

One Year ASEAN Economic Community (AEC): Progress & Challenges of Southeast Asian Economic Integration



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Introduction

- ASEAN Economic Community (AEC) since January 2016
- Expanded market access opportunities, but also increased competitiveness
- What kind of progress has been made?
- What was the economic impact on the ASEAN member states?
- What are the major challenges for the AEC?

Progress since 2015

- New phase of economic integration in SEA
- Economic integration within ASEAN is a win-win proposition. By exploiting economies of scale and strategic complementarities, every country in ASEAN stands to gain
- AEC offers economies of scale to attract foreign investors into the region and to enable manufacturers in the small countries to participate in Global Value Chains

Progress since 2015

- According to the latest ASEAN Secretariat monitoring report, the AEC has achieved 92.7 per cent—469 of 506—of its prioritized measures
- Successful elimination of direct border tariffs
- But two big problems remain unsolved:
 - Non-tariff barriers (NTBs, such as national standards, licenses, export or import taxes)
 - Significant reduction of administrative costs

Progress since 2015

- Despite the progress made in various policy areas in the lead-up to the launch of the AEC, significant gaps remain

Most Important:

- Many AEC 2015 measures were not implemented on the ground
- No real liberalization of investments
- Movement of skilled labour only on a selective basis
- In the field of services, for example, AEC economies are among the most closed in some sectors
- Competition policy and intellectual property rights left de facto on the national level

Progress since 2015

- Fears among the general public that the AEC would negatively affect their country's economic performance were wrong
- AEC 2015 brought neither ill effects—nor benefits—to the daily life of ordinary people in ASEAN

Progress since 2015

- AEC Blueprint 2015 has been replaced by AEC Blueprint 2025
- AEC Blueprint 2025 tries to clear most of the misunderstanding created by the aspirational phrases in the AEC Blueprint 2015
- AEC is termed as a work-in-progress



The 4 Pillars of the AEC 2015

ASEAN Economic Community (AEC 2015): key characteristics

- Free flow of goods
- Free flow of services
- Free flow of investment
- Free flow of capital
- Free flow of skilled labor

**Single
market and
production
base**

- Competition policy
- Consumer protection
- Intellectual property rights
- Infrastructure development
- Taxation & e-commerce

**Competitive
economic
region**

- SME development
- Initiative for ASEAN integration

**Region of
equitable
economic
development**

- Coherent approach towards external economic relations
- Enhanced participation in global supply networks

**Region fully
integrated
into the
global
economy**

Comparison AEC 2025 and 2015

	AEC 2025	AEC 2015
1	A Highly Integrated and Cohesive Economy	Single Market and Production Base
	Trade in Goods, Trade in Services	Free flow of goods and services
	Facilitating Movement of Skilled Labour and Business Visitors	Free flow of skilled labour
2	A Competitive, Innovative and Dynamic ASEAN	Competitive Economic Region
3	Enhanced Connectivity and Sectoral Cooperation	
4	A Resilient, Inclusive, People-Oriented and People-Centred ASEAN	Equitable Economic Development
5	A Global ASEAN	Integration into the Global Economy

Southeast Asian Economic Integration

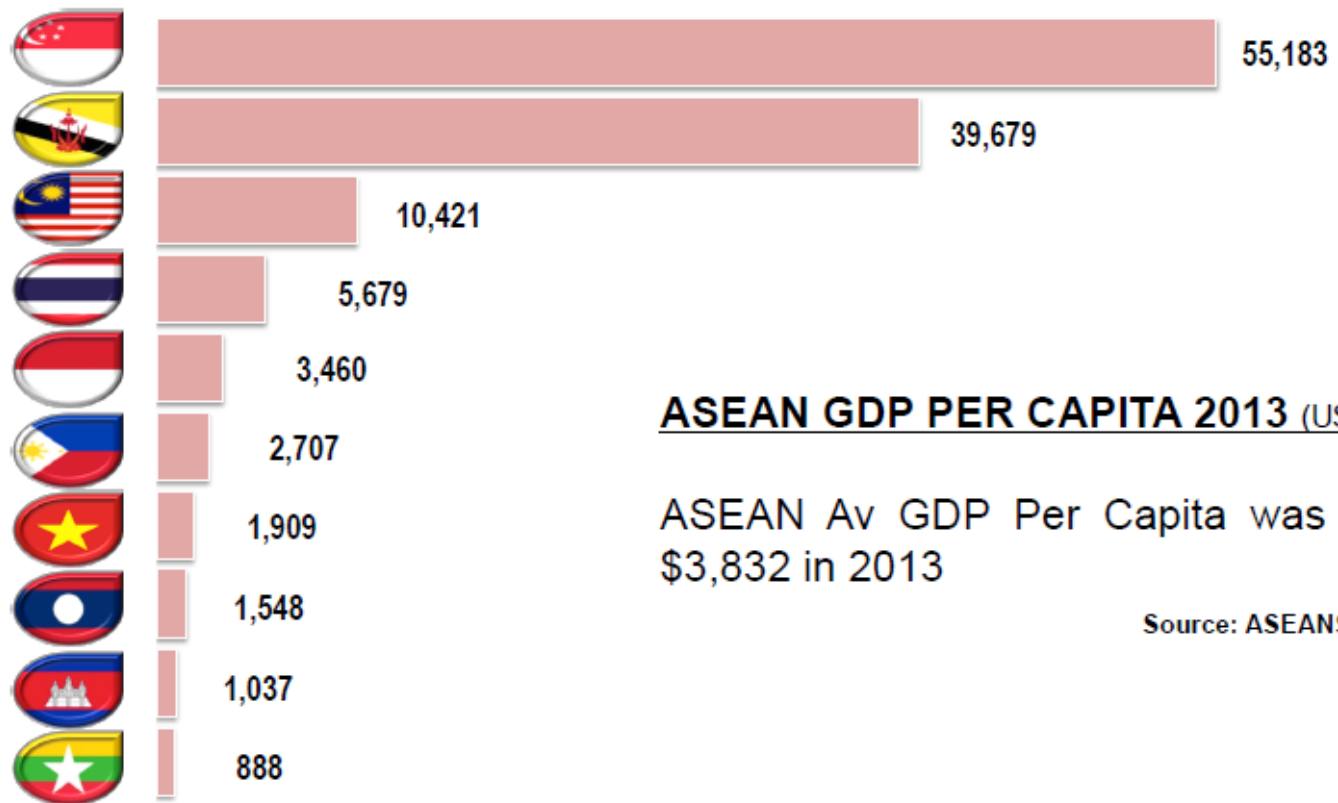
Which countries are prepared for the AEC?

Countries with

- highly productive industries
- easy access to start/do business
- export-oriented industry structures
- a good logistics sector and related companies
- a skilled and well-educated worker force

GDP per capita of ASEAN member states

Economies at different stages of development



ASEAN GDP PER CAPITA 2013 (US\$)

ASEAN Av GDP Per Capita was US \$3,832 in 2013

Source: ASEANStat



ASEAN

ASEAN Countries Ranking for World Bank's Ease of Doing Business 2015

Country	2015	2014	Movement Up The Ranking
Singapore	1	1	-
Malaysia	18	20	+2
Thailand	26	28	+2
Viet Nam	78	72	+6
Philippines	95	86	-9
Brunei	101	98	+3
Indonesia	114	117	+3
Cambodia	135	134	+1
Laos	148	155	+7
Myanmar	177	178	+1

Quality of human resources

HUMAN CAPITAL INDEX 2015 RANKINGS, ASEAN

The Human Capital Index measures how nations develop and deploy human capital and tracks progress over time. It evaluates the levels of education, skills and employment available to people in five age groups, from those under 15 to those over 65. The index covers 124 economies, representing 92% of the world's people and 98% of its gross domestic product. Asia and the Pacific, the world's most populous region, straddles the middle of the range with an overall average score of 67.83.

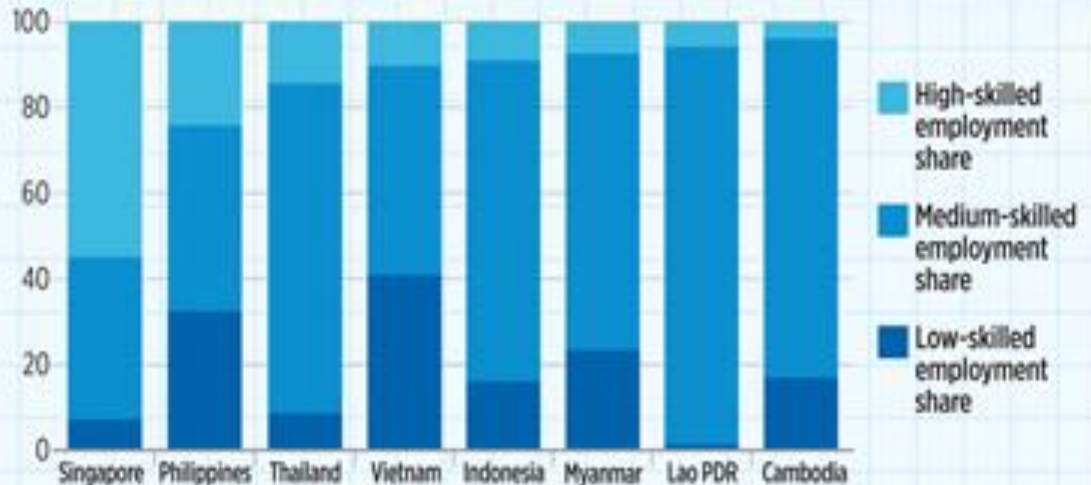


RANK*	ECONOMY	SCORE
24	Singapore	78.15
46	Philippines	71.24
52	Malaysia	70.24
57	Thailand	68.78
59	Vietnam	68.48
69	Indonesia	66.99
97	Cambodia	58.55
105	Lao PDR	56.16
112	Myanmar	52.97

*Out of 124 economies

Skilled employment share

(in %)



English Proficiency



Source: English Proficiency Index 2015

Infrastructure and Logistics

	Port Infrastructure	Road Infrastructure	Air Infrastructure	Rail Infrastructure
Singapore	Well Above Average	Well Above Average	Well Above Average	N/A
Malaysia	Well Above Average	Well Above Average	Well Above Average	Well Above Average
Thailand	Above Average	Above Average	Well Above Average	Well Below Average
Indonesia	Average	Average	Average	Above Average
Lao PDR	N/A	Average	Below Average	N/A
Viet Nam	Below Average	Well Below Average	Below Average	Below Average
Philippines	Below Average	Below Average	Well Below Average	Well Below Average
Cambodia	Below Average	Well Below Average	Well Below Average	Well Below Average
Myanmar	Well Below Average	Well Below Average	Well Below Average	Well Below Average
Brunei Darussalam	N/A	N/A	N/A	N/A

(Created from data sourced from The Global Competitiveness Index 2014–2015)

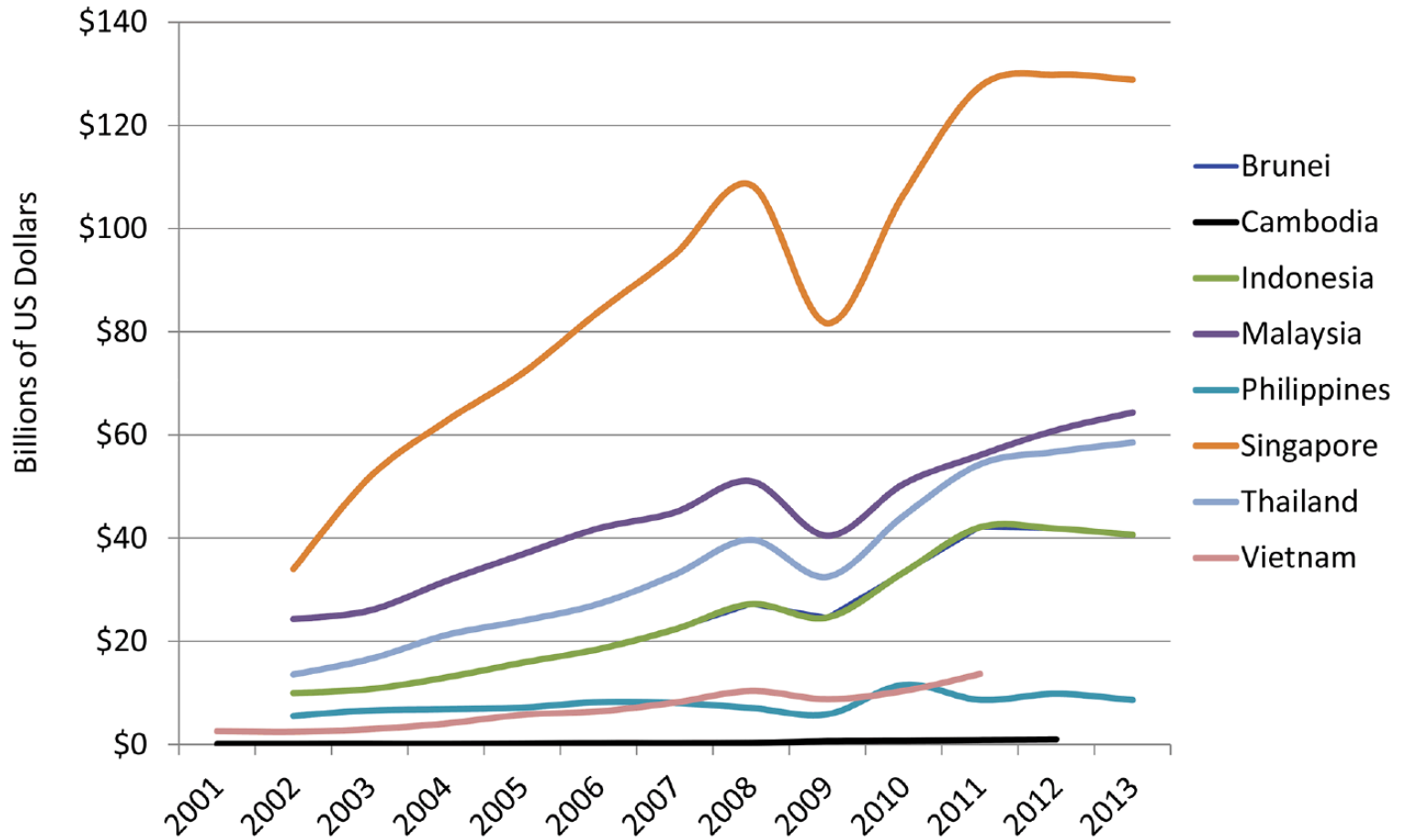
Source: <https://www.linkedin.com/pulse/introduction-infrastructure-brief-overview-asean-logistical-bone>

Who will the AEC benefit most?

- Countries with a degree of intra-ASEAN trade will benefit most from the AEC
- Today intra-ASEAN trade is approximately 25% of total trade, growing around 10.5% per annum, and expected to reach 30% of total ASEAN trade by the year 2020.
- Infrastructure to support intra-ASEAN trade growth is lagging behind compared to other regions

Trade

Intra-ASEAN Trade: Member Exports to ASEAN Region



Intra-ASEAN Exports and Imports

Table 2.2

Trade Openness (Total Trade, % of Nominal GDP)

	2007	2008	2009	2010	2011	2012	2013	2014
Brunei Darussalam	79.2	88.4	88.8	88.7	88.8	99.3	83.2	82.9
Cambodia	87.8	79.2	85.8	93.3	100.3	133.1	120.3	176.8
Indonesia	43.8	51.9	39.1	41.3	45.0	43.6	42.9	36.0
Lao PDR	25.9	49.7	52.9	66.8	49.1	65.5	54.6	45.8
Malaysia	166.6	146.4	138.3	149.3	143.5	138.8	139.1	135.8
Myanmar	47.9	42.7	37.8	28.8	26.4	30.7	37.9	41.4
Philippines	69.7	60.9	49.7	54.8	49.9	46.8	44.3	45.5
Singapore	312.5	342.3	268.0	280.3	281.5	271.8	259.1	252.1
Thailand	118.8	129.2	108.4	120.6	132.7	130.4	123.4	122.1
Viet Nam	142.2	142.6	118.8	135.0	147.2	146.2	154.6	157.8
ASEAN	121.6	123.4	100.2	105.9	108.0	105.7	104.2	98.3
ASEAN-6	121.9	124.1	100.3	106.0	108.0	104.8	102.3	94.8
CLMV	117.5	116.6	99.4	104.8	108.6	113.2	120.6	126.9

Sources: ASEANstats GDP data (September 2015) and Trade data (June 2015).

Challenge I: Expectations

ASEAN member countries have different expectations from the AEC

- Open export-oriented economies like Singapore or Malaysia: New markets for their products
- Small underdeveloped country like Laos or Cambodia want to attracting more FDI
- Indonesia wants to boost its underdeveloped export sector and to improve its international competitiveness

Challenge 2: Nationalism

Economic nationalism is very strong within ASEAN

- Domestic-market oriented firms fear the structural change of regional integration and set their governments under pressure to circumvent trade liberalization
- All ASEAN states have important government linked companies and family business empires which have vested interests in keeping market access at the current status quo and fear open market access
- In most ASEAN states, big business has enormous political influence upon their respective governments

Challenge 3 and 4: Internal Struggles and Implementation Weakness

- Internal struggles in the ASEAN countries – Malaysia corruption scandal, Thailand new king, Ethnic strife in Myanmar, War on drugs in the Philippines, etc.
- Problem of Policy Implementation: Although the political commitment at the highest level may be strong, trade facilitation and liberalization gets watered down as the implementation process moves through the levels of bureaucracy

Challenge 5: ASEAN Structures

- ASEAN is based on consultation, consensus, and non-interference
- ASEAN has no formal problem solving mechanism and enforcement mechanisms
- AEC will remain work in progress for many years to come
- EU experience: More economic integration (monetary union, common currency, borderless community) has led to frictions and doubts and stress among EU member states
- Gradual change is the right way for the AEC

Challenges arising from the international economic environment

- Global economic growth is modest
- Slowdown in China
- Low global oil and other commodity prices
- General slowdown in investment and trade

Global trend of protectionist trade policy

- Brexit
- Donald Trump (cancelling of TPP and nationalistic economic policy)

Perspectives

- AEC has much potential for growth with rising population, rising incomes, growing consumer sophistication, and improving infrastructure
- Intra-ASEAN trade will be very important due to a predicted rapid expansion of the number of people with middle class income in ASEAN
- In 10-20 years, there will be a higher demand for a wide range of goods and services such as telecommunication, education, financial services and healthcare

Perspectives

- The near term economic outlook for ASEAN will not only be determined by AEC integration, but by global developments such as in China, Japan, USA and EU
- Expected normalization of interest rates in the USA and a strong US-Dollar could lead to capital outflows and lower FDI into Southeast Asia
- Over the medium to long term, ASEAN is expected to remain among the fastest growing regions in the world – not least to the process of regional integration
- Not spectacular but very respectable considering the state of the global economy