

Fostering Regional Integration: Peer Review in Southeast Asia

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Introduction

The Southeast Asian region has shown remarkable economic dynamism. Economic growth has been robust, and trade and investment flows have been soaring as a result of increasing international division of labour.

In parallel, regional integration has recently deepened further and several initiatives for regional co-operation have been launched, especially since the Asian crisis in 1997. In particular, the concept of an ASEAN Community, proposed in 1997, has as its goal a single market and production base.

In January 2007, the OECD held a regional dialogue about the role of peer review in fostering regional integration in Southeast Asia. Peer review has been a hallmark of OECD working methods for more than 40 years, and currently covers a wide range of policy areas. It has evolved over time to take account of new developments and new requests, such as involving civil society, business and labour.

Experience in the European Union shows the relevance of the peer review process in a regional context, and indeed peer reviews are not a new concept for Asian countries. In fact, the technique was used in ASEAN in the wake of the Asian crisis, and several international organisations, including the OECD, have carried out external peer reviews of ASEAN countries. Within Asia, peer review mechanisms have recently been developed in the framework of APEC and ASEAN+3.

Different organisations conduct peer review in different ways. Compared with other organisations, OECD peer reviews have several unique features. One of the important characteristics of peer reviews is their flexibility. Given their flexible nature, peer reviews could be tailored to fostering integration in Southeast Asia.

This *Policy Brief* looks at the how peer reviews can contribute to addressing regional challenges in Southeast Asia. ■

How has regional integration developed in Southeast Asia?

Regional integration initiatives in Southeast Asia have a relatively long history, dating back to the creation of ASEAN in 1967 (see Table 1). During the past 40 years, ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) has experienced ups and downs of economic cycles while doubling the number of its member countries. Amid such changes it has been evolving as an ever more integrated community.

Regional co-operation in the ASEAN region accelerated in the 1990s, in particular after the Asian financial crisis. The concept of an ASEAN Community was proposed in 1997 with the end-goal of economic integration – a single market and production base – as outlined in the “ASEAN Vision 2020” statement. Toward this goal, ASEAN is implementing a series of economic integration measures, laid down in the Bali Concord II in 2003, which rests on three pillars: the ASEAN Economic Community, the ASEAN Socio-Cultural Community and the ASEAN Security Community. Recently, ASEAN countries agreed to accelerate the schedule to achieve these goals by 2015. The ASEAN has endorsed 11 priority sectors for integration including agriculture, electronics, healthcare, ICT, tourism, etc. Mid-term action plans to achieve the goal of an ASEAN Community were agreed: the Vientiane Action Programme covers the period 2004-2010 following the Hanoi Plan of Action for 1999-2004.

Table 1.
MAJOR STEPS TOWARDS ASEAN REGIONAL INTEGRATION

Year	Key agreements and decisions	Event
1967	ASEAN established (Bangkok Declaration)	Ministerial Meeting
1976	ASEAN Secretariat established	1st Summit
1977	ASEAN Preferential Trading Arrangements (PTA)	2nd Summit
1992	ASEAN Free Trade Area (AFTA) adopted using CEPT scheme	4th Summit
1995	ASEAN Framework Agreement on Services (AFAS)	5th Summit
1996	ASEAN Industrial Co-operation (AICO)	28th AEM Meeting*
1997	ASEAN Vision 2020 presented	2nd Informal Summit
1998	ASEAN Investment Area (AIA)	30th AEM Meeting*
	Hanoi Plan of Action (HPA)	6th Summit
	ASEAN Framework Agreement on Mutual Recognition Arrangement (MRAs)	6th Summit
1999	e-ASEAN Framework Agreement	3rd Informal Summit
2000	Initiative for ASEAN Integration (IAI)	4th Informal Summit
2003	Declaration of ASEAN Concord II (Bali Concord II)	9th Summit
2004	Vientiane Action Programme (VAP)	10th Summit
2005	Declaration on the Establishment of the ASEAN Charter (Kuala Lumpur Declaration)	11th Summit
2006	Agreed to bring forward the goal of ASEAN Economic Community to 2015 from 2020	38th AEM Meeting*
2007	Agreed to bring forward the goal of ASEAN Socio-Cultural Community and Security Community to 2015 from 2020	12th Summit

* AEM Meeting stands for ASEAN Economic Ministers Meeting.

Source: OECD compilation from ASEAN Secretariat materials.

Co-operation has indeed advanced substantially in some areas. For instance, in the area of trade, as a step towards establishing a full-fledged ASEAN Free Trade Area, the Common Effective Preferential Tariff (CEPT) scheme was established in 1992 and ASEAN member countries have made progress ahead of schedule in lowering intra-regional tariffs. As a result, in general, intra-regional tariffs have been reduced to between 0% and 5% and member countries are aiming at a complete elimination of tariffs.

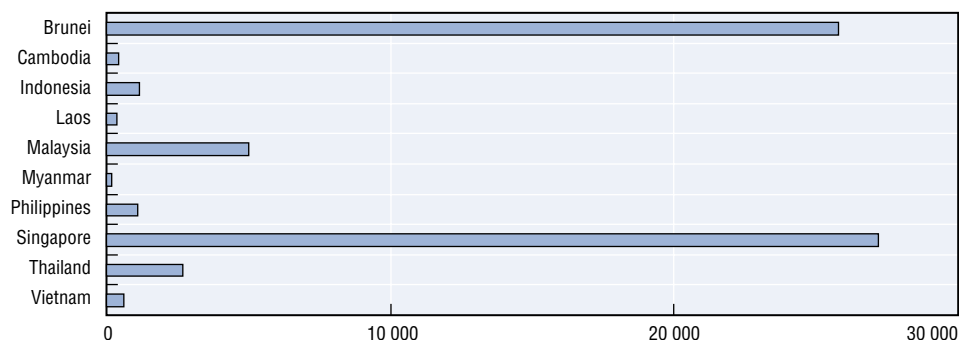
The Asian crisis in the late 1990s acted as a trigger for enhanced financial co-operation in the region. Mutual trust and information sharing are prerequisites for co-operation in this area. With the aim of ensuring adequate liquidity levels to reduce the risks of another crisis, a framework of bilateral swap agreements has been established. The development of an Asian bond market has also been encouraged in order to secure longer-term financing, while additional measures to mitigate risks such as in the area of financial infrastructure have also been identified. Importantly, co-operation has strengthened in the area of regional surveillance.

The Asian crisis triggered enhanced co-operation not only in the area of finance but also with regard to foreign direct investment (FDI). Creating a favourable investment climate is important to attract FDI. With the ultimate aim of making investment barrier-free, ASEAN embarked on a process of investment liberalisation, facilitation and promotion in 1998.

ASEAN countries have been facing a number of regional challenges in various areas such as intellectual property rights, industrial co-operation and enterprise development, science and technology, ICT, energy, food, agriculture and forestry. Following the 9th meeting of the ASEAN Senior Officials on Forestry (ASOF) in August 2006, a “peer consultation process” has been launched in this specific sector, starting with Brunei, Cambodia and the Philippines.

Regardless of the area, an important issue in fostering regional integration in the ASEAN is how to cope with large income differences among member countries (see Figure 1). Narrowing the development gap has been recognised as a policy priority and measures to address this issue started in 2000. ■

Figure 1.
DISPARITIES IN GDP PER CAPITA IN ASEAN, 2005 (IN CURRENT USD)



Source: Datastream, *International Financial Statistics Yearbook* and Prime Minister’s Office, Brunei Darussalam.

What can OECD peer review offer?

The peer review mechanism – the assessment of the policies and performances of a country by other countries – is at the heart of OECD’s method of work. It is a tried and tested instrument that helps member countries improve their policy making, adopt good practices and generate established standards and principles. This method of international co-operation has become increasingly popular in recent years, even beyond OECD borders. The scope of the peer review mechanism has expanded rapidly in terms of policy areas reviewed and the number of organisations involved. The success with peer reviews has encouraged other organisations such as the NEPAD to adopt this tool and the OECD has started to discuss experiences of peer reviews with ASEAN.

Peer review can serve as an important capacity-building instrument, since it is a mutual learning process which allows best practices to be tested and emulated. In many different settings, the “soft law” nature of peer review can prove better suited to encouraging and enhancing compliance than a traditional enforcement mechanism. It has been observed that where regional integration projects involve deepening legal and economic commitments, it is important to disentangle sanction regimes from peer review to ensure that the free disclosure of information is incentive compatible.

Based on solid analytical evidence the review results in a series of recommendations reflecting the collective wisdom of participants, that aim to support the reform efforts of the country under review. Important prerequisites of peer reviews are the sharing of common values, mutual trust and the analytical credibility of the review process. A strong common understanding of the ultimate goals of the peer review and a high degree of shared confidence in the value and integrity of the process are keys for its success.

Peer reviews are a flexible tool in terms of the policy areas and countries to be covered. In the real operation at the OECD, different methods are used for different policy areas. Peer review can apply not only to country by country examinations but also to cross-country thematic reviews or to broader issues of regional co-operation. The impact of this exercise can vary according to the practical details of the implementation, and the degree of mutual trust among participants. ■

How can peer reviews be used to foster regional integration?

Peer reviews can benefit regional co-operation in Southeast Asia. The EU peer review process shows how relevant it can be in a regional context. In the European experience, peer review, peer support and peer pressure are key instruments in the governance framework of a regional economic union, while these instruments are put to work in different ways in different contexts. For example, in the case of the Employment Strategy, whose aim is to monitor and assess national employment policies and labour reforms, peer review have played a leading role in comparing experiences and spreading best practices. Similarly, in studying the impact of ageing on public expenditure, peer reviews play a crucial role in cross-country comparisons and the dissemination of best practices. Even in those fields where

governance is rule-based, like the Stability and Growth Pact (in presence of a clear legal framework, backed eventually by economic sanctions), peer support and peer pressure play an essential role in ensuring effective enforcement of the rules by creating incentives that reward countries implementing fiscal consolidation and by putting pressure on countries whose policy efforts are considered as inadequate.

Peer review is not a new concept for Asian countries. Indeed, since the Asian crisis in 1997, peer review has been institutionalised as the ASEAN Surveillance Process. ASEAN countries have also been subject to external reviews conducted by international organisations such as the IMF and the World Bank. Importantly, the traditional ASEAN approach of non-interference has started to evolve. At the 12th Summit in Cebu, the Report of the Eminent Persons Group on the ASEAN Charter invited Members to “calibrate the traditional policy of non-intervention in areas where the common interest dictates closer co-operation”.

APEC has also adopted the peer review approach, as a useful tool to foster regional integration, and it has been introduced in the framework of ASEAN+3 (China, Japan and Korea).

Different organisations conduct peer reviews in different ways. For instance, APEC has been using peer reviews as a tool to achieve the common goals of free and open trade and investment in the Asia-Pacific region. These goals, known as the Bogor Goals, were laid down in the Bogor Declaration in 1994. In their path towards achieving the Bogor Goals economies prepare individual action plans (IAPs) tracking their progress. These IAPs then become the object of the peer review process, which has evolved through trial and error. At the outset, the submission of IAPs for peer review was conducted on a voluntary basis, and then in the early 2000s, the process was made more rigorous. As part of the mid-term stock-taking process in 2005, a timetable was set for the reviews of all 21 member economies. The IAP peer review process has proved to be an effective tool to facilitate learning from each other’s experiences, enhance policy-relevant interaction and encourage participants to progress towards the goals of free and open trade and investment.

As another example, in response to the Asian crisis, ASEAN+3 have adopted the economic review and policy dialogue (ERPD) process as part of their efforts towards regional financial co-operation. They have recently decided to integrate the ERPD with the regional liquidity support facility, the Chiang Mai Initiative. In addition, National Surveillance Units have been set up in ASEAN+3 countries for economic and financial monitoring. The ultimate aim is to strengthen the Chiang Mai Initiative as an independent facility from IMF programmes and to transform it into a multilateral arrangement. This requires a more active and effective role for the ERPD, whose major role has so far been information exchange and coordination. Information exchange is the first evolutionary step of the ERPD and is a prerequisite to peer review and due diligence. Information sharing is crucial in the areas of macroeconomic development and in support of institutional, legal and regulatory reforms in the areas of foreign exchange and financial markets.

It is argued that for the ERPD to become a more powerful tool, both its peer review and due diligence features need to be enhanced.

Within the ASEAN, peer review was institutionalised after the Asian crisis as the ASEAN Surveillance Process, although it's still at an early stage. The main objective was to avoid future crises by providing countries an opportunity to exchange information and thus raising overall quality of governance in the region. International organisations supported this process and welcomed information sharing of the regional economy and of the ways in which individual countries are affected by common threats and common problems.

The OECD peer review process has several unique characteristics. The OECD's useful role lies in bringing together the independent analytical capacities of the Secretariat and the policy experience of national government officials. The Secretariat helps to identify the specific issues on which to focus the review and ensures the quality of the methodological instruments. By adding a detailed discussion with the relevant national officials when the Secretariat's draft is presented to the Committee, the process allows to find formulations of policy recommendations that are endorsed by national governments, thereby helping to build consensus amongst participating countries on the policy orientations required. Peer reviews are implemented in a number of ways within the OECD. Subsidiary bodies of the OECD – committees or working parties dealing with a particular issue – can decide to undertake peer reviews as part of their activities, or to carry out a one-time peer review at the request of a country or a region. The various Directorates in the OECD Secretariat constantly adapt and improve the modalities of the peer reviews to meet the specific requirements of the policy area concerned. There is no standardised peer review mechanism as such, but all peer reviews share certain structural elements: a commitment to transparency and information sharing; an agreed set of principles, standards and criteria against which performance will be reviewed; designated actors to carry out the review; and a set of procedures leading to the final result. ■

Where to go from here?

The First OECD – Southeast Asia Regional Forum was held in Jakarta in January 2007, hosted by the government of Indonesia, in co-operation with the ASEAN Secretariat and the Asian Development Bank (ADB) to discuss OECD experiences with the peer review mechanism and to share lessons learned from multilateral and regional experiences in the region. OECD member countries, including Australia, Belgium, France, Japan and Korea shared the lessons they learned by participating in OECD economic and development reviews and in peer reviews in a number of other areas. The European Commission, ADB and APEC discussed their experience with peer reviews in their regional context.

Several points need to be taken into account when considering an application of peer reviews to the Southeast Asian region. The integration process in Southeast Asia has some features of its own – for instance, it is mainly market driven and it is taking place in the presence of regional diversities,

including large disparities in the level of development. Appropriate adjustment to the standard peer review process may be required to take such characteristics into account. Moreover, further adaptations may be needed according to the area of co-operation. Various examples of peer reviews in different institutions will provide useful references for developing the most relevant framework for ASEAN.

A number of ASEAN countries are already participating in OECD activities in various policy areas where their domestic policy challenges are analysed and discussed for the benefit of all. Improving the policy environment at national level is often critical to addressing broader regional challenges. As part of its ongoing dialogue and co-operation with Southeast Asian countries, the OECD stands ready to continue both to help policy makers in their reform initiatives at national level and to contribute its experience with peer reviews in support of regional integration efforts. ■

**For further
information**

For more information on the OECD's work with Southeast Asia, please contact Kensuke Tanaka, tel.: +33 1 45 24 87 33, e-mail: kensuke.tanaka@oecd.org.



For further reading

OECD (2003), **Peer Review: an OECD Tool for Co-operation and Change**, ISBN: 978-92-64-09920-4, 116 p.

OECD (2007), **Fostering Regional Integration: Peer Review in Southeast Asia** (working title), forthcoming.

For more information on the First OECD-Southeast Asia Regional Forum, see www.oecd.org/peerreview.

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