

AEC BLUEPRINT 2025 ANALYSIS

LIBERALISATION OF THE TRADE IN GOODS

Forward

The following report is part of a series which attempts to provide a detailed analysis on the ASEAN Economic Community (AEC) Blueprint 2025. Each report will cover a single element of the blueprint, providing a comprehensive look at past achievements, present problems, and the future plans of the AEC. Special attention will be placed upon the strategic measures outlined in the AEC Blueprint 2025. This report aims to provide insight into the viability surrounding regional economic integration under the AEC.

A. Past Plans

What were the targets in the AEC 2015 Blueprint?

The goal of free flow of goods is a key element in achieving the AEC's first pillar within the 2015 blueprint, which details the creation of a single market and production base. Since 1967, several key agreements and actions were adopted in an effort to remove trade barriers and facilitate trade:

1. The ASEAN Free Trade Area (AFTA)

Signed in 1992, the AFTA detailed the implementation of a Common Effective Preferential Tariff (CEPT) scheme. This applied a 0%-5% tariff rate to goods traded between ASEAN member states.

2. The AEC Blueprint 2015

Adopted in 2007, the blueprint outlined strategic measures and also delineated a definitive timeline for the CEPT scheme to be implemented, which further enhanced AFTA.

3. The ASEAN Trade in Goods Agreement (ATIGA)

Ratified in 2009, ATIGA expanded on both the CEPT-AFTA and AEC Blueprint 2015. ATIGA also formalised the self-certification and ASEAN Single Window (ASW) concepts for trade facilitation and information sharing.

AEC 2015 Blueprint Strategic Measures

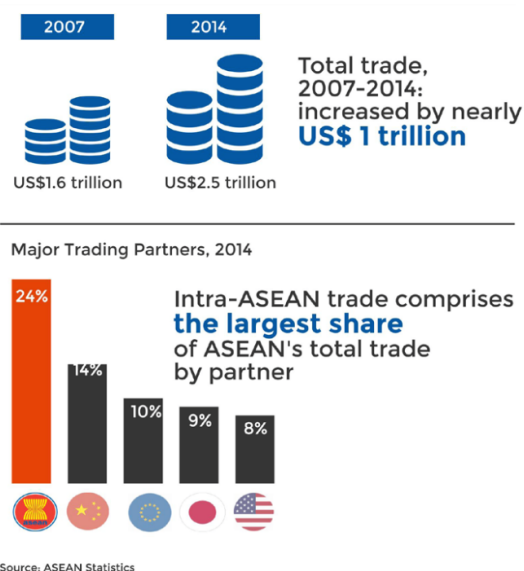
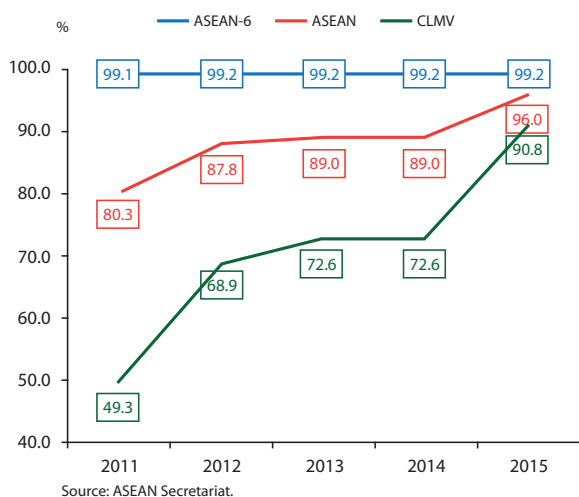
- i. The Removal of Tariff Barriers
- ii. The Removal of Non-Tariff Barriers (NTBs)
- iii. Defining the Rules of Origin (ROO)
- iv. A Trade Facilitation Work Programme
- v. Information Sharing
 - The ASEAN Single Window (ASW)
 - ASEAN Trade Repository (ATR)
- vi. Standards Harmonisation
- vii. Customs Integration
- viii. Removal of technical barriers

B. Past Achievements

What has been achieved?

Out of the targeted actions outlined above, the AEC's most significant accomplishment to date lies with the removal of tariff barriers; as of 2015, 95.99% of intra-regional tariff lines have been liberalised, 99.2% in the ASEAN-6 and 90.8% for CLMV nations. Information sharing initiatives and the harmonisation of technical and regulatory standards have gained traction, whilst groundwork provided by the ROO and NTB has paved the way for future action.

Share of Tariff Lines at 0% in the ATIGA Tariff Schedule



C. Present Challenges

What are the current issues?

Whilst import duties between the ASEAN-6 have been virtually eliminated, it should be noted that tariff reductions for CLMV countries are still underway and have been given a deadline in 2018. Several key areas still require progress, as outlined below:

1. NTB Measures

ASEAN nations face issues with the common classification of NTB measures, which in turn has impeded the rollback and halting of NTBs. Institutional fragmentation has also played a large part in hindering progress. (Cadot, Munadi, & Ing, 2013)

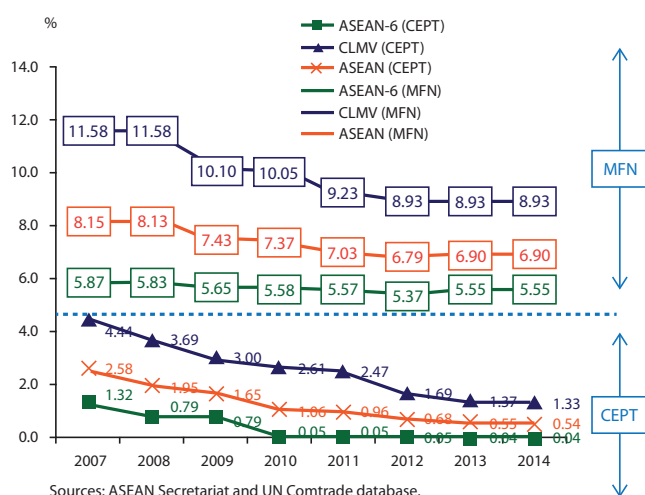
2. Rules of Origin

Currently, an estimated 80% of intra-ASEAN trade occurs at Most Favoured Nation (MFN) tariff rates rather than CEPT rates. (Menon and Melendez May 2015) This means that CEPT has not been as effective as intended, as caused by classification and certification related issues for trade.

3. Customs/Regulatory Harmonisation

A key issue cited by multinationals operating in Southeast Asia is the lack of uniform customs procedures and cross-border regulatory recognition. (Wood & Tam, February 2013)

ASEAN's CEPT/ATIGA Rates and Applied MFN Rates



D. Future Plans

What new measures are included in the AEC 2025 Blueprint?

- The AEC Blueprint 2025 hopes to capitalise upon previous successes by finalising CEPT implementation
- The AEC Blueprint 2025 focuses on several strategic planks when it comes to the free flow of goods:
 - At the foremost of those undertakings would be the facilitation of trade, which includes both information sharing and regulatory harmonisation initiatives
 - The addressing of NTBs remains largely undeveloped
- These strategic measures are analysed in depth below.

AEC 2025 Blueprint Strategic Measures

- Strengthening ATIGA
- Simplifying & Strengthening the ROO
- Trade Facilitation
 - The ASEAN Single Window (ASW)
 - ASEAN Trade Repository (ATR)
 - Authorised Economic Operators (AEO)
 - Public-Private sector collaboration
 - Minimise Non-Tariff Measures (NTMs)

E. AEC 2025 Blueprint Analysis

What do the measures entail?

Strategic Measure		Analysis
1	Strengthen ATIGA	
<ul style="list-style-type: none"> • Review ATIGA commitments against FTAs and the Regional Comprehensive Economic Partnership (RCEP) to entrench ASEAN centrality 	<ul style="list-style-type: none"> • Whilst the development of individual ASEAN+1 FTAs and the RCEP creates regional trade benefits, the possibility exists that ASEAN may be sidelined by larger and more powerful economies within the establishment of a regional agreement. (Shintaro Hamanaka December 2014) • As such, a firm commitment to ATIGA's key clauses and ASEAN Centrality is viewed as an important strategic measure in the face of future regional agreements. 	<p>The RCEP</p> <p>The RCEP initiative was announced in Nov 2011 during the 19th ASEAN Summit with the express goal of deepening economic engagements with its existing FTA partners.</p> <p>Nations with ASEAN +1 FTAs</p> <ul style="list-style-type: none"> • China, • Japan, • Korea, • India, • Australia and New Zealand
<ul style="list-style-type: none"> • Strengthen ATIGA's notification process 	<ul style="list-style-type: none"> • Under Article 11 of ATIGA's current agreement, member states are required to notify the ASEAN Secretariat and the Senior Economic Officials (SEOs) of other member states should they intend to undertake any action that may nullify or impair commitments outlined under ATIGA. • However, the classification of an action deemed as detrimental to ATIGA has yet to be defined and is largely subjective. • In the past, strategic measures that have been carried out include practical training to help standardise and inform the process for ATIGA notification by the ASEAN Regional Integration Support From The EU (ARISE). 	
<ul style="list-style-type: none"> • Complete the removal of remaining tariff barriers 	<ul style="list-style-type: none"> • Products initially listed on the "sensitive list" and "highly sensitive list" by AFTA-CEPT are to be integrated into the "inclusive list" by 2025. • CLMV nations will continue tariff reduction efforts in compliance with CEPT standards with a targeted deadline of 2018; the extended deadline was granted by ATIGA in recognition of the late membership of CLMV nations, as well as their relative ly developmental status. 	

Strategic Measure		Analysis
2 Simplify & Strengthen The ROO		
<ul style="list-style-type: none">Simplify the ROO with particular attention to Micro/Small/Medium Enterprises (MSMEs)	<ul style="list-style-type: none">The ROO for goods are currently listed under Articles 27 and 28 of ATIGA.However, the current set of rules has been criticised to be overly stringent and unresponsive to global trade landscapes. Furthermore, regulatory approval for ROO rulings have also been viewed as a burden on resources.A revision in both the rules and mechanisms by which the ROO will be implementedThe Authorised Economic Operators (AEO) and Self-Certification programmes discussed under Trade Facilitation are also directly applicable to solving ROO related issues.	
<ul style="list-style-type: none">Product Specific Rules (PSRs) are to be reviewed and negotiated	<ul style="list-style-type: none">PSRs are detailed under Annex 3 of ATIGA, and contain specific methodology for determining the origin of industry specific items.Although studies have been undertaken as recently as 2008 and the PSRs were revised under ATIGA in 2010, little to no headway has been made in the development of PSRs despite the growing complexity of production chains and new product classes.	
3 Trade Facilitation		
<ul style="list-style-type: none">Implement and widen the scope of ASEAN Single Window (ASW)	<ul style="list-style-type: none">The ASW offers a single point of entry where trade-related documents and information can be submitted to speed up customs clearances and reduce transaction times and costs.Currently, half of the ASEAN nations have begun live tests on the ASW.The Protocol on the Legal Framework (PLF) to implement the ASW has been ratified by all ASEAN nations.The PLF requires member states to implement the ASW by March 6 2016.	Nations Currently Conducting Live ASW Tests <ul style="list-style-type: none">VietnamIndonesiaMalaysiaThailandSingapore
<ul style="list-style-type: none">Operationalise the ASEAN Trade Repository	<ul style="list-style-type: none">The ASEAN Trade Repository (ATR), documents trade and customs laws and procedures in a public domain platform.This in essence facilitates the standardisation of customs regulation and practices in the region, whilst also engendering transparency in trade.To date, four ASEAN nations have completed their contributions to the ATR. The ATR has also seen its soft launch in 2015.	Nations Currently Conducting Live ATR Tests <ul style="list-style-type: none">MalaysiaIndonesiaLaosThailand

Strategic Measure	Analysis
<ul style="list-style-type: none"> • Deepen implementation of trade-facilitative initiatives such as: <ul style="list-style-type: none"> - Authorised Economic Operators (AEO) 	<ul style="list-style-type: none"> • AEOs indicate businesses that meet certain standards in relation to their security, management systems, compliance with customs rules and ongoing solvency. • Whilst most AEO certification happen at the national level, ASEAN hopes to develop a regional framework in 2016 (APEC Best Practices on Authorized Economic Operators) which will allow for the standardisation of AEOs across ASEAN.
<ul style="list-style-type: none"> - Self Certification Programme 	<ul style="list-style-type: none"> • Currently, all 10 member states are undertaking two Self-Certification Pilot Projects (SCPP), which shift the burden of ROO implementation from regulatory bodies to traders and manufacturers. • If successful, the adoption of self-certification schemes will cut certification costs and streamline the determination of the origin of goods.
<ul style="list-style-type: none"> • Strengthen Public-Private sector collaboration for effective trade 	<ul style="list-style-type: none"> • Although the mechanisms for facilitating Public-Private Partnerships (PPP) often lie in the domestic legislation of each member state, ASEAN has two main undertakings in this area; <ul style="list-style-type: none"> - An annual ASEAN PPP forum for sharing practices and policy has been put forth. - A common ASEAN PPP framework was drafted in 2014 with guidelines for PPP standardisation.
<ul style="list-style-type: none"> • Minimise trade protection and compliance costs in dealing with Non-Tariff Measures (NTMs): <ul style="list-style-type: none"> - Accelerate work towards elimination of NTMs 	<ul style="list-style-type: none"> • Whilst the AEC 2015 Blueprint and ATIGA staggered out the elimination of NTBs in a three tranche schedule, it has been recognised that little to no tangible progress has been made in this area. • Instead, several ongoing initiatives addressing issues preventing the rollback of NTBs have been undertaken: <ul style="list-style-type: none"> - Firstly, the 2013 Work Programme on Streamlining ASEAN NTMs has been agreed upon by member nations so as to institute standardised information sharing with regards to NTBs. - Secondly, the WTO-Consistent United Nations Conference on Trade and Development (UNCTAD) standards have been adopted in classifying NTMs.
<ul style="list-style-type: none"> - Standardise regulations through international standards, Good Regulatory Practice (GRP) and Mutual Recognition Arrangements (MRAs) 	<ul style="list-style-type: none"> • The harmonisation of standards allows for production networks to function smoothly in the region. • The AEC 2025 blueprint places a renewed focus on Mutual Recognition Arrangements (MRAs), which allows for technical and regulatory requirements to be synced up between nations. • So far, ASEAN has concluded three sectoral MRAs: <ul style="list-style-type: none"> - Electrical Equipment and Electronics (EEE), - Cosmetics, - Medicinal Products; • MRA's Currently in the works: <ul style="list-style-type: none"> - Foodstuffs, - Automotive, - Building and Construction;

E. Conclusion

What does the AEC 2025 Blueprint mean in terms of the Trade in Goods?

- Where the AEC 2015 Blueprint saw major strides in the removal of import duties, the AEC 2025 Blueprint places a greater focus on trade facilitation measures.
- In particular, the AEC 2025 Blueprint's two largest areas of focus will be the harmonisation of customs regulations and removal of technical and regulatory barriers. Whilst feasible, it should be noted that successful implementation of these two areas will require greater participation from CLMV nations in particular, as well as a firm commitment to regulatory transparency.
- Meanwhile, the removal of NTBs still remains a large challenge, with the preliminary job of classifying NTBs being ASEAN's greatest hurdle in the short term future. Long term aspirations in the full removal of NTBs are unlikely as examples of NTB elimination around the world have remained unsuccessful. (Majid November 2015)

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