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# Toward ASEAN Economic Community: Revitalising Indonesia's Position in Financial and Customs Cooperation

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## *Abstract*

This paper is meant to provide a simple current line of discourse on Indonesian position in The ASEAN Economic Community (AEC) focusing in the financial and customs cooperation. AEC is the target of ASEAN economic integration 2015. In regards of favorable precondition: the market of 600 million populations, stable economic growth and relatively high investment level, in the long run AEC most likely will benefit every ASEAN members. The analysis tried to describe and develop issues correlations between financial cooperation: capital market development, liberalization of capital account, liberalization of financial service, ASEAN+3 bond market initiative, ASEAN+3 research group; and customs integration issues: Implementation of Strategic Plan of Customs Development (SPCD). There are two conclusions from the analysis. First, in the overall AEC scorecard, Indonesian position is in par with Lao PDR and Cambodia but far behind other members (April 2013 position), while in the context of financial cooperation, Indonesian position is far above BCLMV, competing with Thailand and Philippines but still behind Malaysia and Singapore (ASEAN Cooperation). These facts fortify the urgency of accelerating the implementation of AEC initiatives and reassessing Indonesian position in ASEAN financial cooperation and ASEAN+3. Further, over SPCD 15 strategies as the instruments for customs integration, the paper wrapped up the importance of customs administration capacity building, mainly focused on improving customs procedure, customs valuation rules, rules of origin, and customs modernization. The paper will further articulated the issue recommendations on steps and caveat for policy formulation and harmonization both at national and regional level.

## 1. Introduction: Regional Integration

Regional economic integration are initiated by the agreement between countries within certain geographic region to reduce (and finally to eliminate) tariff and non tariff barriers for the flow of goods, services and factors of production. The steps toward regional integration may take several forms depending on the level of integration. According to Suranovic (1998), there are five levels of integrations; they are (from the lowest to highest):

1. **Preferential trade Agreement (PTA)**; is the lowest degree of the integration. It endows preferential access by lowering tariffs on certain products. For example the trade agreement between India and Nepal (2009) and between India and MERCOSUR (2009).
2. **Free Trade Agreement (FTA)**; is the second ladder of the integration where member countries agreed to reduce tariff, quota, and other barriers to nearly all goods and services traded among members. Under this scheme, the treatment for non-members depends on each members' policy. For example AFTA (2003), ACFTA (2010) and AKFTA (2010).
3. **Customs Union**; is a kind of integration that is not just removing the barriers between members but also compelling members to harmonize their trade with non members (FTA with common external tariffs). For example Customs Union of Belarus, Kazakhstan and Russia (2010).
4. **Common Market**; is a kind of integration that frees the trade and flow of production factors such as capital and labor. For example East African Community (EAC).
5. **Economic Union**; is the integration at the highest degree where the harmonization is elevated to the fiscal and monetary policy level. For example European Union.

European Countries have passed all the stages and are now in the economic union stage named European Union. It is marked with the unification of their currency into Euro. ASEAN is heading toward common market in 2015 through ASEAN Economic Community (AEC).

Since AFTA became effectively applicable in the beginning of 2003, tariffs have decreased through *Common Effective Preferential Tariff* (CEPT) scheme. Under CEPT Indonesia's trade performance trend with intra ASEAN countries increased, except in 2009 which mostly due to economic recession. The trade volume, while on the other side trade balance deficit increased as well. Indonesia's has been experiencing a relatively high trade deficit, especially in trade relation with Singapore, Malaysia and Thailand, then followed Philippines and Myanmar. The research using data series from 1977-2006, considering GDP, distance, exchange

rate, AFTA and the proximity of cultural heritage variables, concluded that AFTA improves Indonesia's trade with AFTA members, although the improvement is not significant (Rahayu, 2008). Similar conclusion came from the research that use *extended gravity model*<sup>1</sup> with data series from 1996 to 2006. It concluded that AFTA only increases regional trade at an insignificant scale, even when the decrease in tariff is high. This condition probably can be explained by the fact that the ASEAN countries have bigger proportion of trade with non-members (about 80% of total), than among them (Amin, Hamid, dan Saad, 2009). Another research by Ariyasajakorn, et al. (2009), that used *computable general equilibrium* (CGE) model, concluded that AFTA can stimulate Indonesia's economy (marked by the increase of GDP and household income), while also increase trade deficit.

**Table 1. AFTA Effect on GDP, Household Income, dan Trade Balance**

No	Country	Real GDP (% change)	Household Income (% Change)	Trade Balance (\$ million)
1	Indonesia	0.029	0.721	-29.002
2	Malaysia	0.224	0.437	-442.509
3	Philippines	0.165	0.599	-305.529
4	Singapore	0.044	2.79 5	-421.449
5	Thailand	-0.05	0.734	-1112.45
6	Viet Nam	-0.319	-1.212	-336.757
7	Others	0.014	-1.312	-149.459

Source: Ariyasajakorn, et al. (2009)

ASEAN FTA cannot stand alone because it is affected by FTAs made with other countries. To this day ASEAN has regional free trade agreements with China, Korea, Japan, Australia-New Zealand and India. Several researches investigated the impact of such cooperation. There is research by Kiyota (2006) and research by Kitwiwattanachai, Nelson, and Reed (2010), to mention some. Both researches concluded positive effect for Indonesia (from growth stand point) although it is not as big as the impact felt by other ASEAN members. Table 2 resumes the result of those researches. Up to 2013, Indonesia has ratified seven FTAs<sup>2</sup> with characteristics shown in Table 3.

<sup>1</sup> Gravity Model is one of the models often used to analyze regional trade agreement effect, first introduced by Tinbergen (1962) and Pyhonen (1961). The basis of Gravity Model is assumption that trades are triggered by the size of economy (proxy by GDP) deducted by the distance between countries (reflected in the increase of transportation and transaction cost). Gravity model is used widely to investigate the effects of trading block membership (Morgenroth, 2009).

**Table 2. ACFTA, AKFTA, and AJFTA corollary**

Author	FTA	Model/Data/Region/Sector	Main Findings
Kiyota (2006)	1. AFTA 2. ACFTA	Model: Michigan Model CGE Data: GTAP 5.4 Countries/regions: 22 Sectors: 18	Real GDP: - AFTA: Sin (+4.64%), Mas (+2.17%), Php (2.51%), <b>Ina (+1.76%)</b> - ACFTA: Sin (+5.99%), Mas (+3.26%), Php (+3.23%), Tha (+2.68%), <b>Ina (+2.17%)</b>
Kitwiwattanachai, Nelson, & Reed (2010)	1. ACFTA 2. AKFTA 3. AJFTA	Model: Static CGE Data: GTAP 6 Countries/regions: 14 Sectors: 14	Real GDP: - ACFTA: Mas (+2.53%), Sin (+2.35%), Vie (+1.65%), Tha (+1.43%), (Php (+0.94%), <b>Ina (+0.83%)</b> ) - AJFTA: Tha (+2.00%), Sin (+1.25%), Mas (+1.23%), Php (+0.51%), Vie (+0.92%), <b>Ina (+0.42%)</b> - AKFTA: Sin (+1.35%), Mas (+1.20%), Vie (+0.80%),Php (+0.63%), <b>Ina (+0.44%)</b>

**Table 3. ASEAN FTA Characteristics**

	ASEAN FTA	ASEAN China FTA	ASEAN Korea FTA	ASEAN Japan CEP	ASEAN India FTA	ASEAN ANZ FTA
<b>Effectively Applicable</b>	1993	2005	2007	2008	2010	2010
<b>Market Size (million USD)</b>	599	1,939	647	726	1,814	625
<b>Economy (trillion USD)</b>	1.9	7.7	2.9	7.3	3.4	3.2
<b>Coverage</b>	Goods Service Investment	Goods Service Investment	Goods Service Investment	Goods, Service Investment (regulated in bilateral EPA)	Goods	Goods Service Investment
<b>Import Duty elimination (A6+DP/CLMV)</b>	2010/ 2015 (2018)	2012 2018	2012 2016/2017 (Thai) 2018 (V) 2020 (CLM)	2018 2021 (CLM)	2016 2019 (P) 2021 (CLMV)	2020 2022 (V) 2025 (ICLM)
<b>Rules Of Origin</b>	40% or CTH, PSRs	40% PSRs limited	40% or CTH, PSRs	40% or CTH, PSRs	35%+CTSH	40% or CTH, PSRs
<b>Tariff deduction</b>	>99%	≥ 90%	≥ 90%	≥ 90%	≥ 80%	90%
<b>Specific Products</b>	Rice , Sugar	-	-	-	coffee, tea, pepper, coconut, palm oil	100%
<b>Maximum Tariff</b>	5%	20% (SL) 50% (HSL)				-
<b>Total Trade Volume (billion USD)</b>	519.8	751.8	618.4	726.4	575.2	582.6

Source: Pillai, 2013

Notes:

- "CTH": All raw materials not originated from production country, follow the rule of classification and tariff change at 4-digit HS
- "CTSH": All raw materials not originated from production country, follow the rule of classification and tariff change at 6-digit HS
- PSR: *Product Specific Rules*; ROO: *Rules of Origin*, CLMV: Cambodia, Lao PDR, Myanmar, Viet Nam
- SL: *Sensitive List*; HSL: *Highly Sensitive List*

This paper will focus on developing a story line on AEC development from three perspectives. They are financial cooperation perspective, customs cooperation perspective, and macroeconomic policy impact. Considering AEC imminent realization, the paper hopefully can provide reference for further studies and information for policy formulation. The main sources are literature study materials of books, papers, research results, and the Internet based sources. These materials are resumed in a descriptive analysis manner and discussed further in a Focused Group Discussion (FGD) forum.<sup>3</sup>

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<sup>3</sup> Seven FTAs that Indonesia have authorized are:

1. <b>AFTA (ASEAN Free Trade Area) /ATIGA (ASEAN Trade In Goods Agreement)</b>	Preferential duty on goods that are imported from ASEAN members and come with <b>Form D</b> .	PMK 247/ PMK.011/2009 Tgl 31 Desember 2009, dicabut dengan PMK 128/PMK.011/2010 yang kemudian dicabut dengan PMK 208/PMK.011/2012 tanggal 17 Desember 2012
2. <b>AK-FTA (ASEAN Korea – Free Trade Agreement)</b>	Preferential duty on goods that are imported from Korea and come with <b>Form AK</b> .	PMK 236/PMK.011/2008 Tgl 23 Desember 2008 dan Perubahannya PMK 200/PMK.011/2009 Tgl 31 Desember 2009, dicabut dengan PMK 118/PMK.011/2012 tanggal 10 Juli 2012
3. <b>AC-FTA (ASEAN China – Free Trade Agreement)</b>	Preferential duty on goods that are imported from China and come with <b>Form E</b> .	PMK 235/ PMK.011/2008 Tgl 23 Desember 2008, dicabut dengan PMK 117/PMK.011/2012 tanggal 10 Juli 2012
4. <b>IJ-EPA (Indonesia-Japan Economic Partnership Agreement)</b>	Preferential duty on goods that are imported from Japan and come with <b>Form JIEPA</b> .	PMK 95/PMK.011/2008 dan PMK 96/PMK.011/2008 Tgl 30 Juni 2008, dicabut dengan PMK 209/PMK.011/2012 tanggal 17 Desember 2012
5. <b>ASEAN–India FTA</b>	Preferential duty on goods that are imported from India and come with <b>Form AI</b> .	PMK 144/ PMK.011/2010 tgl 24 Agustus 2010, dicabut dengan PMK 221/PMK.011/2012 tanggal 21 Desember 2012
6. <b>AANZ-FTA (ASEAN Australia New Zealand Free Trade Area)</b>	Preferential duty on goods that are imported from Australia or New Zealand and come with <b>Form AANZ</b>	PMK 166/PMK.011/2011 tanggal 20 Oktober 2011, dicabut dengan PMK 208/PMK.011/2013 tanggal 31 Desember 2013
7. <b>Indonesia-Pakistan Preferential Trade Agreement</b>	Preferential duty on goods that are imported from Pakistan and come with <b>Form IP</b>	PMK 26/PMK.011/2013 tanggal 18 Januari 2013

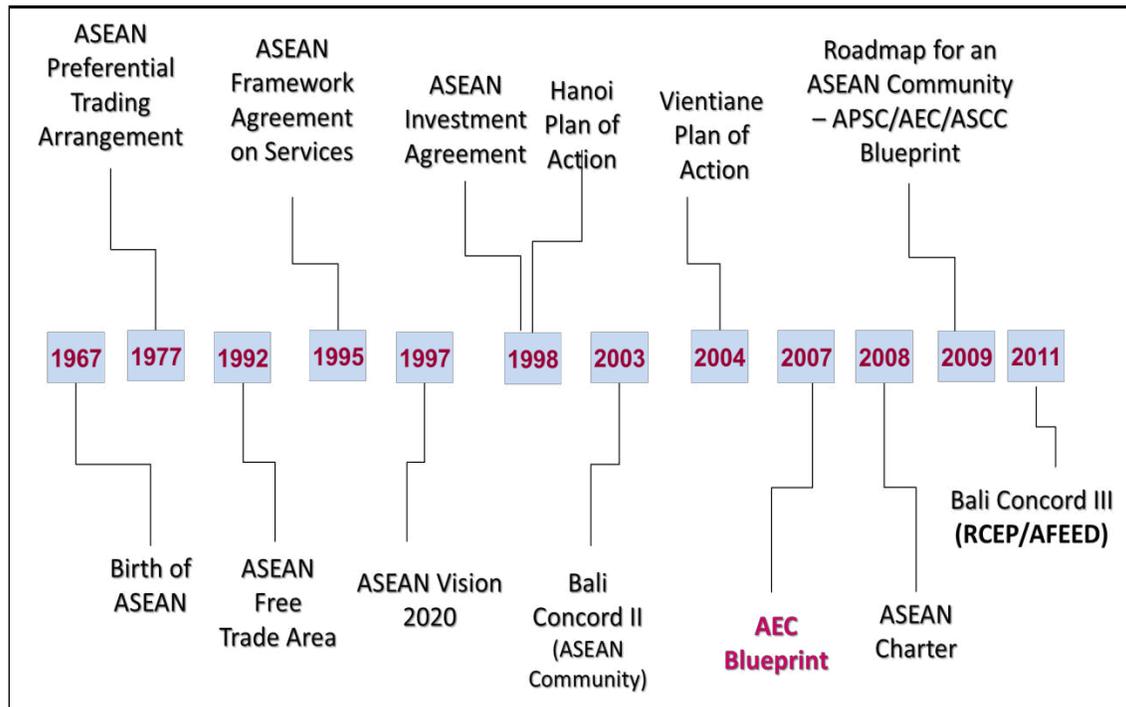
<sup>3</sup>The FGD is held by inviting representatives of officials from Ministry of Trade, ASEAN Secretariat, and Ministry of Finance (Directorate General of Customs and Excise and Fiscal Policy Board (BKF)).

## 2. AEC Characteristics

Association of South East Asian Nations (ASEAN) is a ten members regional organization of South East Asian countries; Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand, Singapore, and Vietnam. This organization was built in August 8, 1967 under the objectives to accelerate economic growth, advance social and cultural development in the region and maintain peace and regional stability. During ASEAN 9<sup>th</sup> High Level Meeting in Bali, in October 2003, ASEAN leaders signed ASEAN Concord II Declaration (Bali Concord II) to reinforce their commitment to develop ASEAN Community in 2020 on three pillars: ASEAN Economic Community (AEC), ASEAN Security Community (ASC), and ASEAN Socio-Cultural Community (ASCC).

The process from the anniversary of ASEAN to the agreement to build AEC and its further development is shown in the scheme below.

**Figure 1. Steps Toward AEC**



Source: ASEAN Secretariat

During the 12<sup>th</sup> ASEAN High Level Meeting, in Kuala Lumpur, January 2007, ASEAN leaders reinstate the commitment to accelerate the development of ASEAN Community in 2015 in accordance with the spirit of ASEAN Vision 2020 and ASEAN Concord II. ASEAN leaders

especially agreed to concur on AEC blue print which is the main plan for the acceleration of AEC development in 2015. In the blueprint the time lines are divided into four periods, they are; 2008-2009, 2010-2011, 2012-2013 and 2014-2015. This blueprint identified characteristics and elements of AEC, comprised general reference with clear time objectives and targets, contained all agreements and MoUs in the economic sector. Thus, the blue print is expected to help ASEAN and members planning process, to measure the ASEAN and members' achievements (scorecard) and discipline the members (the agreements among members become legally binding in the charter).

AEC is the realization of the final objective of economic integration in accordance with *ASEAN Vision 2020* based on member countries' convergence of interests to deepen and widen economic integration through new and existing initiatives within existing time frame. AEC will make ASEAN become a single market and production base by transforming it into a region with free for flow of goods, services, investments and skilled labors, and an improving its openness to the flow of capital 2015. According to AEC blue print, there are four characteristics of AEC, namely:

- 1. Single market and production base.** AEC will transform ASEAN to become a single market and production base to make it more dynamic and competitive through mechanism and initiatives to accelerate the regional integration on priority sectors with five main elements and two important components; The five elements are free flow of goods, free flow of service, free flow of investment, freer flow of capital and free flow of skilled labor. While the two important components are Priority Integration Sectors (PIS) and cooperation in the field of food, agriculture, and forestry. ASEAN single market and production base aim to make ASEAN become a region highly competitive in twelve priority sectors; seven sectors on goods, and five sectors on service.

**Table 4. Priority Integration Sectors and Coordinating Country**

No	Priority Integration Sector	Coordinating Country	No	Priority Integration Sector	Coordinating Country
1	Agro-based product	Myanmar	7	Healthcare	Singapore
2	Air travel	Thailand	8	Rubber-based product	Malaysia
3	Automotives	Indonesia	9	Textile & apparels	Malaysia
4	e-ASEAN	Singapore	10	Tourism	Thailand
5	Electronics	Filipina	11	Wood-based products	Indonesia
6	Fisheries	Myanmar	12	Logistics	Vietnam

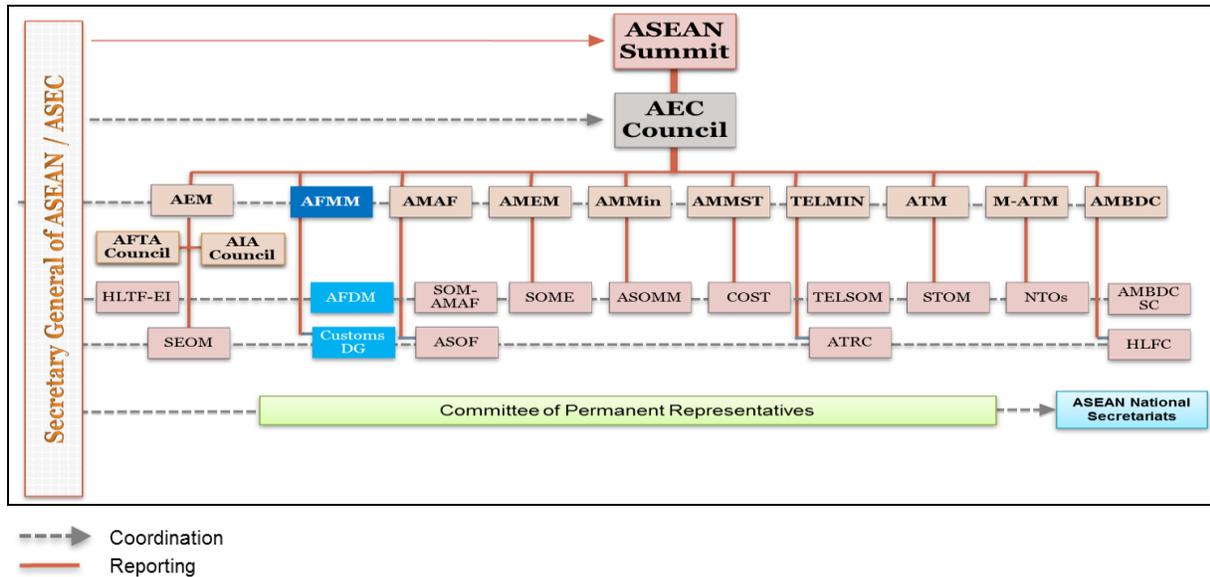
2. **Highly competitive economic region.** To make ASEAN highly competitive, it is important to set a uniformed basis of competition policy, consumer protection, intellectual property right enforcement, taxation policy evaluation, utilization of e-commerce, and acceleration of infrastructure development (including transportation, information system, energy, mining infrastructures, and infrastructure development financing cooperation). This characteristic has six main elements: (i) business competition policy, (ii) consumer protection, (iii) intellectual property right, (iv) infrastructure development, (v) taxation, and (vi) e-commerce.
3. **Region of equitable economic development.** The equitable economic development is achieved by improving the role and providing more attention for small and medium enterprises through technical cooperation and acceleration of the development of less developed members. This characteristic has two main elements: (i) expansion of small and medium enterprises and (ii) Initiative for ASEAN Integration (IAI).
4. **Region fully integrated into the global economy.** ASEAN exists in the global environment with interdependence to global market and industry. To ensure that it can compete internationally, have a strong position in global supply chain, and remain interesting for foreign investment, it is important that ASEAN give adequate attention to external factors, out of AEC limitations. The focus is to review and harmonize free trade area negotiations and agreements, and economic partnership with internal commitments, as well as increasing the members' participation in global network of supply chain. This characteristic has two elements: (i) solid approach toward economies outside the region and (ii) improvement in global network of supply chain.

Each AEC characteristic interweaves and strengthens one another. Each core element for implementation explained in detail by AEC strategic schedule to make the achievement focus, consistent, planned and coordinated.

The understanding on AEC mechanism is crucial to understand the coordination, negotiation and evaluation process of policy application toward AEC in the future. In Indonesia, **AEC negotiation process** is coordinated by Ministry of Trade, while its domestic

implementation is coordinated by Coordinator Ministry of Economy. The examination on AEC implementation in Indonesia was affirmed in Inpres 11 Tahun 2011.<sup>4</sup>

Figure 2. AEC Mechanism



Source: Badan Kebijakan Fiskal, Ministry of Finance RI

Notes: AFMM: Finance; AMAF: Forestry; AMEM: Energy; AMMin: Minerals; AMMST: Science & Technology; TELMIN: Telecom & Information Technology; ATM: Transport; M-ATM: Tourism; AMBDC: ASEAN Mekong Basin Development Cooperation.

### Consequence of AEC Single Market and Production Base

AEC anticipatively will bestow positive outcome for ASEAN members' economic development. However, AEC have imminent consequences that entail us (Indonesia) to remain alert. Several points that required attentive scrutinies are as follows.

- **Foreign trade performance.** In ASEAN, Indonesia's export performance ranked fourth after Singapore, Malaysia and Thailand in 2000-2009, while import performance ranked third after Singapore and Malaysia. Indonesia has trade deficit with Singapore, Malaysia, Thailand, Philippines dan Brunei which potentially would continue to expand without proper diligence. However, in 2013 (up to November), Indonesia had trade balance surplus with all ASEAN members except Thailand, although in aggregate it was still a deficit (deficit

<sup>4</sup>Pelaksanaan komitmen AEC telah ditetapkan sebelumnya dalam Instruksi Presiden Nomor 5 Tahun 2008 tentang Fokus Kegiatan Ekonomi Tahun 2008-2009. Sedangkan pengaturan lebih detail terkait pelaksanaan komitmen cetak biru AEC ditetapkan dalam Instruksi Presiden Nomor 11 Tahun 2011.

with Thailand was bigger than total surplus with other eight ASEAN members). The last time Indonesia had trade balance surplus with ASEAN members was in 2011. Overall, it can be resumed that Indonesia trade performance is not so good (still below Singapore, Malaysia and Thailand, for export and Singapore and Malaysia, for import). Since the researches indicated that FTA will increase deficit, Indonesian must remain alert of its trade performance.

- **Similarity of ASEAN flagship products.** Countries in ASEAN have similarities in their flagship products especially in agriculture, fishery, rubber, wood and electronic sectors. This similarity makes intra-ASEAN trade limited to 20-25% of total trade. Consequently each member needs to have a strategy to increase value added of its products to be competitive with other members.
- **Competitiveness.** According Global Competitiveness Report (GCR), in 2013-2014, Indonesia ranked 38<sup>th</sup> of 139 countries and 5<sup>th</sup> in ASEAN (after Singapore (2), Malaysia (24), Brunei (26), Thailand (37) and Philippines (59)). This competitiveness increased relatively high from position 50<sup>th</sup> in 2012. On the other side, Indonesia's *Human Development Index (HDI)*, ranked 108<sup>th</sup>, after Singapore (27), Brunei (37), Malaysia (57), Thailand (92) and Philippines (97).
- **The effect of freer flow of capital .** AEC seems to interpret regional economic integration as simple as rapid liberalization. Corresponding with other international conventions, AEC is likely another plan to make ASEAN members liberate faster. However, trade and investment liberalization does not necessarily bring about positive effect for the economy and local labor. Several researches doubt the ability of liberalization to increase trade to bring about higher economic welfare. Liberalization at a bigger scope, especially capital liberalization, can cause shock to the flow of capital and affect the economy. AEC blueprint does not enclose detail and clear and logical plans to overcome the negative effect of liberalization.
- **Inflation rate, income inequality and macroeconomic stability.** These three problems remain dominant in Indonesia's makroekonomik policy. They directly affect productivity that directly connected to level of competitiveness. The variation of rate of inflation among ASEAN countries happened in the rate and sector. For the last three years, Brunei Darussalam has the lowest and Vietnam the highest (22.42% in September 2011) rate of

inflation. ASEAN members can be grouped into three groups: first countries with low inflation (Brunei dan Malaysia); second, majority of countries with inflation level between 2-3%, (Cambodia, Lao PDR, Philippines, Singapore, Thailand; and last, countries with yearly inflation rate above 5%, (Indonesia, Vietnam dan Myanmar). This difference reflected the varieties of economic fundamentals between countries. Thus any economic approach will result differently as the variables are different either.

- **Human resource competitiveness.** Indonesian workers are relatively less competitive compared to the level of competitiveness other ASEAN members. For sure the condition will bring about problems when free flow of skilled labor realized.
- **Level of economic development.** ASEAN members have various level of development. Singapore is already considered advance economy, while Thailand dan Malaysia are considered countries with dynamic economy moving toward middle income countries group. Indonesia, Philippines and Brunei are developing countries, while Cambodia, Lao PDR, Myanmar and Vietnam are under developed countries.

### **3. Issues On Financial Cooperation and AEC Scorecard**

#### **a. ASEAN Finance Cooperation and ASEAN+3 Finance Cooperation**

ASEAN financial cooperation issues can be clustered into two big issues: **ASEAN Finance Cooperation** and **ASEAN+3 Finance Cooperation**. ASEAN Finance Cooperation focuses on Roadmap for Monetary and ASEAN Finance Cooperation (RIA-Fin) which consists of steps and activities in four sectors: Capital Market Development (CMD), Financial Service Liberalisation (FSL), Capital Account Liberalisation (CAL) and ASEAN Currency Cooperation (ACC). ASEAN+3 Finance Cooperation focuses on 3 main issues and 1 additional issue. The main issues are: Chiang Mai Initiative Multilateralisation (CMIM), ASEAN Bond Markets Initiative (ABMI) and ASEAN+3 Research Group. The additional issue includes several sectors: ASEAN Capital Market Forum (ACMF), ASEAN Insurance Cooperation, Cooperation with Asia Pacific Group on Anti-money Laundering, East Asia Finance Cooperation (EAS).

Asean currency cooperation is intended to explore the ways and mechanism to facilitate intra-regional trade, investment and economic integration including several methods for currency management. Precondition for currency cooperation is proper macroeconomic policy and bigger macroeconomic convergence.

**Table 5. ASEAN Finance Cooperation**

RIA-Fin			
	CMD	FSL	CAL
<b>Signed in</b>	AFMM, Manila 2003	AFMM, Manila 2003	AFMM, Manila 2003
<b>Objective</b>	Deepening the financial market and achieve capital market cooperation among ASEAN members.	Develop a more liberal flow of supply of financial services in ASEAN	Support more liberal flow of capital in ASEAN
<b>Focus</b>	<p>Four focuses:</p> <ul style="list-style-type: none"> <li>- update ASEAN Bond Market Development Scorecard,</li> <li>- Provide medium for discussion and knowledge sharing on capital market development</li> <li>- Improve the understanding and development of regulations related to <i>OTC derivatives</i>,</li> <li>- Cooperate with ASEAN Secretariat in <i>Joint Study on Capital Market Integration</i>.</li> </ul>	<p>The conversation on the sixth round of FSL is on going with insurance sector as the focus.</p> <p>Currently under development in the offer and request process.</p>	<p><i>CAL framework</i> (called <i>CAL Heat Map</i>) is under construction.</p> <p>The framework will serve as guidance on liberalization process of capital flow in ASEAN.</p> <p>Evaluated Indicators in the <i>Heat Map</i> are (i) <i>Portfolio and other inflows</i>, (ii) <i>Portfolio and other outflows</i>, (iii) <i>FDI inflow dan outflow</i>.</p> <p><i>Capacity building program</i> (to minimize the gap of development in the capital account management) is under construction.</p>
<b>Achievement</b>	Adopted <i>Medium Term Strategic Framework that provide guidance</i> for Capital Market Development Working Committee and harmonize Capital Market Development in ASEAN	<p>Banking: (Prudent Stability) 51% AFAS Factor Price Equalization (FPE) commitment. Up to 99% FPE included in national regulations (<i>fully liberalized</i>)</p> <p>Insurance: 51% FPE in WTO Up to 80% FPE included in national regulations.</p> <p>Re-insurance: 90% of market share owned by foreign players</p> <p>Financing and warrant: 49% FPE commitment in WTO. 85% FPE commitment in domestic regulation</p>	Member countries have finalize <i>self-assessment process</i> to process FDI liberalization.
<b>Indonesia's Position</b>	Position above BCMLV, competing with Thailand and Philipines, below Singapore and	Indonesia is relatively moe liberal compared to othe ASEAN	In the <i>Heat Map</i> , Indonesia is relatively moe liberal compared to othe ASEAN

	Malaysia.	countries.	countries .
		Indonesia will not state offer and is preparing <i>request</i> .	Indonesia propose capital account liberalization which acknowledge national stability.
<b>Involved Institution</b>	Financial Service Authority (OJK), Bank of Indonesia, Ministry of Finance(DJPU, BKF)	OJK, BI dan BKF	OJK, BI dan BKF
<b>Process</b>	Collaboration which includes: Training in member countries, Joint convention in bond, share market, <i>linkages</i> in payment, and Capital Market Standard harmonization.	Identification of <i>capacity building</i> requirements is under construction, e.q. <i>regulatory and supervisory frameworks, crisis management</i> dan consumer protection.	Indonesia will provide <i>knowledge sharing</i> and <i>capacity building related to the application of policies related to capital account</i> , wpecially for BCMLV

Source: Fiscal Policy Board, Ministry of Finance and ASEAN Secretariat

**Table 6. ASEAN+3 Finance Cooperation**

	CMIM	ABMI	ASEAN+3 RG
<b>Signed</b>	Mei 2000	August 2003	August 2003
<b>Objective</b>	<i>Regional financial arrangement</i> to overcome liquidity and balance of payment problem of ASEAN+3	Develop efficient and liquid Asian bond market, Optimize the use of regional savings as source of investment funding and reduce currency mismatch and maturity mismatch in the financing in the region	Explores regional financial cooperation issues and to explore ASEAN+3 financial cooperation potential as the future cooperation priority.
<b>Focus</b>	Strengthen the capacity and role of CMIM as regional safety net (crisis prevention and resolution) Capitalization is agreed to be increased into US\$240 billion The maturity is extended from from 3 months to 6 months <i>Increase de-linked portion.</i> The amendment of CMIM Article of Agreement for CRM and CPF is under final discussion.	Promote the bond using local currency. Promote harmonization of regulation to support cross border transactions. Improve infrastructure development cooperation related to bond market.	Studies on Regional Credit Rating Agencies Infrastructure financing Increase the use of local to promote mendorong perdagangan regional
<b>Scorecard</b>	Besides bilateral swap framework and repurchase agreement for ASEAN+3, CMIM also develop ASEAN	Operational and Implementation of Credit Guarantee and Investment	Working group active in doing research in mechanism of credit guarantee, and regional clearing and settlements, supported by

	<i>swap agreement</i> for all ASEAN+3 members.	Facility (CGIF) Receive US\$ 700 million capital contribution (from ADB, ASEAN+3)	ADB
<b>Indonesia's Position</b>	Indonesia promotes ammendment of AoA CMIM based on <i>simplicity</i> and <i>flexibility</i> principles to access, whenever a country have crisis. Country with good and strong <i>track record policy</i> , emphasized on <i>ex ante conditionality</i> Coordination with IMF should be more transparent, related to <i>inked</i> and <i>de-linked portion</i> , included in <i>assessment</i> . Examine the feasibiliy of merger between CMIM and AMRO	Indonesia support the development of bond market in the region through ABMI. Indonesia have interest that Indonesian companies can use CGIF facility to issue private bond with local currency (guarantee from CGIF). The development of bond market must consider each country's finacial development stability.	Whether the existence of <i>regional credit rating agencies</i> needs <i>further study</i> . Indonesia (MoF), together with China and Malaysia (as leading country) are studying the infrastructure financing in the region to explore development cooperation mechanism in the region, by utilizing the region's liquidity excess Indonesia and ASEAN must try to strengthen AIF
<b>Involved agencies</b>	Bank of Indonesia (BI) and Fiscal Policy Board (BKF)	Financial Service Authority (OJK), BI and Ministry of Finance (DJPU ann BKF)	OJK, BI dan BKF

Source: Fiscal Policy Board-Ministry of Flnance, ASEAN Secretariat  
ASEAN+3 consists of 10 ASEAN members+ China, Jepang dan Korea Selatan

### **Additional issue in the ASEAN+3 Finance Cooperation are:**

**ACMF:** This initiative focuses on harmonization of ASEAN capital market regulation standart in two fields: conditions of effect equity statement and distribution regulation. Two other projects is on harmonization of accounting and auditing standard, and reciprocal harmonisasi standar akuntansi dan standar audit, dan pengakuan secara timbal-balik terkait sertifikasi dan kualifikasi profesional. Pada bulan April 2009, setelah diadopsinya "Rencana Implementasi untuk Mempromosikan Pengembangan Pasar Modal Terpadu", standar keterbukaan untuk penawaran multi-yurisdiksi efek telah diadopsi di Malaysia, Singapura dan Thailand.Selanjutnya Nota Kesepahaman antara enam Bursa ASEAN (Indonesia , Malaysia , Filipina, Singapura, Thailand dan Viet Nam) telah ditandatangani untuk membangun tautan elektronik antara Bursa ASEAN dan Dewan Electronic ASEAN (*ASEAN Electronic Board*) .

**ASEAN Insurance Cooperation:** ASEAN *Insurance Regulatory Meeting* (AIRM)mechanism have done several efforts: division of insurance statistics between member countries in order to have a unified statistics, exchange of views on regulation issues, compliance with insurance market principles, consultation with private sector on applying obligatory insurance for vehicles and ouh *Insurance Training and Research Institute* (AITRI) .

*Cooperation with Asia Pacific Group (APG) on Anti-money Laundering*: beginning from 2006 , ASEC have signed a *memorandum of understanding* with APG secretariat to coordinate anti - money laundering and terrorism counter financing training and capacity build programs (AML/CFT) FOR ASEAN and APG countries. ASEC and APG secretariat is in the process of investigating areas where coordination between the two secretariats can be strengthened to identify/develop AML/CFT programs.

**East Asia Summit (EAS)**: Financial cooperation for *East Asia Summit* is still in the initial development phase. The currently running program is informal dialogue between EAS Ministers of finance and senior officers. Ministers and officers explore the feasibility of cooperation under EAS. During EAS first *Finance Ministers Meeting* in Tashkent, Uzbekistan Mei 2<sup>nd</sup> 2010, the ministers talked about G-20 cooperation mechanism, including how to develop the economy in the region to fit strong sustainable and balanced growth framework which is set by G- 20 Leaders, and EAS regional cooperation and capacity building. The Capacity building programs that have been done, to this day, are EAS capacity building program done by Australia and Malaysia; in 2009 in Cambodia and 2010 in Lao.

#### **b. AEC Achievement Scorecard**

The implementation of AEC blueprint commitments are measured in *AEC Scorecard*. During 2008-2013 (up to March 30 2013), the AEC blueprint commitments realizations are as follow: 89.5% (2008-2009), 72.12% (2010-2011), 71.88% (2012-2013). AEC commitment general realization during 2008-2013 is 77,54 %. Indonesian achievement in the *scorecard is appalling*. Indonesia's achievement is in the lowest groups in together with Lao and Cambodia. Singapore has the highest AEC scorecard followed by Vietnam, Malaysia and Thailand.

**Table 7. AEC Commitmen Realization Scorecard**

No	Country	Periods			
		2008-2009	2010-2011	2012-2013	2008-2013*
1	Brunei D	95.4	80.6	80.3	85.1
2	Cambodia	95.3	77.6	79.7	83.4
3	Indonesia	91.7	78.9	80.3	83.2
4	Lao PDR	95.3	77.8	76.8	82.9
5	Malaysia	94.5	84.5	85.1	87.4
6	Myanmar	94.4	81.4	82.9	85.7
7	Philippines	95.4	82.0	80.8	85.6
8	Singapore	96.3	85.6	84.9	88.8
9	Thailand	95.4	83.2	86.5	87.4
10	Vietnam	95.4	83.9	84.1	87.5
	ASEAN	89.5	72.12	71.88	77.54

Source: ASEAN Secretariat (2013)

AEC scorecard is the general indicator of commitment realization. There are several notes in the scorecard that need some notice<sup>5</sup>:

- a. The realization AEC Commitment is not optimal. The main reason is the delay of ratification and signing of agreements related to integrating commitment to ASEAN members' national regulations and also the delay of implementation of several initiatives.
- b. AEC scorecard is too general to qualify as commitment realization achievement information which should be more detailed; and dependent on ASEAN Members domestic development without adequate breakdown and explanation.
- c. AEC scorecard would be futile without adequate explanation on the delays or proportionate sanction framework.
- d. AEC scorecard need to include other measurement standards that can reflect performance achievement focusing on how the effect of initiatives to the AEC commitment realization.
- e. AEC scorecard should be transparent, up to date and informative so it can be an adequate public information to anticipate required actions, such as business decisions, etc.

<sup>5</sup>Das, Sanchita Basu, ISEAS (2012)

The current explanation of the realization AEC commitments is as follows:

**1. a. AEC Pillar I Achievement: Free flow of goods**

- Implementation of *ASEAN Trade In Goods Agreement (ATIGA)*, Mei 2010
- Full Implementation of AFTA to ease the trade;
- Customs facilities, including implementation of *ASEAN Customs Declaration Documents, ASEAN Customs Transit System, and ASEAN Cargo Processing Model*, Finalization of ASEAN Harmonized Tariff Nomenclature (AHTN) 2012, and *ASEAN Single Window (ASW)* piloting in 7 countries (Brunei, Indonesia, Malaysia, Thailand, Singapore, Philippines and Viet Nam).

**b. AEC Pillar I Achievement: Free flow of service and skilled labor**

- *Through ASEAN Framework Agreement in Services (AFAS)*, ASEAN agrees on liberating 65 service subsectors.
- *Mutual Recognition Arrangements (MRAs)* for engineer and architect have been implemented and the operational MRA for other professions (accountant, nurse, paramedics, dental nurse and surveyor).
- ASEAN has design *ASEAN Agreement on Movement of Natural Persons (MNP)* to facilitate the movement of people related with trade and investment.

**c. AEC Pillar I Achievement: Free flow of Investment**

ASEAN members have ratified *ASEAN Comprehensive Investment Agreement (ACIA)* that contain comprehensive investment rulings based of liberalization, protection, facilitation and promotion.

**d. AEC Pillar I Achievement: Freer Flow of Capital**

Freer flow of capital achievement is measured using Road map for ASEAN monetary and financial Integration (RIA-Fin). Several efforts are done to ensure that the flow of money and capital will support larger trade and investment in the region and contribute to ASEAN flourishing and competitive trade integration. The efforts include financial service liberalization, stock market liberalization, and the development of stock market.

**2. AEC Pillar II Achievement**

Several regulations have been made to ensure making ASEAN become a competitive region, they are rulings on competition, consumer protection, intellectual property, infrastructure development, financial cooperation, insurance cooperation and ASEAN taxation forum.

### **3. AEC Pillar III Achievement**

Equitable economic development is achieved through *Small and Medium Enterprises (SMEs)* development and constructing initiatives for ASEAN integration.

### **4. AEC Pillar IV Achievement**

ASEAN have always held economic relation with external counterparts through continuous supports on the creation of ASEAN+1 Free Trade Agreements.

## **4. Asean Customs Cooperation: a Stride Toward AEC**

Customs procedure related to conformity to customs formality, which is the safeguard for monitoring the flow of goods to Indonesia, providing statistical data for trade records whether for policy or scientific purpose, and monitoring the prohibited and / or limited goods which may injure the safety and health of community or counterproductive to national economic interest. Customs' role as guard for state fiscal interest can move from just a guard toward the provider of trade facilitation and industrial support. To realize free flow of goods, services, skilled labor and to decrease the barrier to the flow of capital for sure will need a system and / or institution that directly have command in monitoring the flow of goods. Thus customs have a very important role.

Customs integration will require harmonization and consistency of customs and other procedures. Thus harmonization and safeguarding consistency must have appropriate and comprehensive consideration by the ASEAN customs institutions. In the scheme to eliminate trade barriers AEC uses ASEAN single window and elimination of non tariff barriers. ASEAN Single Window is one of the tools to eliminate non-tariffs barriers.

### **Tariff Barriers**

- Elimination of import duty on all goods, except ones in the General Exceptions, Sensitive and Highly Sensitive Lists, will be realized at the latest in 2010 for ASEAN-6 and in 2015 – with some flexibility for some sensitive products at the latest in 2018 – for CLMV.
- Elimination of import duty on goods that are included in the Priority Integration Sectors will be realized at the latest in 2007 for ASEAN-6 and 2012 for CLMV.
- The dead line for scheduling other goods included in the Sensitive List in the CEPT scheme and decreasing the tariffs of the goods to 0-5% is at the latest January 1<sup>st</sup>, 2010 for ASEAN-6, January 1<sup>st</sup>, 2013 for Vietnam, January 1<sup>st</sup>, 2015 for Lao PDR dan Myanmar, and January 1<sup>st</sup>,

2017 for Cambodia.

### **Non Tariff Barriers**

- All non tariff barrier elimination will be done at the latest in 2010 for ASEAN-5, 2012 for Philippines and 2015 – with flexibility at the latest in 2018 – for CLMV;
- Improving transpiration on Non-Tariff Measures;
- Working as optimal as possible to realize regulations that is consistent International Best Practices;

In this context, tariff elimination clearly must consider the priority between the need of financing for development and (ensuring, national income) and improving acces and trade facilitation. On the otherside, non tariff barrier that emphasize on transparacy aspect and regulation consistency for sure will require diligence and consistency of especially related to formulation and implementation of regulation in the field of customs and excise.

### **Rules of Origin**

Rules of origin (ROO) related to the application of regulation on Certificate of Origin (COO). ROO in the Common Effective Preferential Tariff (CEPT) scheme will be more operational with implementation of standardized, harmonized, and more efficient certification procedure through the use elektronik ROO. This is extremely important to anticipate any possible fraud done by members.

### **Trade Facilitation**

Under free flow of services scheme, customs institution most important role is to provide Mutual Recognition Arrangement (MRA). It amplifies the importance MRA initiatives such and Authorized Economic Operator (AEO), as well as ASEAN Single Window.

### **Customs Integration**

Inline with the acceleration of AEC implementation, the realization of ASEAN Customs Vision 2020 will be accelerated into 2015. Specifically, the development of strategic plan of Customs (SPCD) for:

1. Integrating customs structure;
2. memodernize tariff system, customs value, and rules of origin;
3. developing e-customs;

4. improving customs clearance;
5. Improving human resource development;
6. Increasing the cooperation with related international organizations;
7. Minimizing the difference among customs organization
8. Adoption of risk managemen techniques, customs audit to support trade facilitation.

### Asean Single Window (ASW)

The urgency for the use of information and communication technology that can support trade facilitation, harmonization and standardization of customs procedure makes the application ASW become imminent. ASW is an operating system that integrates 10 National Single Windows of each emmbers.

Pertaining to the customs integration, during ASEAN 12<sup>th</sup> Annual Meeting in Hanoi, June 2004, heads of ASEAN customs administration agreed to make Strategic Plan of Customs Development (SPCD) (intended to be applied in the perion of 2005-2010). SPCD contains activity programs that are designed to deepen the customs integration and harmonization of ASEAN members. There are fifteen activity programs.

**Table 8. SCPD Final Objective, Strategy, and Indonesia's Position**

SPCD 01: Customs Tariff Classification Coordinator: Singapore
<p><b>Final Objective:</b> Put together harmonized classification system of goods and commodities to facilitate international trade and investment in ASEAN members</p>
<p><b>Strategy</b></p> <ul style="list-style-type: none"> <li>- Form mechanism and procedures to review, simplify and implement to support AHTN regime that is supportive to trade;</li> <li>- Form mechanism and spread information for industry for <i>classification and advance rullings</i>;</li> <li>- Prepate AHTN training modules; doing <i>training, workshop, or seminar</i> for members of staff and <i>stakeholders</i> at national and regional level.</li> </ul>
<p><b>Indonesia's Position:</b></p> <ul style="list-style-type: none"> <li>- Indonesia currently use AHTN 2012 referring to World Customs Organization (WCO) Harmonized Commodity Description and Coding System (WCO HS Code);</li> <li>- Indonesia have already had regulation framework and applied classification ruling and advance ruling;</li> <li>- Indonesia have already done/had training moduls dan regularly trained employees on classification integrated with technical training; and done socialization for business sectors especially during the implementation of Buku Tarif Kepabeanan Indonesia 2012 (BTKI 2012).</li> </ul>

## SPCD 02: Customs Valuation

Coordinator: Indonesia

**Final Objective:** full implementation of *WTO Valuation Agreement* and *ASEAN Customs Valuation Guide* to harmonize customs value calculation and to improve regulation and procedure transparency.

### Strategy

- Improve member of staff technical knowledge and ability and operational capability and stakeholders on customs valuation;
- Strengthen law and regulation framework in each member countries to support full implementation of *WTO Valuation Agreement*;
- Synchronize administrative and practical procedures on customs valuation;
- Harmonize valuation control;
- Improve the structure of organizations that oversee customs valuation in each members.

### Indonesia's Position:

- Indonesia have reviewed and up dated the regulation on customs value, although it is not yet fully comply with *WTO Customs Valuation Agreement* and international best practices;
- Indonesia have already had unit of organization responsible for issues related to customs value, had mechanism and procedures for valuation advice and valuation ruling systems, and had conflict resolution system, objection and appeal system;
- Indonesia have already had training modules and done training on customs values for employees integrated to technical training, and had done socialization for business stakeholders

## SPCD 03: Origin Determination of Goods and Commodity - CEPT AFTA & Non-preferential Rules of Origin

Coordinator: Vietnam

**Final Objective:** Ensure the swiftness of the flow of goods that use CEPT ROO and increase the knowledge on non-preferential ROO in accordance with *WTO Agreement on Rules of Origin*.

### Strategy

- Improve technical and professional capacity of of the members of staff of customs authority and other government agencies related to CEPT ROO and non-preferential ROO implementation.
- Participate actively in designing ASEAN preferential ROO and prepare operational mechanism of the implementation.
- Accelerate the clearance process for goods using CEPT ROO by using post clearance audit as the back up system;
- Improve coordination with other agencies whether at national or regional level to ensure uniform application of CEPT ROO and do periodical information exchange.

### Indonesia's position

- Directorate General of Customs and Excise (DJBC) and Certificate of Origin publishing institutions have come together with rules of origin (prepared by team consists of all ASEAN members) to promote intra ASEAN trade and have done socialization on ROO and published it on DGCE site;
- DGCE have already had training moduls on ROO, done the ROO training integrated with technical training, and had technical guidance as ROO examination guideline;
- Self-Certification of Certificate of Origin (S/C CoO) is planned to be done in 2012;

- DGCE have not been able to do effective information exchange on **Form D** with other ASEAN members.

#### SPCD 04: Establishment of ASEAN e-Customs and ICT Application for Trade Facilitation and Customs Control

Coordinator: Thailand

**Final Objective:** Make ASEAN Customs environment fully supported by ICT application.

##### Strategy

- Prepared strategy to build ASEAN e-Customs;
- Harmonize data and information standard in accordance to international standard (WCO data set, UCR, or other relevant standards) and prepare regional harmonization guideline;
- Accelerate the implementation of ICT applications in all customs technical areas whether at national or regional level.
- Strengthen capacity building activities on ICT applications for members of staff and related stakeholders;
- Promote partnership program with private and logistic industry.

##### Indonesia's Position

- Indonesia have applied Electronic Data Interchange(EDI) for import, export, and manifest;
- Indonesia have applied Indonesia National Single Window at five main ports and been ready to support ASEAN Single Window;
- Indonesia have done training on ICT for members of staff.

#### SPCD 05: Customs Clearance

Coordinator: Philippines

**Tujuan akhir:** Simplify and accelerate harmonization of documents, formalities, procedures, and *customs clearance* practices to improve economic competitiveness of ASEAN internasional transaction

##### Strategy

- Adopt and implement Revised Kyoto Convention and other international convention on trade facilitation to enhance ASEAN economic competitiveness and efficiency;
- Adopt risk based and audit based control to facilitate trade and customs superintendence.
- Run partnership program with industry and other stake holders to modernize cargo processing.
- Synchronize customs process with ICT application to ensure customs administration interoperability and compatibility among ASEAN members;
- Improve capacity building activities, enhance knowledge sharing and information exchangeto increase customs clearance process efficiency.

##### Indonesia's Position

- Indonesia have had legal bases on customs clearance that refer to Revised Kyoto Convention;
- Applied risk management in clearance process (such as importer profiling and clearance lining), and used post clearance audit approach;
- Done socialization and dialogue with industry to improve understanding on efficient clearance process;
- Applied EDI in import, export, and manifest process; Implemented Indonesia National Single Window at five mainpopt;rs;
- Had ASEAN Cargo Processing Model (ACPM), prepared as customs clearance reference

<p>in ASEAN;</p> <ul style="list-style-type: none"> <li>- Had modules and trained regularly to improve members of staff ability and understanding on customs clearance.</li> </ul>
<p><b>SPCD 06: Customs Transit</b> Coordinator: Singapore</p>
<p><b>Final Objective:</b> Ensure free flows of vehicles and transit goods on ASEAN region and improve customs superintendence.</p>
<p><b>Strategi:</b></p> <ul style="list-style-type: none"> <li>- secure customs superintendence mechanism on transit goods;</li> <li>- Improve members of staff technical knowledge and ability on <i>Customs Transit</i>.</li> </ul>
<p><b>Indonesia's Position</b> Indonesia is doing study on the application of customs transit procedures to support the intra ASEAN movement of commodities.</p>
<p><b>SPCD 07: Temporary Admission</b> Coordinator: Singapore</p>
<p><b>Final Objective:</b> to create temporary admission regime.</p>
<p><b>Strategy</b></p> <ul style="list-style-type: none"> <li>- Facilitate temporary admission goods clearance process;</li> <li>- Information exchange and promote temporary admission <i>international best practice</i>.</li> </ul>
<p><b>Indonesia's Position</b></p> <ul style="list-style-type: none"> <li>- Indonesia have had legal bases for temporary admission that refer to Revised Kyoto Convention, and currently is in the process of annexation of ATA Carnet;</li> <li>- Trained members of staff on temporary admission and done socialization.</li> </ul>
<p><b>SPCD 08: Customs Post Clearance Audit</b> Coordinator: Indonesia</p>
<p><b>Final Objective:</b> Harmonize practice and procedures of PCA to facilitate trade and secure income efficiently.</p>
<p><b>Strategy</b></p> <ul style="list-style-type: none"> <li>- Strengthen legal framework, organizational structure, and PCA operation in member countries;</li> <li>- Develop and increase members of staff professional capability to do PCA effectively;</li> <li>- Increase mutual cooperation between customs administration to the world to increase compliance and effective superintendence;</li> <li>- Improve and share experience on PCA procedures international best practices among members.</li> </ul>
<p><b>Indonesia's Position</b></p> <ul style="list-style-type: none"> <li>- Indonesia have already had comprehensive legal bases for PCA, supported with PCA units in the regional office. PCA is done by auditor functional officer stationed at DGCE headquarter;</li> <li>- Done training on PCA to increase auditor capacity;</li> <li>- Done socialization on PCA to business sector and provided information in DGCE site;</li> <li>- Published ASEAN PCA Bulletin and share contact points for PCA with Asean members.</li> </ul>
<p><b>SPCD 09: Customs Enforcement and Mutual Assistance</b> Coordinator: Brunei Darussalam</p>
<p><b>Final Objective:</b> Maintain the achievement of income target, share experience, good cooperation and mutual assistance</p>

**Strategy**

- Prepare and implement customs superintendence strategy and programs based on risk management principles to mitigate smuggling and customs crimes and increase stake holders compliance;
- Promote and improve mechanism of operational information exchange on customs enforcement;
- Perform join customs superintendence and management;
- Improve capacity building in the field of customs enforcement.

**Indonesia's Position**

- Indonesia have already had mechanism to perform customs superintendence, based on risk management principles;
- Taken active role in ASEAN cooperation forum in enforcement whether through ASEAN Customs Directors on Enforcement and Mutual Assistance (ACDEMA) forum, WG-CEC or ASEAN Customs Enforcement Liaison Officer;
- Routinely performed joint patrol and intelligent information sharing;
- Improve members of staff capacity through training.

**SPCD 10: Customs Reform and Modernization**

Coordinator: Brunei Darussalam

**Final Objective:** Modernize ASEAN customs administration based on values: integrity, accountable, transparency, professionalism, innovation and public service in partnership with trade community related stakeholder and public

**Strategy**

- Prepare, implement and monitor ASEAN customs administration reformation and modernization strategic programs;
- Improve integrity as intended by international recommendation (WCO Arusha Declaration, ICC Code of Conduct);
- Prepare quality customs service to the public, trade community, and related stakeholders.

**Indonesia's Position**

- Indonesia have begun to implement continuous reformation and modernization of customs administration;
- Had code of conduct to improve employees' integrity and unit specialized to watch members of staff integrity and performance;
- Tried to improve public and stakeholders service quality.

**SPCD 11: Customs Human Resource Development and Administration**

Coordinator: Malaysia

**Final Objective:** Increase credibility, integrity and professionalism of customs authority members of staff.

**Strategy**

- Prepare, implement and monitor ASEAN customs administration reformation and modernization strategic programs;
- Improve integrity as intended by international recommendation (WCO Arusha Declaration, ICC Code of Conduct);
- Prepare quality customs service to the public, trade community, and related stakeholders.

**Indonesia's Position**

- Indonesia have begun to implement continuous reformation and modernization of customs administration;
- Had code of conduct to improve members of staff' integrity and unit specialized to watch

- members of staff integrity and performance;
- Tried to improve public and stakeholders service quality.

### SPCD 12: International Partnership and ASEAN Customs

Coordinator: Malaysia

**Final Objective:** Increase credibility and reputation of customs authority members of staff to the public, organization and international community.

#### Strategy

- Improve the conscience, understanding and adoption of international conventions, standards and guidelines;
- Promote and increase cooperation with local and international communities;
- Participate actively in WCO forums to ensure stronger cooperation and collaboration for the interest of ASEAN customs administration;
- Promote and increase understanding and agreement with International customs administration.

#### Indonesia's Position

- Indonesia actively take role in the customs cooperation forums at ASEAN, WCO, or bilateral cooperation level.

### SPCD 13: Partnership with Customs Stakeholders and the Trading Community

Coordinator: ASEAN Secretariat

**Final Objective:** Perform cooperation with stakeholders, promote partnership and compliance.

#### Strategy

- Formalize and strengthen cooperation on single window initiative with bureaus and government agencies at national and regional level;
- Develop coordination mechanism among government agencies to run programs and cross sectoral activities at national and regional level;
- Prepare joint training programs on cross sectoral issues to improve the knowledge and understanding of all government agencies;
- Restore channels of information and communication among customs administration and bureaus/ other government agencies;
- Form dialogues and cooperation mechanisms of all ASEAN Customs Working Group, and formulate MoUs with provate sector;
- Improve transparency and conscience on unconfined compliance;
- Run joint programs/ cooperation through information exchange and better communication to increase customs seperintendence;
- Run joint programs to increase customs administration and economic operator members of staff's capacity based on need;
- Form and run joint program to introduce and adopt technique and management of current international trade practice, communication and information standard for customs data processing

#### Indonesia's Position

- Indonesia have related actively to socialize and run customs regulations with business associations and related government agencies;
- Run training and workshop for DGCE members of staff in cooperation with civil, military and police institution and private institution such as Business Software Alliances.

<p><b>SPCD 14: Narrowing the Development Gap in Customs</b> Coordinator: Cambodia</p> <ul style="list-style-type: none"> <li>- Final Objective: Help new customs institutions (CLMV) to develop customs system and reduce technical gap and provide technical assistance for them.</li> </ul> <p><b>Strategy</b></p> <ul style="list-style-type: none"> <li>- Prepare and implement capacity building comprehensive programs based on regional and international initiatives, and technical assistance programs based on Initiatives of ASEAN Integration (IAI);</li> <li>- Improve and modernize legal framework and regulations by simplifying and harmonizing customs procedures based on international conventions and best practices;</li> <li>- Strengthen institutional plan to modernize customs system and improve managerial capacity of CLMV customs institution members of staff.</li> </ul> <p><b>Indonesia's Position</b></p> <ul style="list-style-type: none"> <li>- Indonesia have taken role actively in reducing capacity gap between CLMV customs administration, for example by envoying DGCE officers to become resource persons/experts and run training among other on tariff classification, post clearance audit and customs valuation.</li> </ul>
<p><b>SPCD 15: Public Security and Security Safeguard</b> Coordinator: Malaysia</p> <p><b>Tujuan akhir:</b> Achieve: (a) protect the community form illegal traffic arms, narcotics, antigues, and cultural heritage; (b) protect endangered species and safeguard environment (sucha as <i>illegal logging</i>); (c) protect community from the <i>illegal traffic</i> of dangerous wastes.</p> <p><b>Strategy</b></p> <ul style="list-style-type: none"> <li>- Increase <i>training</i> fro members of staff on <i>public security</i> and community protection;</li> <li>- Do training for trainers <i>for Customs Border Enforcement</i> in every areas of priority;</li> <li>- Strengthen <i>Customs Border Measures</i> to increase public security and protect the community</li> </ul> <p><b>Indonesia's Position</b></p> <ul style="list-style-type: none"> <li>- Indonesia have taken role actively in ASEAN customs cooperation forums on <i>enforcement</i> whether through <i>ASEAN Customs Directors on Enforcement and Mutual Assistance forum</i> (ACDEMA), <i>WG-CEC</i> or <i>ASEAN Customs Enforcement Liaison Office</i></li> </ul>

## 5. AEC Implementation Challenges and Action Plan Recommendations

ASEAN economy grew and performed well in 2012. GNP growth in 2012 was 5.7% compared to 4.7% in 2011. So did income per-capita. The latest data showed that income per-capita of ASEAN5 countries grew 5.1% through out the first semester of 2013. Service sector continued to be the most contributing sector for all ASEAN members GDP growth followed by industry. On the other side, agriculture contribution decreased consistently for the last seven years. ASEAN nominal GDP reached USD 2.31 trillion in 2012, where ASEAN-5 contributed USD 2.1 trillion. This development caused GDP per capita grew into USD 3,751, increased USD 160 compared to 2011. ASEAN-5 GDP growth in the first semester of 2013 rose to 5.1%. This number is higher compared to the same period a year ago, 4.9%.

In general, GDP of 10 ASEAN countries increased throughout 2005 to 2012, except in 2009 when most countries suffer recession and deceleration in economic activity as the impact of global economic recession in 2008. Currently, the region has recovered and continued to grow toward AEC 2015. ASEAN-5 GDP growth was higher compared to BCLMV, each 5.8% and 5.3% consecutively. Philippines and Thailand economies contribute significantly on ASEAN-5 economic growth. At the purchasing power parity (PPP), ASEAN GDP grew from PPP\$ 2.19 trillion in 2005 to PPP\$ 3.62 trillion in 2012. For comparison purpose, GDP per capita is a better measurement of GDP data because it considers the size population. In other phrase GDP per capita means average population income of an economy, which may indicate average economic contribution of each population member. Thus, higher PDB indicates better economic condition of a country.

**Table 9. ASEAN GNP Growth 2005-2012\***

COUNTRY	2005	2006	2007	2008	2009	2010	2011	2012
Brunei D	0.4	4.4	0.2	-1.4	-1.8	2.6	3.4	1.0
Cambodia	13.6	10.8	10.2	6.7	0.1	6.0	7.1	7.0
Indonesia	5.7	5.5	6.3	6.0	4.5	6.3	6.5	6.2
Lao PDR	7.3	8.3	6.0	7.8	7.5	8.1	8.0	7.9
Malaysia	5.3	5.6	6.3	4.8	-1.5	7.4	5.1	5.6
Myanmar	13.6	13.6	13.1	12.0	10.3	10.6	10.2	5.9
Philippines	4.8	5.2	6.6	4.2	1.1	7.6	3.6	6.8
Singapore	7.4	8.6	9.0	1.7	-0.8	14.8	5.2	1.3
Thailand	4.6	5.1	5.0	2.5	-2.3	7.8	0.1	6.5
Viet Nam	8.4	8.2	8.5	6.3	5.3	6.8	6.0	5.0
ASEAN	5.9	6.1	6.7	4.7	1.7	7.8	4.7	5.7
ASEAN-5	5.4	5.7	6.4	4.3	1.1	7.9	4.4	5.8
BCLMV	9.1	9.1	8.9	7.0	5.6	7.3	6.8	5.3

\* (%) at Constant Price

Source: ASEAN Secretariat

**Table 10. ASEAN GNP Per-Capita ASEAN 2005-2012\***

COUNTRY	2005	2006	2007	2008	2009	2010	2011	2012
Brunei D	48,998	51,803	52,816	52,262	51,116	52,208	54,357	55,405
Cambodia	1,450	1,632	1,809	2,114	2,030	2,157	2,308	2,516
Indonesia	3,199	3,447	3,716	3,986	4,174	4,354	4,664	4,971
Lao PDR	1,818	1,755	2,052	2,213	2,350	2,522	2,648	2,904
Malaysia	12,035	12,925	13,814	14,523	14,165	14,813	16,028	16,976
Myanmar	788	894	1,055	942	1,099	1,195	1,406	1,490
Philippines	3,061	3,260	3,550	3,661	3,664	3,920	4,069	4,339
Singapore	45,369	49,120	52,735	52,329	50,812	58,063	61,068	61,461
Thailand	6,839	7,365	7,905	8,227	8,053	8,742	8,902	9,609
Viet Nam	2,163	2,391	2,630	2,859	3,108	3,289	3,442	3,706
ASEAN	3,917	4,230	4,581	4,822	4,901	5,221	5,520	5,869
ASEAN-5	4,785	5,154	5,561	5,845	5,887	6,264	6,606	7,010
BCLMV	1,711	1,885	2,093	2,202	2,382	2,530	2,708	2,906

\*in \$ PPP

Source: ASEAN Secretariat

Based on World Bank criteria, ASEAN countries can be classified into three income groups. Singapore, Brunei Darussalam and Malaysia are high income countries, Thailand, Indonesia and Philippines are middle income countries, while Viet Nam, Cambodia, Lao PDR and Myanmar are low income countries. This grouping can further indicate expected development prospect in the region. According to Global Competitiveness Report, published for 2013-2014 period, CLMV countries are categorized as *factor-driven economies* with income per capita less than USD 2,000, Philippines and Brunei categorized as transition toward *efficiency-driven economies with income per capita* USD 2,000-2,999, Indonesia and Thailand categorized as efficiency-driven economies with income per capita USD 3,000-8,999 while Malaysia is categorized as transition toward *innovation-driven economies* with income per capita USD 9,000-16,999 and Singapore categorized as *innovation-driven economies* with income per capita above USD 17,000.<sup>6</sup>

Region's attributes grow with the time. ASEAN Economy has found its place in service sector after leaving agriculture for the last five years. Service and industry grouped together

<sup>6</sup>The Global Competitiveness Report, 2013-2014. Each category is part of global competitiveness index. Factor-driven economies focus on institution, infrastructure, macroeconomic condition, health, and basic education parameters. Efficiency-driven economies focus on higher education and training, commodity market efficiency, labor market efficiency, financial market development, technology and market preparedness measures. Innovation-driven economies focus on business complexity and innovation.

contributes more than 80% of ASEAN economy GDP. Service sector portion of economy keeps growing in the region. In 2012, service sector was the main economic contributor in 8 ASEAN countries while four years back, it was just main contributor in six countries, Cambodia, Indonesia, Lao PDR, Malaysia, Phillipine and Singapore. Brunei Darussalam, Thailand and Viet Nam were dominated by the industry, while Myanmar consentrated in agriculture.

**Table 11. Sectoral GDP Portion in 2005-2012 (%)**

COUNTRY	AGRICULTURE			INDUSTRY			SERVICE		
	2005	2008	2012	2005	2008	2012	2005	2008	2012
Brunei D	1.3	1.1	1.3	61.2	54.8	51.0	37.5	44.1	47.8
Cambodia	29.4	28.4	25.0	26.8	29.5	29.7	38.5	42.1	38.4
Indonesia	14.5	13.7	12.5	44.1	42.1	40.3	41.4	44.3	47.2
Lao PDR		32.4	26.9		21.6	28.3		39.0	38.5
Malaysia	8.3	7.8	7.3	43.8	40.1	36.8	46.8	50.9	54.6
Myanmar		43.6	34.9		19.8	27.4		36.5	37.7
Philippines	13.3	12.8	11.1	32.7	32.4	32.0	54.0	54.8	56.9
Singapore	0.1	0.0	0.0	30.2	29.2	32.1	62.3	64.2	61.8
Thailand	9.0	8.8	8.4	46.9	47.9	47.1	44.0	43.3	44.4
Viet Nam	19.6	17.7	15.8	40.2	41.5	41.6	40.3	40.8	42.6

Source: ASEAN Secretariat

#### **a. Putting AEC Together: Problems and Challenges**

With AEC, ASEAN is moving forward. ASEAN economy is integrating through market driven production network, trade and investment liberalization initiatives and FTA commitments. ASEAN are lavish with problems that require attention and priorities. They are:

- Diverse economic structure among ASEAN members. This reflects difference in economic size, development level, cross border financial market and infrastructure;
- Diverse management process and practice;
- Different information, point of view and participation among stake holders (government, legislative, private sector, small and medium enterprises, academics and civil society) in the AEC;
- Intricacy of coordinating sectoral bureaus, especially to harmonize and synchronize programs and action plan to meet regional commitment;
- The need to improve members' human resource capacity and capability to support integration toward AEC;

- The need to develop regional institution to uphold regulations and monitor the implementation progress.

Besides anticipating AEC 2015, it is also important to review Indonesia's position in the FTAs that have been ratified. Some research conclusions to be considered in looking at Indonesia's position are:

1. AFTA can increase the trade level between Indonesia and other AFTA members at a moderate level.
2. AFTA only increase regional trade at low significant level, even when tariff decreasing rate was high. This happened because biggest portion of ASEAN trade is with non ASEAN counterparts, around 80% of total trade volume.
3. AFTA can stimulate Indonesia's Economy, indicated by the increase in GDP and household income, however its effect on trade deficit must be scrutinized.

One important question that needs to be settled soon is how far the preferential tariff of FTA framework increases import, whether it is high or is just minimal. FTA impact analysis is important to assess whether it increase industrial competitiveness (which relates directly with FTA schemes), re-negotiation process (if possible) and to construct FTA schemes in the future.

Based on the description above, we recommend several recommendation points related to FTA negotiation ahead:

1. Ministry of Finance, Fiscal Policy Agency (Badan Kebijakan Fiskal / BKF) and DG Cuatoms and Excise should be fully involved in every FTA negotiations, especially the ones that relate to positioning of tariff settlement because ministry of finance have high stake and interest on the matter.
2. As FTA relates to national interests, Indonesia's position in every negotiation should have been comprehensively discussed in the Coordinating Ministry of Economics forums. Every position, that Indonesia take or position offered by partners, should be reviewed carefully to ensure the conclusion, (whether it is benefitting at once or at long term or not at all) is taken based on a complete picture drawn from a complete analysis, not just from the sector coaching institution point of view.
3. Indonesia needs to have a blue print / master plan of Indonesia's national policy on FTA. The blueprint/ master plan should be well prepared and continuously evaluated following

current development. By having the blue print, Indonesia will have a lucid course and objective during the negotiations.

4. Indonesia needs to form a steady negotiation team that consists of experts on the issues and have excellent negotiation skill. This team should be appointed permanently, at least for certain FTAs to ensure solid performance in the negotiation.
5. All currently available FTAs need to be evaluated especially on how the impacts on national economy are. Whenever required, correctional steps, including renegotiation (whenever possible) needs to be acknowledged.

**b. Government Action Plan: Recommendations<sup>7</sup>**

Based on the time line, AEC is just a few steps away. Preparational steps to be performed should have been anticipated and prepared early. However, the challenge ahead is complicated and some national arrangements still need acceleration and improvement. Political will is critically required for the implementation, due to of its ostentatious impact on national economy especially. The study recommends several points of consideration to prepare, evaluate, and strengthen action plan toward AEC 2015. Our recommendations might be as normative as we have probably aware of. Nonetheless, our recommendations might be considered as a reminding for some important issues to be further consolidated in the national level. The main issue is how far awareness dan *readiness* of national stake holders including community being prepared to cope with the AEC implementation. There are needs to accelerate the achievement in physical infrastructure (transportation, telecommunication, highways, ports, industrial revitalization and restructuring); improvement of conducive business climate and reducing high cost economy; further reform on taxation, on customs, on policies and on bureaucracy; human resource improvement in bureaucracy, business, or professionals; development of priority industry that have wide impacts on national level; development of energy sector, which will support national production; integrating AEC commitments with Indonesia Masterplan of Economic Development Acceleration (MP3EI) in six economic corridors which include natural resource, industry, services, tourism and food, production process, mining, national energy, fishery process and products, agriculture, plantation, oil, gas.

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<sup>7</sup>Action plan recommendation is resumed from Focus Group Discussion and literature study.

As for the regional level, we think it is important to address some issues as well: promote advance ASEAN members to provide assistance to less advance members, especially through *capacity building* and *technical assistance*; increase support on AEC and its programs, to promote common understanding among stake holders (government, legislative, private, SMEs, academics and civil society); improve regular coordination and consultation among ASEAN sectoral agencies to harmonize and synchronize programs and working plans for more effective implementation; improve uniformity of *roadmap* for each member countries toward AEC 2015; improve AEC implementation *scoring system* to make it accurately measure liberalization level related to characteristics or the level of development of each member countries.

## **6. Concluding remarks**

This paper is meant to provide a simple current line of discourse on Indonesian position in The ASEAN Economic Community (AEC) focusing in the financial and customs cooperation. AEC is the target of ASEAN economic integration 2015. In regards of favorable precondition: the market of 600 million populations, stable economic growth and relatively high investment level, in the long run AEC most likely will benefit every ASEAN members. The analysis tried to describe and develop issues correlations between financial cooperation: capital market development, liberalization of capital account, liberalization of financial service, ASEAN+3 bond market initiative, ASEAN+3 research group; and customs integration issues: Implementation of Strategic Plan of Customs Development (SPCD). There are two conclusions from the analysis. First, in the overall AEC scorecard, Indonesian position is in par with Lao PDR and Cambodia but far behind other members (April 2013 position), while in the context of financial cooperation, Indonesian position is far above BCLMV, competing with Thailand and Philippines but still behind Malaysia and Singapore (ASEAN Cooperation). These facts fortify the urgency of accelerating the implementation of AEC initiatives and reassessing Indonesian position in ASEAN financial cooperation and ASEAN+3. Further, over SPCD 15 strategies as the instruments for customs integration, the paper wrapped up the importance of customs administration capacity building, mainly focused on improving customs procedure, customs valuation rules, rules of origin, and customs modernization. The paper further articulated the

issue recommendations on steps and caveat for policy formulation and harmonization both at national and regional level. Since there are many limitations of the paper, although we conclude that the story line of discourse in AEC might be served at some point. We further identify some points for further research: the details of recent development in the ASEAN and ASEAN+3 Financial Cooperation programs and action plans, further development of SPCD achievement in refer to current customs integration tool, and macro-policy potential impact of AEC implementation. We leave these issues for the next discussion.

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