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ASEAN Economic Community: Overview for Foreign Investors

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As the governing bodies of the Association of Southeast Asian Nations (ASEAN) continue their policy preparations for the emergence of the ASEAN Economic Community (AEC), set to debut on 31 December 2015, uncertainty exists amongst both the ASEAN citizenry as well as foreign investors as to the implications of the AEC for businesses. What is the AEC? And why should it concern foreign investors? We look to answer these questions as it is important for any individual or business that is conducting or plans to conduct commerce in the ASEAN region to understand the AEC framework and its potential impacts on regional and global trade.

Before delving into the AEC, it is important to understand the identity of ASEAN and the events that led up to the proposed formation of the AEC by looking at the various international agreements that were signed between the member countries of ASEAN. ASEAN was formed in 1967 with the signing of the ASEAN Declaration and its members now are Brunei, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. In 2007 the members adopted the "ASEAN Economic Blueprint", which continues to serve as a developmental roadmap and as the precursor to the ASEAN Charter.

The ASEAN Charter was entered into in 2008 and established ASEAN's legal identity as a regional bloc – a giant leap in ASEAN's community building process. The broader ASEAN community is based on the creation of three community pillars: Political – Security Community; Economic Community; and Socio – Cultural Community. Each of the aforementioned pillars works hand-in-hand with other policies and initiatives to form the cohesive principles and timeline for the community building process.

To achieve the AEC, ASEAN has specified eight areas of cooperation with the goal of transforming ASEAN into a region with a free movement of goods, services, investments, skilled labor and capital:

- Human resources development and capacity building;
- Recognition of professional qualifications;
- Closer consultation on macroeconomic and financial policies;
- Trade financing measures;
- Enhanced infrastructure and communications connectivity;
- Development of electronic transactions through e-ASEAN;
- Integrating industries across the region to promote regional sourcing; and
- Enhancing private sector involvement for the building of the AEC.

These areas of cooperation are intended to function in a similar fashion to the European Union precursor, the European Economic Community, with respect to achieving regional economic integration with effective facilitation for trade and investment.

However, although the EU serves as the most achieved model in modern history of regional cooperation, unlike their European counterparts, the majority of ASEAN nations are still in the developmental stages and as a community lack supranational policy making bodies such as the European Central Bank or the European Commission which are at the core of regional functionality. Lacking this infrastructure, ASEAN must forge a different path towards integration.

The full implementation of the AEC will see the ASEAN region achieve four characteristics on which the regional community will be built:

- (a) A single market and production base;
- (b) A highly competitive economic region;
- (c) A region of economic development; and
- (d) A region fully integrated into the global economy.

We look to examine each characteristic by highlighting the various changes that have taken place and the effect they will have on not just citizens but potential investors.

CREATING A SINGLE MARKET AND PRODUCTION BASE

Creating a single market and production base is the core characteristic of the AEC and the most relevant for foreign investors. The free flow of goods, trade, investment, capital, and labor are essential elements to full economic integration. Examining each in detail provides insight into how these policy liberalizations will help transform ASEAN into a single market and production base.

Free Flow of Goods

One of the foundations of the AEC is the ASEAN Free Trade Area. This is a preferential tariff scheme which cuts the tariffs on nearly 8,000 items that are manufactured within any of the ASEAN countries. As of 2010 six countries have applied zero tariffs to 99 percent of goods, while the remaining members plan to achieve the same goal by 2015. A more unified trading region will facilitate the development of production networks, bridge fragmented trade opportunities, and allow ASEAN to become a central figure in global supply chains.

Free Flow of Trade

The 1995 ASEAN Framework Agreement on Services aims to eliminate intra-

regional trade restrictions and expand liberalization in services in order to foster free market competition, in turn leading to lower prices and an increased quality of services. This is expected to foster the transfer of know-how, from outside and within the region, in areas such as business organization and management, and better risk management capacity through foreign participation in financial services.

Free Flow of Investment

ASEAN member countries jointly signed the ASEAN Comprehensive Investment Agreement (ACIA) in 2009, which has since been ratified by all members and has been in effect since March 2012. The four primary investment principles outlined in ACIA are liberalization, protection, promotion, and facilitation of investments. Several industries in each member country are to be opened with national treatment accorded to any ASEAN investor. National treatment ensures that the rights and privileges provided to foreigners are equivalent to those accorded to its own citizens. The ACIA also extends the scope of application to portfolio investment and provides benefits for investors who are permanent residents in ASEAN member countries and ASEAN-based foreign investors.

Free Flow of Capital

The AEC framework calls for national capital markets to be integrated into a common platform, to facilitate both the availability and movement of capital throughout the region. This will strengthen domestic markets by making the use of capital more efficient, as well as lower the cost of financing as larger market capitalization creates more room for economies of scale.

Free Flow of Skilled Labor

Although the uninhibited flow of skilled labor is the ultimate goal, to date ASEAN countries have prepared Mutual Recog-

nitition Arrangements, which specify the basic qualifications to work freely in each other's countries for eight professions: engineering services, architectural services, surveying qualifications, medical practitioners, dental practitioners, nursing services, accountancy services and tourism services. This objective is proving to be the most difficult to achieve and will require the most attention if its benchmarks are to be met by 2015.

CREATING A STABLE, PROSPEROUS AND COMPETITIVE REGION

The AEC calls for the creation of a highly competitive region to ensure a level playing field and to develop a culture of fair business competition. The ASEAN Regional Guidelines on Competition (ARGC) seek to enhance and expedite the development of a national competition policy within each ASEAN member country. Among members, Indonesia, Malaysia, Singapore, Thailand, and Vietnam have enforced their obligations under the ARGC by implementing domestic competition policies and laws. 2015 should see the remaining member countries develop similar policies.

CREATING A REGION OF ECONOMIC DEVELOPMENT

Another key goal of the AEC is the equitable economic development of the region. The goal by 2015 is to bridge the development gap that exists at the small and medium enterprise (SME) levels and to develop the economies of Cambodia, Lao PDR, Myanmar and Vietnam in order to achieve enhanced regional economic performance. ASEAN considers SMEs to be an integral part of economic development as they largely outnumber large enterprises. Successful implementation of the ASEAN Blueprint for SME Development will see strong participation of SMEs with investors in the building of regional production networks, which in turn is expected to provide several other options for businesses and investors.

CREATING A REGION FULLY INTEGRATED INTO THE GLOBAL ECONOMY

The final key characteristic of the AEC is to create a region that is fully integrated into the global economy. To achieve this goal ASEAN is negotiating several Free Trade Agreements to add to those already signed with China, Japan, Korea, India, Australia and New Zealand.

In regards to integrating into the global economy, it is worth noting that the United States of America is one of ASEAN's largest trade partners. The US and ASEAN launched the US-ASEAN Expanded Economic Engagement (E3) initiative which built on the existing ASEAN-US Trade and Investment Framework Agreement of 2006. The E3 initiative aims to increase the efficiency and competitiveness of trade flows and supply chains throughout ASEAN, and at building greater awareness of the commercial opportunities that exist between the two regions. The E3 engagement coupled with the proposed Trans-Pacific Partnership will aid foreign investors in entering and prospering in the ASEAN markets.

Although it is unlikely that 100% of the blueprint's goals will be reached by 2015, a large percentage of them are expected to be achieved. So how many of the characteristics of the AEC will be seen in 2015? At this stage it seems that by the end of 2015, ASEAN would have closed in on its target of creating a single market and production base.

However, more cooperation is needed within the region to achieve the remaining goals. Rather than viewing the AEC on a pass/fail basis, it is worth taking a step back and looking at exactly what has been achieved thus far and how the framework calls for further development and integration of the AEC. Investors and businesses would do well to prepare themselves for the AEC so that they may reap the benefits and face the challenges to come with confidence. ■

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