

Good morning ladies and gentlemen,  
Mr. Takashi Kawamura,  
Professor Yukiko Fukagawa,  
Students,

Thank you very much for sharing this forum with me, my friends from HYLI and from Hitachi. Thank you very much for inviting Malaysia and giving me the honour to speak to you today on a topic that is close to my heart. This is about the ASEAN Economic Community (AEC).

Why ASEAN? ASEAN is a force to be reckoned with today given what is happening in the global economic environment, the problems in the European Union and in the United States. So when you look at what is happening around the world, you see growth in this region, in the Asia Pacific region. We should capitalize on this. When looking at Asia Pacific region, you naturally should focus on ASEAN. Here you see a lot of growth. More importantly, ASEAN as a group has a population of 600 million. This is a growing population, a growing middle-class, a GDP (Gross Domestic Product) of almost US\$ 2 trillion and the advantage of geography, namely, ASEAN is located between three important countries, i.e., Japan, China and India. So all these factors, the advantage of geography and the fact that ASEAN is working towards integration makes ASEAN a significant value proposition. Sometimes ASEAN has the tendency to sell itself short by focusing on its weaknesses rather than its strengths.

Now to give an idea of the FDI (Foreign Direct Investment) flows into ASEAN by country of origin in 2010, you will see where we are. And you also have the FDI net flows - intra and extra-ASEAN. Intra-ASEAN investment is growing but it is dominated by a couple of countries. So that needs to be worked on.

In 2007, the AEC Blueprint was signed. This is an important document. Malaysia was the chair of ASEAN when we drew up the Blueprint so we understood the blood, sweat and tears we went through to get the Blueprint drawn up. It is nice to draw a plan but it means nothing if we cannot implement it. Also, when you implement it, how can you say that you are doing what we suppose to do? That is the reason why we came up with the Scorecard. This Scorecard is presented to the leaders annually at the ASEAN Summit.

So the framework is in place. We have got our key agreements in place. We have ASEAN Trade in Goods Agreement, Rules of Origin, Comprehensive Investment Agreement and Framework Agreement on Services in place. And we have the Dispute Settlement Mechanism, which is to give our business people the confidence that in the event of disputes there is a proper mechanism for recourse. There are 10 countries negotiating and living together so you must have the legal framework in place.

So what is AEC? The better question to ask is really "What is the AEC not?" It is not the EU, not a Customs Union, the Gulf Cooperation Council. So what is it? We want to be a competitive, dynamic region, which allows free flow of goods, services and investment, and free flow of capital and skilled workers. It is not about free flow of workers as in EU. We emphasize "skilled" because that is what we need, the movement of

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people who are trained and have certain qualifications. In that regard, we have Mutual Recognition Agreements that allow each of us to have free flow of skills in particular areas.

ASEAN is about open regionalism. The interesting thing is the difference between EU and ASEAN. In the case of EU, no individual member state can negotiate free trade agreements with a third country. This also applies to other Customs Unions. Negotiations will have to be done as a group. So EU negotiates with other countries as a group. This is done by the European Commission. But in the case of ASEAN, with open regionalism, member states of ASEAN can go ahead and are free to sign individual bilateral agreements. For example, Malaysia has commitments under the ASEAN-India FTA (free-trade area) but has also signed the bilateral FTA with India. Why do we allow this sort of thing? Again we go back to our history and look at our economic structure. ASEAN has similar industrial development histories. We are competing instead of complementing. We have been working very hard to increase intra-ASEAN trade. In the case of EU, intra-EU trade accounts for 70% of their global trade while in ASEAN it is still around 25%.

The ASEAN Economic Community has four pillars: a single market and production base, a highly competitive economic region, a region of equitable economic development and a region fully integrated into the global economy.

Like I said, agreements are in place. So the point now is for each of member state to consider itself as a part of ASEAN. For example when we talk of investment we do not talk about it in terms of investing in a particular member state but in ASEAN. That is where we must head. We do not try to promote Malaysia, Thailand or Singapore but we promote ASEAN as a single investment destination. This requires a mind-set change. And then there is the need to harmonize standards of goods and services. Equally important is the monitoring of compliance. You've got all these rules and agreements in place but you have to monitor the compliance. As I mentioned earlier, individual country has scorecards that should be tabled annually to the leaders.

There are challenges and here are just a few and I am not going into detail. Do we really think ASEAN? We say we are Thais, Indonesian, Malaysian but we have never said we are ASEAN. But European they say they are European. Thinking ASEAN and getting us to think in terms of ASEAN is a challenge. Think ASEAN, is about education, human resources development. But if you want to get people to think ASEAN, you must have schools, universities which have dedicated courses on ASEAN. We can have exchange of credits among ASEAN universities. Connectivity: Do we have flights connecting all the capitals? For example, I could not come to Hanoi directly I had to go to Bangkok. That element of connectivity is something we need to work on.

Another challenge is that of inclusive growth: Dealing with the development gap, ensuring that all member states benefit from the region's economic growth. The next interesting question is ASEAN centrality - you lead or be led. So how to achieve ASEAN centrality? In the past couple of years, we have been pulled to one side by some who want to see the ASEAN+3 take shape the ASEAN+6. The question is what we are going to do with this? So is ASEAN leading the process of further regional economic integration or are the dialogue partners leading the process? We must have a template. We've got all the trade agreements in place, we've got the framework already. ASEAN then has the potential to lead the process. That is the meaning of being a leader. That is a major challenge for ASEAN.

### **And going forward, what should we focus on?**

1. Grow intra-ASEAN trade: Intra-ASEAN trade now is 25 - 26% so we need to grow it and we need to make sure that ASEAN is more integrated in that sense. ASEAN should look at our strengths and opportunities within the region and grow intra-ASEAN trade and intra-ASEAN investment.
2. Inclusive growth: look at how we ensure every member state benefits from economic development.
3. Greater regional integration and ASEAN centrality: We have to look seriously at the fundamentals within ASEAN and how we make ourselves even more attractive and be in the driver seat for greater economic integration.

And the competing factor that you have is that while ASEAN is integrating, you have the APEC integrating through the Trans-Pacific Partnership. It is an instrument to achieve greater economic integration within the Pacific. ASEAN must prove that it can lead and drive the process of regional economic integration.

Thank you very much!