

Remarks
By
Lim Hong Hin
Deputy Secretary-General of ASEAN for ASEAN Economic Community

The Russia-ASEAN Business Forum
22 June 2013, St Petersburg

Mr. Yegor Khramov
Chairman, Russia-ASEAN Business Council

Distinguished Guests

Ladies and Gentlemen

Dobroye Utro !

1. The year 2015 is going to be a critical milestone both for ASEAN and the Customs Union/Common Economic Space (CU/CES) of Russia, Belarus and Kazakhstan. For ASEAN, 2015 is supposed to mark the realization of the ASEAN Economic Community as laid out in the Roadmap for ASEAN Community. On the other hand, the Customs Union/Common Economic Space of Russia, Belarus and Kazakhstan aim to conclude a comprehensive treaty of the Eurasian Economic Union by January 1, 2015.

2. Our approaches toward economic integration in our respective regions have been different, owing to our differing historical evolution, regional context, and motivation. From the very beginning, ASEAN was careful to emphasize that the “ASEAN Economic Community (AEC)” is not going to be in the mold of the

European economic integration experience. Rather, ASEAN economic integration has been geared toward “open regionalism¹.” Ours is a coordinated integration that is outward-looking, market-driven, and private sector-led. In contrast, Eurasian economic integration follows the European model in terms of its legal and institutional frameworks.

3. Of course we know that pursuing regional economic integration, regardless of the approach, is not the goal per se. Rather, we both see it as one of the key drivers of economic growth and development in our respective regions. Through deeper regional economic cooperation and integration, we hope to support sustainable economic growth, share prosperity, and narrow development gaps, which would contribute to promoting regional stability and security.

4. Regional economic cooperation and integration can also help us better address the challenges brought about by global economic shocks and uncertainties. As such, we have much to learn from each other’s experience with respect to regional economic cooperation and integration. In particular, ASEAN demonstrates how consensus, patient confidence-building, and an incremental, gradual and flexible approach to deeper levels of cooperation and integration can bring together such a divergent group of Member Economies under the AEC.

5. AEC is the end-goal of regional economic integration in ASEAN. Various initiatives have been implemented to realize the AEC by 2015, and significant strides have been made. As of end-March 2013, around 78 percent of measures

¹Open regionalism – i.e., the creation of institutions that are open to extra-regional participation and do not discriminate against non-regional economies in the long term.

under the AEC Blueprint have been implemented, with significant results across the four pillars. Just to cite some examples of these gains:

- (a) Trade costs in ASEAN been reduced significantly over the years, by more than 15 percent on average within ASEAN and by about 8 percent with the rest of the world, improvement in trade facilitation is still crucial;
- (b) Average intra-ASEAN preferential tariffs have been reduced to almost zero (0.6 percent) in ASEAN-6 countries (ASEAN5 plus Brunei) from 4.1 percent in 2000. Although tariff elimination is slower in CLMV (average of 2.4 percent from 7.3 percent in 2000), the share of tariff lines at zero percent preferential duty has significantly increased to 67.6 percent in 2012 from less than 50 percent a year ago;
- (c) Trade intensity and complementarity has also increased. Evidence suggests higher degree of trade openness of ASEAN countries as well as rising trend of intra-ASEAN trade intensity. Modest and positive trade convergence has also become more evident. Evidence also suggests high trade complementarity in the region, thus reinforcing the potential of increased trade integration in ASEAN; and
- (d) Most recently, ASEAN has fully enforced the ASEAN Comprehensive Investment Agreement (ACIA). The landmark

ASEAN Agreement on Movement of Natural Persons (MNP) has been signed. The pilot implementation of the ASEAN Single Window is well underway; while a work program was also developed to address non-tariff barriers (NTBs), including elimination of non-tariff measures (NTMs). In financial integration, capital markets have been deepened to support the AEC, with initiatives such as the ASEAN Linkages and renewed focus on ASEAN banking integration. Meanwhile, the Regional Comprehensive Economic Partnership (RCEP) has begun negotiating last May 2013. RCEP represents ASEAN's very bold and ambitious agenda to significantly deepen economic integration and cooperation, initially with our six FTA Partners (i.e., China, Japan, South Korea, India, Australia and New Zealand).

6. One critical challenge is the timely and committed implementation of AEC initiatives. Despite progress in a number of areas, many AEC measures are still pending as of end-March 2013. These include measures on trade facilitation (customs modernization and standard and conformance), and ratification of transport agreements. Critical actions are still needed to address the timely ratification of the signed ASEAN Agreements/ Protocols; alignment of regional initiatives to domestic laws and regulations; and overcoming domestic constraints to implement regional and country-specific commitments. To ensure that AEC is achieved by 2015, these implementation bottlenecks need to be strongly addressed. On this aspect we can learn from the Eurasian experience, particularly

the important role of national champions such as Russia and a focused mandate on economic integration².

7. Another challenge facing us is the need to address beyond-the-border measures. So far ASEAN has done a good job in abolishing tariffs in the region. Now the subsequent steps – particularly beyond-the-border measures after goods, services, labor, and capital have crossed the border – which have far greater impact on integration of markets, need to be effectively addressed. These include the elimination of non-tariff barriers (NTBs), strengthening of trade facilitation measures, and harmonization of standards, laws and regulations across nations and different markets.

8. I believe this is also a key challenge facing the Eurasian Customs Union. That is, for the Eurasian Customs Union to benefit all members, they need to reduce nontariff barriers, and trade facilitation and border crossing costs. These include licensing or quotas on imports or exports; state control or monopoly control of imports or exports; state subsidies on production or exports; and technical regulations, including sanitary and phytosanitary (SPS) measures that may be barriers to trade³.

9. We also see the AEC as an important step in integrating ASEAN into the global economy. As I previously mentioned, AEC is based on open regionalism,

² Lim, J.F. (2012). Central Asian Regional Cooperation and Integration: Myth or Reality?, *Eurasian Integration Yearbook 2012*, Eurasian Development Bank.

³ Carneiro (2013). *What Promises does the Eurasian Customs Union Hold for the Future?*, Economic Premise No. 108, February 2013, The World Bank.

and deepening trade and economic ties with our partners, **Russia** included, is an integral part of ASEAN's economic community building.

10. Russia became a dialogue partner of ASEAN in 1996. But it was only in 2002 that Russia and ASEAN began cooperating on economic issues, with the establishment of the Working Group on Trade and Investment Cooperation. The mandate to develop a comprehensive roadmap for trade and investment was made at the 1st ASEAN Economic Ministers – Russia Consultations in Da Nang, Viet Nam in August 2010. And at the 44th ASEAN Economic Ministers Meeting held last August 2012 in Siem Reap, Cambodia, ASEAN and Russian Ministers endorsed the ASEAN-Russia Comprehensive Roadmap on Trade and Investment on ad-referendum basis.

11. The overall objective of this Roadmap is to institutionalize a comprehensive dialogue mechanism on trade-related issues with a view to promoting cooperation in sectors of mutual interest to ASEAN and Russia. The Roadmap comprises five (5) key areas, namely:

- (i) High-level policy dialogue;
- (ii) Consultations at the Senior Economic Officials level;
- (iii) Sectoral dialogues between ASEAN and Russian officials;
- (iv) Trade and investment facilitation; and
- (v) Enhancing dialogue with business.

12. As the institutional bases of our interactions expand, the range of opportunities in potential areas of cooperation will also expand. In particular, our current agenda has very practical and interconnected tasks. ASEAN and Russia have been enhancing sectoral cooperation in energy, space, culture and tourism sectors, where direct contacts have been established between respective relevant agencies. An ASEAN-Russia Energy Cooperation Work Programme (2010-2015) has also been adopted, which would improve ASEAN's energy security.

13. When ASEAN and Russia began economic cooperation in 2002, total trade volume between us was just over USD 2 billion, with ASEAN imports from Russia (USD 1,525 million) around thrice the size of its exports to Russia (USD527 million). In 2012, preliminary data⁴ indicate that total trade volume increased significantly to almost USD 17.5 billion, or at an average annual growth rate of almost 24 percent for the 10-year period. The ratio of ASEAN imports and exports to Russia was roughly the same. Top ASEAN exporters to Russia were Thailand, Viet Nam and Indonesia – they accounted for over 70 percent of total ASEAN exports to Russia. The top importers from Russia were Singapore, Thailand and Indonesia, with almost 84 percent total share. Despite the dramatic growth in total trade, Russia accounted for less than 1 percent of ASEAN's total trade volume in 2012.

14. In terms of composition, ASEAN's primary exports to Russia in 2011 were animal/vegetable fats and oils; electric machinery, equipment and parts; nuclear machinery, mechanical appliances and parts; iron and steel; and rubber and

⁴ Lao PDR, Myanmar, and Viet Nam figures for 2012 are only until the third quarter.

rubber products. Not surprisingly, ASEAN's primary imports from Russia were mineral fuels, oils and products, which accounted for almost two-thirds of total imports in 2011. Other top imports were iron and steel, and fertilizer.

15. FDI inflows from Russia to ASEAN have also grown significantly, from just USD 1.2 million in 2006 to USD 139.8 million in 2009. However, FDI inflows from Russia to ASEAN saw a drop in recent years. In 2010 and 2011, FDI from Russia to ASEAN declined to USD 60.3 million and USD 20.8 million, respectively. This could be attributed to the uncertainty in the global economy brought about by the European financial crisis. There has been a strong rebound in 2012, with FDI inflows from Russia reaching a preliminary figure of USD 146.4 million. Top Russian FDI recipients in 2012 were Viet Nam (accounted for 50 percent), Malaysia (30 percent), Thailand (13 percent), and Cambodia (7 percent). In particular, Russian FDI primarily went into manufacturing (63 percent) in Viet Nam and Malaysia, and real estate activities (20 percent) in Thailand and Viet Nam. But the share of FDI inflows from Russia to total FDI inflows to ASEAN was even more modest – just 0.14 percent.

16. Clearly the reciprocal flow of trade and investment between ASEAN and Russia still has great potential for growth, and there is still much room to further expand ASEAN-Russia economic cooperation. For instance, growth in both ASEAN and Russia has been strongly driven by consumer spending, making consumer markets very promising as an area of investment. Russia already has a number of successful mining and infrastructure projects in ASEAN, and there is still potential for further cooperation in oil and gas exploration.

17. Promoting deeper ASEAN-Russia economic cooperation would require bridging the information gap. We need to exchange information and update ourselves on the investment environment and opportunities that each of us can offer and build comfort levels to enable the private sector to make the move. While our leaders have provided the framework for economic cooperation, implementation would also need a more "bottom-up" approach, particularly the involvement and participation of our business communities. This is where business forums like the Russia-ASEAN Business Forum can play a critical part.

18. For ASEAN, growing cooperation with Russia could also promote broader trade with Russia's neighbors such as the Commonwealth of Independent States (CIS) countries. And a stronger network of interactions with ASEAN could help to develop Russia's productive potential, and more importantly shift its trade flows toward a region with very dynamic growth prospects.

19. Global uncertainties have exposed the fact that in an era of globalization, no single country or region is resilient because of increased interdependence in the global economy. Therefore it is in deeper international and regional cooperation that many of the answers to the current uncertainties lie. As global linkages become more complex, it is also obvious that the solutions to our difficulties cannot be solved by our own individual countries alone. This is clearly shown in recent years when coordinated actions by policy makers across the region/globe have made significant difference in addressing the problems brought about by global uncertainties. Thus the message is clear and bears repeating: renewed commitment to integration and cooperation is needed through a

collaborative approach. This commitment to cooperation has in fact made integration in ASEAN more entrenched.

20. As the world economy struggles to come out of a crisis, stimulating domestic demand and regional demand through deeper integration will provide new sources of growth on the demand side. On the supply side, the free flow of investment, technology and services across the region under the AEC will boost productivity and output. Indeed, for ASEAN, the lesson is clear that cooperation is crucial if meaningful integration is to be achieved.

Spa see ba!