

## **Panel Session II**

### **ASEAN's Experience of Regional Integration and Community-building**

#### **Counting Down To 2015: Progress towards AEC and Perspectives of Vietnam<sup>1</sup>**

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#### **Abstract**

ASEAN member countries have been ambitious about their targets for an economic community with smaller intra-regional development gap. However, rapid tariff reduction is seemingly their single most notable achievement. With the approaching deadline of 2015 which threatens the realization of a “true” single market, ASEAN economic integration needs a crucial breakthrough with effective commitment enforcement, improved connectivity, and active participation of the people, and social and business communities. From Vietnam’s perspective, ASEAN integration is of vital importance. FDI and trade relations between ASEAN and Vietnam have been significantly enhanced, largely due to the latter’s serious implementation of ASEAN integration commitments. Yet there still exists a room for further meaningful liberalization. To do so, Vietnam has to address the challenges related to the “low-cost labor trap”, harmonize integration tracks, and minimize socio-economic and costs during integration process. More broadly, with intermediate development level, Vietnam can be a good “bridge” for a better mutual understanding between the newer and older members in the ASEAN.

#### **I. Introduction**

The aspiration of the Association of South East Asian Nations (ASEAN),

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<sup>1</sup> This paper is largely based on the author’s presentation at the ASEAN Rountable 2010 on “*Achieving the AEC 2015: Challenges for member countries*” in Singapore, on 29 April 2010.

as emphasized in the Vision till 2020 in December 1997, is to transform “*ASEAN into a stable, prosperous, and highly competitive region with equitable economic development, and reduced poverty and socio-economic disparities*”. In October 2003, the ASEAN member countries agreed on the establishment of the ASEAN Community by 2020, resting on the three pillars of security community, economic community, and socio-cultural community. In order to accelerate the realization of the Vision, in 2007 the ASEAN Leaders expressed their commitment to establish an ASEAN Economic Community (AEC) by 2015 as a single market and common production base. In line with this, the ASEAN has agreed to develop “*a single and coherent blueprint for advancing the AEC*” and the AEC Blueprint as an action plan was signed by the ASEAN leaders in November 2007.

With such a big move, ASEAN member countries certainly have a sizeable workload. There remain challenges and impediments to each country and the region as a whole, the most pressing of which lies in whether the less-developed members can catch up with more advanced ones. In 2000, the Initiative for ASEAN Integration (IAI) was launched by the ASEAN leaders, with the objective of narrowing the development gap in ASEAN by assisting the newer members in the grouping, namely Cambodia, Lao PDR, Myanmar and Vietnam (CLMV).

This paper attempts to provide a Vietnam’s perspective of the progress and challenges for ASEAN in strengthening ASEAN economic integration and establishing the AEC. Apart from the Introduction, the paper consists of 4 Sections. Section II briefly reviews the achievements ASEAN has recorded on the way from Vision 2020 to the AEC. Section III describes the progress, common perception and challenges in realizing the goal of AEC. Section IV covers Vietnam’s views of ASEAN integration and the AEC. It presents also Vietnam’s implementation of ASEAN integration commitments and the AEC targets. Then the paper, in Section IV, concludes with some remarks.

## **II. Achievements on the Way from Vision 2020 to the AEC**

In the period of 2000-2009 as a whole, average GDP growth rates of Cambodia, Lao PDR, Myanmar, and Vietnam reached 8.0%, 6.7%, 9.5%, and 7.2%, respectively. Such growth rates were higher than those of other ASEAN member countries. In relative terms, there has been a tendency for income convergence between ASEAN-6 and CLMV. China, meanwhile, had the most rapid growth over the past decade. Table 1 indicates that the PPP-income gap between the CLV and the higher-income ASEAN members has generally been reduced in the years from 2000 to 2008. Meanwhile, the income gaps between Cambodia and Vietnam and between Lao PDR and Vietnam have been unchanged.

**Table 1: PPP-income gaps between Asian countries**

	<b>2000</b>	<b>2005</b>	<b>2008</b>
<i>Cambodia</i>	<i>0.6</i>	<i>0.7</i>	<i>0.7</i>
Indonesia	1.6	1.4	1.4
<i>Lao PDR</i>	<i>0.8</i>	<i>0.8</i>	<i>0.8</i>
Malaysia	6.0	5.3	5.1
Philippines	1.7	1.5	1.4
Singapore	23.7	19.9	17.8
<i>Thailand</i>	<i>3.3</i>	<i>3.1</i>	<i>2.2</i>
<i>Vietnam</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>
<i>China</i>	<i>1.7</i>	<i>2.0</i>	<i>2.2</i>

*Note:* Vietnam’s PPP-income is set at unity.

*Source:* Ministry of Planning and Investment (MPI) (2010).

Nonetheless, such an income convergence has been insufficient. The development gap in terms of PPP-income is still huge among CLMV, and between CLMV and Indonesia, Philippines, Malaysia and Singapore. In terms of human development index (HDI), the gaps between CLMV and other ASEAN member countries are also substantial.

**Table 2: HDI of ASEAN countries**

Year		<b>2000</b>	<b>2005</b>	<b>2007</b>
Ranked countries		<b>173</b>	<b>177</b>	<b>182</b>
Brunei	Value	0.871	0.894	0.920
	Rank	32	30	30
<b>Cambodia</b>	<b>Value</b>	<b>0.543</b>	<b>0.598</b>	<b>0.593</b>
	<b>Rank</b>	<b>130</b>	<b>131</b>	<b>137</b>
Indonesia	Value	0.684	0.728	0.734
	Rank	110	107	111
<b>Lao PDR</b>	<b>Value</b>	<b>0.485</b>	<b>0.601</b>	<b>0.619</b>
	<b>Rank</b>	<b>143</b>	<b>130</b>	<b>133</b>
Malaysia	Value	0.782	0.811	0.829
	Rank	59	63	66
<b>Myanmar</b>	<b>Value</b>	<b>0.552</b>	<b>0.583</b>	<b>0.586</b>
	<b>Rank</b>	<b>127</b>	<b>132</b>	<b>138</b>
Philippines	Value	0.754	0.771	0.751
	Rank	77	90	105
Singapore	Value	0.885	0.922	0.944
	Rank	25	25	23
<b>Thailand</b>	<b>Value</b>	<b>0.762</b>	<b>0.781</b>	<b>0.783</b>
	<b>Rank</b>	<b>70</b>	<b>78</b>	<b>87</b>
<b>Viet Nam</b>	<b>Value</b>	<b>0.688</b>	<b>0.733</b>	<b>0.725</b>
	<b>Rank</b>	<b>109</b>	<b>105</b>	<b>116</b>

Source: UNDP (various years).

The economic growth performance in GMS economies could be significantly attributed to the expansion of trade and foreign direct investment thanks to the measures to liberalize regional trade and investment. Average growth rate of ASEAN trade reached 1.3% per

annum in 1995-2000, and 7.9% per annum in 2000-2007. The corresponding figures for ASEAN-6 member countries are 0.9% per annum and 7.3% per annum, whilst those for CLMV are 11.9% per annum and 16.5% per annum, respectively.<sup>2</sup> An investigation into pattern of intra-ASEAN trade growth, meanwhile, yields more impressive result. Intra-ASEAN trade growth was averaged at 2.8% per annum in the period 1995-2000, and 9.3% per annum in the years of 2000-2007. The corresponding figures for ASEAN-6 (2.6% per annum and 8.9% per annum, respectively) differ markedly from those of the CLMV (6.7% per annum and 16.0% per annum, respectively) (Austria 2010).

ASEAN has also demonstrated a more attractive investment destination for investors. Foreign direct investment (FDI) into the region increased quite considerably during 2002-2008. In the years from 2006 to 2008, FDI inflows to ASEAN member countries went up by 8.6%. Yet intra-ASEAN FDI rose even faster, by 42.6%. In 2008 alone, FDI into ASEAN reached almost USD 59.7 billion, while intra-ASEAN FDI was equal to USD 10.8 billion, or approximately 18.2% of total FDI into ASEAN.<sup>3</sup> Together with trade performance, this reflects stronger economic ties between ASEAN members.

### **III. Realization of the AEC by 2015: Progress, common perception and challenges**

The ASEAN member countries have been ambitious about their AEC targets. The realization of AEC as a single market and common production base with free flows of goods, services, investments, capital and skilled labors is made available via a number of instruments, including liberalization of trade, investment, development of 12 priority sectors, development cooperation and regional financial cooperation (Figure 1). The ASEAN adopted the AEC Blueprint in 2007, which is binding for advancing the AEC establishment. In 2008 the ASEAN

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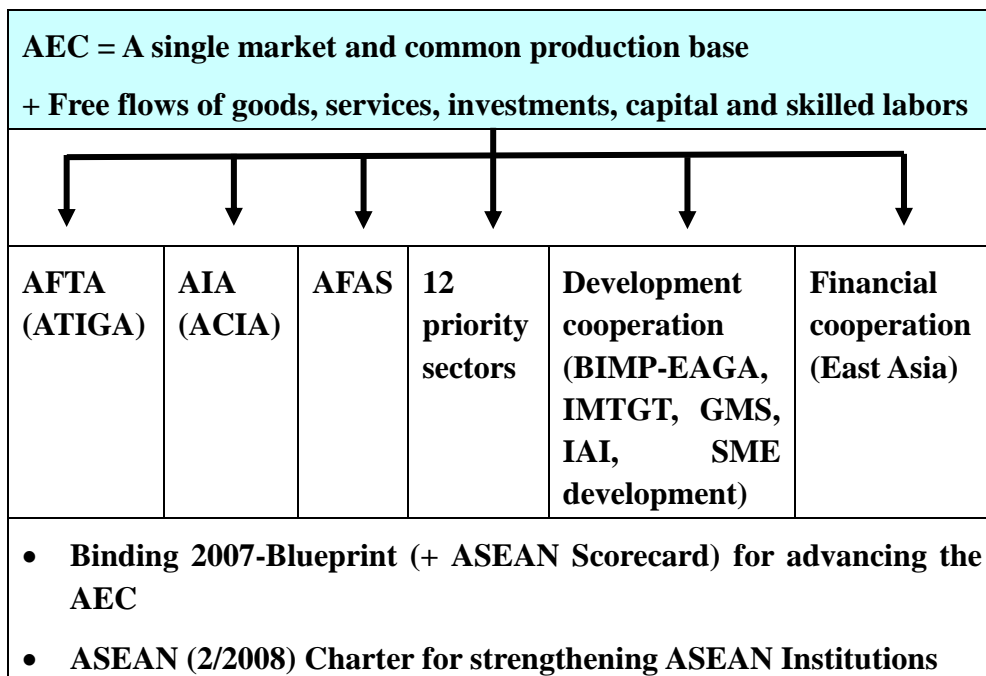
<sup>2</sup> ASEAN-6 consists of Brunei, Malaysia, Indonesia, Philippines, Singapore, and Thailand.

<sup>3</sup> Data of FDI are provided by Vietnam's Ministry of Planning and Investment (MPI).

approved the ASEAN Charter. The Charter can be seen as a breakthrough for strengthening ASEAN institutions, which in turn reinforces the implementation of the ASEAN Blueprint.

The realization of AEC should be viewed in the broader perspective of East Asian integration in which ASEAN serves as a hub. The existing ASEAN-plus FTAs and those under negotiation may exert pressures on promoting further ASEAN integration itself. Yet the complexity of various FTA commitments, i.e. the so-called "spaghetti-bowl" syndrome, and their ambiguous impacts on ASEAN member countries could hinder the ASEAN's consensual move towards deeper integration. Eventually, deeper FTA-based integration must be accompanied by harmonization of integration routes. Success of ASEAN integration is therefore the single first step, but crucial to realizing the vision of an East Asian Community.

**Figure 1: Ambitious Targets of the AEC**



*Source:* Author’s compilation.

The efforts of ASEAN so far to realize the AEC have deepened the people’s perception of the integration of ASEAN countries into - rather than just a free trade area - an economic community. From trade perspective, the AFTA (ATIGA in February 2009) took significant leaps toward the achievement of its goals. Tariff was reduced sharply, with the ASEAN-6 setting zero-percent tariff rate for 99.11% of lines, and the CLMV setting 98.86% of lines to between 0% and 5%.

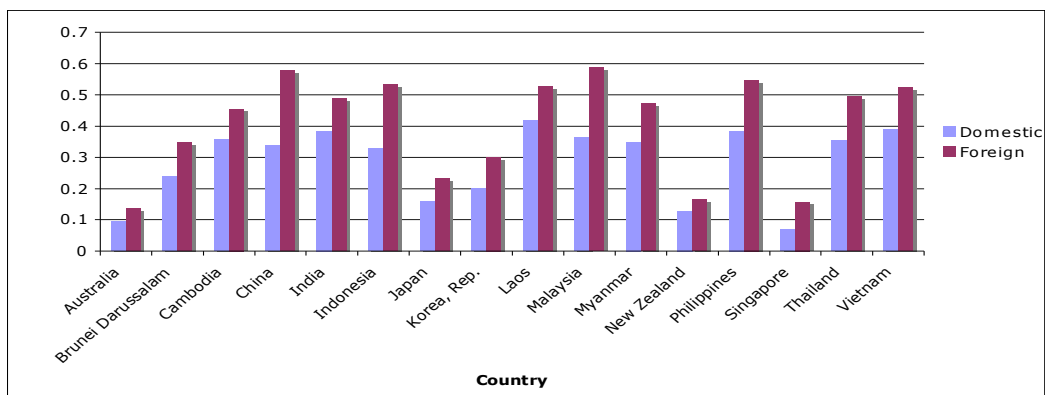
However, relatively rapid tariff reduction seemed to have been the single most notable achievement. Meanwhile, the region as a whole is left

with a number of challenges. *Firstly*, regional tariff harmonization needs to be further improved, while some countries have difficulties in dealing with sensitive items. In addition, the rate of utilization of tariff preferences is low, still at below 20%.

*Secondly*, in the areas of services trade and investment liberalization, the progress has been slow. As argued by the Joint Expert Group on EAFTA (2009), “...for many countries [in the East Asia], no meaningful service liberalization has been achieved...” and the room for expanding the coverage of the AFAS, ACFTA, AKFTA, and AJCEP remains ample. This is not surprising as the services and investment liberalization progress depends to a large extent upon the deepness of domestic reforms dealing with the behind - the - border issues. It can be illustrated by some examples.

As an instance, Figure 2 depicts the restrictiveness in terms of logistics in a range of Asian and Oceania countries. Malaysia, China, Indonesia, Lao PDR, Philippines and Vietnam are the most restricted economies for logistics services in the region.

**Figure 2: Logistic Restrictiveness Indexes for Some Countries**



Source: Hollweg and Wong (2009).

The FDI inflows to ASEAN also encounter enormous impediments from FDI policies as well as their implementation and enforcement. Table



1 summarizes the evaluation of FDI policy regimes in ASEAN countries. The highest average scores are with screening and appraisal, and movement of investors. In particular, screening and appraisal procedures could be a major hindrance as they often embody lack of transparency and complicated processing. Meanwhile, the single smallest average score is with performance required. It may be wrong to assess that the ASEAN countries are not so much different in terms of restrictiveness to FDI, as the standard deviation is of only 0.100. In fact, for the areas of movements of investors, screening and appraisal, national treatment, board of directors, and market access, the ASEAN countries are vastly heterogeneous, as indicated by rather high standard deviations.

**Table 1: FDI Policy Regime of ASEAN Countries**

	Total score	Market access	National treatment	Screening & Approval	Board of directors	Movement of investors	Performance Required
<b>Weight</b>	<b>1</b>	<b>0.4</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
Brunei	<b>0.394</b>	0.243	0.795	0.434	0.590	0.180	0.180
Cambodia	<b>0.242</b>	0.140	0.183	0.622	0.000	0.750	0.117
Indonesia	<b>0.375</b>	0.364	0.198	0.789	0.308	0.546	0.255
Lao PDR	<b>0.428</b>	0.392	0.410	0.608	0.250	0.793	0.245
Malaysia	<b>0.438</b>	0.320	0.833	0.250	0.397	0.562	0.227
Myanmar	<b>0.481</b>	0.378	0.401	0.921	0.399	0.714	0.463
Philippines	<b>0.237</b>	0.257	0.279	0.112	0.519	0.043	0.107
Singapore	<b>0.175</b>	0.197	0.143	0.154	0.356	0.074	0.091
Thailand	<b>0.310</b>	0.423	0.000	0.500	0.000	0.805	0.100
Vietnam	<b>0.315</b>	0.305	0.350	0.475	0.310	0.494	0.194
<b>Average</b>	<b>0.339</b>	<b>0.305</b>	<b>0.350</b>	<b>0.475</b>	<b>0.310</b>	<b>0.494</b>	<b>0.194</b>
Standard dev.	0.100	0.092	0.272	0.266	0.193	0.296	0.113

*Source:* Urata and Ando (2010).

Another example is the adoption by ASEAN countries of the

restrictions on foreign ownership in a range of sectors. As can be seen in Table 2, the numbers of sectors under restrictions differ considerably among East Asia countries. In South East Asia, Singapore and Indonesia exercise restrictions on the smallest numbers of sectors, of 10 and 15, respectively. Meanwhile, Thailand, Malaysia, Philippines, and Vietnam restrict foreign ownership in the large ranges of sectors. Cambodia, Lao PDR, and Myanmar only apply relatively modest sectoral restrictions of foreign ownership, which are almost comparable to that in Korea.

**Table 2: The Number of Sectors under Restrictions on Foreign Ownership**

	Number of restricted sectors
Brunei	18
Cambodia	23
Indonesia	15
Lao PDR	29
Malaysia	59
Myanmar	23
Philippines	50
Singapore	10
Thailand	63
Vietnam	45
China	40
Japan	12
Korea	21

*Source:* Joint Expert Group on EAFTA (2009).

That is, while being progressive in trade liberalization, the ASEAN member countries fail to significantly phase out barriers to services and foreign investment. The extent of restrictions generally differs markedly across the countries. More importantly, higher economic growth and more advanced economy are by no means accompanied by more liberalized business environment.

Preliminary assessments by ERIA Scorecards<sup>4</sup> show that there is progress towards the AEC but several “AEC Targets – Reality Gaps” are still quite significant and vary substantially among the ASEAN members (Intal *et al* 2011). Moreover, the survey of private firms in ASEAN reveals three key areas for implementation by 2015 ASEAN need to prioritize and to have stronger political support. They include trade facilitation measures (such as customs, implementation of ROO, and expediting COO), investment facilitation measures (streamlined procedures for permits, application of best practices, investment promotion), and standards and conformance measures (harmonization, MRAs).<sup>5</sup>

Thirdly, further attempts towards the AEC are also challenged by the regional institutional inadequacy. The regional institutions for implementation, albeit improvement, fail to keep up with the pace of *de facto* integration. The ASEAN integration process has so far followed a “top-down” approach, giving much less emphasis on the roles of people, social and business communities. The monitoring and evaluation of integration progress remain a critical task. The AEC Scorecard demonstrates its importance as an instrument to support the implementation of the ASEAN Blueprint; it is, however, less than fully satisfactory by its own. Instead, the instrument needs to be complemented by some others which can trace the state, performance, and impact of trade and investment liberalization in the ASEAN region (such as ERIA Scorecards).

Moreover, given the regional development gap and countries’ specific internal problems the ASEAN’s core principles (namely, consensus, non-intervention, and consultation-based) are sometimes not to

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<sup>4</sup> The Economic Research Institute for ASEAN and East Asia (ERIA) has developed the so-called ERIA Scorecard to support process of monitoring the progress of achieving the AEC targets.

<sup>5</sup> By the way, entry of ASEAN shippers in local waters, allowing foreign equity at 70% (and higher) in industries except in few sensitive industries, mobility of skilled labour measures, IPR, and competition policy have quite weak support for implementation by 2015.

be flexible enough for ASEAN to move forward in realizing the goal of AEC. Apparently, less advanced economies are hard to realize the same goals via the same roadmaps as those of more advanced counterparts.

The IAI has expanded the number of priority areas for supporting CLMV from 4 in IAI Working Plan I 2002-08 (infrastructure, human resource, ICT, and capacity building) to 7 since 2005 and in IAI Working Plan II 2009-15 (infrastructure, human resource, ICT, capacity building, tourism, poverty, and general coverage projects). As of September 2011, 228/239 projects of the IAI Working Plan I and 106/161 projects of the IAI Working Plan II were completed.

The recent interview of various government agencies and those people engaged in the IAI in CLMV indicates that the IAI is relevant to the needs and priorities of CLMV. The usefulness of the IAI projects is also recognized though not very substantial (Vo 2012). Some limitations of the IAI could be found. This initiative seems to be too ambitious given the ASEAN resources limitation. The coordination among ASEAN-6 taking into account the advantages of the CLMV cooperation among themselves as well as the support by other international donors is far from in smooth way. There is also insufficient consultation with CLMV (Government, business community, and think tanks) for clarifying their needs and the way of implementation for ensuring projects' efficiency and cost-effectiveness. Another shortcoming is a lack of regular and rigorous assessment of the IAI projects' effectiveness and monitoring of the changes in the gap between CLMV and ASEAN-6.

Finally, the ASEAN also comes under the challenges of new arising issues. At this stage, the world and the East Asian region are undergoing a "transition period" of reallocation/redistribution of geo-political and geo-economic powers. The newly emerging economies, particularly the BRIC<sup>6</sup>, are having a greater voice in the aftermath of the global financial crisis and economic restructuring. The major trade and investment partners of ASEAN member countries are also experiencing drastic changes.

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<sup>6</sup> Namely, Brazil, Russia, India, and China.

Regional cooperation and stakeholders’ engagement becomes much more complex web. The new trans-national and non-traditional securities issues, such as energy security, food security, and climate change, are also confronting the region. Without sufficient well-coordinated efforts at both regional and country levels, the ASEAN can hardly realize its goal of establishing on time the ASEAN Community in general, and the AEC in particular.

#### **IV. Vietnam and the establishment of the AEC**

Vietnam has experienced more than 25 years of *Doimoi (Renovation)* which was launched in 1986. Vietnam economic reform and development is a story of both impressive achievements and mistakes/”stagers”. Any achievement or issue for Vietnam can be attributed to three key factors, namely: (i) market-oriented reforms, including private sector development; (ii) the opening up of the economy (mostly in terms of trade and FDI) and integrating the economy into the regional and world economy; and (iii) strengthening macroeconomic and social stability. Vietnam’s viable and sustainable economic development depend not only on international economic integration, but also on how the process interacts (and is compatible) with domestic reforms.

Vietnam became the 7<sup>th</sup> member of the ASEAN in July 1995. Since then, the country has found itself deeply involved in the ASEAN integration process. This integration process has been well in line with the market-oriented reforms and pro-active “open-door” policy that Vietnam has been pursuing since the Renovation. Moreover, Vietnam has committed to be a proactive and responsible for ASEAN integration and the AEC establishment.

For a country in transition like Vietnam, the ASEAN integration is of vital importance in various aspects. This process provides favorable conditions, including regional stability and cooperation, for Vietnam’s socio-economic development. It also serves as a stepping-stone to the wider liberalization and economic integration of Vietnam. After joining ASEAN and its agreements, Vietnam became a member of APEC (in 1998)

and WTO (in 2007), and a signatory in various agreements such as Vietnam-US BTA, and ASEAN-plus FTAs. Vietnam is also under pressure for better institutional changes through implementation of the AEC Blueprint (trade, investment and services liberalization; facilitation measures; National Single Window - NSW; Standards & Conformance; MRAs; etc.). Being a member of the ASEAN also strengthens Vietnam's bargaining power in international arena. Most importantly, Vietnam can no longer stay out of the events happening in/to the ASEAN region. In fact, ASEAN has proved itself to be a key trading and investment partner of Vietnam.

Since its ASEAN accession, Vietnam has seen its trade with the region increasing almost continuously in absolute terms, from USD 4.8 billion in 1996 to around USD 29.8 billion in 2008 and USD 26.6 billion in 2010, in spite of the impacts of global financial crisis and economic recession. This reflects the robustness of ASEAN as a key trading partner of Vietnam.<sup>7</sup> The FDI tie between ASEAN and Vietnam has also been strengthened. Over the period from 1990 to 2009, the accumulated (registered) FDI from ASEAN to Vietnam totaled USD 40 billion (1,517 projects), accounting for 26% of total FDI inflows (13.8% of total projects) to Vietnam. Conversely, FDI from Vietnam to the ASEAN reached USD 4.8 billion (269 projects), mostly during the years of 2006-2010 and to the CLM.

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<sup>7</sup> The decrease of bilateral trade with ASEAN in relative term (i.e. as percentage of Vietnam's total trade) results largely from the more rapid expansion in Vietnam's trade with other partners such as US, EU and China, that reflects the sequencing of Vietnam's economic integration with the region and the world.

**Table 3: Vietnam’s trade with ASEAN**

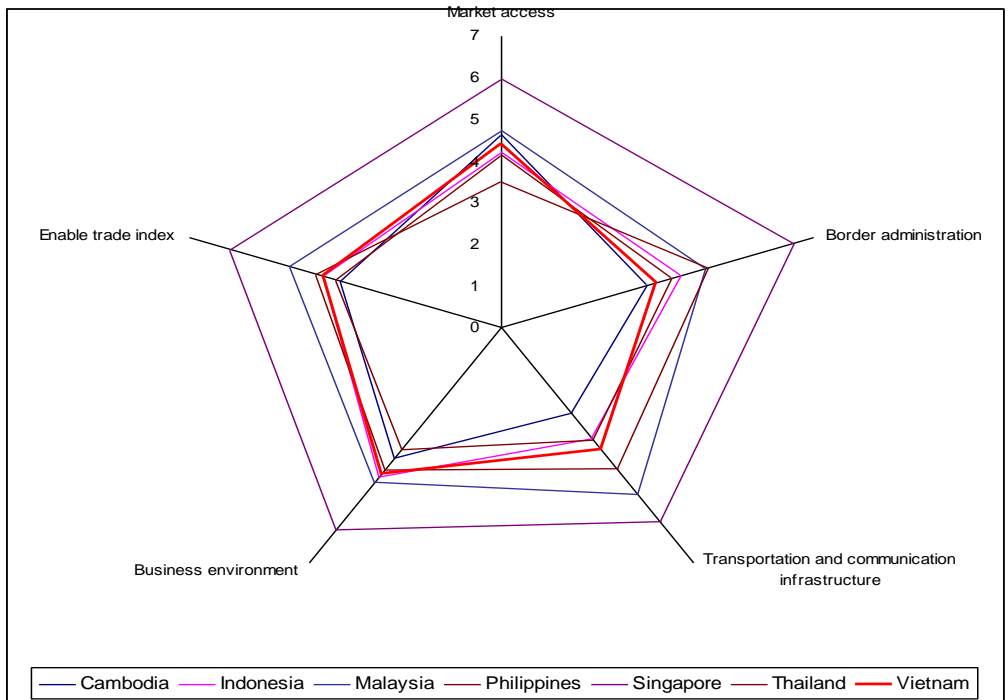
	1996		2008		2009		2010	
	USD bill.	% of total	USD bill.	% of total	USD bill.	% of total	USD bill.	% of total
Export to ASEAN	1.8	23.8	10.2	16.3	8.9	16.0	10.3	14.3
Import from ASEAN	3.0	26.5	19.6	24.2	16.9	20.0	16.3	19.2
(Export + Import)	4.8	25.4	29.8	20.8	25.8	18.4	26.6	16.9

Source: Data provided by General Statistics Office and author’s estimates.

The performance in ASEAN-Vietnam trade and investment has been by no means automatic. In fact, it was largely attributed to Vietnam’s implementation of ASEAN integration commitments. The positive connection between the extent of integration and economic development has enhanced the country’s confidence in making further regional integration attempts. In general, Vietnam has implemented seriously international commitments (Murray *et al* 2009) though facing several challenges as other ASEAN countries (see Section III).

The recent view of Vietnam business communities and associations is that they seem not to have much information on the AEC Blueprint, although knowing about the target of AEC by 2015. Like the view of firms in other ASEAN members, they have also pointed three priorities areas for implementation by 2015, including the AEC customs related measures, standards and conformance, and streamlining of investment processes as well as liberalized logistic services. In fact, Vietnam has got only average score among ASEAN members in terms of enhancing trade and investment facilitation (Figure 3).

**Figure 3: Investment and Trade Facilitation:  
VN in comparison with other ASEAN members**



Source: Cited from Vo (2011)

Vietnam has also to confront some other specific issues in undertaking further regional integration commitments. Vietnam has to negotiate on reducing tariff and on roadmap for taking oil and petroleum items from the General Exclusion List. Even though the participation in the experimental Program on Self-recognition of Origin is not compulsory at this stage, the target of implementing such a mechanism by 2012 necessitates enormous preparation attempts. As part of its services liberalization process, in another instance, Vietnam will get involved in making offer for the 8<sup>th</sup> package.

Another concern is about the low utilization of AFTA/CEPT treatment. The rate of Form-D (certificate of origin) use increased, but remaining low (below 20% in 2010 compared to 8% in 2007). The



reasons behind include: (i) information about the preferential treatment under AFTA/ATIGA (and other FTAs) has not been disseminated widely; (ii) many products of Vietnam fail to meet local content criteria; (iii) for many products, the MFN tariff rates do not differ significantly from those under AFTA/ATIGA framework; (iv) the export structure of ASEAN members, including Vietnam, is relatively similar (Vo and Nguyen 2010).

Like in other ASEAN member countries, these issues present the practical difficulties in deepening integration at the country level. Striking a balance between the flexibility needed for each country to deal with their own specific issues and enforcing mechanism for in-time realization of the AEC (and more broadly, the Vision of ASEAN Community) should be of crucial importance. This also means that there exists a room for further meaningful liberalization, provided that the challenges can be dealt with effectively.

The consultation meetings in Vietnam have got some insights worth to be noted (Vo 2011). The regulatory frameworks revised by AEC commitments are only very first step. Political will is important to foster integration, but political actions (institutional arrangement, funding and incentives for those who work in the efforts to establish AEC at the national level) are much more essential for realizing the country's commitments. There is arising the need for continuous support/assistance from more advanced economies in narrowing down the development gap and in implementing the international agreements. A more powerful governance body for establishing the AEC at both regional and national level is also needed.

From Vietnam's perspective as a low middle-income economy, several major challenges remain. *Firstly*, the country has to take full advantages of labor/resources while moving up value chain for higher value-added and avoiding the “low-cost labor trap”. This, however, depends crucially upon how the country can improve its own institutions (administration and factor production markets), human resources (education and training system), and infrastructure system (especially, transportation and energy supply). These have been set out as key areas for

breakthrough in the draft of Socio-economic Development Strategy 2011-2020 (MPI 2010). Still, the more specific measures need to be identified to address the challenges.

*Secondly*, Vietnam must strive to harmonize the integration tracks/routes. The WTO commitments have so far been the most comprehensive. Trade and investment agreements with the key partners (East Asian countries, EU, US, etc.) have been either signed or under negotiations are essential for Vietnam’s development. However, the risks may arise from the discrepancy in commitments that Vietnam made under those different agreements. As such, harmonizing the integration tracks emerges as an important need, so as to prevent any unwanted inducement of distorted resource allocation. Furthermore, the Vietnam has to attach the liberalization to international cooperation, aiming at not only economic reforms but also deeper relations with partners for stability and sustainable win-win partnership.

*Finally*, Vietnam has to minimize the adjustment and environmental costs as well as the macroeconomic instability and social risks during integration process. Integration is more than just eliminating all the barriers. As it eventually seeks to enhance socio-economic development, the integration process should incorporate adjustment in a way that improves people’s participation and that prevents rising environmental costs or social risk. Vietnam’s failure to effectively manage the flux of capital inflows (especially after the WTO accession) which subsequently sparked the high inflation and macroeconomic instability remains a good lesson.

## **V. Concluding remarks**

The ASEAN as a whole has reached commitments to regional integration with rather wide scope. The significant progress, however, was mainly in liberalization of merchandise trade. Investment and services liberalization remain relatively restrictive. Future attempts towards the AEC are also challenged by the institutional inadequacy, the considerable diversification among ASEAN member countries as well as by the

emergence of new issues, including non-traditional security ones.

The past experience presents significant implications. Most importantly, it may be hard to achieve an AEC *in real economics terms*. As argued by Lloyd (2005), with the definition of a single market as one in which the Law of One Price must hold in all goods, services and factor markets, then the progress towards ASEAN economic integration has been limited and far from an ASEAN single market which would be imaged.

Even if a “true” single market can not be realized, it is crucial to make a breakthrough to ASEAN economic integration by the agreed time frame. One should ask whether ASEAN as a whole can really have *a sense of community* by 2015. This is very much depending on how ASEAN can effectively enforce its commitments, moving “*from action to decisive actions*” rather than just “*from vision to action*”. The ASEAN cooperation should also be enhanced, in a way that facilitates connectivity through regional infrastructure development and service-link cost reduction. The monitoring over the ASEAN Blueprint implementation should be strengthened with a support by a more effective scorecard system and more effective governance at both regional and national levels. The ASEAN integration should also allow for active participation of the people and social and business communities.

ASEAN proves its vital importance to Vietnam – a country making progressive move in integration process to accelerate its transition to a market-oriented economy. Yet, Vietnam also has to confront several common issues to further ASEAN economic integration as well as the problems of a low middle-income economy like itself. These problems have persisted for quite some time, rather than being new. In this regard, the successful integration experience over the past years just marked a profound start. Vietnam, like other ASEAN member countries, still has room for more meaningful integration.

Vietnam continues to commit to be pro-active and responsible for ASEAN integration and the AEC establishment. Being a country moving from a low-income to a middle-income economy, Vietnam can serve as a good “bridge” for a better mutual understanding between the newer and

older members in the ASEAN. In turn, this can contribute to further narrowing development gap, ASEAN integration, and realization of an effective AEC.

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