

ASEAN FTA

ASEAN Economic Community and the case of Indonesia

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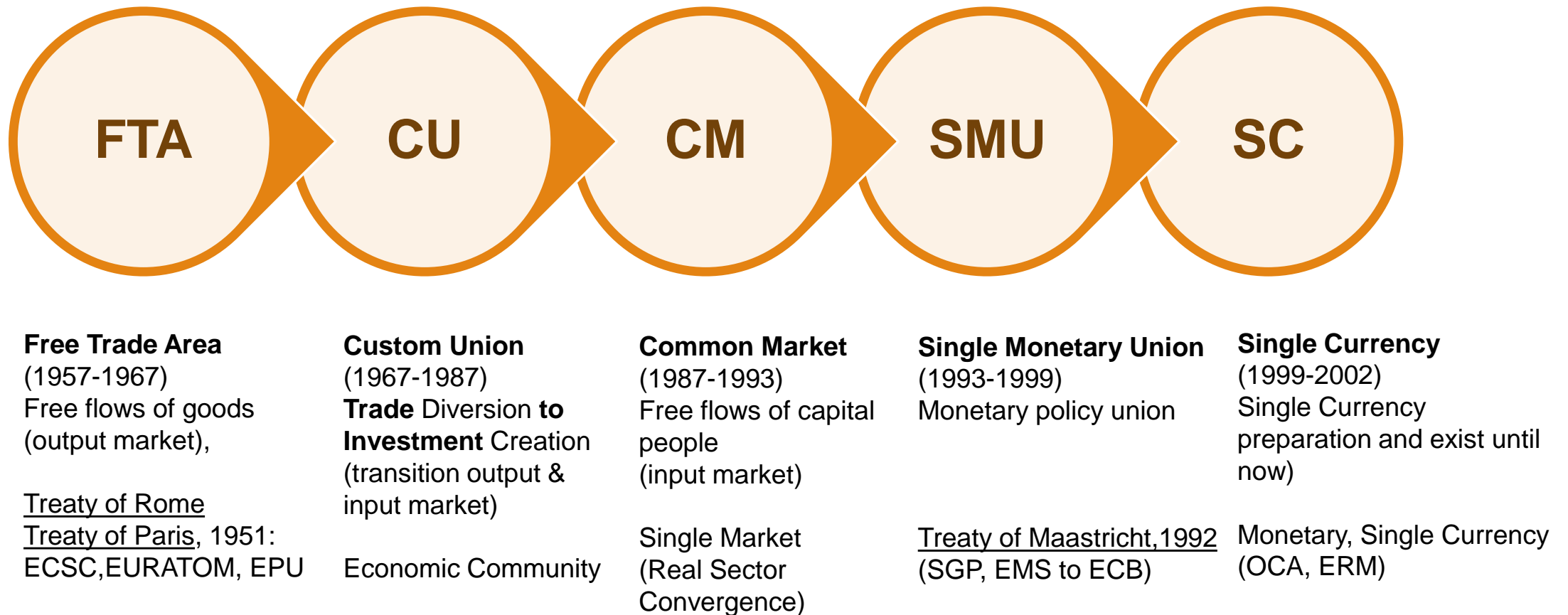
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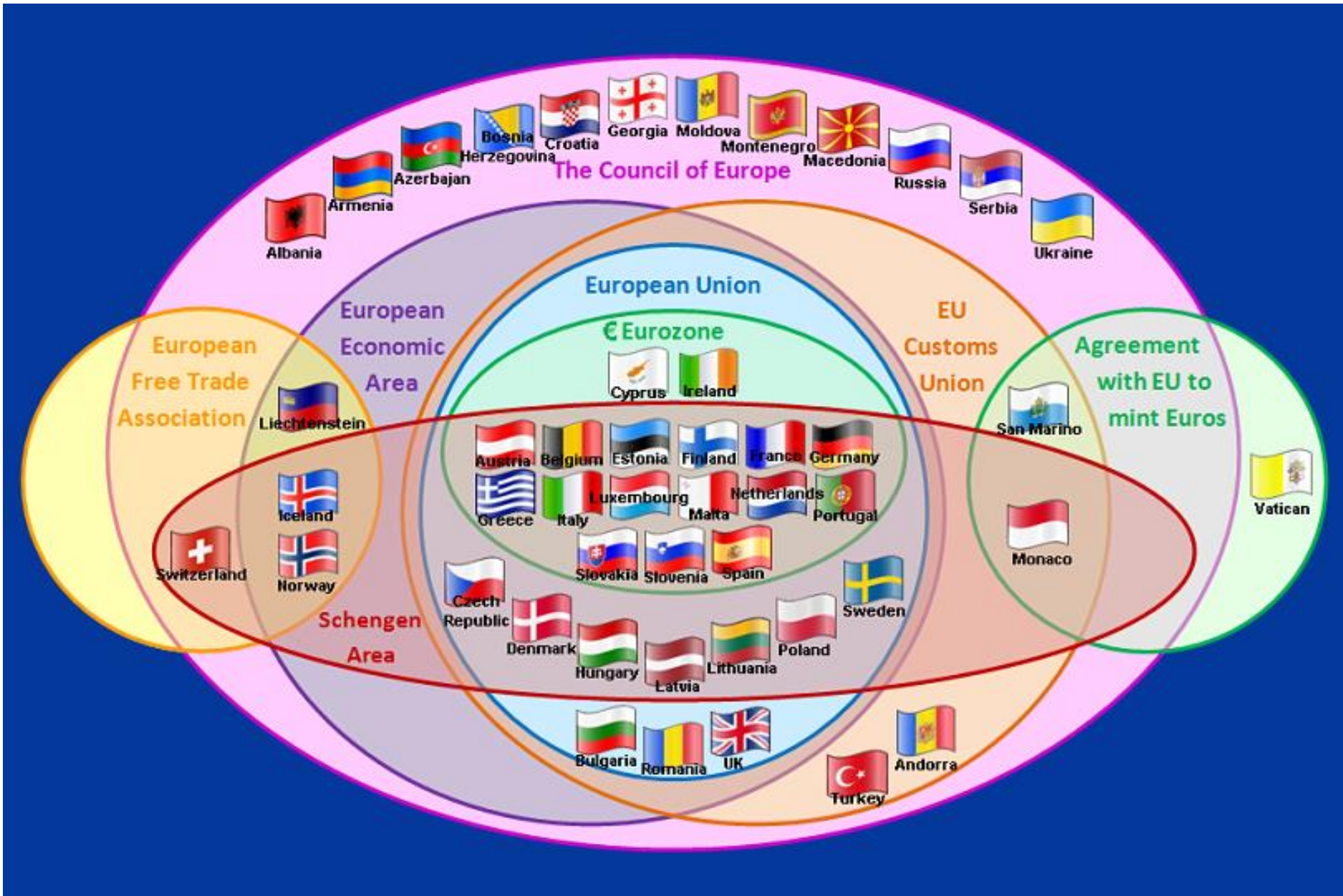
1.1. EU: History, Achievement & Theory



Economic Community and FDI Inflows

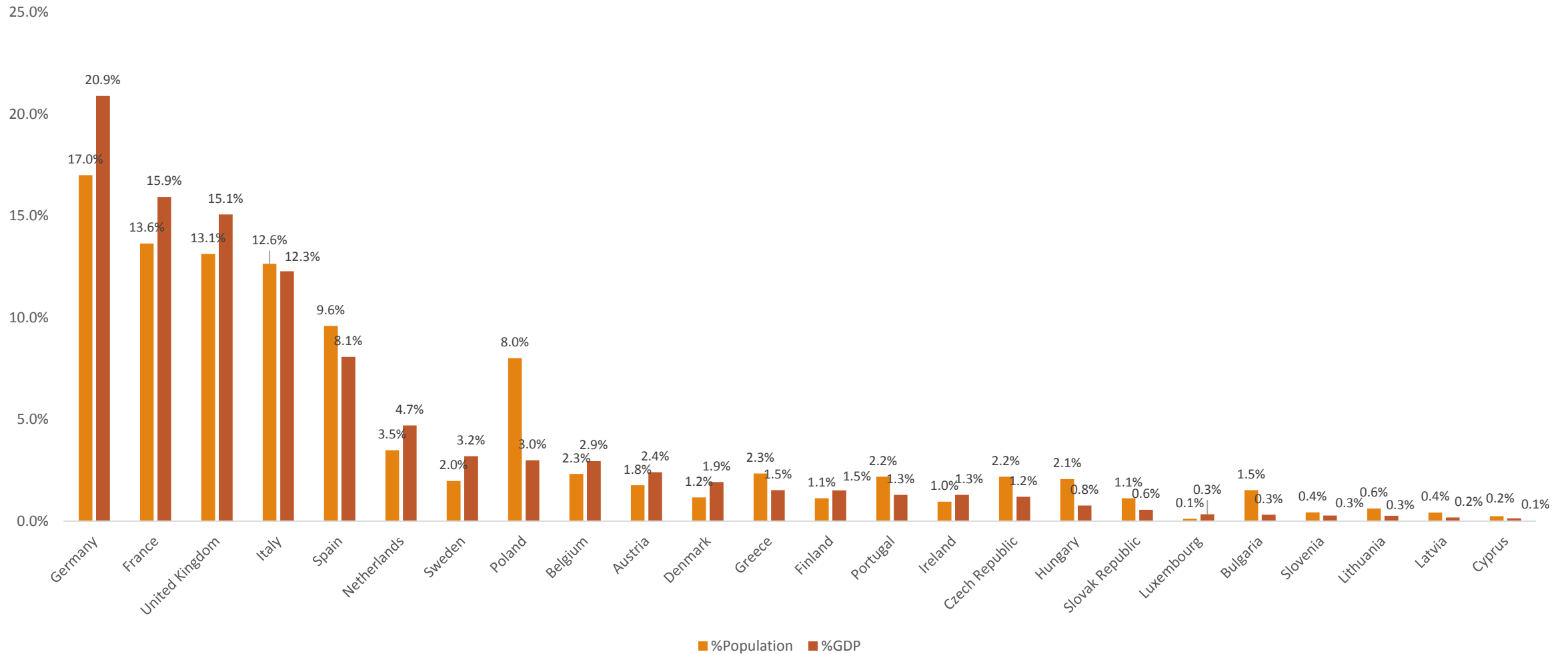
*'U.S. based surveys... revealed that U.S. firms were stepping up their investments in the **Community (EC/CU)** in anticipation of the benefits likely to be incurred by firms producing within the Community and no less important, to avoid the costs likely to be incurred by those remaining outside.... that **by remaining outside of the EU become less attractive to U.S. investors**'*

(John H. Dunning, 1990)



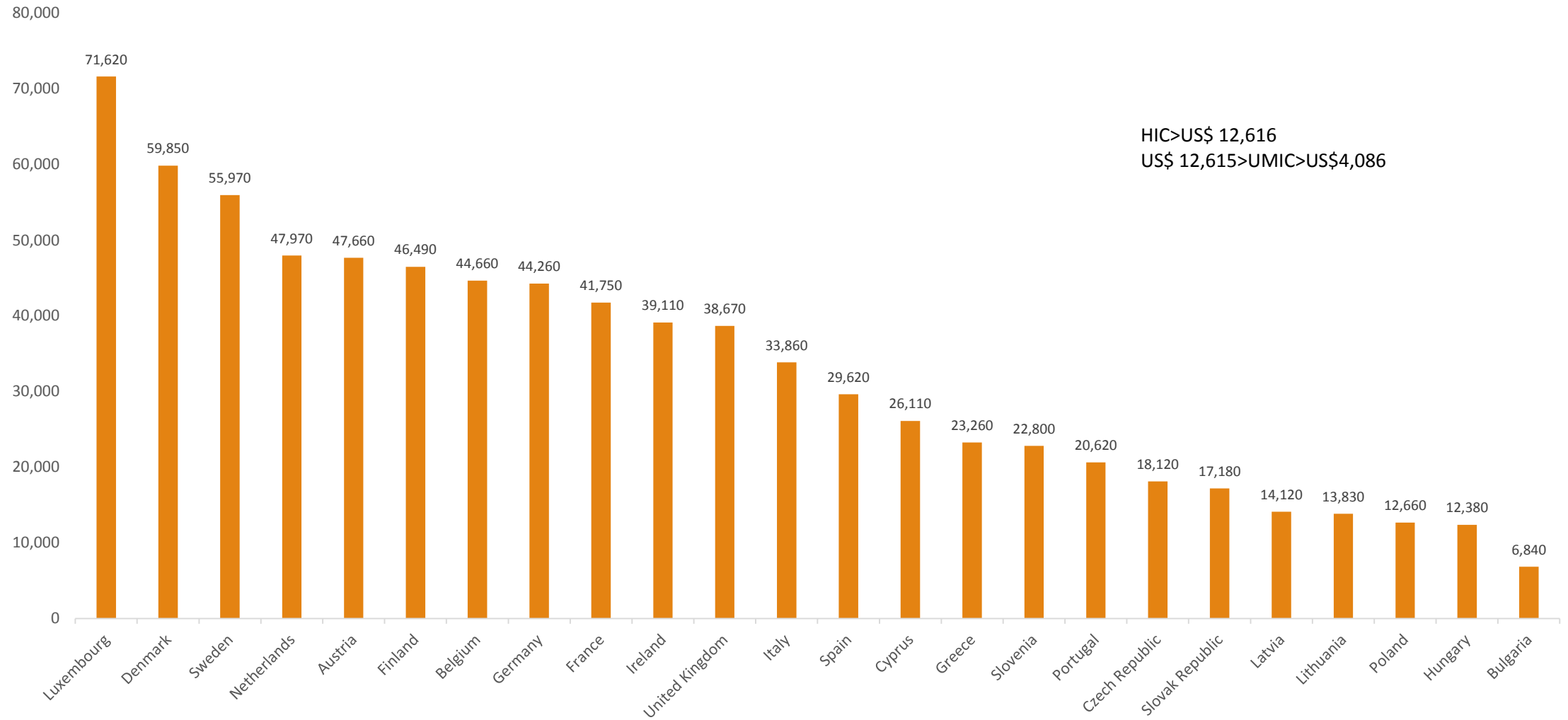
The Large - Economic Size - Member is the High-Income Country

% Population & % GDP of Total EU, 2012



The Large - Economic Size - Member is the High-Income Country

GNI per capita, Atlas method (current US\$),2012

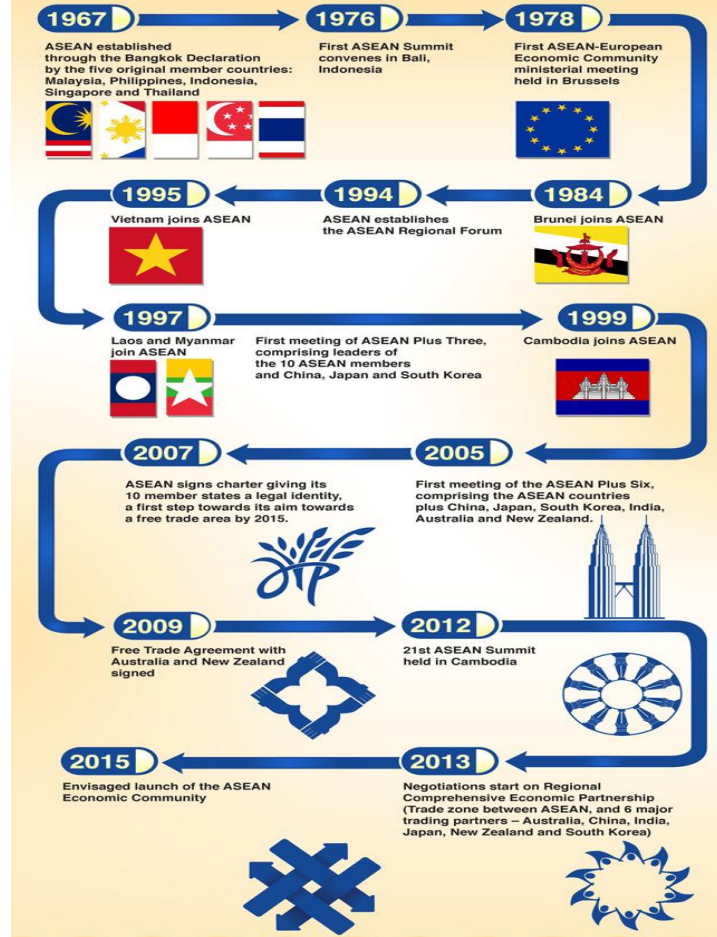


HIC > US\$ 12,616
US\$ 12,615 > UMIC > US\$ 4,086

1.2. AEI: History & Achievement



TIMELINE OF asean



ii inside investor

ASEAN Community

ASEAN Political-Security Community

- ASEAN Ministerial Meeting (AMM)
- ASEAN Regional Forum (ARF)
- Defence
- Law
- Transnational Crime

ASEAN Political-Security Community Blueprint

ASEAN Economic Community

- ASEAN Economic Ministers (AEM)
- ASEAN Free Trade Area (AFTA)
- Energy
- Food, Agriculture & Forestry
- Finance
- Investment
- Minerals
- Mekong Basin Development Cooperation
- Transport
- Telecommunication & IT
- Tourism

- Sectoral Bodies under the Purview of ASEAN Economic Ministers

ASEAN Economic Community Blueprint

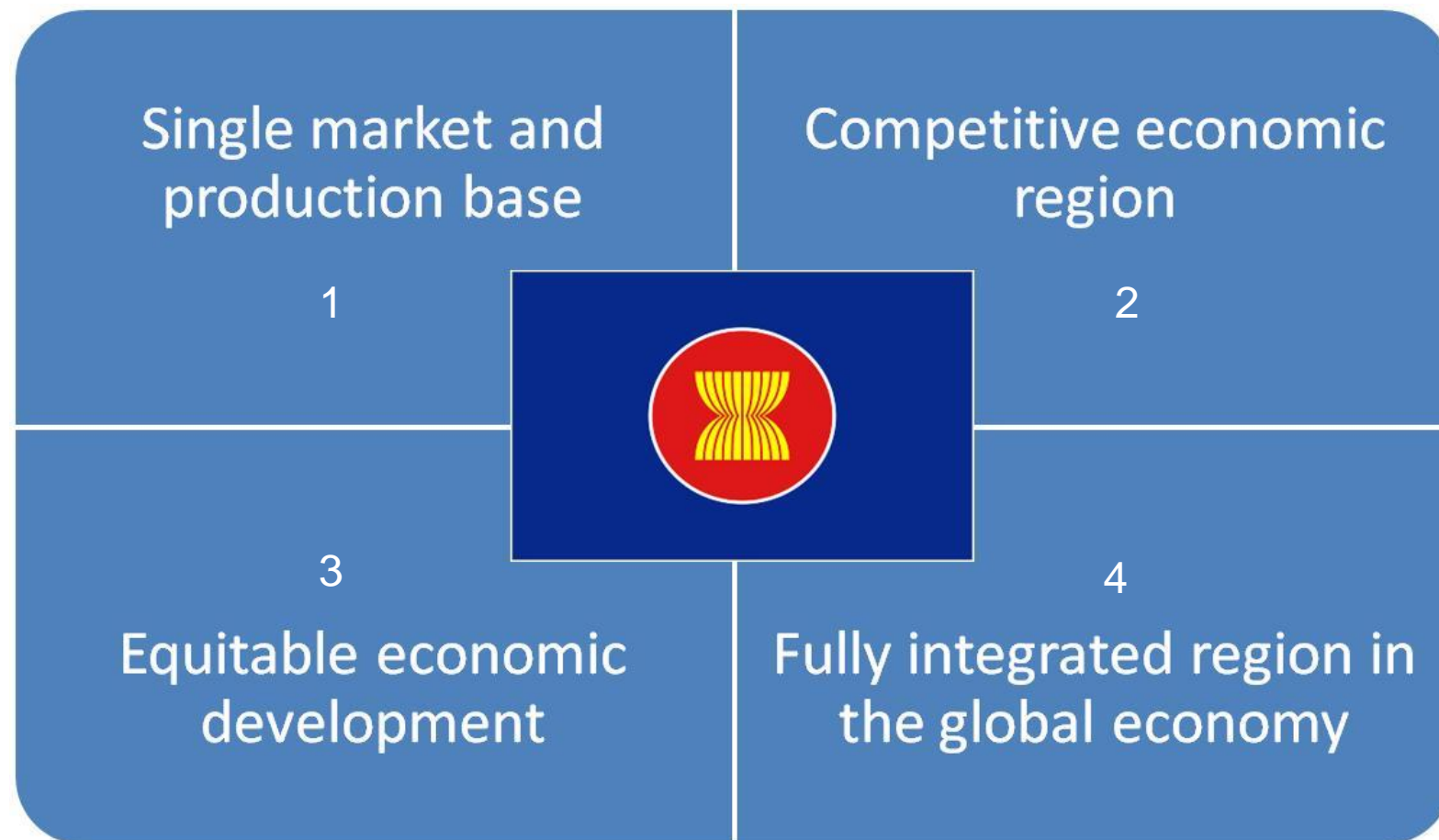
ASEAN Socio-Cultural Community

- Culture & Arts
- Disaster Management
- Education
- Environment
- Haza
- Health
- Information
- Labour
- Rural Development & Poverty Eradication
- Science & Technology
- Social Welfare & Development
- Women
- Youth

ASEAN Socio-Cultural Community Blueprint

Community Outreach

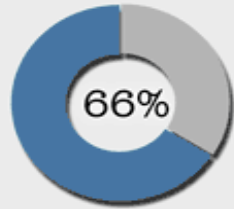
ASEAN Economic Community (AEC) 2015



1.3. AEC's Challenges

How well is ASEAN doing in achieving the AEC?

Below are the results from the AEC Scorecard

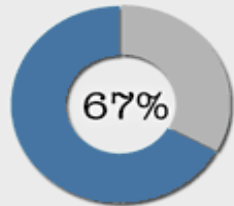
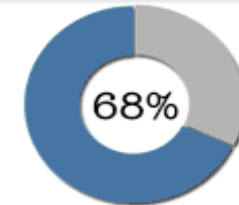


Pillar 1: A Single Market and Production Base

Measures that enable the free flow of goods, services, skilled labor, and capital within the region

Pillar 2: A Highly Competitive Economic Region

Measures that facilitate key areas of integration such as competition policy, consumer protection, intellectual property rights, and infrastructure development

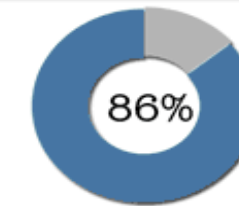


Pillar 3: A Region of Equitable Economic Development

Measures that promote the narrowing of the development gap

Pillar 4: A Region Fully Integrated into the Global Economy

Measures that relate to ASEAN's efforts to engage external partners

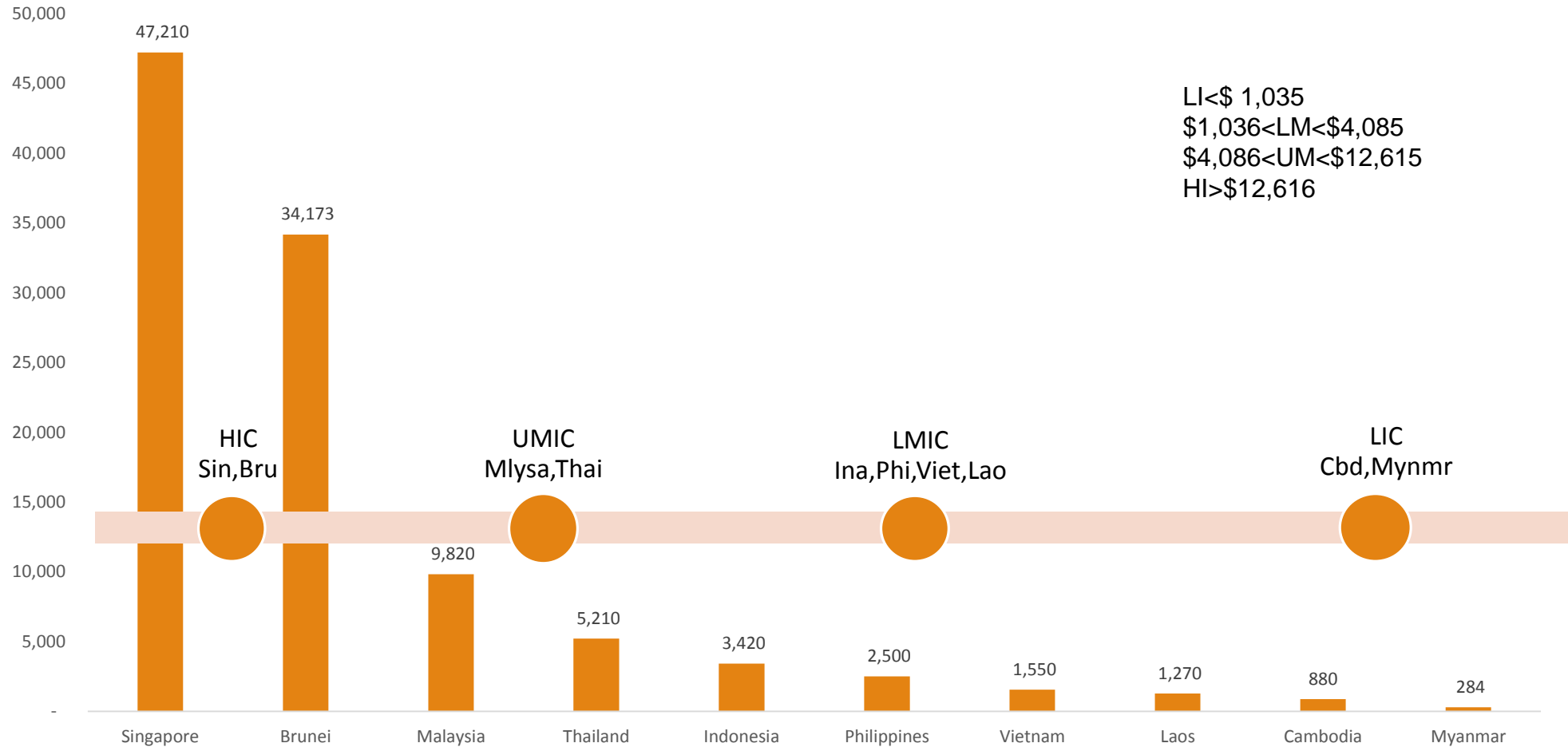


ASEAN Economic Community: Challenges

- **One of the key-success factors (evolution theory) in regional economic integration is the existence of ‘large and high-income member’ (EU). Unfortunately in ASEAN, the high-income member is not the large economic size member and the opposite (doughnut power alike).**
- **‘Soft and Open’ Regionalism compare to Hard and Closed Regionalism of EU**

The High-Income Country is not the Large - Economic Size - Member

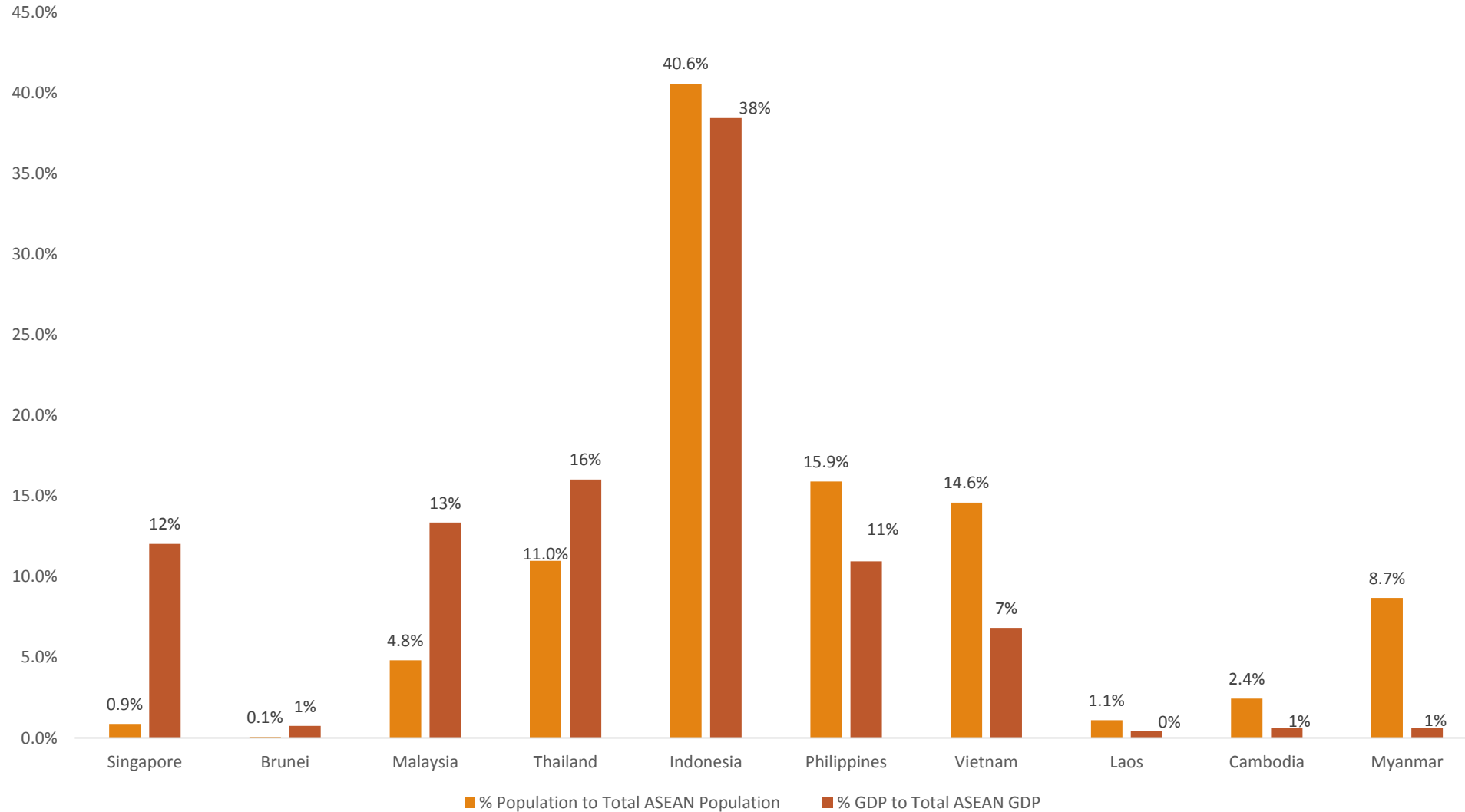
GNI per capita, Atlas method (current US\$), 2012



Source: Own calculation using WDI-WB data

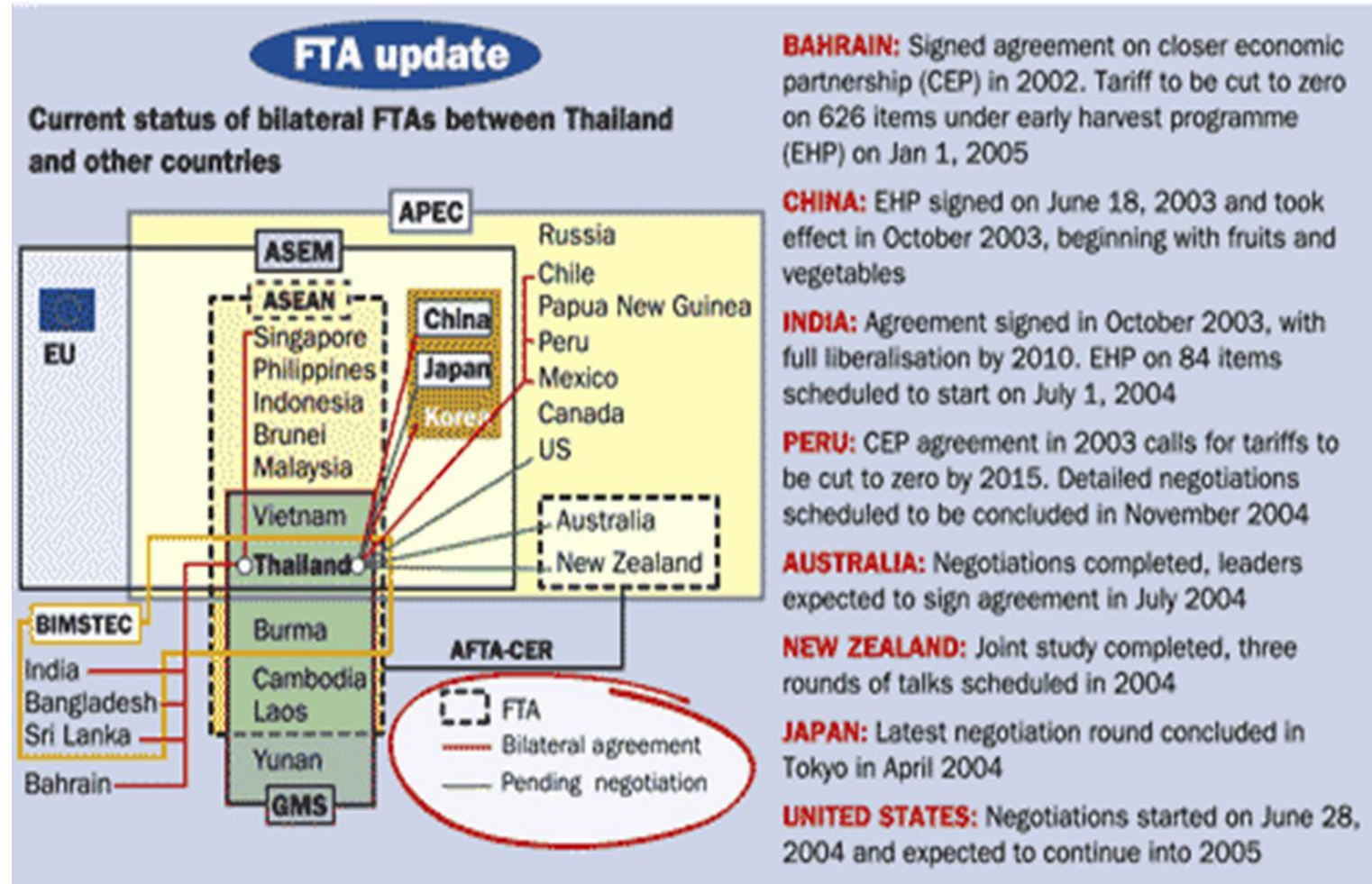
The Large - Economic Size - Member is not the High-Income Country

% Population & %GDP to total ASEAN, 2012



Source: Own calculation using WDI-WB data

Achievements: Trade & Investment Arrangements in ASEAN



ASEAN Industrial Project (AIP), ASEAN Industrial Complementary (AIC), ASEAN Industrial Joint Ventures (AIJV), ASEAN Industrial Cooperation (AICO) and ASEAN Investment Area (AIA)

1.4. Indonesia's Response

A Critical Note: Local Anti-FTA Reaction

06.01.2010: Police deploy thousands personnel to guard anti-ACFTA rally in Bandung (the JP)

12.01.2010: Pasar Bebas ACFTA Timbulkan Ancaman PHK (Koalisi Anti Utang/KAU, Hizbut Tahrir.or.id)

21.01.2010: Indonesia's House May Set Up Committee to Deal (renegotiation) with ACFTA (ANTARA.org)

23.01.2010: ACFTA Harus Dinegosiasikan Kembali (Suara Merdeka)

.....

31.03.2011: Survei Kementerian Perindustrian di 11 kota besar juga menunjukkan ada lima sektor industri yang terpukul atas implementasi perjanjian tersebut....."elektronik, furnitur, logam dan produk logam, permesinan, serta tekstil dan produk tekstil"
(www.politikindonesia.com)

ASEAN Economic Community: An Observation

Theory

AEC=CU

Fact

ASEAN is
impossible
to have CU

Need

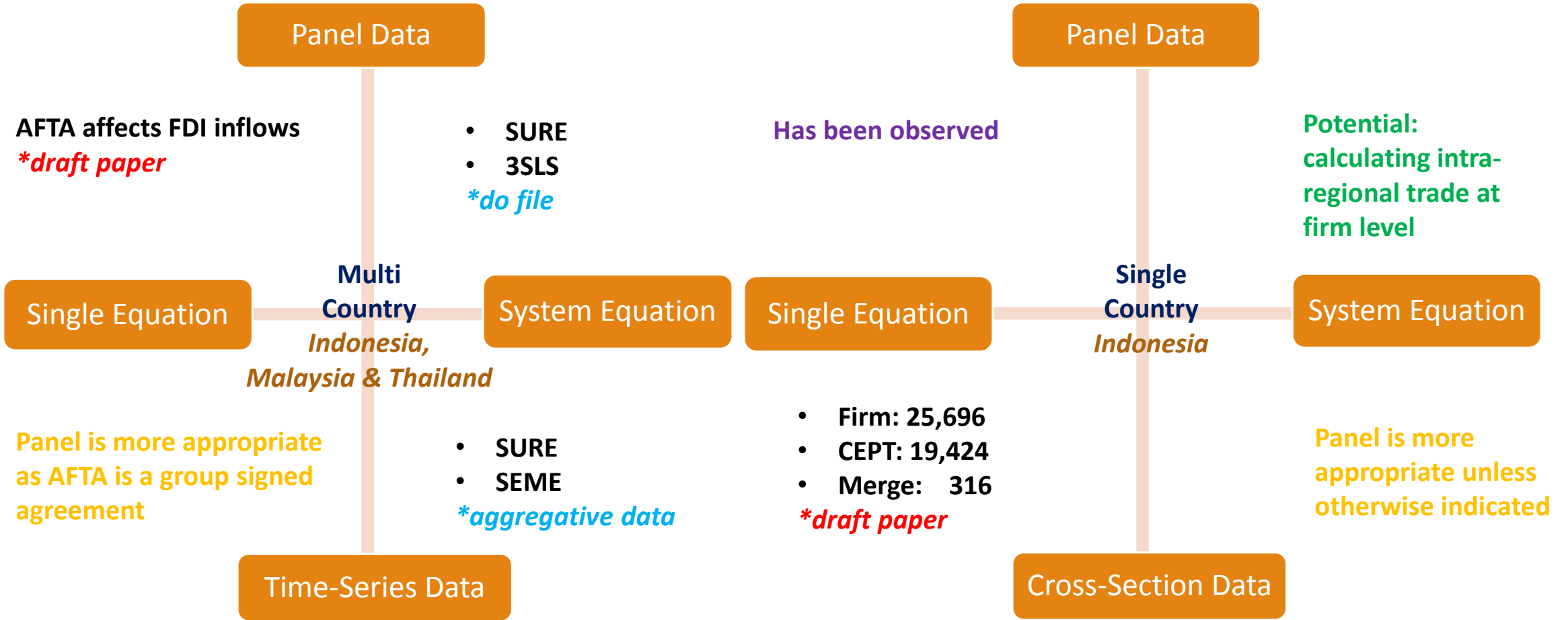
Trade &
Investment
Integration

2. The Objective

To show the impact of AFTA (a proxy to trade arrangement) to FDI inflows (a proxy to investment creation).

Coverage of Observation: macro panel data of multi-country (Indonesia, Malaysia & Thailand) from year 1988 to 2008 and micro (firm-level) cross-section data of single-country (Indonesia) of year 2008

3. Methods



4.1. Results on Multicountry Level

Macro-level data of multicountry observation:

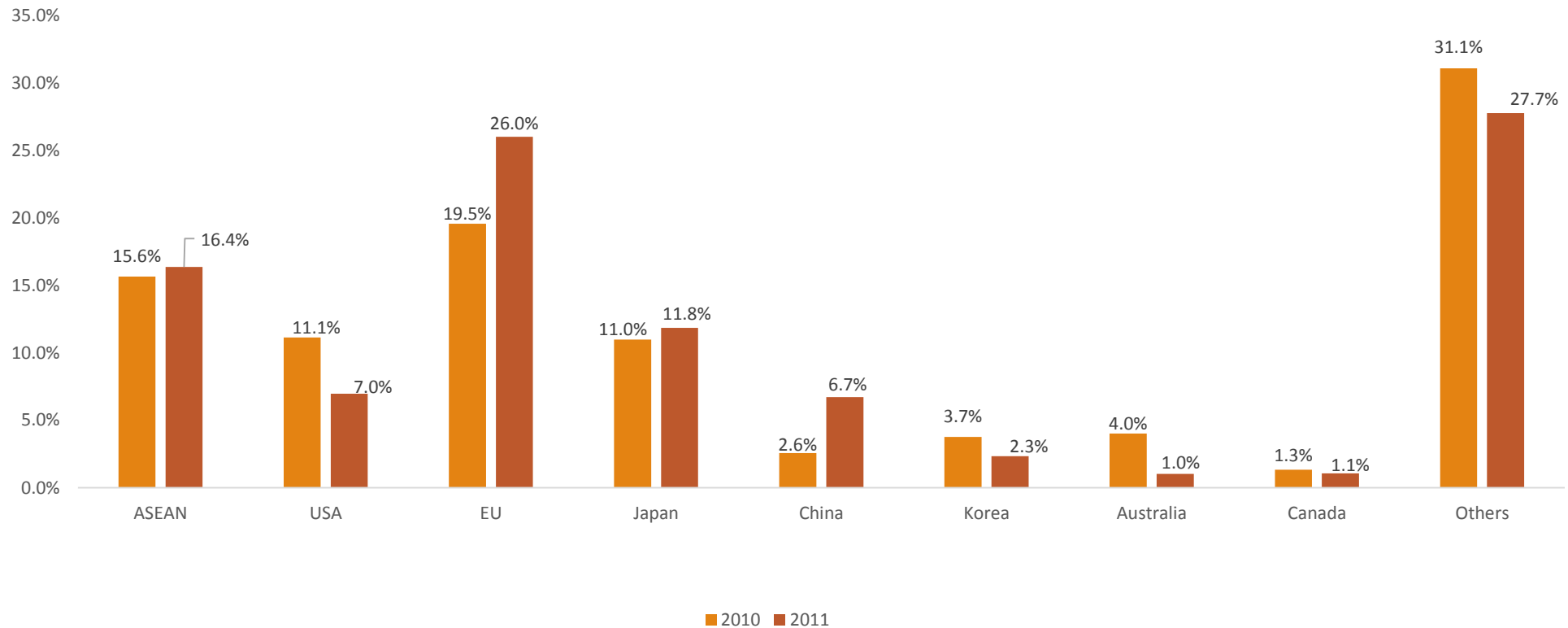
1. GDP (proxy of economic size) positively affects FDI inflows.
2. Degree of Openness stimulates FDI inflows.
3. An increase in exchange rate (depreciation of local currency) has inverse relation to FDI inflows.
4. GNP per Capita as a proxy of a country's economic level has inverse relation to FDI inflows.
5. AFTA has significant and negative relation to FDI net inflows indicates that **AFTA is not effective in attracting FDI net inflows.**

5.1. Analysis: Related Previous Findings

- AFTA is more effective in generating **'trade creation'** than **'trade diversion'** (Urata & Okabe, 2007)
- In attracting FDI net inflows, ASEAN can enlarge its economic cooperation to non-member-states using the 'ASEAN umbrella' (**internalizing the non-members**)
- The ASEAN Plus (APT, APS, APE) and the AFTA Plus One (ACFTA, AJFTA, AKFTA, AIFTA, etc) are the right options (**outward-looking regional integration, Soesastro, 2001; ASEAN Plus Framework, Chey, Asian Survey, 2009**).
- ADBI, 2011: *'Once a region-wide of FTA is formed, it may also be easier for Asian countries to establish a 'custom union'...as the European Economic Community (EEC) did in 1968'*

Intra Investment Potential: FDI Inflows net in ASEAN by Home Country, 2010-2011

FDI Inflows net, 2010-2011



1995-2006:
 Singapore (33.97%);
 Indonesia (30.66%)

China's Worldwide Reach

The United States is second to Australia in drawing Chinese non-bond investment.

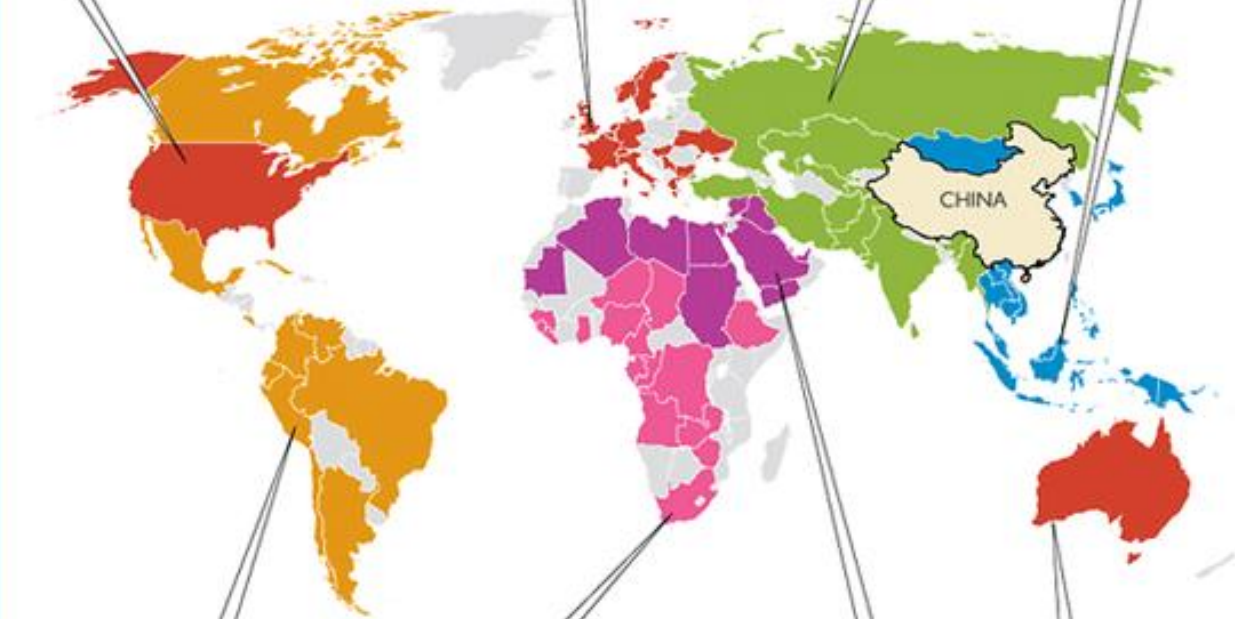
Figures are in billions of dollars; key nations in italics.

U.S. **\$28.1**

EUROPE **\$34.8**
Britain \$8.5
Switzerland \$7.2
Greece \$5.0

WEST ASIA **\$45.2**
Iran \$15.1
Kazakhstan \$11.4
Russian Fed. \$6.7

EAST ASIA **\$31.6**
Indonesia \$9.8
Singapore \$7.0
Vietnam \$6.4



WESTERN HEMISPHERE **\$61.7**
Brazil \$14.9
Canada \$10.2
Venezuela \$8.9

SUB-SAHARAN AFRICA **\$43.7**
Nigeria \$15.4
South Africa \$6.2
D.R. Congo \$5.9

ARAB WORLD **\$37.1**
Algeria \$9.2
Saudi Arabia \$8.1
Iraq \$4.3

AUSTRALIA **\$34.0**

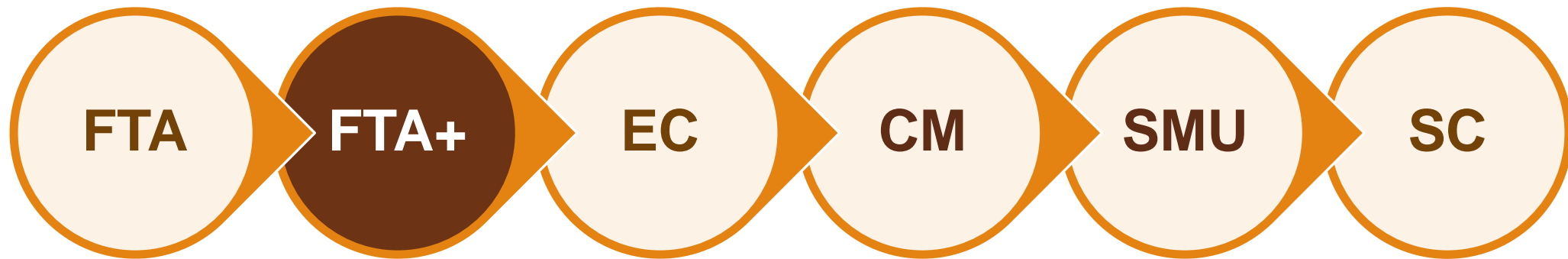
China's FDI 2005 - 2010 \$bn

Australia	34.0
USA	28.1
Nigeria	15.4
Iran	15.1
Brazil	14.9
Kazakhstan	11.4
Canada	10.2
Indonesia	9.8
Algeria	9.2
Venezuela	8.9
Britain	8.5
Saudi Arabia	8.1
Switzerland	7.2
Singapore	7.0
Russian Fed	6.7
Vietnam	6.4
South Africa	6.2
D R Congo	5.9
Greece	5.0
Iraq	4.3

Source: Heritage Foundation dataset, China's Outward Investment: Non-bond Transactions over \$100 million, from January 2005 to December 2010, available upon request from The Heritage Foundation.

Map 1 • WM 3133 heritage.org

6.1. Conclusion and Recommendation for the ASEAN Economic Community



ASEAN Free Trade Area
(1986:CU failed;1992:AFTA agreed,1999:full commitment,CEPT10/5/0: 2002,2010,2015)

AJFTA, **ACFTA**,
AKFTA, RCEP,
Others
(2008,2010,2013)

ASEAN Economic
Community
without CU
(2015)

If follows EU's
time line then
achieve ASEAN
Single Market
(ASM) in 2035
until 2040

If follows EU's
time line then
achieve SM in
2045.
2035-2040:ASM
2040-2045:
SMU Preparation

If follows EU's time line
then achieve SC in 2050.
2045-2050:
ASC preparation

Regional Trade Arrangement
(1976)
Treaty of Amity & Cooperation/TAC

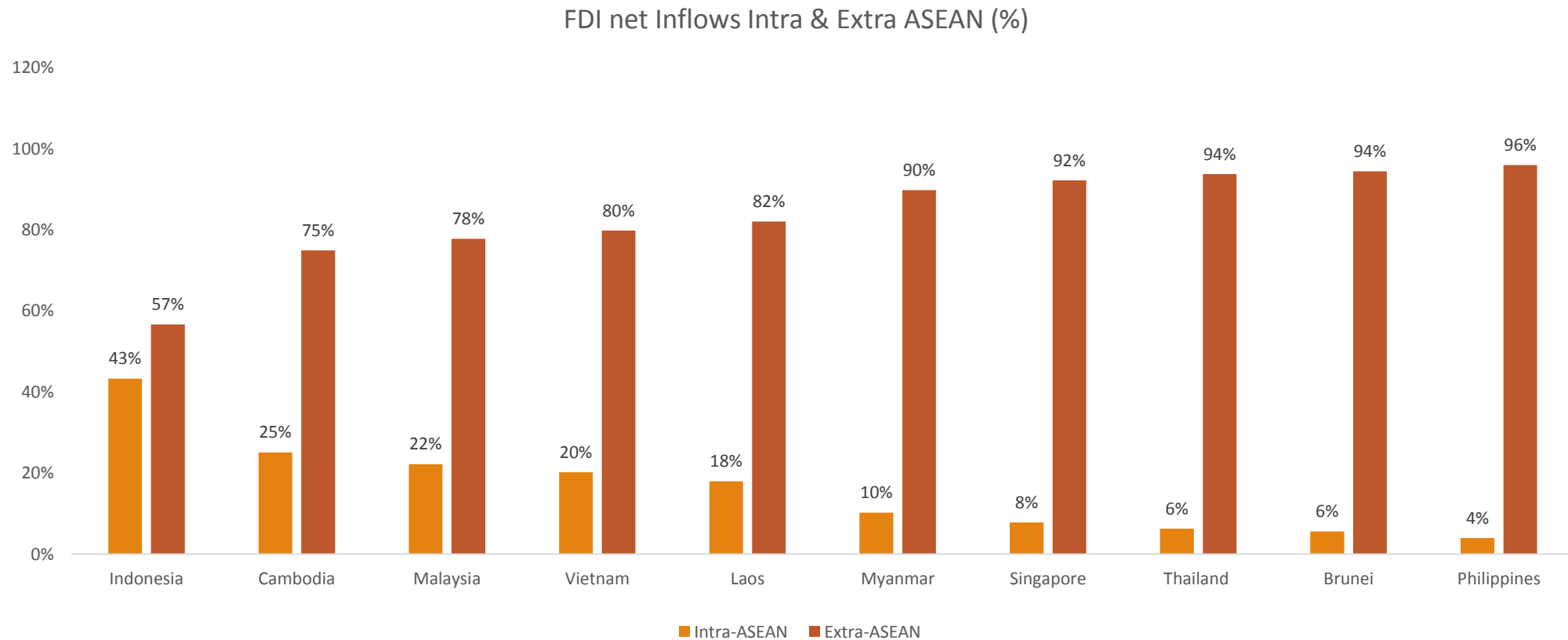
4.2. Results on Single Country Level

Micro-level data of single country observation:

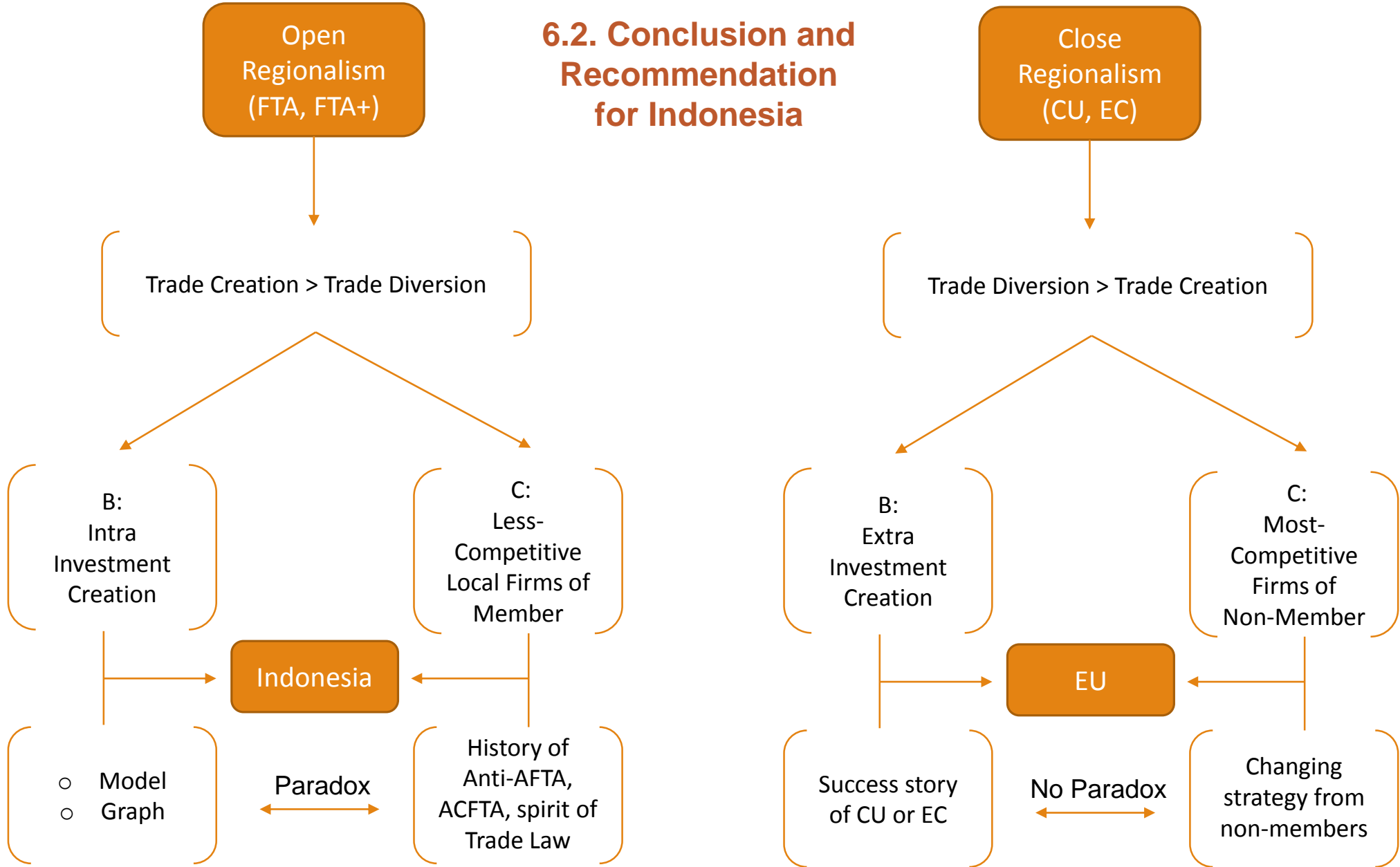
1. Number of worker per industry stimulates incentive for the foreign investors. It increases investor's confidence given the good labor supply.
2. Number of firm encourages foreign investors as indicates 'free entry and exit' instead of high-barriers sector.
3. Share of government in an industry discourages foreign investors indicates they reluctant to invest in state-owned industrial sector.
4. The higher proportion of input per output, the higher incentive to invest FDI inflow. Capital intensity favored.
5. The lower CEPT -a proxy of AFTA- the higher share of foreign capital -a proxy of FDI inflows- indicates that AFTA (significant & negative) is **effective in attracting FDI net inflows**.

5.2. Analysis

FDI Inflows net in SEA: Intra & Extra, 2011



6.2. Conclusion and Recommendation for Indonesia



Terima Kasih
Thank You

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