

Research on ASEAN Economic Community (AEC)

Part 1: The components of the implementation of AEC

Introduction

The concept of ASEAN Economic Community was formed when the ASEAN leaders met at their Summit in Kuala Lumpur in December 1997.

In 2003, ASEAN leaders declared that the AEC shall be the goal of regional economic integration by 2020. The ASEAN Economic Ministers Meeting (AEM) held in 2006 agreed to develop “A single and coherent blueprint for advancing the AEC.” The blueprint is composed of four pillars and will serve as a vehicle to establish ASEAN as a single market and production base and to make ASEAN more competitive and dynamic.

With a population of more than 615 million in the ASEAN countries, which is 20 percent higher than that in the European Union, we believe the implementation of AEC in 2015 will break down the trade barriers within the region, enhance the competitiveness of all ASEAN countries and create a single market and production base for businesses. With reference to Google Trends, the search enquiry for AEC has tripled since 2011 and many enterprises in the region are actively preparing themselves in order to benefit from this opportunity. For example, Stock Exchange of Thailand has set up a long-term business plan to serve the AEC and expect the daily trading turnover to increase by 300 percent to THB 100 billion by 2020. GD Express, a leading logistics company in Malaysia, has rolled out its plan to set up a representative office in Indonesia by the end of 2014 as they expect AEC will provide many opportunities in the ASEAN countries and GD Express (Subsidiary of Singapore Post) aims to establish presence in every ASEAN city in order to provide more vertically integrated services to their customers. We believe the regional logistic companies, premium hospital operators and financial service providers would benefit from the ASEAN Economic Community.

Pillar 1: Single Market and production Base

(a) Free Flow of goods

This will create a single market and production base for manufacturers. A single market for goods will facilitate the development of production networks in the region and enhance ASEAN’s capacity to serve as a global production center. Tariffs on all *intra-ASEAN* goods will be eliminated under the CEPT-AFTA (The Common Effective Preferential Tariffs for ASEAN Free Trade Area) and the non-tariff barriers (NTB) is aimed to be progressively abolished as well. The ASEAN Customs Transit System will also be set up in order to integrate the existing customs structures, modernize tariff classification and customs valuation, and smoothen customs clearance. AEC aims to create a simple, harmonized and standardized business environment which would reduce transaction costs in ASEAN and enhance their export competitiveness.

There are also implementations that aim to facilitate trading through simplifying and standardizing the trades and customs, processes and information flows.

Our Beneficiary: Spost

(b) Free Flow of services

This is one of key elements in realizing ASEAN Economic Community, where there will be significant reduction in restriction to ASEAN service providers in providing services and in establishing companies across national borders within the region. In order to facilitate the free flow of services by 2015, ASEAN is also working towards recognition of professionals' qualifications with a view to facilitate their movement within the region. The AEC aims to remove all restrictions on trade in services for 4 priority services sectors, namely air transport, e-ASEAN, healthcare and tourism, then moving on to the remaining service sectors afterwards.

Our Beneficiary: BH

(c) Free Flow of investments

Under the Framework Agreement on the ASEAN Investment Area (AIA), all industries (in the manufacturing, agriculture, fishery, forestry and mining and quarrying sectors and services incidental to these five sectors) shall be open and national treatment granted to investors both at the pre-establishment and the post-establishment stages. A more transparent, consistent and predictable investment rules, regulations, policies and procedures will be set up in order to streamline and simplify procedures for investment applications and approvals. Protection of investors will be enhanced through strengthening provisions on investor-state dispute settlement mechanism, full protection and security etc. This will promote ASEAN as an integrated investment area and production network, create the necessary environment to promote all forms of investment and new growth areas into ASEAN.

Our Beneficiary: URC, BH, THBEV

(d) Free Flow of capital

The policies include establishing exchange and debt market linkages to promote cross-border capital raising activities and improving the withholding tax structure in order to broaden the investor base in ASEAN debt issuance. The liberalization of capital movements aims to facilitate the flows of payments for current account transactions and support foreign direct investment and initiatives to promote capital market development.

The AEC aims to allow greater capital mobility through removal or relaxation of restrictions on capital flow and when possible, support foreign direct investment (FDI) and initiatives to promote capital market development.

Our Beneficiary: Bursa, Silverlake

(e) Free Flow of skilled labor

The AEC will facilitate the issuance of visas and employment passes for ASEAN professionals who are engaged in cross-border trade and investment related activities. They also enhance cooperation among ASEAN University Network (AUN) members in order to increase the mobility for both students and staff within the region. Mutual recognition arrangement for the professionals' qualification will also be carried out in order to facilitate the flow of talents. It also aims to develop core qualifications for job and trainers skills required in the priority services sectors and the remaining sectors.

Our beneficiary: BH

Pillar 2: Competitive Economic Region

(a) Competition policy

The AEC endeavors to introduce competition policy in all member countries and establish a network of authorities or agencies responsible for the policy to service as a forum for discussion and coordination.

(b) Consumer protection

Establishing the ASEAN Coordinating Committee on Consumer Protection (ACCCP) and a network of consumer protection agencies to facilitate information sharing and exchange.

(c) Intellectual Property Rights (IPR)

Establishing an ASEAN filing system for design to facilitate filings by users and promote coordination among the member countries.

(d) Infrastructure Development

Completing the development of all the missing links in the Singapore-Kunming Rail Link, implementing projects for road construction and improving road safety. An Open Sky policy as well as a Single Aviation Market will be implemented.

(e) Information Infrastructure

Developing high-speed inter-connections through improving the coverage of the region's cyber-security network as well as improving telecommunications equipment of member countries.

Pillar 3: Equitable Economic Development

(a) Accelerate the development of small and medium enterprises (SME's)

Facilitating SMEs' access to information, market, human resources through promoting networking of SMEs and their participation in the building of regional production and distribution networks.

(b) Enhance ASEAN integration to reduce development gap between member countries

Build capacity of government officials to develop/ implement economic and social policies and conduct periodic studies to evaluate the impact of economic integration.

Pillar 4: Integration into the Global Economy

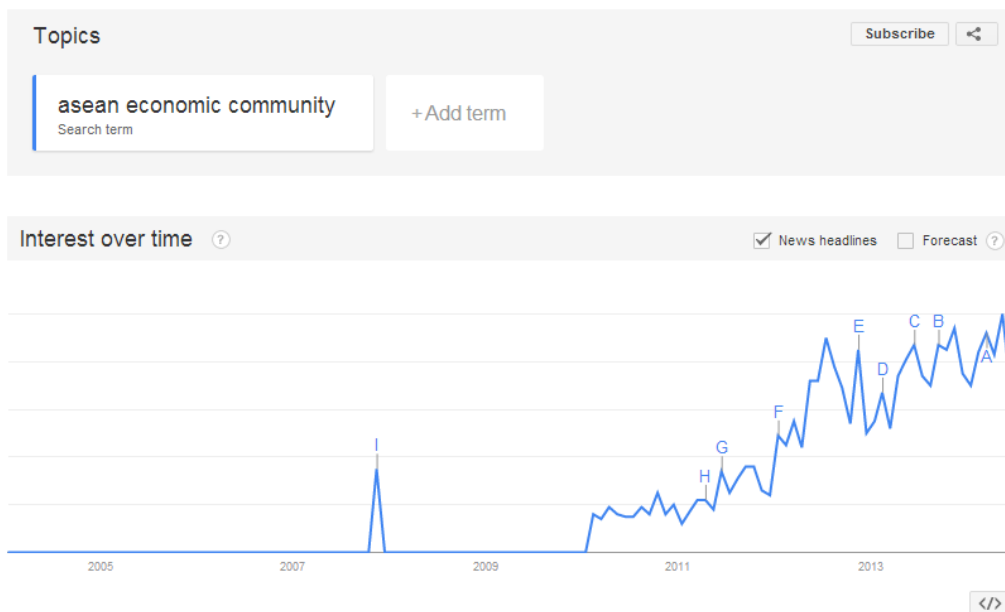
(a) Develop coherent approach towards external economic relations

Establish a system for enhanced coordination through arriving at common approaches in fora.

(b) Enhance participation in global supply networks.

Adopting international best practices and standards.

Exhibit 1: AEC on Google trends – More and more people are aware of AEC



Part 2: The challenges and limitations

The possible positive impacts of the establishment of AEC are stated and discussed very clearly in the blueprint, we need to also look at potential challenges and limitations.

The AEC aims to establish a “single market,” which also means a “custom union.” It includes the free movement of goods, labor, services and capital. The EU is a single market. The ASEAN EC will have free movement of goods, services, skilled labor and freer movement of capital but it is unlikely to be a custom union, as a custom union has to create a common external tariff policy. Singapore, the largest country in terms of GDP, has an almost zero tariff policy, meaning that its tariffs will have to go up or other members’ have to go down significantly. Singapore will also have to give up many of its foreign trade agreements with non-ASEAN partners.

From what we observed, the blue-print presents the end point and has not discussed possible complications in the run up to full implementation of the agenda.

Regardless of the blueprint, the AEC strengthens the countries through their integration economically, but also weakens their independence and possibly encouraging over-reliance on certain stronger countries (Singapore in this case), similar to how the European Union has reliance on Germany. Moreover, the AEC is facing intense competition for FDI from India and china. Increasing manufactures prefer a vertically integrated manufacturing chain. It seems sensible for the ASEAN economies not to unify their currencies as significant repercussions may result due to actual diversity of underlying members, again we juxtapose Singapore and Germany with the rest of the region in particular.

We do have some reservation at the macro level about the expected outright benefits that are expected to be reaped by all nations of concern under the scheme. This is primarily due to existing political regime in respective economies, particularly the frontier markets, and the level of economic freedom which need or is expected to be used as the shock absorber to allow natural adjustment to the new economic regime. A look at the level of various rights and freedoms suggest this mechanism may not be able to assume its role if/when it becomes necessary give the relatively low level of rights and freedom as well as graft and corruptions that are still at play in these economies.

Exhibit 1: Economic Freedom in ASEAN

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Economic Freedom in ASEAN

| Country | Overall Score | Business Freedom | Trade Freedom | Fiscal Freedom | Government Size | Monetary Freedom | Investment Freedom | Financial Freedom | Property Rights | Freedom from Corruption | Labor Freedom |
|-----------------------|---------------|------------------|---------------|----------------|-----------------|------------------|--------------------|-------------------|-----------------|-------------------------|---------------|
| Singapore | 87.4 | 97.8 | 90.0 | 90.3 | 93.9 | 88.9 | 80 | 50 | 90 | 94 | 99.0 |
| Malaysia | 64.5 | 69.0 | 76.2 | 82.2 | 80.8 | 78.6 | 40 | 40 | 50 | 50 | 78.7 |
| Thailand | 63.5 | 72.1 | 75.2 | 74.7 | 90.7 | 66.7 | 30 | 50 | 50 | 36 | 89.6 |
| Philippines | 56.9 | 53.0 | 78.8 | 75.8 | 90.2 | 73.8 | 30 | 50 | 30 | 25 | 61.9 |
| Cambodia | 56.2 | 43.0 | 52.2 | 91.4 | 94.2 | 80.9 | 50 | 50 | 30 | 21 | 49.1 |
| Indonesia | 53.9 | 48.8 | 73.0 | 77.5 | 89.7 | 68.2 | 30 | 40 | 30 | 24 | 57.5 |
| Vietnam | 49.8 | 60.0 | 62.8 | 74.3 | 78.0 | 67.4 | 30 | 30 | 10 | 26 | 59.5 |
| Laos | 49.2 | 60.8 | 57.0 | 71.0 | 92.1 | 73.0 | 30 | 20 | 10 | 26 | 52.3 |
| Burma | 39.5 | 20.0 | 71.0 | 81.7 | 97.0 | 56.5 | 10 | 10 | 10 | 19 | 20.0 |
| Brunei | – | – | – | – | – | – | – | – | – | – | – |
| ASEAN Average* | 57.9 | 58.3 | 70.7 | 79.9 | 89.6 | 72.7 | 36.7 | 37.8 | 34.4 | 35.7 | 63.1 |
| World Average* | 60.3 | 62.8 | 72.0 | 74.9 | 67.7 | 74.4 | 50.3 | 51.7 | 45.6 | 41.1 | 62.1 |

* The ASEAN and world averages are averages of the countries' economic freedom scores. Brunei is excluded from the calculation of the ASEAN average.

Source: Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, 2008 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), at www.heritage.org/index.

While there are bound to be teething issues at the onset, it is nonetheless a big step in the right direction towards liberalising the economic systems of the frontier ASEAN economies, helping them quantum leap into the ranks of economies that are governed by natural market forces. The relatively developed economies of Singapore, Malaysia, Thailand, Indonesia and Philippines can also exploit the market potential and the availability of labour, goods and services across the region based on the AEC blueprint. It is therefore appropriate to employ a bottom up stock pick process to identify the more obvious winners of this upcoming phenomenon in the ASEAN region.

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 2nd version - June 2014,
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¹ Image Retrieved from <http://www.heritage.org/static/reportimages/0AD57CABDBE6BF78CC2515D157B1793C.gif>