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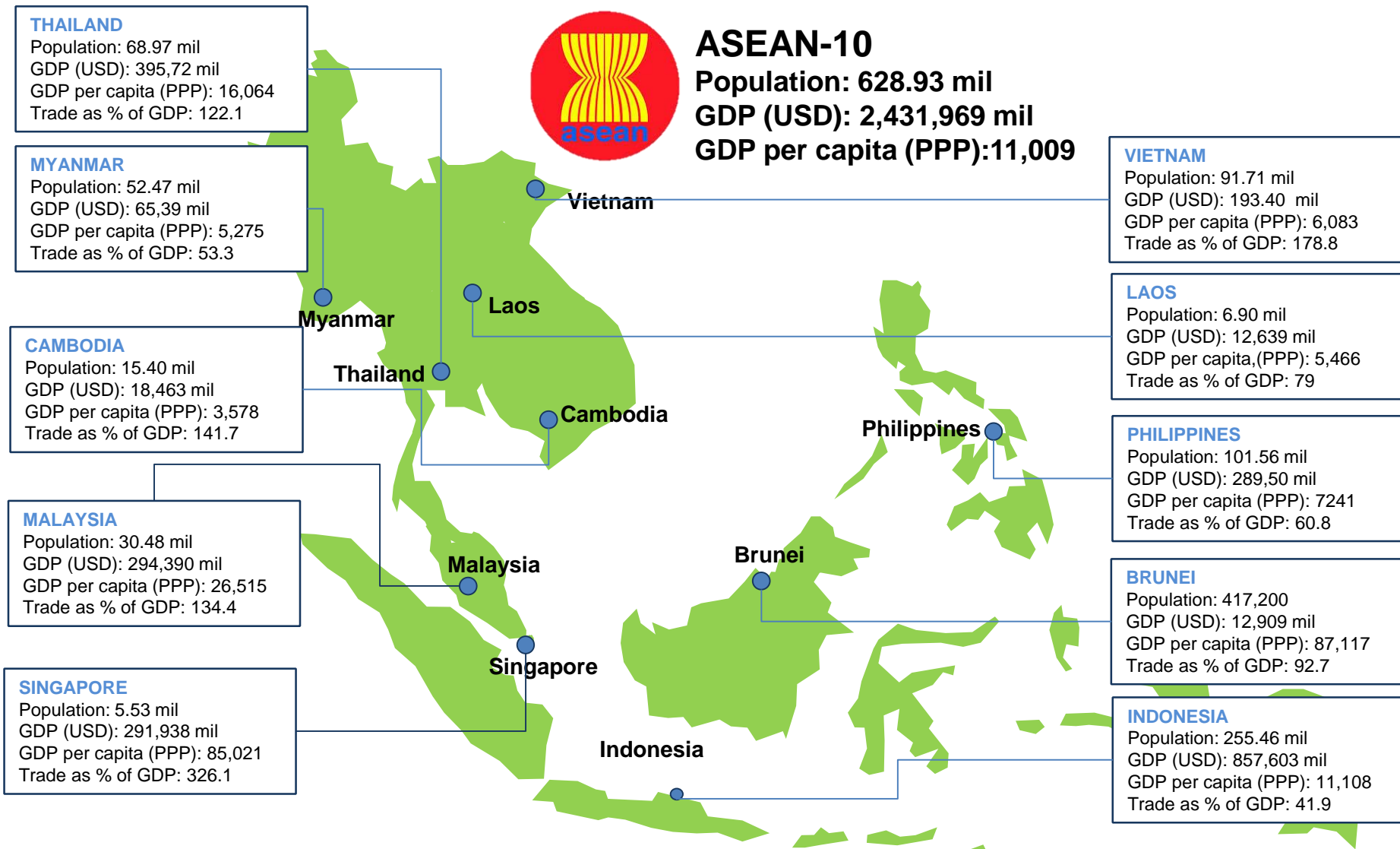
ASEAN ECONOMIC COMMUNITY (AEC): THE NEXT LEVEL OF INTEGRATION

LEE HENG GUIE
Executive Director, Socio-Economic Research Centre



1. ASEAN's relevance – Ready for the 21st century
2. The path to AEC – Already set in motion
3. Next level of integration – Of opportunities and challenges
4. Conclusion

ASEAN HAS INCREDIBLE POTENTIAL...

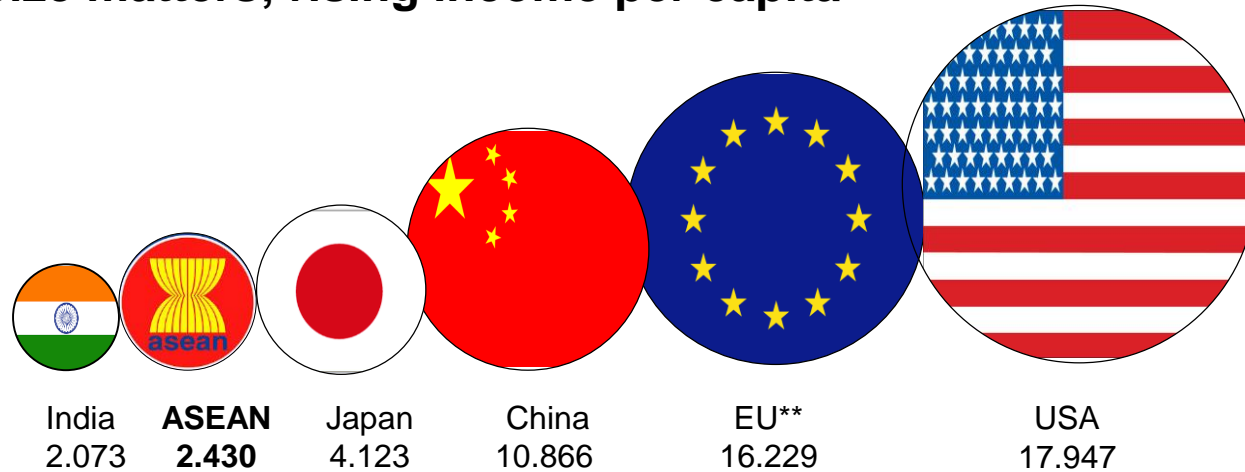


Source: ASEAN Macro-economic Database, ASEAN Merchandise Trade Statistics Database, ASEAN Foreign Direct Investment Statistics Database

Note= *Trade (%) of GDP is the sum of exports and imports of goods and services measured as a share of gross domestic product excluding re-exporting.

REPOSITIONING ASEAN IN THE 21ST CENTURY

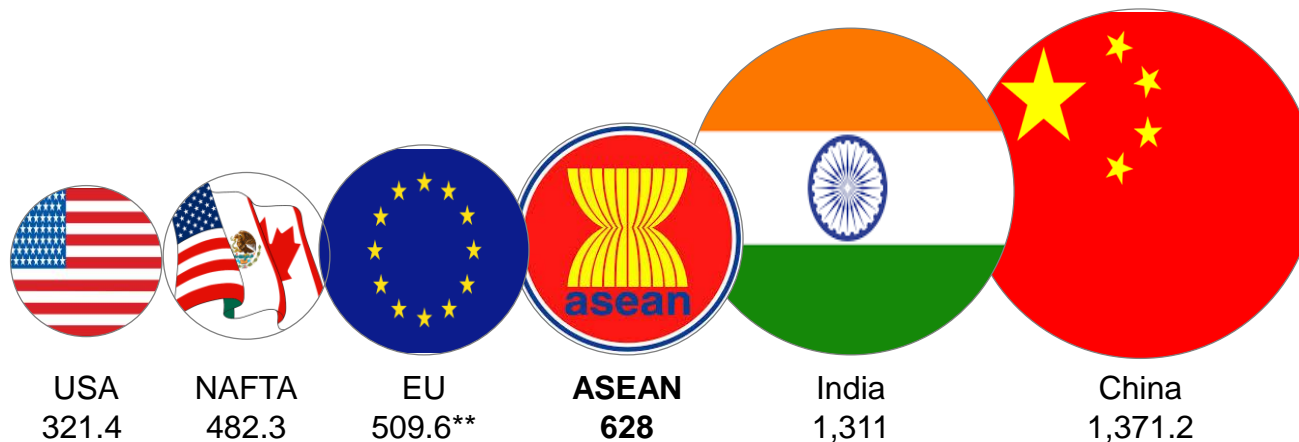
Size matters; rising income per capita



The world's 5th largest economy, making it a major economic bloc

* 2015 Nominal GDP in USD trillion
Source: World Bank Data 2015
** Include UK

... Big demographic dividend; consumer boom



The world's 3rd biggest population

* 2015 population in millions
Source: World Bank Data 2015
** Include UK

AIMING FOR A “RICH” ASEAN BY 2030 AN AMBITIOUS TARGET?



Population (mil)



	2010	2030
ASEAN-10	600.212	713.535
ASEAN-6	429.378	515.857
CLMV	170.830	197.678

Nominal GDP (USD bil)



ASEAN-10	1,871.07	5,476.38
ASEAN-6	1,704.40	4,726.76
CLMV	166.67	749.62

GDP per capita (USD)



ASEAN-10	3,117	2.5x	7,675
ASEAN-6	3,969	2.3x	9,163
CLMV	976	3.9x	3,792

BIG POTENTIAL IN CLMV

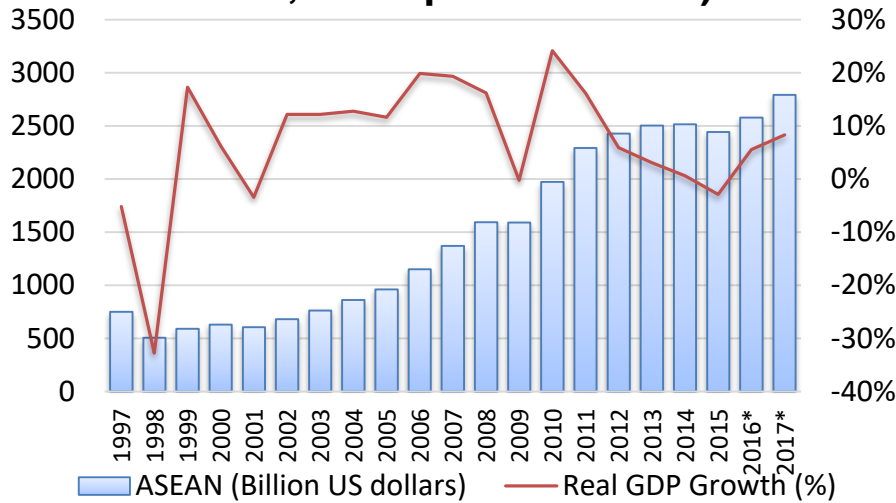
1. CLMV's share of ASEAN GDP will rise to 13.7% of GDP in 2030 from 8.9% of in 2010.
2. By 2030, CLMV's GDP per capita will multiply by 3.9x

*CLMV = Cambodia, Laos PDR, Myanmar, Vietnam

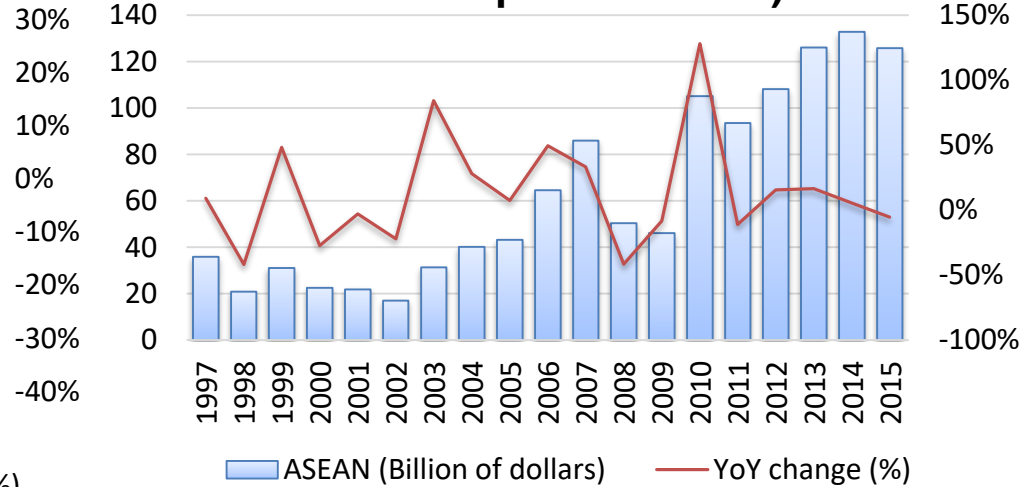
Source: ADB

THE NUMBERS TELL THE STORY...

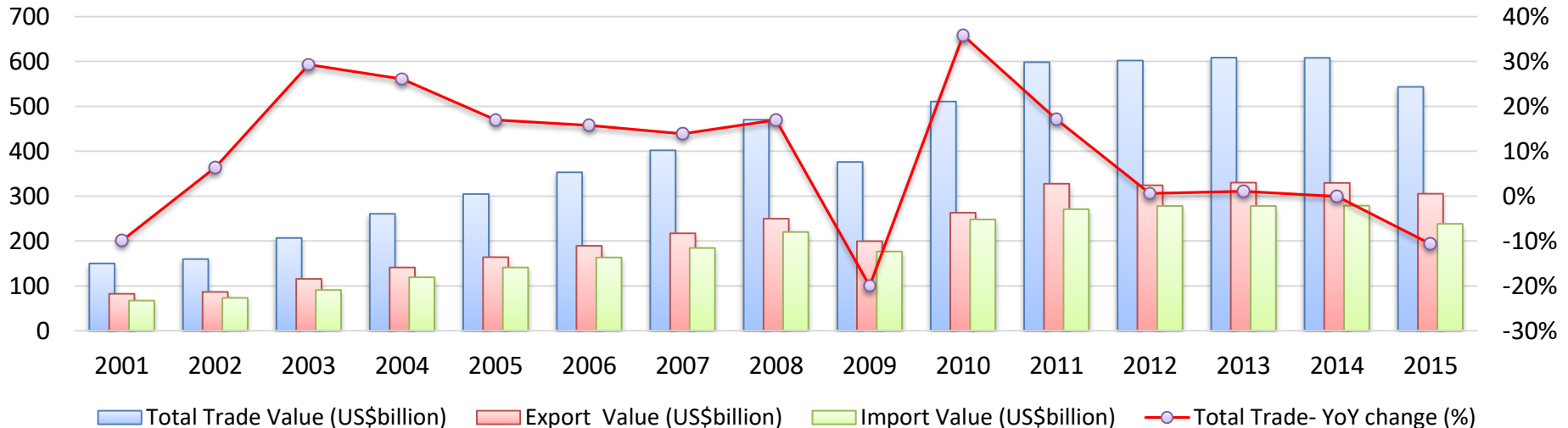
GDP growth (12.1% pa in 2001-2010; 4.4% pa in 2010-15)



FDI inflow (16.7% pa in 2001-2010; 3.6% pa in 2010-15)

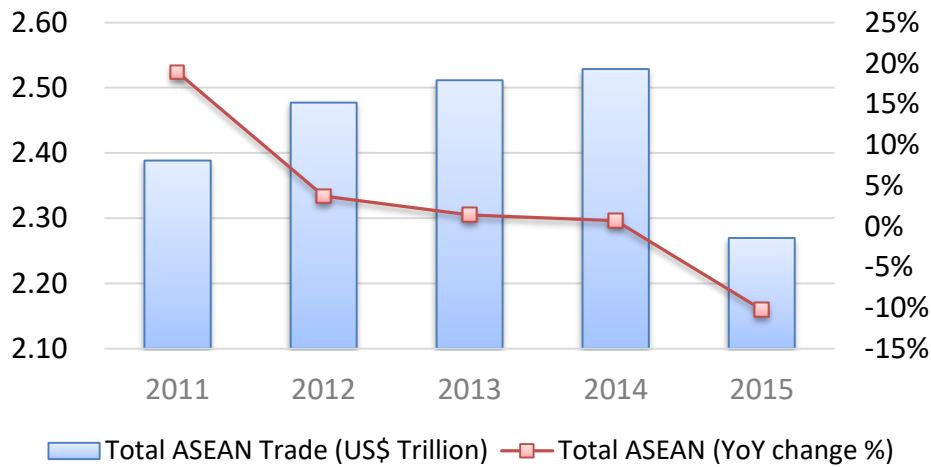


Intra-ASEAN trade (11.8% pa in 2001-2010; 1.2% pa in 2010-15)

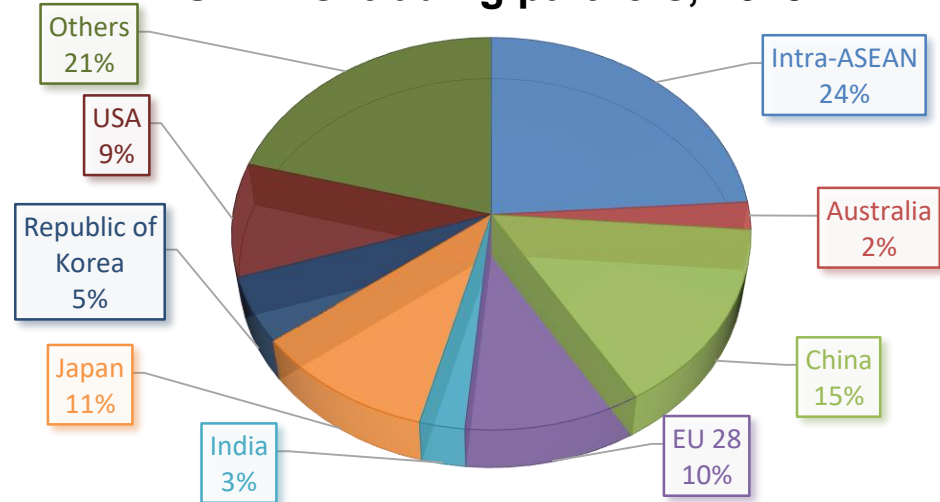


ASEAN IS WELL POSITIONED IN GLOBAL TRADE FLOWS

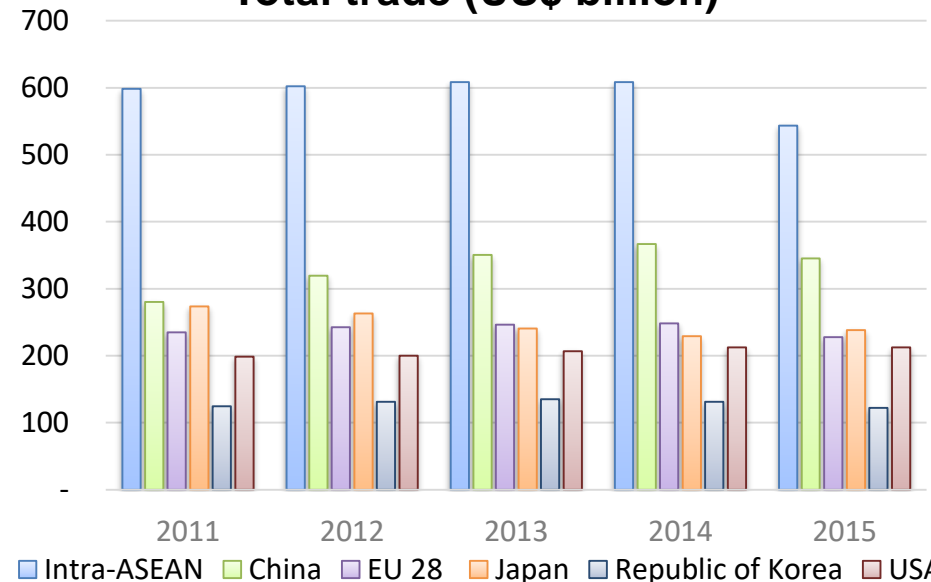
Total ASEAN trade



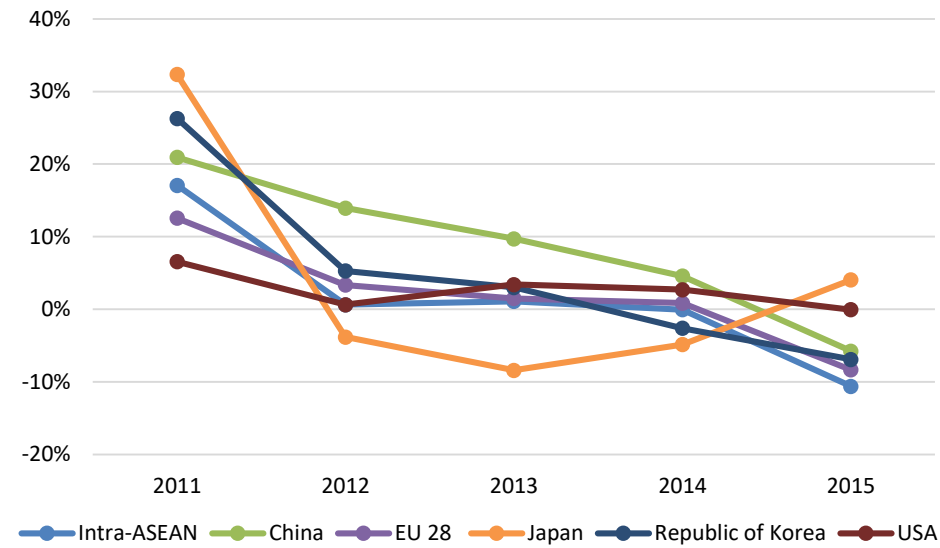
ASEAN's trading partners, 2015



Total trade (US\$ billion)

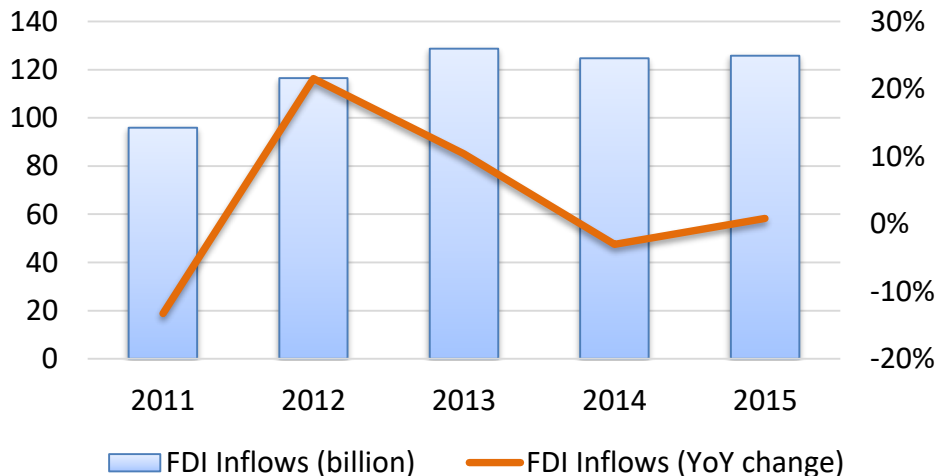


Annual change (%)

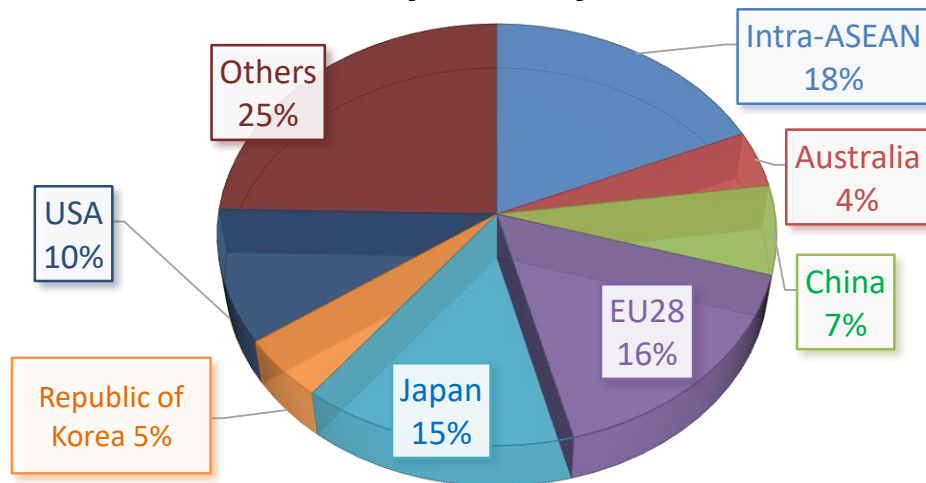


ASEAN REMAINS FAVOURABLE INVESTMENT DESTINATION

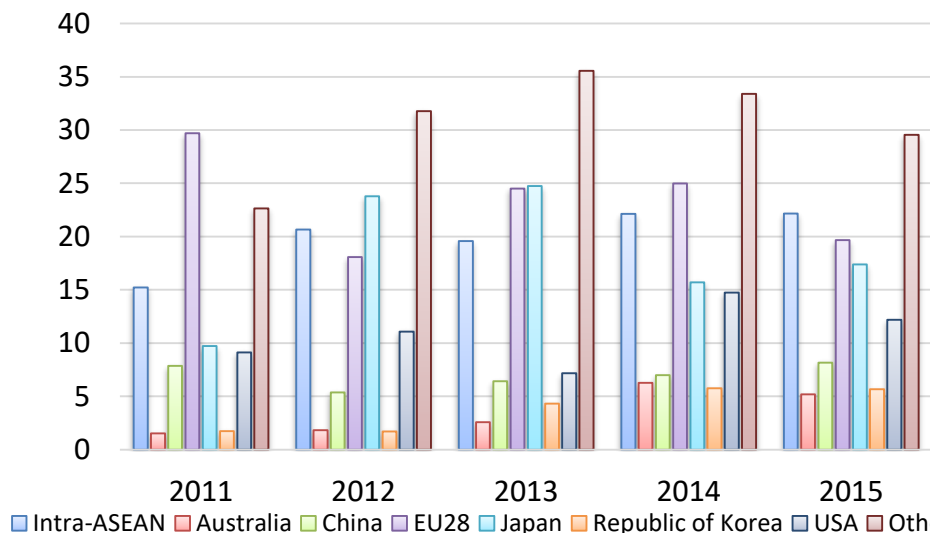
Total ASEAN FDI inflow



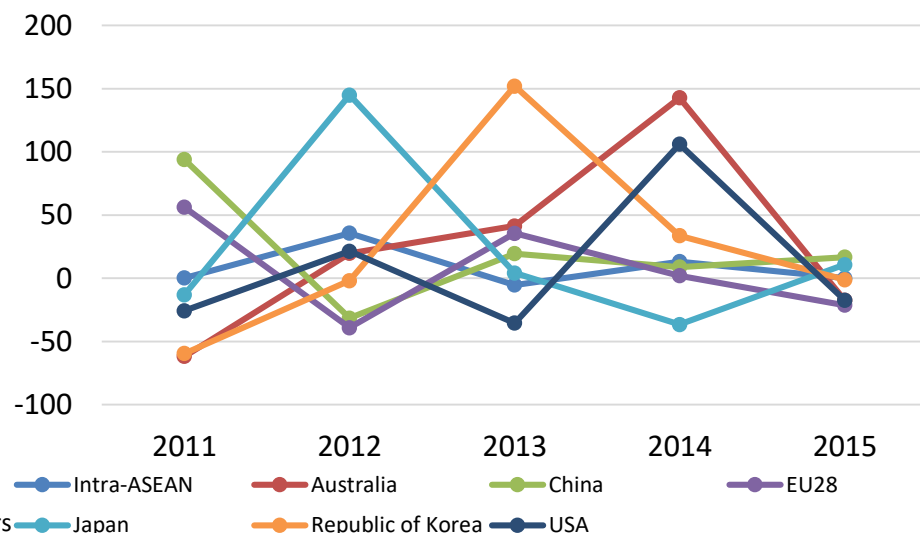
FDI inflows by country, 2015



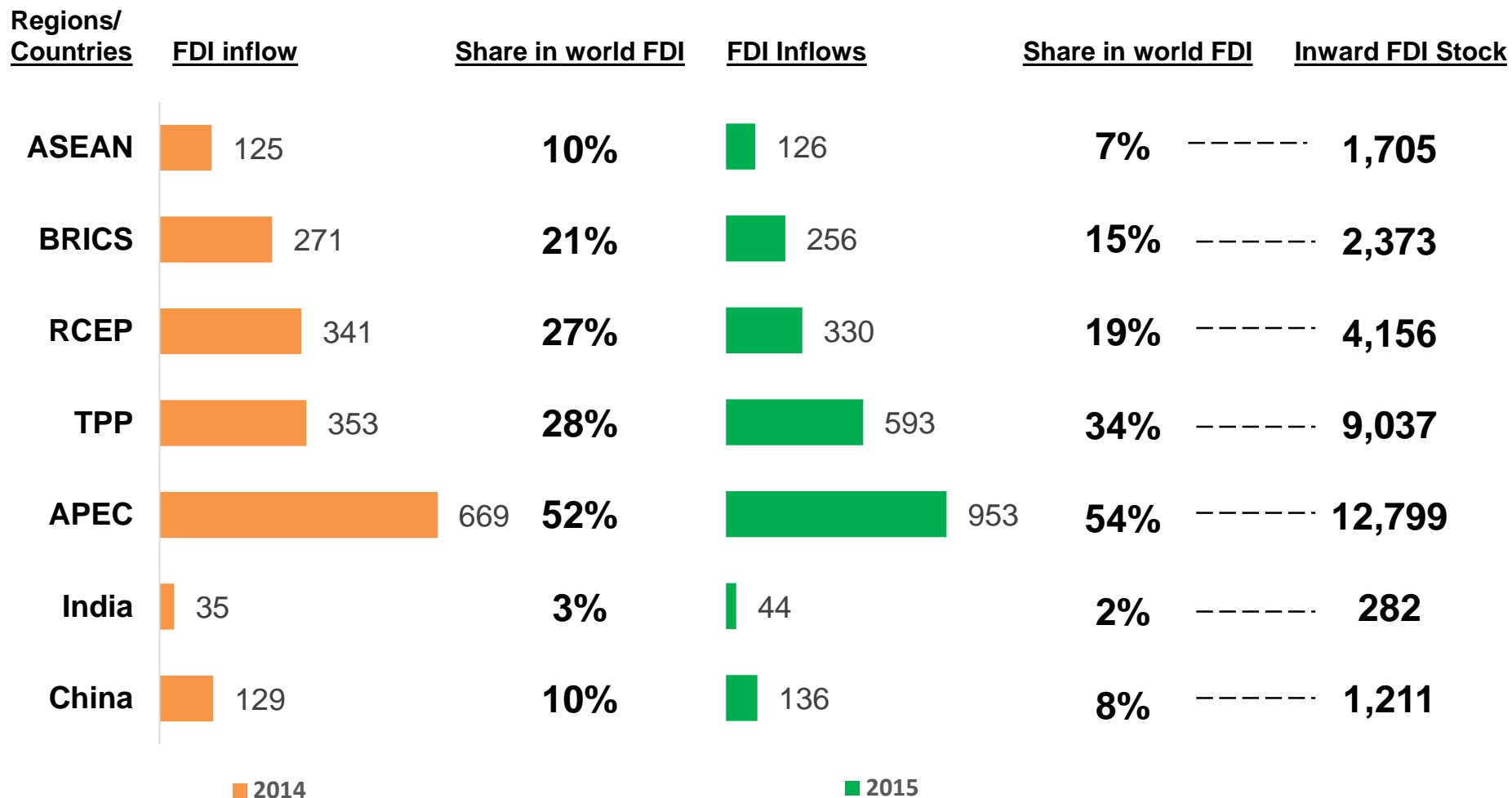
FDI inflow (US\$ billion)



Annual change (%)



FDI INFLOWS IN SELECTED MEGAGROUPS

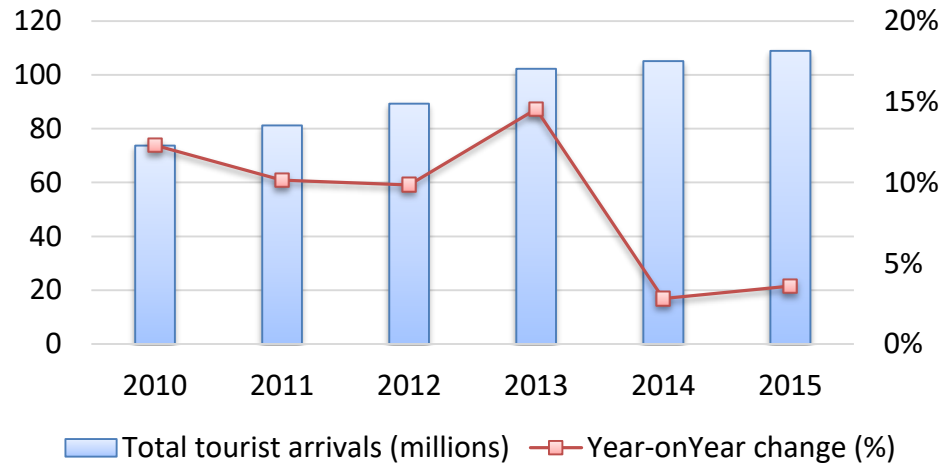


Source: UNCTAD, World Investment Report 2016

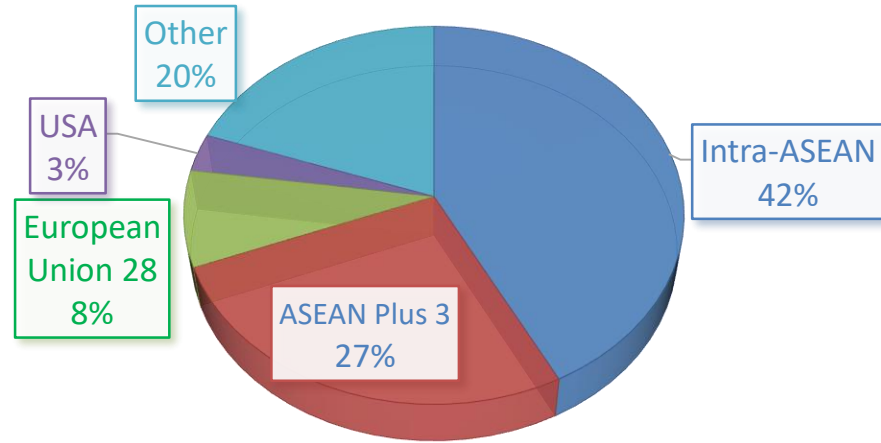
Notes: BRICS = Brazil, Russian, Federation, India, China, South Asia; RCEP=Regional Comprehensive Economic Partnership (under negotiation); TPP= Trans-Pacific Partnership; APEC=Asia-Pacific Economic Cooperation

TOURIST ARRIVALS IN ASEAN – DIVERSITY

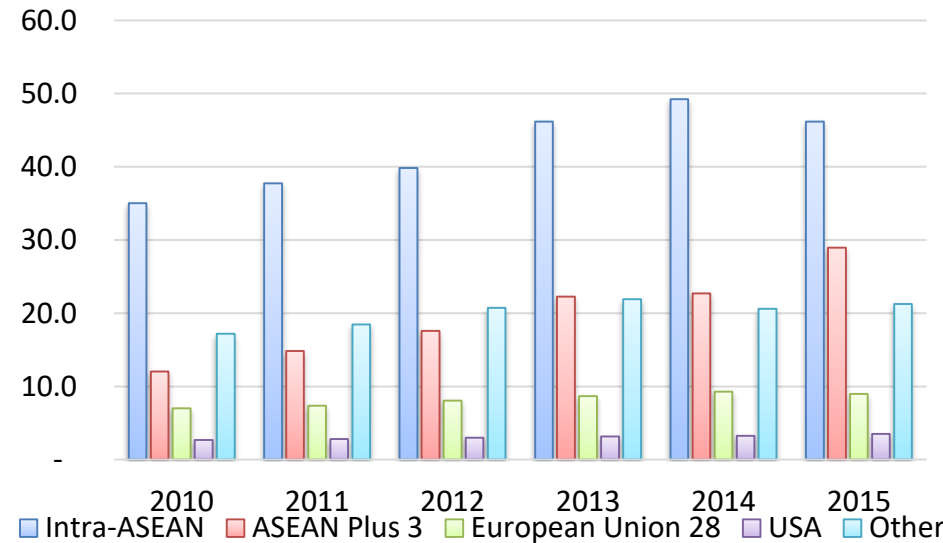
Tourist arrivals in ASEAN



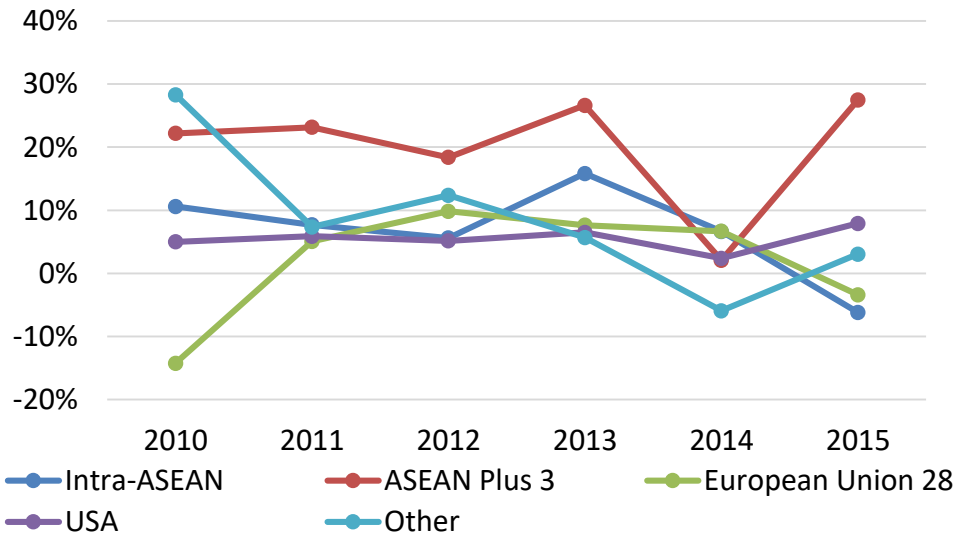
Tourist arrivals by country, 2015



Number of tourist arrivals (million)

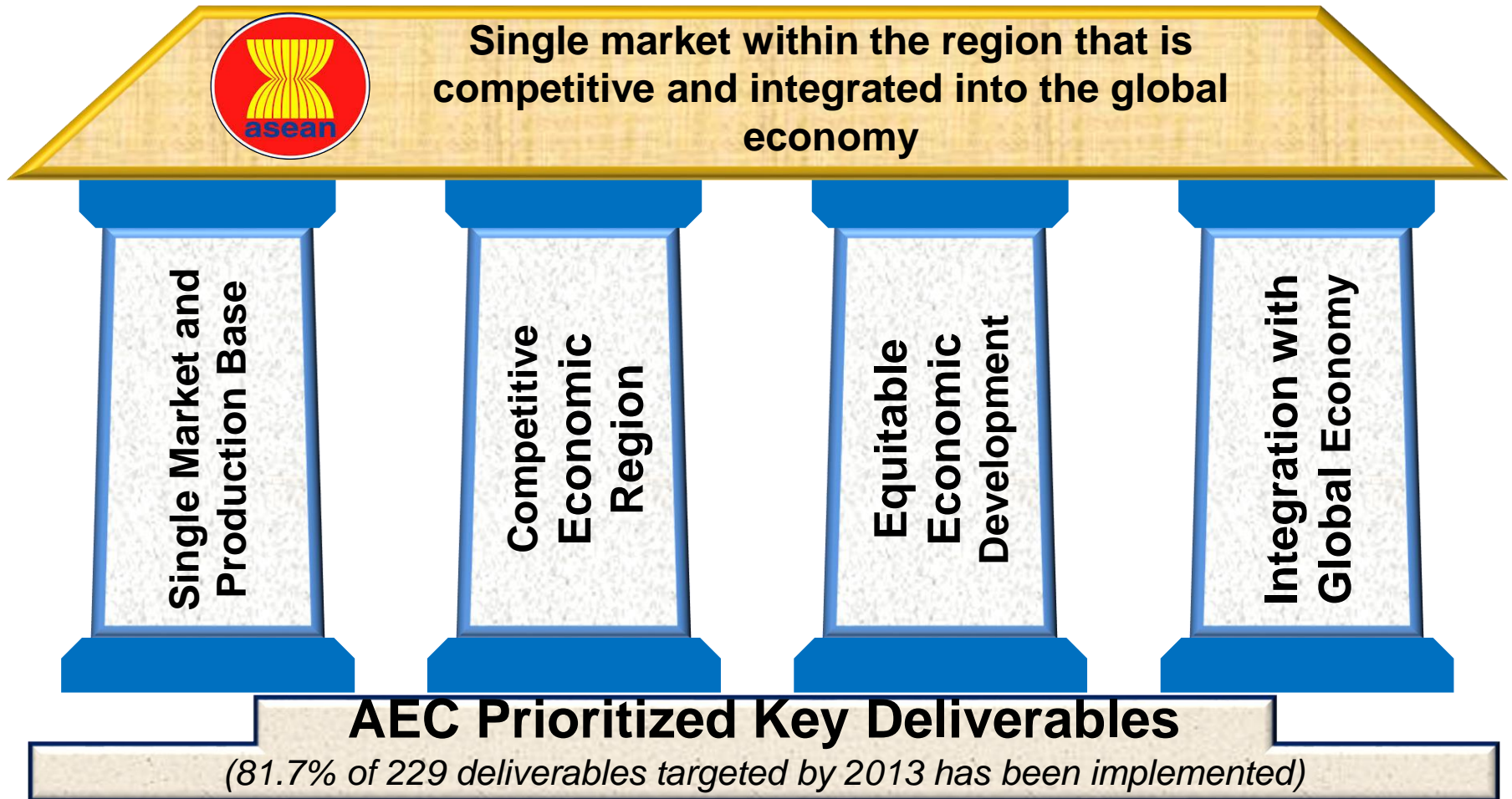


Annual change (%)



THE ABCS OF AEC

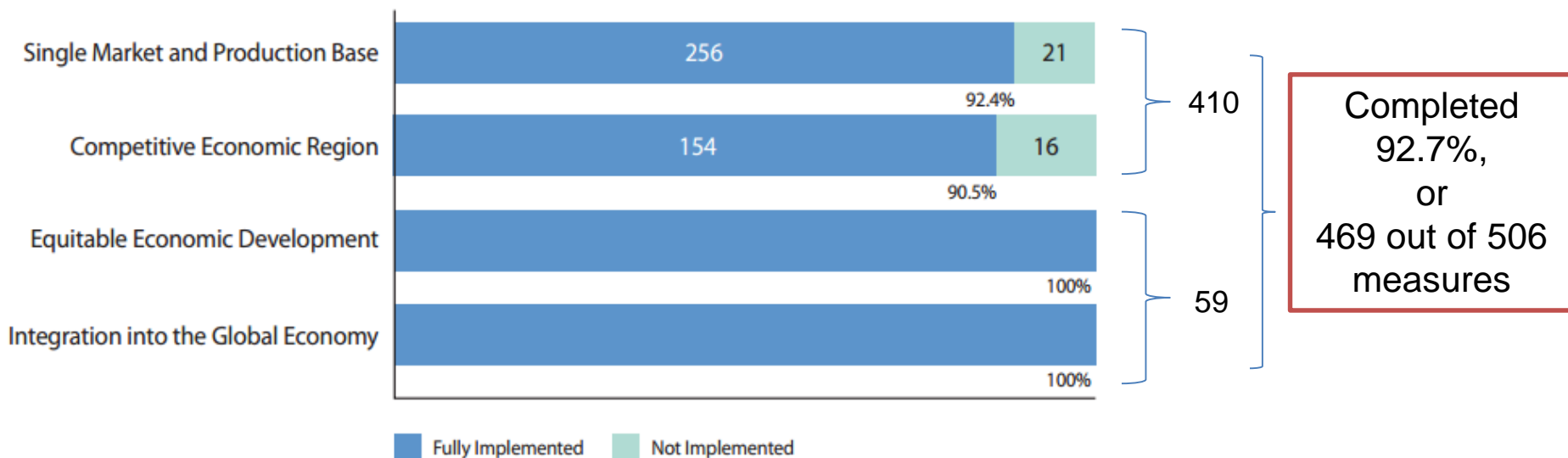
- ❑ AEC is a major milestone in the regional economic integration agenda in ASEAN
- ❑ Four pillars of AEC are as follow:



ASEAN Economic Community 2025

A Highly Integrated and Cohesive Economy	A Competitive, Innovative, and Dynamic ASEAN	Enhanced Connectivity and Sectoral Cooperation	A Resilient, Inclusive and People-Oriented, People-Centred ASEAN	A Global ASEAN
<ul style="list-style-type: none"> Trade in Goods 	<ul style="list-style-type: none"> Effective Competition Policy 	<ul style="list-style-type: none"> Transport 	<ul style="list-style-type: none"> Strengthening the Role of Micro, Small, and Medium Enterprises 	<ul style="list-style-type: none"> More strategic and coherent approach towards external economic relations
<ul style="list-style-type: none"> Trade in Services 	<ul style="list-style-type: none"> Consumer Protection 	<ul style="list-style-type: none"> Information and Communications Technology 	<ul style="list-style-type: none"> Strengthening the Role of the Private Sector (New) 	<ul style="list-style-type: none"> Review existing FTAs
<ul style="list-style-type: none"> Investment Environment 	<ul style="list-style-type: none"> Strengthening Intellectual Property Rights Cooperation 	<ul style="list-style-type: none"> E-commerce 	<ul style="list-style-type: none"> Public-Private Partnership (New) 	<ul style="list-style-type: none"> Enhance economic partnerships with non-FTA Dialogue Partners by upgrading and strengthening trade and investment work programmes/plans
<ul style="list-style-type: none"> Financial Integration, Financial Inclusion, and Financial Stability 	<ul style="list-style-type: none"> Productivity-Driven Growth, Innovation, Research and Development, and Technology Commercialisation 	<ul style="list-style-type: none"> Energy 	<ul style="list-style-type: none"> Narrowing the Development Gap 	<ul style="list-style-type: none"> Engage with regional and global partners (New)
<ul style="list-style-type: none"> Facilitating Movement of Skilled Labour and Business Visitors 	<ul style="list-style-type: none"> Taxation Cooperation 	<ul style="list-style-type: none"> Food, Agriculture, and Forestry 	<ul style="list-style-type: none"> Contribution of Stakeholders on Regional Integration Efforts (New) 	<ul style="list-style-type: none"> Continue strongly supporting the multilateral trading system and actively participating in regional fora (New)
<ul style="list-style-type: none"> Enhancing (New) Participation in Global Value Chains 	<ul style="list-style-type: none"> Good Governance (New) 	<ul style="list-style-type: none"> Tourism 		<ul style="list-style-type: none"> Continue to promote engagement with global and regional institutions (New)
	<ul style="list-style-type: none"> Effective, Efficient, Coherent and Responsive Regulations, and Good Regulatory Practice (New) 	<ul style="list-style-type: none"> Healthcare 		
	<ul style="list-style-type: none"> Sustainable Economic Development 	<ul style="list-style-type: none"> Minerals 		
	<ul style="list-style-type: none"> Global Megatrends and Emerging Trade-related Issues (New) 	<ul style="list-style-type: none"> Science and Technology 		

AEC SCORECARD IMPLEMENTATION STATUS (31 OCT 2015)



Sources: ASEAN Economic Community Scorecard, AEC 2015 Progress and Key Achievements

- ❑ As at 31 October 2015, the implementation rate of the full AEC Scorecard (those are not identified as High Priority Measures (611 measures)) stood at 79.5%, or 486 out of 611 measures
- ❑ Many AEC 2015 measures were considered fully implemented only in terms of a comprehensive regional document having been delivered, **rather than by virtue of any physical implementation**

AEC “DEEPENS ECONOMIC INTEGRATION”

❑ Boost economic growth potential

- Well connected backed by abundant natural resources and favorable geographic location
- Leverage on intra-trade and investment flows
- Production networks and supply chains across the region

❑ Wider market access

- Significant progress made in tariff elimination
 - ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) have virtually eliminated intra-regional tariffs (99.2% of tariff lines at 0%)
 - CLMV (Cambodia, Lao PDR, Myanmar and Viet Nam) stands at 90.86% giving an ASEAN average of 95.99%.
- Enhanced trade facilitation with continuing simplification of Rules of Origin (ROO) as well as ASEAN-wide self-certification scheme via the ASEAN Single Window (ASW) platform

❑ Rising consumerism

- A growing and young population as well as labour force expansion
- Rising income growth and middle-income households to make significant discretionary consumer spending

AEC “DEEPENS ECONOMIC INTEGRATION”

- ❑ **Magnet for intra-ASEAN investment and FDI**
 - No longer see ASEAN as 10 standalone economies
 - A major destination of FDI flows (16.4% of developing economies’ FDI flows)
 - Strengthened foreign investors’ perception of the region as a competitive and attractive FDI destination
- ❑ **Services trade liberalization**
 - Open up opportunities in business services, professional services, construction, distribution, education, environmental, healthcare, maritime, telecom, tourism
- ❑ **Financial services integration**
 - Reduced capital account restrictions allow banks to lower the transaction costs of cross-border investments
 - Financial integration and capital account liberalization facilitate economic rebalancing within ASEAN
 - Mobilize savings from surpluses countries to those with financing needs

AEC “MAKES BUSINESS HAPPEN”

- ❑ Provides a highly diverse range of firms (large companies, SMEs and multinationals) across different sectors for creating business and market opportunities domestically, regional and international

Company	Base	Product/Service	Milestones or Plans in ASEAN region
Grab	Malaysia	SME – Dispatch platform for taxi services	GrabTaxi in Philippines, Singapore, Thailand, Vietnam. GrabBike –motorcycle hiring in Vietnam (2014); GrabCar+ - higher-end cars in Philippines in 2015.
CP Group Thai Beverage	Thailand	Food & beverages	Acquire F&N Singapore and Malaysia in 2013 to enhance leadership and distribution network. Use Malaysia as a hub and springboard for halal foods for export into other countries such as Indonesia.
Jollibee (JFC)	Philippines	Food service	Imports coffee from Vietnam at zero tariffs; spices from Singapore, Malaysia, and Indonesia. Imports beef from Australia and New Zealand, which are ASEAN’s trade partners.
Air Asia	Malaysia	Low-cost airline carrier	It has 15 hubs in the ASEAN region through AirAsia Thailand, AirAsia Indonesia, AirAsia Philippines
Parkway Pantai	Singapore	Hospital	Parkway Pantai, wholly owned subsidiary of Kuala Lumpur-based IHH Healthcare, have set-ups in Singapore, Malaysia, Brunei, Vietnam
Axiata Group	Malaysia	Mobile Operator	Hello Axiata (Cambodia) acquired Latelz smart phone brand in Cambodia in 2012. Merger created scale and scope; 2 nd largest mobile operator.
Periwinkle	Philippines	Fashion retail brand	Expanded its domestic presence to Indonesia in 2015 to aim for wider AEC regional expansion Current set-up only covers imports and licensing by Boga Group.
Marybrown	Malaysia	Quick service restaurant	Became the first Malaysian quick service restaurant to set up an outlet in Myanmar.
Petron	Philippines	Oil and Gas	Petron is investing \$2 billion in the next 10 years to expand its network and strengthen its foothold in the Southeast Asian country.

INTERNAL AND EXTERNAL CHALLENGES

- ❑ **Global economic environment**
 - Weak and moderate global growth
 - External uncertainties – China’s economic rebalancing, Brexit-induced risks; weak commodity prices
 - Geopolitical risks and terrorism
 - ASEAN were distracted by concerns about external risks and devotes less resources to regional integration
- ❑ **Institutional structure**
 - ASEAN Secretariat has extremely limited powers and a tiny budget
 - Fundamental weakness of ASEAN’s institutional structure that hinders the speedier implementation of initiatives
 - There are relatively weak procedures to ensure compliance with existing agreements
- ❑ **The lack of “ASEAN-ness” to drive ASEAN way**
 - Insufficient private sector involvement
 - Lack of awareness of ASEAN across Southeast Asian countries
 - Need bigger push from the agencies responsible for driving AEC
 - Educating bureaucrats on the AEC

INTERNAL AND EXTERNAL CHALLENGES

❑ **Incompatible political system**

- The level of political maturity ranges from full democracy to authoritarian rule
- Adherence to the overarching principles of consensus and non-interference
- Maintaining political stability is vital
- Investors would shy away from committing long-term investment in ASEAN if the confrontation or conflicts ignite political risk

❑ **The development gap among ASEAN nations "is still huge"**

- Achieve minimum levels of uniformity in political, economic and cultural standing among countries are essential
- Income inequality and financing needs gap between richer and poorer nations
- Capital and financial markets are differentiated in terms of depth and breadth
- Gaps in infrastructure and connectivity, especially in CLMV
- Growing nationalism in some countries

INTERNAL AND EXTERNAL CHALLENGES

❑ Inadequate supply of talent and skilled workers

- Disparity in the quality of education hinders the free flows of labor across ASEAN
- Incompatible skillset, wage disparity and productivity growth differentials stifle the development of income equality and inclusiveness
- Strengthen cooperation between universities, higher learning institutions and skill training centers in ASEAN
- Strengthen the research capabilities of each country to boost skills and job placement and to develop a information network about the skilled labor market in ASEAN

❑ ASEAN's "Ease of doing business"

- Wide variations between developed and less developing economies at the early stage of development
- Rely on economic reforms to resolve structural issues that impede competitiveness and growth potential

HOW READY ARE ASEAN COUNTRIES FOR INVESTORS?

ASEAN member states' world ranking comparison

Country	Ease of Doing Business (2016)	Global Competitiveness Index (2015/16)	Human Development Index (2014)	Infrastructure (2015/16)
Brunei	84 (↑17)	-	31 (↓1)	-
Cambodia	127 (↑8)	90 (↑5)	143 (↓7)	101 (↑6)
Indonesia	109 (↑5)	37 (↓3)	110 (↓2)	62 (↓6)
Lao PDR	134 (↑14)	83 (↓10)	141 (↓2)	98 (↓4)
Malaysia	18 (-)	18 (↑2)	62 (-)	24 (↑1)
Myanmar	167 (↑10)	131 (↑3)	148 (↓2)	134 (↑3)
Philippines	103 (↓8)	47 (↓5)	115 (↑2)	90 (↓1)
Singapore	1 (-)	2 (-)	11 (↓2)	2 (-)
Thailand	49 (↓23)	32 (↓1)	93 (↓4)	44 (↑4)
Vietnam	90 (↓12)	56 (↑12)	116 (↑5)	76 (↑5)

Source: World Bank; World Economic Forum; United Nations Development Programme

Note: Figures in parenthesis showed the change (↑ or ↓) in ranking from previous period, (-) denotes no change in ranking.

REALITY CHECK

❑ Free trade in goods and services is crucial

- Most important and tangible
- Free trade in goods has mostly already been achieved
- But, services liberalization is ongoing and far from perfect

❑ Free flows of capital and investment

- Much more needs to be done
- Investment liberalization help foster better allocation of capital and create a more efficient banking system
- ASEAN Banking Integration Framework – any ASEAN-based bank will be re-classified as a local bank across ten ASEAN economies; ASEAN Common Prospectus etc

❑ Free flow of skilled labor

- Freedom of movement for skilled labor remains a distant dream
- Mutual recognition agreements (MRAs) have been established for eight professions (engineers, nursing, architects, surveyors, doctors, dentists, accountants, and tourism professional). But, work permits are still necessary on top of having to pass local professional examinations
- A renewed spurt of political will to open up domestic market
- Promoting labor mobility to prevent brain drain

CONCLUSION

- ❑ Amid going through a rough patch Post-Global Financial Crisis, ASEAN will emerge stronger
- ❑ By 2030, ASEAN will add another 120m people to its already vibrant population of 625m people and a potential GDP growth of 5%
- ❑ With ASEAN's strategic location next to China and India, the two countries are largely viewed as a complementary force to ASEAN amid the high degree of competition they bring
- ❑ The path to AEC remains challenging. Weak institutional framework and the lack of an enforcement mechanism are impediments to comprehensive integration
- ❑ Lack of alignment of interest between political leaders and bureaucrats
- ❑ Loose implementation of AEC provisions will result in few immediate benefits



社会经济研究中心 SERC SDN BHD

谢谢

THANK YOU

Address : 6th Floor, Wisma Chinese Chamber,
258, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.
Tel : 603 - 4260 3116 / 3119
Fax : 603 - 4260 3118
Email : serc@accimserc.com
Website : <http://www.accimserc.com>

