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PERSPECTIVES ON THE ASEAN ECONOMIC COMMUNITY (AEC)

A typical lead-in to news articles or opinion columns about the AEC in recent months is either: "Is [country] ready for the coming of AEC in 2015?" or "Will [country, industry or company name] reap the benefits of ASEAN Integration in 2015?"

What is common among many of these articles is that they describe 2015 as a turning point in the trade and investment regime in Southeast Asia. This is a misrepresentation of the status of the AEC in 2015. 2015 (or the end of 2015) will not bring about great and radical changes to economic relations between ASEAN states. Doubtless, there will be some changes in the domestic rules of ASEAN states in 2015, but this is not the year when the region becomes a single market and production base. It is merely a waypoint in a journey towards achieving this first of four pillars of the AEC. Much has already been accomplished through the removal of friction costs and barriers to trade and investment, but much more can be done. Judging from the last two decades, changes will be gradual and very deliberate.

To save ourselves from being swallowed by the 2015 hype, it may be necessary to review what

has been done to achieve some of the core elements of the first pillar.

Free Flow of Goods

This is where ASEAN has had much success. Except for a very few economically and politically sensitive goods, tariff rates among ASEAN states (especially those applied by the ASEAN6 economies: Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) are already at 0%. Non-tariff barriers have been re-

duced, although not eliminated and serious work is being done to monitor and imposition of these non-tariff barriers. Aided by these developments, trade between the ASEAN states have grown faster than trade between countries in the region and non-ASEAN states. The ASEAN Secretariat noted that "the share of intra-ASEAN trade in GDP has grown faster than that of the overall ASEAN trade, increasing by 1.9% per year on average compared with 0.7% for the latter."





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Much is still to be done however with regard to trade facilitation. For example, the ASEAN Single Window is still far from being realized. The ASEAN Single Window is envisioned to make it easier for businesses to export and import goods within the region by integrating customs release and clearance between the member states. Unfortunately, not all states have developed their procedures to establish their national single windows, which is necessary for the regional integration of import/export systems.

Free Flow of Services

The ASEAN Framework Agreement on Services was designed to gradually liberalize ASEAN states' restriction on trade in services beyond those they committed under the General Agreement on Trade in Services. Trade in services is divided into four modes: (i) cross-border supply; (ii) consumption abroad; (iii) commercial presence; and (iv)

movement of natural persons. ASEAN states have shown willingness to liberalize the first two modes but maintain significant restrictions in the last two. Most ASEAN states still maintain nationality restrictions on the establishment of certain types of businesses and reserve the right to regulate the provision of services that need to be provided by persons in their territories. For some countries, the elimination of these restrictions would require the passage of laws by their legislatures or even constitutional amendments and cannot merely be signed away by their trade negotiators.

Free Flow of Investment

One significant agreement among the ASEAN states is the ASEAN Comprehensive Investment Agreement which adopts many of the rules found in standard bilateral investment agreements such as rules limiting expropriations and guaran-


teeing fair compensation upon expropriation, provisions on compensation in cases of strife and prohibition on discrimination among foreign investors and between foreign and local investors. Dispute settlement rules in the agreement also allow investors to avail of arbitration procedures to settle disputes with ASEAN states. Coverage of investment protection is limited to five sectors and services incidental to these sectors (manufacturing, agriculture, fishing, forestry and mining/quarrying). Free Movement of Skilled Labor. The region continues to expand the number of sectors covered by mutual recognition agreements (MRAs) which grants ASEAN-wide recognition of professional licenses or qualifications awarded in each Member State. In 2012, ASEAN concluded the Agreement on the Movement of Natural Persons which seeks to eliminate restrictions on the temporary movement of persons engaged in trade in goods, trade in services and invest-

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ments. Under this agreement, business visitors, intra-corporate transferees and contractual service suppliers should be able to move freely on a temporary basis within ASEAN. Each country is free to impose reasonable visa and labor regulations such as those that regulate the period persons covered by the AMNP can remain in their territories. It is important to note that even with the conclusion of MRAs or framework MRAs and with the adoption of the Agreement on the Movement of Natural Persons (AMNP), the ASEAN member states do not adopt a policy of free labor migration.

The AMNP specifically provides for example that it does not apply to persons seeking access to employment nor to measures regarding citizenship, residency or permanent employment. The MRAs and the AMNP should be seen more as a means to sup-

port the ASEAN trade, services and investment agreements.

ASEAN has gone a long way in smoothing out the trade and investment regime in the region but the region is far from being a single market or production base. That said, the reforms undertaken by each ASEAN state has made it much easier for businesses to establish more cost-effective supply chains and to formulate regional corporate development strategies. With the continuing coordination between the ASEAN states, things would only get better from here.

For more information please contact thailand@dfdl.com

¹⁾ The AEC has four pillars: (i) a single market and production base, (ii) a competitive economic region, (iii) equitable economic development and (iv) integration with the global economy.



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