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Banking Integration in ASEAN: Challenges and Issues



ASEAN Briefs is a regular publications about current development on ASEAN regionalism, especially in the Political-Security, Economic as well as Socio-Cultural Pillars.

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SUMMARY

In order to support the Asean Economic Community (AEC), banking integration through the establishment of the ASEAN Banking Integration Framework (ABIF) is crucial. However, even though the AEC will take place later this year, the establishment of the ABIF will only be effective in 2020.

There are a number of challenges ahead of the integration of the banking sector in the 10 countries of ASEAN. The different level of banking development and different banking regulations are some issues that need to be addressed in order to achieve integration.

Therefore, this issue of ASEAN Briefs will examine the issues surrounding the implementation of the ASEAN Banking Integration Framework (ABIF), the challenges facing the banking sector in ASEAN member states, and give possible recommendations to policy makers in ASEAN member states.

Introduction

The ASEAN Economic Community pillar consists of four main characteristics: (a) a single market and production based; (b) a highly competitive economic region; (c) a region of equitable economic development, and (d) a region fully integrated into the global economy. The prerequisite to create a single market and production based is by having a free movement of goods, services, investment, capital, and skilled labor.

The services sector is one of the important sectors to be liberalised by the ASEAN Economic Community as it supports the establishment of regional integration. It will also facilitate the movement of goods within the region. Knowing the importance of liberalisation, the ASEAN Leaders agreed to create the ASEAN Framework Agreement on Services (AFAS) in 1995 during the 5th ASEAN Summit.

One of the services sectors that will be liberalised is banking through the implementation of the ASEAN Banking Integration Framework (ABIF). The integration of the banking sectors is believed to bring benefit to the region and support the integration process as a whole. However, the ASEAN Leaders should acknowledge the challenges ahead in realizing the ABIF.

ASEAN Banking Integration Framework (ABIF)

During the Fourth ASEAN Finance Minister Meeting in 2000, it was agreed that a special committee to further proceed the liberalisation of financial sector need to be established. The committee was called Working Committee on ASEAN Financial Services Liberalisation under AFAS (WC-FSL/AFAS) and would report to the ASEAN Finance Ministers Meeting (AFMM) through the ASEAN Finance and Central Bank Deputies Meeting (AFDM).¹

In 2003, ASEAN Finance Ministers also agreed on the Roadmap for Monetary and Financial Integration of ASEAN (RIA-fin). This encompassed four areas: (a) Capital market development; (b) Liberalisation of financial services; (c) Capital Account liberalisation; and (d) ASEAN Currency Cooperation.² Financial services liberalisation will include the liberalisation of capital market, insurance, and also banking sector. The financial liberalisation is made in order to support the creation of ASEAN as a single market and production based through free movement of services.

Among the financial services institutions, the banking sector is believed to have a very important role in the integration of ASEAN, particularly for the ASEAN Economic Community. It was admitted by the Governor of Malaysia's Central Bank (*Bank Negara Malaysia*), Dr.

Zeti Akhtar Aziz, that said, "a crucial driver for greater financial integration within the core of ASEAN financial systems is the banking sector. ASEAN banks have a significant role in supporting the financial integration process".³

Recognizing the urgency and importance of liberalisation, the central bank governors decided to create the ASEAN Banking Integration Framework (ABIF) in April 2011. Unlike other financial sectors services such as capital market and insurance that will be integrated in 2015, the banking integration will only take place in 2020. One of the reasons for the later timeline is because banking integration needs more time and more preparation for each countries to consolidate its banks as there are systemic risks involved.⁴

Furthermore, the implementation of ABIF will use double-track implementation plan which means that the ASEAN-5 (Indonesia, Singapore, Malaysia, Thailand, and the Philippines) will first implement the ABIF in 2020 and then followed by the rest of ASEAN member states (Brunei Darussalam, Cambodia, Laos, Myanmar, and Vietnam) when they are already prepared for the integration. This is due to the different stages of banking sector development among ASEAN countries and also in line with ASEAN mechanisms. As agreed at the ASEAN Economic Ministers Retreat on July 6, 2002, services liberalisation should be done by applying "10 Minus X Formula". In other words two or more countries that are already prepared for a liberalisation shall proceed first meanwhile the other countries will follow once they are ready.⁵

In order to achieve the integration, there are four preconditions agreed by the central bank from all ASEAN member states that need to be fulfilled: harmonisation of regulations, building financial-stability infrastructure, assisting Brunei Darussalam, Cambodia, Laos, Myanmar, and Vietnam to enhance their banking capacity, and determine criteria of Qualified ASEAN Banks (QABs).⁶ Not all ASEAN banks will be able to participate in the integration; only banks that meet the criteria, called QABs.

According to a study conducted by the Asian Development Bank (ADB), there are three dimensions that will guide the integration. First, equal access. ASEAN banks that comply with the criteria or the QABs will be able to access other ASEAN banking markets aside from their home countries. Second, equal treatment. Regulators in host countries should give equal treatment to QABs and give permission for accessing domestic banking market after they take into account QABs' ability in managing risk. Third, equal environment. Regulators in ASEAN members states should harmonize their regulations in order to ensure that there will be no conflicting rules within the banking industry in ASEAN.⁷

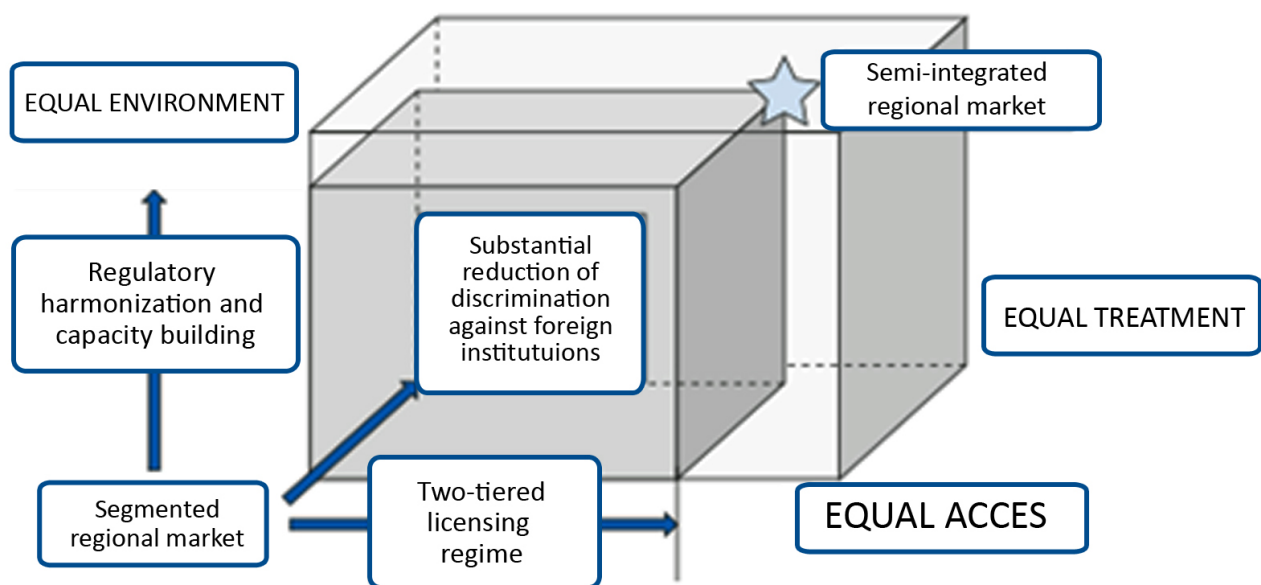


Figure 1. Three Dimensions of ASEAN Banking Integration Framework

Source: Asian Development Bank (2013)

However, the banking integration in 2020 will be a semi-fully integrated one as it will not be fully integrated like banking integration in the eurozone.

The ABIF is believed to give benefits to ASEAN member states. One of the benefits that may occur is cheap financing due to lower interest rates. Based on data from the World Bank, lending interest rates in ASEAN varies widely. Among ASEAN member states, Malaysia

has the lowest lending interest rate which stands at 4.6% in 2014. This figure is followed by Singapore (5.4%), the Philippines (5.5%), and Thailand (6.8). On the other hand, Lao PDR has the highest lending rate among ASEAN at 22.6%. However, the implementation of the ABIF is expected to drive down lending interest rates in the region due to increase competition in the banking industry.

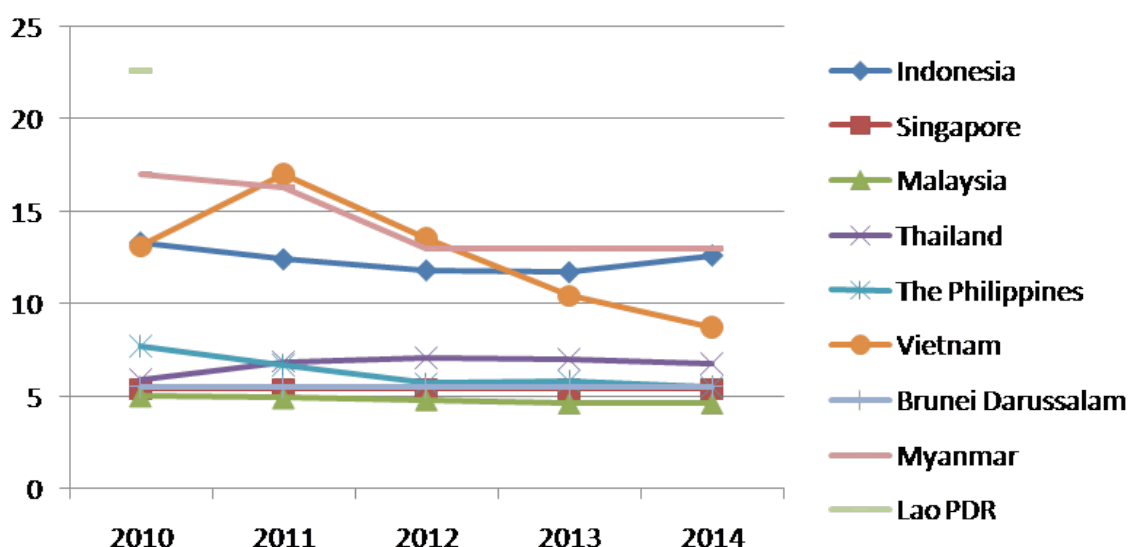


Figure 2. Lending Interest Rate in ASEAN 2010 – 2014 (%)

Source: World Bank (2015)

Note: Lending interest rate in Lao PDR is only available in 2010. Meanwhile lending interest rate in Cambodia is not available.

Moreover, the ADB also mentioned two additional benefits in its report. The increased competition among ASEAN banks will improve efficiency and better allocate savings in the region. Thus it is expected that through better fund allocation and mobilization, growth and productivity within the region will increase. Second, the integration of the banking sector will enhance its resilience in facing potential shocks. This is possible because cooperation between banking industries across ASEAN will be strengthened.⁸

Nevertheless, ASEAN leaders should also be aware of the negative impacts that the ABIF may bring to the region, especially on the BCLMV countries. Funds that are expected to flow within the region through the banking integration may not work well because funds will likely move to a country that have better political stability, lower levels of corruptions, and better regulations.⁹ Nevertheless, those conditions are hardly met in the BCLMV countries that need the flow of funds. As long as the BCLMV countries do not have better financial infrastructure, political and economic stability, and regulations, the fund will likely mainly move to ASEAN-5. Another opinion from Thiam Hee Ng, Senior Economist at the ADB's Office of Regional Economic Integration, contradicts the benefits of ABIF and points to the potential for contagion and spillover effects that might occur as the banking systems becomes more integrated.¹⁰

Challenges Facing Banking Integration in ASEAN

The integration of the banking industry will face many challenges. *First*, the different stages of banking sector development within ASEAN. The differences are not only between the ASEAN-5 and the BCLMV countries but also within each group.

In terms of total assets, mostly Singaporean and Malaysian banks have the biggest assets. Meanwhile, Indonesia's major banks, namely Bank Mandiri, BRI (Bank Rakyat Indonesia), and BCA are lagging behind. Even if the Indonesian Government combines four biggest state-owned banks in Indonesia, the total asset is still lower than the biggest bank in Singapore, which is DBS Bank.

Moreover, cost to income ratio differs widely among ASEAN's banking industry. In Indonesia, the ratio is 81.59% as of February 2015, according to Bank Indonesia.¹¹ It is much higher than the average cost to income ratio in ASEAN which is only around 40-60%. Banks with smaller ratio means that they can operate more efficiently as they generate more income than their cost.¹² In order to compete, the banking sector in Indonesia needs to be more efficient. Thus, it needs to lower the ratio.

Accessibility is also one of important key to measure the different stages of banking development among ASEAN countries. According to Lee and Takagi, there are a numbers of indicators that can explain financial deepening in a country and accessibility of people to banking industry, such as the number of branches, ATMs (Automated Teller Machines), and also deposit and loan deposits.¹³

Table 1 shows that the CLMV countries, Myanmar in particular, have lower figures in almost all the indicators. It can be clearly seen that accessibility to the banking sector in those countries is still limited. In contrast, the CLMV's other ASEAN counterparts, notably Singapore, Malaysia, and Thailand have better performance and presence. As such, accessibility is not a prominent problem in their banking industry. Indonesia and the Philippines may have slightly better performance, but nevertheless there is still a need for improvement to ensure that people can have better access to banking services.

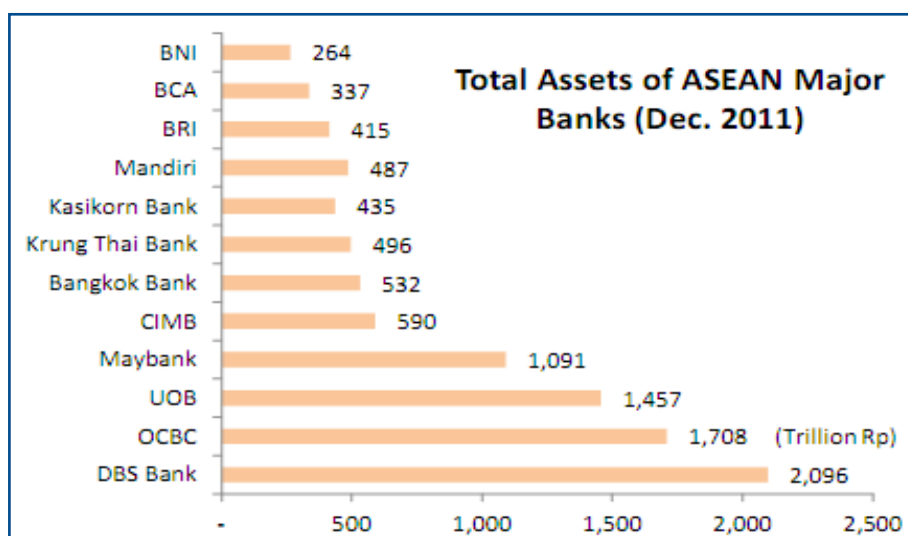


Figure 3. Total Assets of ASEAN Major Banks (Dec. 2011)

Source: Warjiyo (2014)

No.	Countries	ATMs per 100.000 adults	Commercial bank branches per 100.000 adults	Deposits accounts with commercial banks per 1.000 adults	Loan accounts with commercial banks per 1.000 adults
1.	Singapore	58,96	10,16	N.A.	N.A.
2.	Indonesia	42,40	10,40	863,03	217,03
3.	Malaysia	55,50	11,28	2.528,09	760,06
4.	Thailand	104,32	12,16	1.509,80	392,65
5.	The Philippines	22,95	8,63	542,00	N.A.
6.	Cambodia	8,46	4,76	172,67	37,66
7.	Brunei Darussalam	82,33	22,87	2.322,35	823,43
8.	Lao PDR	17,85	2,73	400,01	67,97
9.	Myanmar	0,57	2,57	159,14	1,32
10.	Vietnam	22,29	3,72	N.A.	N.A.

Table 1. Indicators of Commercial Banks' Accessibility in ASEAN (2013)

Source : IMF (2014)

In terms of regional presence, only banks from Singapore, Malaysia, and Thailand have successfully become active players in ASEAN banking market. For example, Singapore's UOB (United Overseas Bank) already has six subsidiaries and one representative office in the 10 ASEAN member states as of 2012.

In contrast, other banks such as the Philippines' Metrobank and Indonesia's Bank Mandiri have low penetration in other ASEAN member states. Metrobank, only has a representative office in Singapore whilst

Bank Mandiri and BNI (Bank Negara Indonesia) have not opened any representative office in other ASEAN countries aside from Singapore.

Despite the fact that some of ASEAN-based banks are already an active player in the region, foreign banks, namely HSBC, Standard Chartered, and Citibank have wider and stronger presence. Therefore, the ABIF aims to increase the capacity and quality of ASEAN-based banks in order to compete with non-ASEAN banks in Southeast Asia.

(Countries, Banks)		Indonesia	Malaysia	Philippines	Singapore	Thailand	Brunei	Cambodia	Lao, PDR	Myanmar	Vietnam
Global	HSBC	•	•	•	•	•	•	—	—	—	•
	Standard Chartered	•	•	•	•	•	•	Rep	Rep	Rep	•
	Citibank	•	•	•	•	•	•	—	—	—	•
Indonesia	Bank Mandiri	—	—	—	•	—	—	—	—	—	—
	Bank Rakyat Indonesia	—	—	—	—	—	—	—	—	—	—
	Bank Central Asia	—	—	—	Rep	—	—	—	—	—	—
Malaysia	Maybank	•	—	•	•	•	•	•	•	Rep	•
	CIMB Bank	•	—	—	•	•	•	•	—	Rep	•
	Public Bank	—	—	—	—	—	—	•	•	—	JV
Philippines	BDO Unibank	—	—	—	—	—	—	—	—	—	—
	Metropolitan Bank & Trust	—	—	—	—	—	—	—	—	—	—
	Bank of the Philippine Islands	—	—	—	—	—	—	—	—	—	—
Singapore	DBS Bank	•	•	Rep	—	Rep	—	—	—	Rep	•
	OCBC Bank	•	•	—	—	•	•	—	—	—	•
	United Overseas Bank	•	•	•	—	•	•	—	—	Rep	•
Thailand	Bangkok Bank	•	•	•	•	—	—	•	•	Rep	•
	Siam Commercial Bank	—	—	—	•	—	—	•	•	Rep	JV
	Krung Thai Bank	—	—	—	•	—	—	•	•	Rep	—

Table 2. Branches and Subsidiaries of Selected Global And Regional Banks in ASEAN (end of 2012)

Source: Lee and Takagi (2013) and Yamanaka (2013)

Among the 10 ASEAN member states, there is no doubt that Singapore has the most well-established banking sector. Based on data from the World Economic Forum 2012, Singapore's banking sector is among the top 10 banking sector in the world. On the other hand,

Indonesia's banking sector is only ranked 53rd out of 62 countries. The rank is based on several indicators, namely size index, efficiency index, and financial information disclosure.

Country	Rank
Singapore	10
Malaysia	11
Thailand	28
Vietnam	32
The Philippines	49
Indonesia	53

Table 3. Banking Financial Services in ASEAN-5 in 2011

Source: World Economic Forum (2012)

Note: WEF only includes 62 countries

Moreover, Global Finance has named Singapore's three biggest banks, namely DBS Bank, OCBC Bank, and UOB Bank, as the top 3 safest banks in Asia in 2014.¹⁴ The banks are considered to not only have large total assets but also have better long-term credit ratings evaluation from credit ratings institutions such as Fitch, Moody's, and Standard & Poor's compared to banks from Hong Kong, China, and South Korea. Other than Singaporean banks, no banks from its ASEAN counterparts are included in the top 10 safest banks in Asia.

In general, Singapore has already become one of the leading global financial centers in the world. Based on the Global Financial Index 17, Singapore is ranked 4 out of 82 countries, just below New York, London, and Hong Kong.¹⁵ This indicates that Singapore's financial sector, including its banking sector, has been recognized for its high level performance.

Second, different banking regulations that might slow down the process of banking integration. In terms of deposit insurance, some ASEAN member states have higher maximum pay out. For example, Singapore's deposit protection limit is capped up to S\$50,000. Singapore used to implement blanket guarantee scheme which means that the government has unlimited deposit insurance coverage after the Global Financial Crisis in 2007. However, the policy had only been implemented from October 16, 2008 until December 31, 2010. Nevertheless, deposit insurance ceilings in Singapore is still among the highest in ASEAN.

Other ASEAN countries have lower ceiling. Indonesia, for example, through its Deposit Insurance Corporation in Indonesia (Lembaga Penjamin Simpanan/LPS) guarantees Rp 2 billion. Prior to the crisis, LPS only guaranteed Rp 100 billion.

In contrast, there are two ASEAN countries that do not have deposit insurance mechanism: Cambodia and Myanmar.¹⁶

Different regulations need to be harmonized in order to strengthen the integration of banking systems in the region. However, one important thing that needs to be addressed is in what level the regulations should be harmonized. According to Maria Monica Wihardja, Economist of the World Bank, the harmonization of regulations should not be too high that will harm other countries that have applied a low standard of

regulations, however it should not also be too loose so that the region will be exposed to external threats.¹⁷

Furthermore, Lee and Takagi also argued that at the very least, minimum prudential requirements should be harmonized and also information sharing among authorities within ASEAN countries should be done in order to prevent unfavorable risks from financial integration in both host and home countries.¹⁸

Third, another concern that might arise is whether ASEAN should create a regional financial supervisory authority. As the banking market becomes more integrated, the region might be exposed to spill-over and contagion risks. As such, a single supervisory agency is needed in order to make a fast response to manage those risks.

In fact, the eurozone crisis has proven that it was a mistake to not establish European financial supervisory authority and only relied on national supervisory in each country as there was a problem of lack of cooperation among them.¹⁹

Furthermore, the European Commission once stated that,

“Nationally based supervisory models have lagged behind the integrated and interconnected reality of today's European financial markets. The crisis exposed serious failings in the cooperation, coordination, consistency, and trust between national supervisors”.²⁰

One of the many lesson learned from the Eurozone crisis for ASEAN is the need to strengthen coordination among national supervisory authorities that are not sufficient enough to counter the potential threat and risks to the region. Closer coordination and harmonization of regulations are needed in order to guard the single banking market.

However, ASEAN is known for its reluctance to create a regional body because ASEAN member states are hesitant to give up their individual national sovereignty over such matters. Therefore, the possibility of ASEAN to create a supranational body as a single financial supervisory is quite small. Thus, when ASEAN wants to create a single banking market, it will not be accompanied by creating a regional body. This reluctance will hamper the implementation of banking integration. Indeed, it cannot be denied that huge political will is needed in order to create a regional financial supervisory authority.

Policy Recommendations

Based on the analysis above, there are some recommendations for policy makers in order to support the implementation of the ABIF.

First, ASEAN should establish a regional financial supervisory authority to improve financial service sector monitoring and surveillance. Closer coordination among

national supervisory authority will not be sufficient enough to prevent and to counter the potential risk and threat that will be brought by the banking integration. However, in order to establish such an institution, ASEAN needs political will.

Second, ASEAN should harmonize regulations across banking sector in ASEAN, one of which is regulations on deposit insurance scheme. The harmonization of regulations does not mean that all financial regulators should have the same regulations but the regulations should be harmonized at a level where it can create a conducive environment for QABs to participate in the integration. Thus, there will be no big discrepancies among regulators in ASEAN.

Third, there should be technical assistance for the less developing ASEAN member countries from the other ASEAN member countries that have a more developed banking sector in order to increase the quality of the less-developed banking sector in terms of human resources, risk management, etc. Thus, the rest of ASEAN member states can participate in the banking integration.

Fourth, strengthening the financial safety net to increase banking system resilience. As the banking market becomes more integrated, the contagion risk will increase. Therefore, ASEAN policy makers should ensure that the financial safety net in the region is strong enough not only to protect the banking sector itself but also the consumers.

Fifth, in order to smoothen the banking integration process, further development in BCLMV countries' financial sector and further deepening in ASEAN-5's financial sector is highly needed.

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About ASEAN Studies Program

The ASEAN Studies Program was established on February 24, 2010, to become a center of excellence on ASEAN related issues, which can assist in the development of the ASEAN Community by 2015. The Habibie Center through its ASEAN Studies Program, alongside other institutions working towards the same goal, hopes to contribute to the realization of a more people-oriented ASEAN that puts a high value on democracy and human rights.

The objective of the ASEAN Studies Program is not merely only to conduct research and discussion within academic and government circles, but also to strengthen public awareness by forming a strong network of civil society in the region that will be able to help spread the ASEAN message. With the establishment of ASEAN Studies Program, The Habibie Center aims to play its part within our capabilities to the ASEAN regional development.

About Talking ASEAN

Talking ASEAN is a monthly public dialogue held at The Habibie Center in Jakarta. Covering a wide array of issues related to ASEAN, Talking ASEAN addresses topics of: Economic Integration, Socio-cultural, & Democracy, human rights and regional peace, among others. Featuring local and visiting experts, Talking ASEAN is one of a series of twelve dialogues regularly held each month and open to a target audience consisting of ASEAN officials, foreign ambassadors & diplomats, academics, university students, businesses, and the media.

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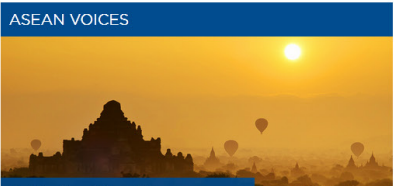
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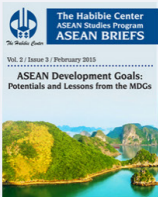
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The Habibie Center was founded by Bacharuddin Jusuf Habibie and family in 1999 as an independent, non-governmental, non-profit organisation. The vision of The Habibie Center is to create a structurally democratic society founded on the morality and integrity of cultural and religious values.

The mission of The Habibie Center are **first**, to establish a structurally and culturally democratic society that recognizes, respects, and promotes human rights by undertaking study and advocacy of issues related to democratization and human rights, and **second**, to increase the effectiveness of the management of human resources and the spread of technology.

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OUR PUBLICATIONS

**The Habibie Center
ASEAN Studies Program
ASEAN BRIEFS**

Issue 3/April 2014

**Migrant Workers Rights
The AEC 2015 and Free Movement of Labor
Case Studies: Indonesia and the Philippines**

SUMMARY

This issue of ASEAN Briefs examines the issue of the ASEAN Economic Community 2015, the free movement of labor and migrant workers' rights. In particular, it addresses the concerns that the upcoming ASEAN Economic Community, which is premised on the free movement of labor, will bring about a boom in the number of migrant workers moving in the region. However, the vast majority of ASEAN migrant workers operating in the informal sector will very likely to indicate that this will change once the ASEAN Economic Community is in place. There are serious worries that incidents of migrant workers' abuse will worsen.

As such this issue of ASEAN Briefs seeks to explore how ASEAN intends to cope with these serious worries, what progress it has made towards addressing these worries, and how best its member states sought to implement the efforts of ASEAN in managing labor migration. This was done by examining the various policy issues at the regional, national and practical levels which resulted in this issue of ASEAN Briefs' three main recommendations.

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**The Habibie Center
ASEAN Studies Program
ASEAN BRIEFS**

Issue 4/May 2014

**Small and Medium Enterprises' Access to Finance in ASEAN Countries
Innovations and Regional Cooperation**

SUMMARY

ASEAN Briefs is a regular publication about current developments in ASEAN region, especially in the political, economic, social and cultural fields.

SUMMARY

Access to finance for Small and Medium Enterprises (SMEs) is vital for development. State-led programmes in Southeast Asia countries have been a common practice to microfinance and build a foundation especially in agriculture sector. However, many of the government initiatives in SMEs financing have not been sustainable, new state budgets were allocated for many programmes and not just for SMEs financing. Besides that, governments have limitations on providing business sustainability as these initiatives were not efficient and profitable in their operations. Therefore, innovations are needed for responding to these problems.

Innovations in providing small financial services in the ASEAN region should focus on three following issues: private sector development in generating small enterprises; strengthening national government intervention in regulatory and supervisory framework; focus on export financing partnership with social organizations; and providing financial literacy to consumers.

Experiences from Indonesia and Vietnam have shown that innovations in SMEs financing could be done with many participations from the business sector as well as consumer. Competitive environment for market as well as incentives for the community are both important for the success of SMEs financing. The reform on service sector development in ASEAN as well as an innovation in SME financing carried out, and it should be continued further.

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**The Habibie Center
ASEAN Studies Program
ASEAN BRIEFS**

Issue 5/June 2014

**The Bali Concord III:
Towards a More Common
ASEAN Platform on Global Issues**

SUMMARY

This issue of ASEAN Briefs examines the Bali Concord III which was adopted by the ten member-states of ASEAN in 2001. One of the key documents produced during Indonesia's 2001 Chairmanship of ASEAN, the Bali Concord III pledged ASEAN to be to increasingly speak in a common voice on international matters of mutual concern, and to enhance ASEAN's capacity to respond and contribute solutions to these global matters.

However, the commitments raised some question marks given the extreme diversity that exists in the ASEAN region. ASEAN countries are divided not only in terms of history, culture, geography, economic development, and language but also in their political positions. How possible is it to get all ten ASEAN member-states, each with their own individual national interests, to adopt a common regional position and present a unified front externally?

In order to address this question, ASEAN Briefs examined the voting records of the ten ASEAN member-states at the United Nations General Assembly in the years prior and since the adoption of the Bali Concord III. By doing so it was able to trace whether the adoption of the Bali Concord III improved the amount of times the ten member-states of ASEAN were able to adopt a more coordinated, cohesive, and coherent position on global issues, and if whether this commitment was realized and scheduled based on ASEAN's past track record.

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**The Habibie Center
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ASEAN BRIEFS**

Issue 6/July 2014

**The AIHR and NHRI Effectiveness in Its Implementation of Human Rights Protection in The Region
Case Studies : The Philippines and Thailand**

SUMMARY

This edition of ASEAN Briefs examines the effectiveness of the ASEAN Intergovernmental Commission on Human Rights (AIHR), the important National Human Rights Institutions (NHRIs) and the implementation of human rights protection in ASEAN Member States. This ASEAN Briefs addresses the current situation and development of human rights protection in ASEAN, which is premised on the presence of human rights both at the national level and regional level. ASEAN has the national level to bring better protection of human rights in ASEAN. However with existence of various unreported cases of human rights violation such as unreported disappearances, use of violence by the military and police against civilians, and extrajudicial killings etc, there are concerns that human rights violations in the region will continue to take place.

As such this issue of ASEAN Briefs seeks to explore how ASEAN deals with these human rights violations. It has been in the regional level, right body and the national human rights communication work effectively in protecting, promoting, and implementing the efforts of ASEAN in implementing the efforts of ASEAN in protecting and promoting human rights. This was done by examining the various policy issues at the regional, national and practical levels which resulted in this issue of ASEAN Briefs' recommendations.

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**The Habibie Center
ASEAN Studies Program
ASEAN BRIEFS**

Vol. 2 / Issue 1 / September 2014

**Strengthening Regional Security Architecture
Ensuring ASEAN Centrality through the ASEAN Regional Forum (ARF)**

SUMMARY

ASEAN Briefs is a regular publication about current developments in ASEAN region, especially in the political, economic, social and cultural fields.

SUMMARY

Strengthening regional security architecture for ensuring ASEAN centrality is a major agenda for Asia Pacific's stability. The changing nature of power distribution in the region has led ASEAN to play a faster to form a wider security platform to ensure regional stability. The ASEAN Regional Forum (ARF) is one such security platform in the Asia Pacific. Accordingly, ASEAN as the driver of the ARF wants to form an ASEAN security architecture with ASEAN Centrality being the new equilibrium.

Yet, the ASEAN Briefs found the ARF still faces several weaknesses in shaping the regional security agenda. First, the ASEAN approach in building the ARF as a multilateral regional process and security system is uncertain. Second, the ARF has structural problems, where each ARF member state has its own perception of the security in the region. In this regard, there is a perception among the ARF members about ASEAN leadership itself.

To ensure ASEAN Centrality within the ARF, this ASEAN Briefs concludes three main policy recommendations: (1) ASEAN should focus more on strengthening and improving the "ASEAN Way", moving beyond its current role of a mere inter-state and "post-conference" ARF; (2) ARF should focus on preparing a problem-oriented agenda that could lead to the formation of Confidence-Building Mechanisms in the ARF; and (3) ARF should have broader consistency, in which the establishment of a permanent ARF Secretariat becomes one of the concrete options.

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**The Habibie Center
ASEAN Studies Program
ASEAN BRIEFS**

Vol. 2 / Issue 2 / October 2014

Removing Infrastructure Bottlenecks to Increase Indonesia's Competitiveness towards the ASEAN Economic Community

SUMMARY

ASEAN Briefs is a regular publication about current developments in ASEAN region, especially in the political, economic, social and cultural fields.

SUMMARY

Facing the ASEAN Economic Community, which takes into effect on December 31, 2015, requires high competitiveness in order to gain the benefits from it. Having ASEAN Centrality, the ASEAN Briefs examines the challenges which have less competitiveness. This is due to insufficient infrastructure in Indonesia. The government of Indonesia is facing many obstacles in developing infrastructure. This edition of ASEAN Briefs shows that there are at least four main problems hindering infrastructure development in Indonesia, namely: financing important acquisition projects, lack of capacity in engineering projects, and lack of coordination if the upcoming government does not make these problems. Indonesian companies will struggle to compete with other ASEAN member-states when the ASEAN Economic Community takes place.

Therefore, this ASEAN Briefs will (1) examine Indonesia's current state of readiness ahead of the ASEAN Economic Community 2015 in terms of infrastructure and competitiveness; (2) the current challenges during the new government in developing infrastructure; and (3) give possible recommendations to the new government in order to increase Indonesia's infrastructure and competitiveness ahead of the ASEAN Economic Community 2015.

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**The Habibie Center
ASEAN Studies Program
ASEAN BRIEFS**

Vol. 2 / Issue 3 / February 2015

**ASEAN Development Goals:
Potentials and Lessons from the MDGs**

SUMMARY

The year 2015 will see the dawn of the ASEAN Community – built upon the political, economic, and social pillars. It is in this backdrop that the 2015 ASEAN Summit in Singapore, Myanmar, produced the Singapore Declaration on the ASEAN Community's Post 2015 Vision. Among the points considered within the declaration are interesting subject areas, that is the decision to "promote development of four and sustainable ASEAN development goals".

The objective of this paper is the declaration in interesting as it marks the collective decision of ASEAN member states to start formulating a development goals of their own, in addition to the already existing Millennium Development Goals (MDGs) and the subsequent Sustainable Development Goals (SDGs). Indeed the MDGs have been an important part of the development efforts in each ASEAN member states.

This edition of ASEAN Briefs will briefly explore the potentials that the ASEAN Development Goals (ADGs) can achieve. This will be conducted by first doing a general overview of the experience of national countries in implementing the MDGs as well as a comparison to formulate national development goals. In addition, ASEAN Briefs will also examine the challenges in implementing the ADGs. Indeed the MDGs have been an important part of the development efforts in each ASEAN member states.

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ASEAN BRIEFS**

Vol. 2 / Issue 4 / April 2015

**Ensuring the ASEAN Agreement on Transboundary Haze (IATHP) Effectiveness
A Case Study of Riau Province's Haze Summary**

SUMMARY

ASEAN Briefs is a regular publication about current developments in ASEAN region, especially in the political, economic, social and cultural fields.

SUMMARY

Last and forest fires in Indonesia have repeatedly caused trans-boundary haze pollution affecting several other countries in ASEAN, namely Malaysia and Singapore. In many cases, the last and forest fires mainly originate from Indonesia's Riau Province where lands are mostly converted into plantations. Riau Province is the largest location for palm oil plantations accounting for 47 per cent of total land in Indonesia and contributing to 55% of Indonesia's total palm oil production. Based on this fact, ASEAN has proposed to tackle such issues through the formation of a regional environmental regime as reflected in the ASEAN Agreement on Transboundary Haze Pollution (IATHP).

However, the progress of the issue of transboundary haze has been regional haze problem cannot be resolved through the IATHP process alone. Instead, it would be more effective to resolve the haze at the national level because palm oil plantations contribute significantly to the haze during the non-planting season. In other words, focusing on managing domestic issues will be more better in ensuring the effectiveness of IATHP in addressing transboundary haze.

This issue of ASEAN Briefs concludes four important policy recommendations to tackle the regional haze problem, namely: (1) Reducing the Indonesian transboundary haze and forest fires for land clearing in non-planting season; (2) breaking new environmental approaches which include local people and the private sector; (3) Improving the ASEAN Agreement on Transboundary Haze Pollution to address legal and level clearing and (4) Reducing palm oil area, which is the main source of haze pollution, by focusing on ensuring the implementation of the ASEAN Pooled Management Initiative (APMI).

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