To meet the commitments, the process of full tariff elimination is progressing. AFTA is now approaching very close to its full realization ASEAN-6 achieved the 80 percent target of tariff elimination, including those in the Priority Integration Sectors by end of 2007. Tariffs on 71.4 percent of the products in the IL of ASEAN-6 have been eliminated. The average tariff for ASEAN-6 under the CEPT Scheme is now down to 1.6 percent from 12.8 percent in 1993. The average CEPT rate for CLMV is 4.4 percent, down from 4.7 percent in 2006. Tariffs on 98.7 percent of the products in the IL of ASEAN-6 have been brought down to the 0-5 percent range. Products in the IL which continue to have tariffs above 5 percent are those which have been transferred from the TEL, SL, HSL and GE. The CLMV Countries are not far behind the original CEPT Agreement signatories as 97.3 percent of their products have been brought into the IL and tariffs on 86.2 percent of these items have already been reduced to the 0-5 percent band. Furthermore, verifications and cross-verifications are currently being undertaken on the Non-Tariff Measures (NTMs) in ASEAN with a view to identifying measures that are barriers to trade.

For a building block for better economic integration in ASEAN, AFTA provides a training ground for a more disciplined arrangement. A market of 567.4 million (80

percent are under 40 year of age) with a combined GDP of \$1,074 billion in 2006 offer scope for economies of scale. Some members have performed exceptionally well with higher growth rates, more stable macro-economy, more conducive trade and investment regimes, and developed institutions and capacity. Those countries are more globally integrated and increasingly becoming more integrated with Asia, offering scopes for investors to use ASEAN as an export platform to non-ASEAN markets. Different levels of development and factor endowments in ASEAN offer space for investors to utilize complementarities in a single production base. After a full implementation of IL of CEPT-AFTA at the end of 2002, intra ASEAN export from 2002 to 2007 grew faster at around 22 percent on average per year than ASEAN export to the rest of the world at around 18 percent on average per year. FDI inflows into ASEAN countries also grew significantly at around 36 percent on average per year, particularly in the ASEAN-5, the FDI inflows grew at around 45 percent on average per year. Increased trade and investment contribute to sound ASEAN economic growth over the years, between 5 - 6 percent. The growths are considered high compared to the other regional economies and given that ASEAN countries were just suffered from the economic crises.

The Implementation of economic integration under AFTA has been less impressive than expected. A number of factors are at play but some seem critical than others. They are, among others; lack of clarity in the application of Rules of Origin, problems with customs procedures, lack of business awareness, lack of dispute settlement mechanisms, little progress on the actual removal of non-tariff barriers, declining margins of preference as "Most Favored Nation" tariffs have also come down, continued growth of economic muscles of China and, to a lesser extent, India that tightens competitions in the region; and backtracking from original commitments by some members

## TOWARDS AN ASEAN ECONOMIC COMMUNITY

In 2003, the ASEAN Leaders resolved that an ASEAN community shall be established comprising three pillars, namely, ASEAN Economic Community, and ASEAN Socio-Cultural Community. By establishing an Economic community, ASEAN leaders hope to integrate the national markets of the member states. This integration process should fully take advantage of the diversities in the region to further specialize the much needed economies of scale. It is hoped that every ASEAN member will then be able to fully exploit its comparative advantages, leading to a more competitive region as a whole.

The ten nations of ASEAN have committed to build an Economic Community. They plan to bring down barriers to goods, services, skilled labor and capital to create a single market in region. This could help ASEAN to establish itself as a higher growth area in Asia, meeting the challenges and opportunities presented by the rise of China and the emergence of India as one of the world's fastest growing economies. Throughout the 1990s, ASEAN formulated a number of plans for deeper economic integration. ASEAN's new vision would accelerate the process. In December 1997, the ASEAN Leaders at their Summit in Kuala Lumpur decided to transform ASEAN into a stable, prosperous, and highly competitive region with equitable economic development, and reduced poverty and socioeconomic disparities.

At the Bali Summit in October 2003, ASEAN Leaders declared that the ASEAN Economic Community shall be the goal of regional economic integration (Bali Concord II) by 2020. Subsequently, the ASEAN Economic Ministers Meeting (AEM) held in August 2006 agreed to develop a single and coherent blueprint for advancing the AEC by identifying the characteristics and elements of the AEC by 2015, consistent with clear targets

and timelines for implementation of various measures as well as pre-agreed flexibilities to accommodate the interests of all ASEAN Member Countries.

At the 12<sup>th</sup> ASEAN Summit in January 2007, the Leaders affirmed their strong commitment to accelerate the establishment of an ASEAN Community by 2015 as envisioned in the ASEAN Vision 2020 and the ASEAN Concord II, and signed the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015. In the ASEAN Economic Ministers 2006-2007, ASEAN agreed to create a Blue Print for AEC, which identifies the end of the goal and the process to reach the end of the goal. AEC should not be based on the AFTA in which an agreement was reached first and the details negotiated afterwards. 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.

The ASEAN Economic Community (AEC) shall be the end-goal of economic integration measures as outlined in the ASEAN Vision 2020. Its goal 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, along with equitable economic development and reduced poverty and socio-economic disparities within and across its Member Countries. The AEC shall establish ASEAN as single market and production base, turning the diversity that characterizes the region into opportunities for business complementation and making the ASEAN a more dynamic and stronger segment of the global supply chain. ASEAN's strategy shall consist of the integration of ASEAN and enhancing ASEAN's economic competitiveness.

In moving towards the ASEAN Economic Community, ASEAN has agreed on the following; institute new mechanisms and

measures to strengthen the implementation of its existing economic initiatives including the ASEAN Free Trade Area (AFTA), ASEAN Framework Agreement on Services (AFAS) and ASEAN Investment Area (AIA); accelerate regional integration in the following priority sectors by 2010: air travel, agro-based products, automotives, e-commerce, electronics, fisheries, healthcare, rubber-based products, textiles and apparels, tourism, wood-based products, and logistic services; facilitate movement of business persons, skilled labor and talents; and strengthen the institutional mechanism of ASEAN, including the improvement of the existing ASEAN Dispute Settlement Mechanism to ensure expeditious and legally-binding resolution of any economic disputes.

Other major integration-related economic activities of ASEAN include; roadmap for Financial and Monetary Integration of ASEAN in four areas, namely, capital market development, capital account liberalization, liberalization of financial services and currency cooperation; trans-ASEAN transportation network consisting of major inter-state highway and railway networks, including principal ports, and sea lanes for maritime traffic, inland waterway transport, and major civil aviation links; roadmap for Integration of Air Travel Sector; interoperability and interconnectivity of national telecommunications equipment and services, including the ASEAN Telecommunications Regulators Council Sectoral Mutual Recognition Arrangement (ATRC-MRA) on conformity Assessment for Telecommunications Equipment; trans-ASEAN Energy networks, which consist of the ASEAN power Grid and the Trans-ASEAN Gas Pipeline Projects; initiative for ASEAN Integration (IAI) focusing on infrastructure, human resource development, information and communications technology, and regional economic integration primarily in the CLMV countries; visit ASEAN Campaign and the private sector-led ASEAN Hip-Hop Pass to promote intra-ASEAN tourism; and

agreement on the ASEAN Food Security Reserve.

The AEC is the realization of the end goal of economic integration as espoused in the Vision 2020 which is based on a convergence of interests to deepen and broaden economic integration through existing and new initiatives with clear timelines. In establishing the AEC, ASEAN shall act in accordance to the principles of an open, outward-looking, inclusive, and market-driven economy consistent with multilateral rules as well as adherence to rules-based systems for effective compliance and implementation of economic commitments.

The AEC envisages the following key characteristics: (1) a single market and production base, (2) a highly competitive economic region, (3) a region of equitable economic development, and (4) a region fully integrated into the global economy. These characteristics are inter-related and mutually reinforcing. Incorporating the required elements of each characteristic shall ensure the consistency and coherence of these elements as well as their implementation and proper coordination among relevant stakeholders.

An ASEAN single market and production base shall comprise five core elements: (i) free flow of goods; (ii) free flow of services; (iii) free flow of investment; (iv) free flow of capital; and (v) free flow of skilled labor. In addition, the single market and production base also include two important components, namely, the priority integration sectors, and food, agriculture and forestry.

The concrete actions to freer goods are among others; tariff elimination (except SL and HSL) by 2010 for ASEAN-6 and 2015 for CLMV; elimination of NTB by 2010; commitment to "standstill," "roll-back," and transparency of NTMs, Reform of ROO (advance rulings, Operational Certification Procedures, study the possibility for implementing cumulative mechanism) (AFTA Council's guideline: "adopt rules that are

liberal if not more liberal than the rules in ASEAN FTAs"), and trade facilitation (simplification, harmonization, standardization of trade, customs, process, procedures and flows of information), customs integration 2008-2011: customs techniques modernization; ASEAN Customs Transit System; tariff classification, modernization of customs valuation and origin determination; ASEAN e-Customs 2015; ASEAN Single Window 2008/2012; data element standardization, implementation of ICT. The actions on Standards and Conformance are single regulatory scheme for cosmetics (2010), MRA on Electrical and Electronic Equipment (2010), Common Technical Dossier (ACTD) for pharmaceuticals and medical devices (2010), harmonization of technical regulations on traditional medicine and health supplement (2011), MRA on good manufacturing practice inspection for pharmaceuticals (2010), post market alert systems for various sectors (2009), identification and harmonization more standards, technical regulations (i.e. wood, rubber, automotive), and enhancement technical infrastructure: labs, certification bodies, and post market surveillance.

Actions shall be taken in the free flow of services include; compile inventory of barriers to services by 2009; schedule 10 new subsectors for liberalization by 2008 (15 new subsectors by 2010, 20 new subsectors by 2012, 20 new subsectors by 2014, 7 new subsectors by 2015); 51 percent foreign equity participation for 4 priority services sectors, 49 percent for logistics (2008), 70 percent foreign equity participation for 4 priority services sectors (2010); remove market access limitation for Mode 3 (2009); set parameters of liberalization for national treatment limitation, Mode 4 and limitations in horizontal commitments (2009); MRAs for architectural, accountancy, surveying qualifications, medical practitioners and dental practitioners (2008), continue to develop MRAs for other professional services up to 2012; and

implement all MRA on professional services by 2015

In area of investments, actions shall be taken include finalizing ASEAN Comprehensive Investment Agreement—ACIA (2008), progressive reduction/elimination of investment restrictions and impediments (2008-2014 for ASEAN-8 and 2010-2015 for LM), investment facilitation referring to international best practices on investment measures (2010), publications (2008), FDI database (2008), networking among ASEAN Investment Promotion Agencies (2008), consultation with business sector, database on industrial clusters; and promotion and protection through joint investment missions, CLMV investment opportunities, seminars on investment protection and dispute settlement

Ministers of Finance of ASEAN countries have also discussed policies to free flow of capital through cooperation in capital market standards, mutual recognition agreements (MRA) for market professionals, tax structure to promote broader investor base in ASEAN debt issuance, exchange and debt market linkages liberalization of capital movements where appropriate and possible. Last but not the least, policies to free flow of skilled labor include enhance cooperation among ASEAN University Network (AUN) members to increase mobility for students and staffs in the region, MRAs in major professional services (including PIS) by 2008, and develop core competencies in PIS sectors by 2009 and all services sector from 2010 through 2015.

On the products under the PIS, there will be continuous bi-annual review to monitor PIS roadmaps and sector identification of specific projects or initiatives through dialogue with stakeholders. Indonesia is coordinator for automotive and wood based products. For the actions on the food, agriculture, and forestry, activities on enhancement for long-term competitiveness of ASEAN food, agriculture, and forestry products are carried through among others; fisheries quality management

system, harmonization of maximum residue limits of commonly used pesticides, guidelines on use of chemicals in aquaculture, legality standard for timber, and promotion of cooperation with international and regional organizations and private sector (i.e., on strategies, research, technology transfer, strategic alliance, investment)

A highly competitive economic region shall comprise six core elements: (i) competition policy; (ii) consumer protection; (iii) intellectual property rights (IPR); (iv) infrastructure development; (v) taxation; and (vi) e-Commerce. The improvements of competition are being done by introducing competition policy in all Members by 2015; establishing a network of competition agencies; capacity building; and regional guide on competition policy by 2010 based on experiences and international best practices. To protect the consumer, ASEAN will establish ASEAN Coordinating Committee on Consumer Protection (ACCCP); establish network of consumer protection agencies; and conduct regional training courses in preparation for an integrated ASEAN market. In the area of IPR, ASEAN members commit to implement ASEAN IPR Action Plan 2004-2010; conduct studies on copyrights; better management of IPR; amend laws and procedures in each member and seek agreement on suitable models. As for the infrastructure, there are several frameworks and roadmaps shall be the guidance, such as ASEAN framework agreement on multimode transportation, ASEAN framework agreement on the facilitation of goods in transit, ASEAN framework agreement on facilitation of interstate transport, roadmaps for integration of air travel sector, and roadmap towards an integrated and competitive maritime transport in ASEAN to promote intra ASEAN shipping market and services. In the information infrastructure, there would be Brunei plan action of ICT, MRA on conformity assessment for telecom equipment and certification of ICT professionals, best

practice e-commerce in the region, and general guidelines for coordinated ASEAN e-government. Energy cooperation are channeled by ratifying ASEAN Power Grid by 2008 and trans-ASEAN gas pipeline by adopting legal regulatory framework for cross-border gas pipeline transportation 2009, adopting common technical standards for construction, operation and maintenance 2011, and implement regional safety and security plan for TAGP 2013. For the taxation, ASEAN will have a network of bilateral agreements on avoidance of double taxation by 2010. In the area of e-commerce, the actions are to implement best practices in telecom competition policies; to prepare domestic legislation; to harmonize legal infrastructure for e-contracting and dispute resolution; and to have mutual recognition of digital signatures

Towards a region of equitable economic development, two main elements of cooperation are being strengthened, on the SME development and initiative for ASEAN integration. The ASEAN Policy Blueprint for SME Development (APBSD) 2004-2014 outlines the framework for SME development in the ASEAN region. The ASEAN Policy Blueprint for SME Development 2004-2014 (APBSD) promotes networking of SMEs and their participation in the building of regional production and distributions networks; and promote best practices in SME development, including SME financing. Furthermore, given the different levels of development among ASEAN Member Countries, there arises the need to ensure the deepening and broadening integration of ASEAN is accompanied by technical and development cooperation to address the development divide and accelerate the economic integration of the less developed ASEAN Member Countries so that the benefits of ASEAN integration are shared and enjoyed by all ASEAN Member Countries. This would allow ASEAN Member Countries to move in a unified manner. The Initiative for ASEAN Integration (IAI), launched in

November 2000, gives the direction and sharpens the focus of collective efforts to narrow the development gap not only within ASEAN but between ASEAN and other parts of the world as well. The IAI currently covers the following priority areas, namely infrastructure, human resource development, information and communications technologies (ICT), capacity building for regional economic integration, energy, investment climate, tourism, poverty reduction and improvement in the quality of life.

Towards full integration into the global economy, there shall be coherent approach towards external economic relations and enhanced participants in global supply networks. The actions include review FTA/CEP versus ASEAN internal integration commitments, enhanced coordination for common position in regional and multilateral forum, international best practices and standards in production and distribution, identification of technical assistance for LDCs, adoption/alignment of production and distribution in ASEAN with international best practices and standards (2012-2013), consistency in ASEAN's FTA/CEP agreements/commitments *vis a vis* ASEAN AEC commitments by 2015.

A strategic schedule that includes key milestones for a comprehensive and deeper economic integration shall form an integral part of this Blueprint. The schedule is divided into 4 (four) phases of priority actions. The phases are 2008-2009, 2010-2011, 2012-2013 and 2014-2015. The priority actions are described in detail and shall be the key indicator of AEC achievement. The ASEAN-4 member countries (Cambodia, Laos, Myanmar, and to some extent Vietnam) have a more flexible time. Indonesia is part of ASEAN-6 that will implement the Blueprint suitable to the schedule.

The AEC blueprint has some important advantages for Indonesia. The blue print is to set up a discipline and to give a direction and a

clear time framework to realize AEC. These will give a certain policy direction for government and private sectors. The AEC blueprint is also useful to pull together the agreed commitments (CEPT-AFTA, AFAS, AIA) and to broaden and deepen the commitments based on the principles of open, outward looking, inclusive, market driven, no back-loading of commitments but they still have an pre-agreed flexibility. The blue print is in line with the platform of economic reform in Indonesia both at the national and regional level. In this sense, the blue print is considered as an opportunity rather than threat. Having AEC Blue Print is also timely to fasten the process of Indonesian economic reform by improving its business climate. Furthermore, the AEC Blue Print which focuses on priority sectors provides better blue print and action plan towards better competitiveness.

The AEC has several implications for Indonesia. The process of AEC should be considered by Indonesian government, private sector, and civil society as a momentum to be a key regional player. The medium and long term vision, mission, target, and action plan of Indonesian economy should be reviewed in line with the process of ASEAN economic integration. Tariff and non-tariff protection and market access should be used to improve the competitiveness because the protection will not be effective anymore. It is necessary to study the implication of AEC Blue Print to the sectoral policies in Indonesia such as; national industrial strategy, energy policy, agriculture revolution, forestry and fishery, labor policy, and Indonesian chamber of commerce road map. Indonesia needs a "sectoral committee" from government, private sector, academia, and think-thank, to deepen the sectoral issues: where we are now, where should we go, how do we get there. Special attention to improve the competitiveness should be given to the supply chain. The main priority is on the 12 (twelve) Priority Integration Sectors (7 good sectors

and 5 service sectors) by making sectoral roadmap.

There are many challenges to Indonesia for the economic integration. The AEC and AEC Blue Print should have a full support from all stake holders; government, private sectors, and civil society. Indonesian laws, regulations, development plan need to be reviewed in line with the blue print and these will help to improve certainty for the business sector. Indonesia should start "Think ASEAN" and accepts ASEAN as a big family. Business sector should utilize ASEAN market as a stepping stones to global market.

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