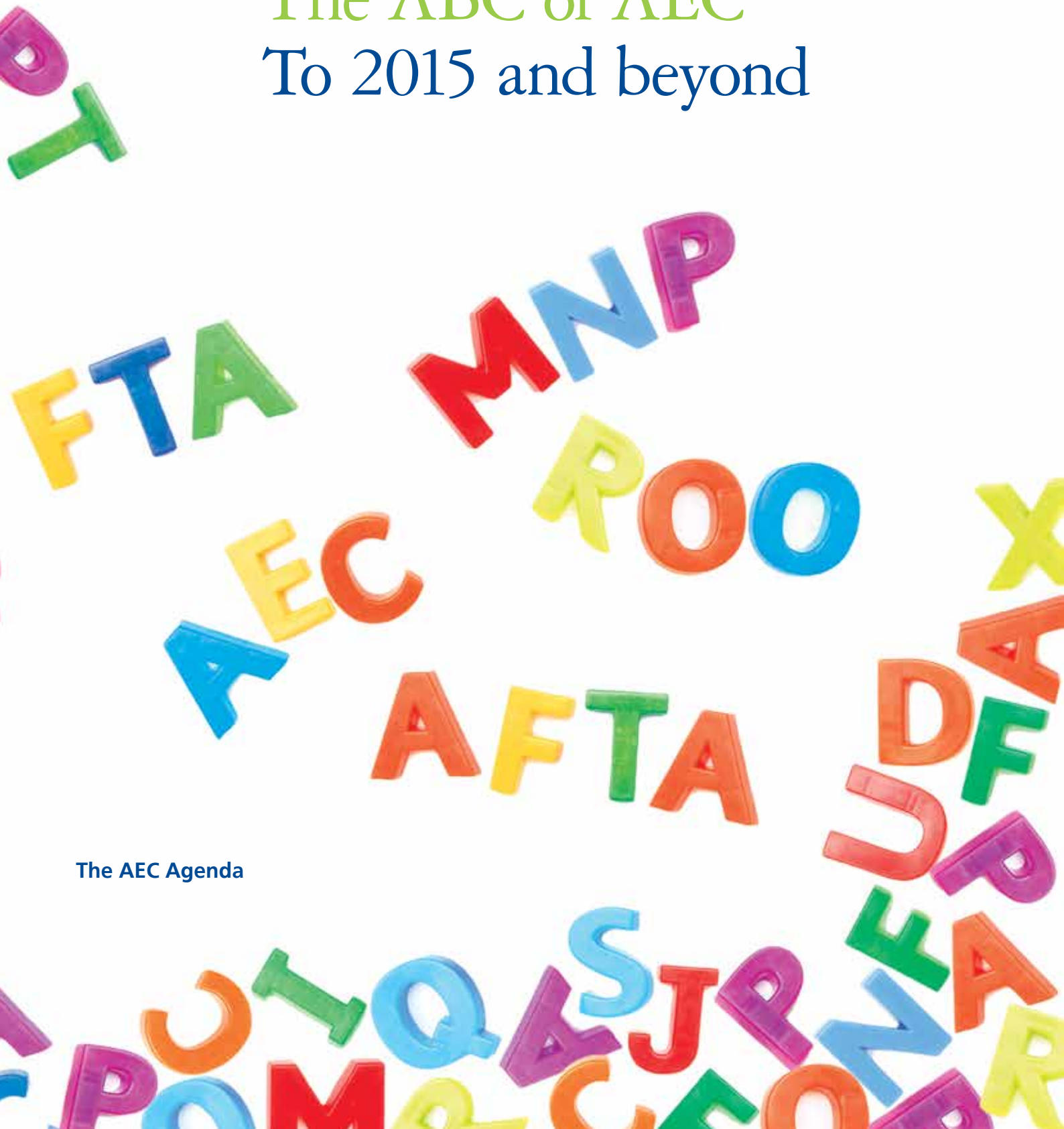


The ABC of AEC  
To 2015 and beyond

The AEC Agenda



# Introduction

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Across Southeast Asia, all the chatter around the ASEAN Economic Community (AEC) is focused on a single date: 31 December 2015. But the reality is that not everyone understands what that date means. What is it and why wait until then to do it? What will the impact be? Will we wake up to a different world on 1 January 2016? And just what do all these acronyms mean?

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It is...  
**...a long fuse**

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There has been much academic research (thick books, numerous papers, as well as seminars, conferences and summits) and even more chatter (whether in magazines, newspaper articles or news reports). But in doing our research – which has included a survey of chief executives at some of the leading companies doing business in Southeast Asia – it is clear that many don't really understand what the AEC is, never mind the impact that it will have on their business.

It is not...  
**...a big bang on  
31 Dec 2015**

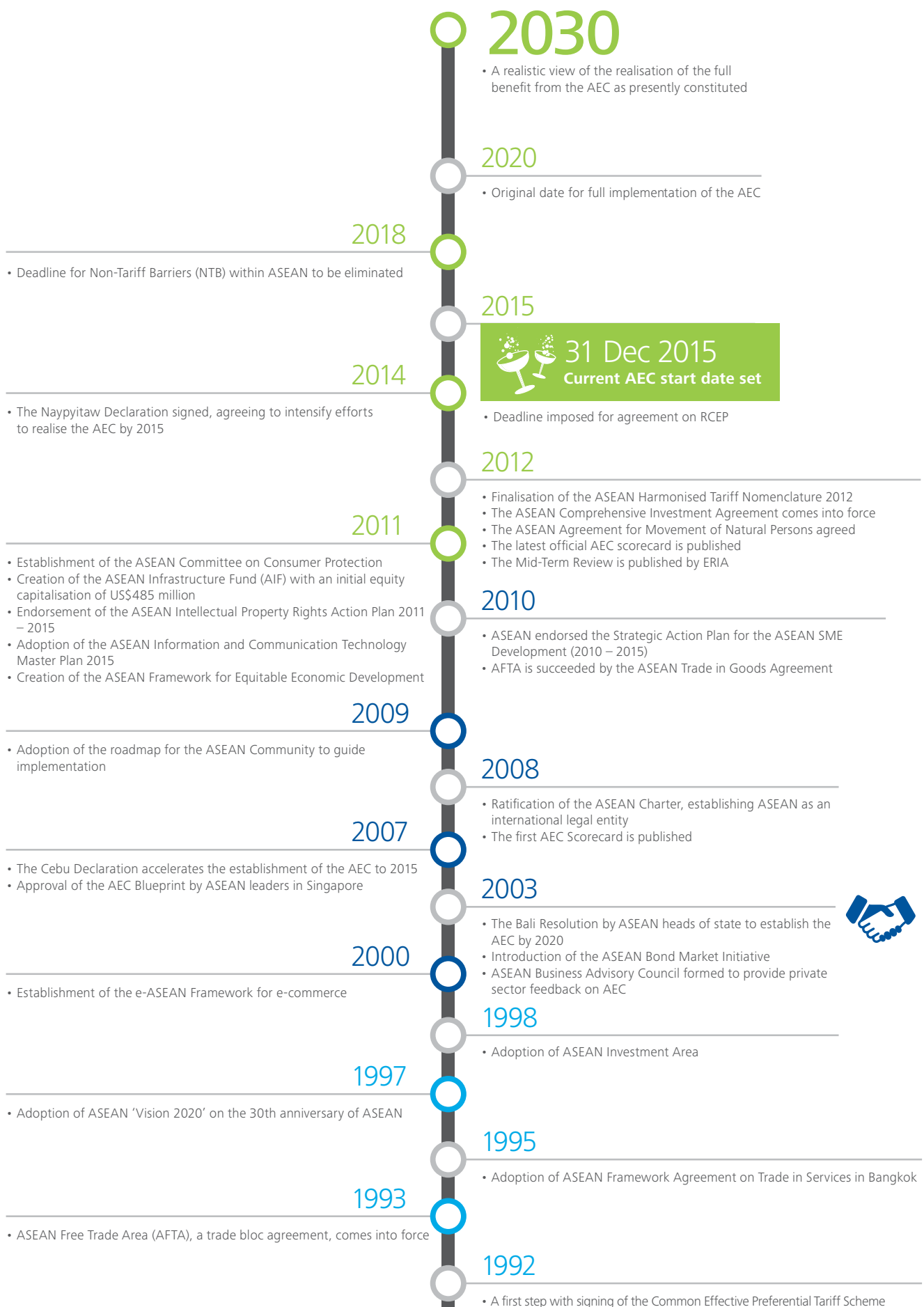
Whatever your views – and many around the region are deeply sceptical – we are here to tell you one thing: the AEC really does matter. Every industry will be impacted. Definitely not now, perhaps not for some time and certainly not all in a profound way but; everyone will be affected. The net result is definitely positive, with more and greater opportunity for business as a whole. Competition will also increase: so there will be winners and there will certainly be losers.

To be amongst the winners, you need to prepare your organisation right now. It's not enough for one person to understand all this – you need to share the knowledge amongst your senior leadership so that they can all grasp its essence and impact.

At Deloitte, we don't make the complex simple: we make it understandable. We have waded through the lengthy discourses and listened to all the worthy speeches, so you don't have to. Here's our attempt at giving you all the basics you need to know to start the dialogue with your stakeholders about this landmark initiative: the ABC of the AEC, if you will.



# Key AEC milestones



# Why is it happening?

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It is...  
...already  
happening

## A success story

By most measures, Southeast Asia has been one of the most successful economic groupings of recent times. As a bloc, it has seen its real Gross Domestic Product (GDP) increase ten-fold over the last five decades. If it were a nation, it would be the 7th largest economy in the world<sup>1</sup> – with a combined GDP of US\$ 2.4 trillion<sup>2</sup>. In 2013, inbound Foreign Direct Investment (FDI) for the ASEAN-5 was greater than that flowing into China<sup>3</sup>.

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It is not...  
...going to complete  
tomorrow

Southeast Asia is a significant link in an ever-more connected supply chain, both within Asia and globally and for raw materials as well as semi-finished manufactures. More than that, it is developing into a pivotal marketplace. Home to a population of 610<sup>2</sup> million relatively young people, it has an emerging middle class with growing spending power.

Southeast Asia is a substantial economic grouping that most expect to get larger and to be more important both in relative and absolute terms. It can be a third pillar of growth in Asia, alongside China and India.

## Which needs to change

While success is the predominant theme of recent times, a closer look reveals three worrying vulnerabilities for Southeast Asia:

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It is...  
...a corner piece  
of the jigsaw

**Shocks.** Whether caused from within (the Asian Financial Crisis) or from outside (the Global Financial Crisis), Southeast Asia has been prone to frequent, but irregular shocks. The causes are many but the impact has been the same: large in scale, quick to strike and slow to recover. Doubtless, these shocks were partly due to the connectedness of Southeast Asian to the global economy. But equally, it is clear that there were fundamental systemic weaknesses within the region that required to be addressed.

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It is not...  
...the whole  
picture

**Competition.** The experience of competing for investment against the emerging giants of China and India in the mid-2000's was sobering to many. After a decade of stellar performance as an inbound investment destination, capital switched substantially to the North and the West. While China and India are single production bases with national laws and regulations which – at least in principle – apply country-wide, Southeast Asia, in contrast, was a loose grouping of diverse economies characterised by differences in customs policies, tariff regimes, regulations for services sector and for investment, industrial structures and legal systems, and inadequate connections between national infrastructures. Clearly, there was a need for change to restore economic vitality so as to prevent a continued and permanent shift northward of economic power within Asia.

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It is...  
...a connected  
economic bloc

**Middle Income Trap.** The foundations that had been built up to the mid-2000's seemed capable of delivering moderate growth for Southeast Asia into the medium term. However, that was not going to be enough – domestic expectations for improvements in living standards were not going to be satisfied by modest improvement. No further change would, in effect, mean getting caught in the middle income trap. It was clear that further evolution was both possible and would enable progression on to a higher, yet sustainable growth path.

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It is not...  
...a step  
towards  
political or  
financial  
integration

Political leadership within Southeast Asia recognised these vulnerabilities in the mid-2000's. However, to ensure continued economic success, the region needs to evolve – rather than rest on its laurels. ASEAN is extremely diverse – whether in terms of size, geography, demographics, language, culture, income levels, resource endowment, political and economic systems.

## The big idea

National leaders within Southeast Asia long recognised the need for change. To improve competitiveness and consequently lock in better prospects for economic growth, leadership embraced the idea of economic integration. ASEAN, long a forum more focused on political and security matters, was chosen as the platform to bring together these changes. The AEC was born.

1 Vinayak HV, Fraser Thompson, and Oliver Tonby "Understanding ASEAN: Seven things you need to know," McKinsey & Company, May 2014. Accessed 20 August 2014. [http://www.mckinsey.com/insights/public\\_sector/understanding\\_asean\\_seven\\_things\\_you\\_need\\_to\\_know](http://www.mckinsey.com/insights/public_sector/understanding_asean_seven_things_you_need_to_know)

2 UNCTAD Statistics Database, 2012 <http://unctad.org/en/pages/Statistics.aspx>

3 Josh Noble "Asean overtakes China in FDI," FT Blogs: beyondbrics, 5 March 2014. Accessed 20 August 2014. <http://blogs.ft.com/beyond-brics/2014/03/05/asean-overtakes-china-in-fdi/>

The vision itself is very bold. The AEC aims to transform the economies of ASEAN's 10 member states - Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam – into a single market and production base. In so doing, the region as a whole must be both ever more competitive and ever more connected with other regions for trade and for investment.

But there is also nuance to the vision. Integration is not intended to homogenise Southeast Asia. The AEC does not seek to establish a uniform ASEAN marketplace, nor try to implement uniform economic policies regionally. Given ASEAN's diversity, it is highly unlikely that this would be a successful endeavour. Instead, the AEC translates diversity (often hailed as ASEAN's weakness) as a strength. With integration, ASEAN's variety becomes attractive to global investors, combining as it does the capital and skills of its more economically mature member countries (such as Singapore) with the competitive costs and abundant labour and resources of its developing ones (such as Myanmar). Integration should be interpreted to mean connectedness – both within and outside the region.

#### With a big pay-off

The potential gains from implementing the AEC are enormous.

In numeric terms, conservative estimates (both in time and in effects) by academics show more than 5.3% gains above base-line growth within a 5-year period<sup>4</sup>. But more than that, the AEC has the potential to move Southeast Asia on to a higher and more sustainable growth path.

Higher growth from a stronger regional base should also reduce vulnerability and volatility. Leveraging diversity through integration should also address the significant development gaps that exist both within and between member states.

Last, but not least, integration gives Southeast Asia a bigger role within the economies of Asia Pacific and a louder voice at the table when negotiating with the large economic powers. It holds the key to forging a long term strategy for shared prosperity amongst ASEAN's members.

## ASEAN



## ASEAN-4



## ASEAN-5



## ASEAN-6



## ASEAN-X (read as ASEAN minus X)

Sub-group of ASEAN being allowed to proceed with an economic policy, without waiting for participation by the other member states, if all member states are in agreement

## ASEAN+1

ASEAN + Any non-ASEAN nation

## ASEAN+3



## ASEAN+6



## CLMV

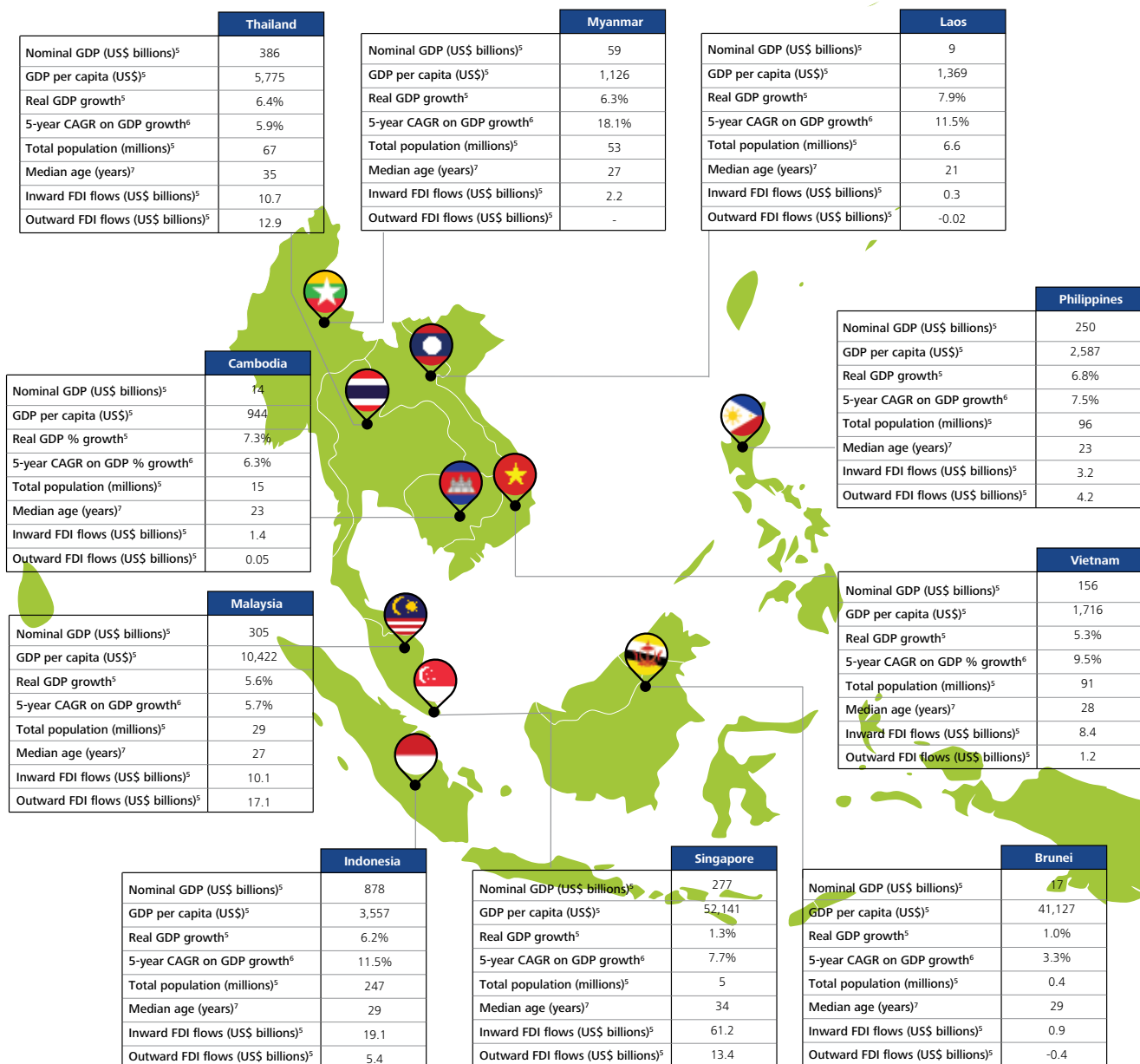


It is...  
...using diversity  
as a strength

It is not...  
...making SEA  
uniform

4 Michael C. Plummer & Chia Siow Yue. "Realizing the AEC: A Comprehensive Assessment", Singapore Institute of Southeast Asian Studies, 2009

## ASEAN at a glance



	ASEAN	China	India	Japan	The EU
Nominal GDP (US\$ billions) <sup>5</sup>	2,351	8,358	1,875	5,960	16,604
GDP per capita (US\$) <sup>5</sup>	3,851	6,070	1,516	46,838	32,795
Real GDP growth <sup>5</sup>	5.4%	7.7%	3.2%	2.0%	-0.4%
5-year CAGR on GDP growth <sup>6</sup>	8.7%	13%	7.7%	4.2%	-1.9%
Total population (millions) <sup>5</sup>	610	1,377	1,237	127	506
Median age (years) <sup>7</sup>	28	36	27	45	41
Inward FDI flows (US\$ billions) <sup>5</sup>	117.5	121.1	24.2	1.7	216.0
Outward FDI flows (US\$ billions) <sup>5</sup>	53.83	87.8	8.5	122.6	237.9

5 UNCTAD Statistics Database, 2012 <http://unctad.org/en/pages/Statistics.aspx>

6 UNCTAD Statistics Database, 2008 - 2012 <http://unctad.org/en/pages/Statistics.aspx>

7 NationMaster Statistics Database, 2012 <http://www.nationmaster.com/country-info/stats/People/Median-age/Total>

# How it has (and will) work

## The ASEAN Way

The AEC vision is being realised in "The ASEAN Way." This is a uniquely Southeast Asian approach to multilateralism. It is firmly rooted in principles of non-interference, minimal institutionalisation, consultation, consensus and non-confrontation.

In the context of the AEC, responsibility for specific policy action rests almost exclusively with national governments. Little or no power or authority has been ceded to ASEAN. More than that, decision-making generally requires unanimity. There is no mechanism to compel member states to comply with AEC commitments.

The AEC is therefore more correctly seen as a collaborative and consensual programme which co-ordinates and aligns national policy initiatives, whilst also linking and rationalising existing regional and global trade agreements.

When consensus can't be reached (and that has and will continue to happen), there are mechanisms in place to move matters along. ASEAN-X (read as "ASEAN minus X") is one example. Enshrined in the ASEAN Charter, this allows a sub-group of members to proceed with a policy action on the AEC without waiting for all others to do so. Those that can't or don't want to proceed follow, but set their own timeframes to act.

Commentators complain that integration efforts have been slow to happen and uneven in application. This is doubtless the case. However, in a region with such diverse political and economic systems and divergent economic situations, it is perhaps the only pragmatic path. It is because of "The ASEAN Way" that progress has been both slow but steady. Much has already been done and much more than most people realise.

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It is...  
**...uniquely  
ASEAN**

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It is not...  
**...the EU**

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It is...  
**...led by  
member states**

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It is not...  
**...being  
imposed by  
supra-national  
bodies**

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It is...  
**...bottom-up**

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It is not...  
**...top-down**

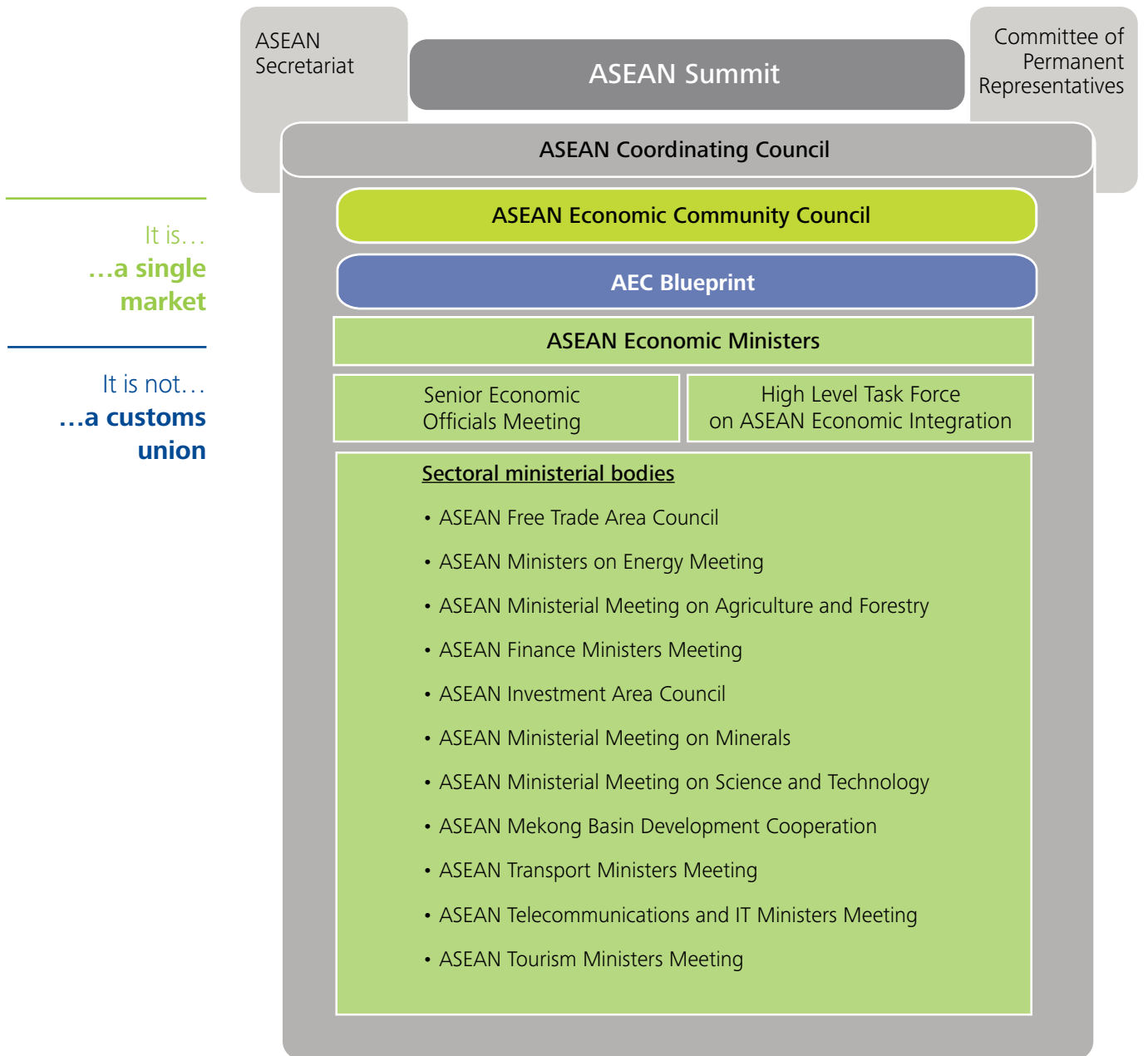
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**The AEC framework**

Ultimate policy-making authority for the AEC rests with The ASEAN Summit, a periodic meeting of the heads of state of the 10 ASEAN members.

The body at the centre of the process is The ASEAN Economic Community Council. This comprises the economic and/or trade ministers of the 10 ASEAN members, along with selected senior officials.



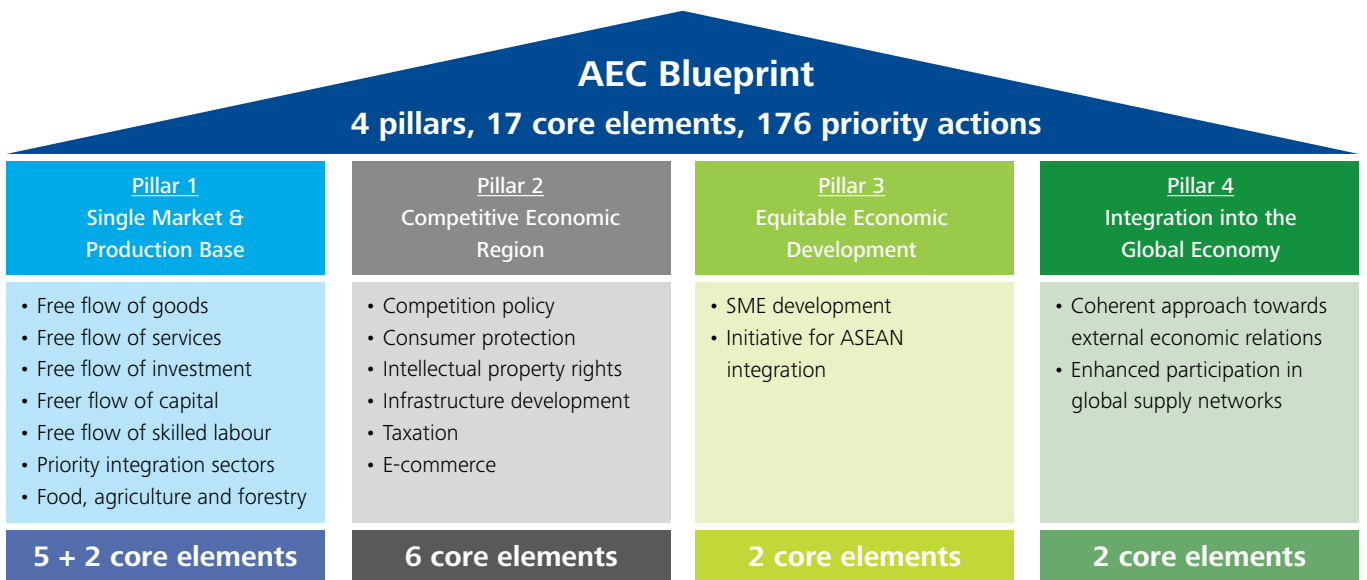


Its main function is the detail of policy implementation. It reports up to The ASEAN Summit through the ASEAN Co-ordinating Council, whose remit also covers political, security and socio-cultural matters.

The AECC is supported from a policy standpoint by civil servants of member states acting through a High Level Task Force on AEC, periodic meetings of Senior Economic Officials and (for each of the sectors laid out in The AEC Blueprint) twelve sectoral ministerial bodies.

Day-to-day administrative support of the initiative is the remit of The ASEAN Secretariat, headed by the Secretary General (who in turn is appointed by The ASEAN Summit) and who is supported by 98 staff.

The key document that describes how the AEC has and will operate is The AEC Blueprint. Agreed in 2007, this sets out four areas of focus (the “pillars” shown below), 17 “core elements” and 176 priority actions (or “measures”) to guide implementation.



### The focus to date

We all know about the 4 pillars and the astounding number of priority actions to be taken as listed in the AEC Blueprint, but what exactly is the aim and focus of it all? Let us take a look at it one pillar at a time.

#### Pillar I: Single market and production base

##### Aim

Create a single market and production base across ASEAN, with minimal barriers to trade and investment.

##### Core Elements

- The 5 "Free"s:
  - Goods: Reduce and eliminate tariffs & non-tariff barriers; improve trade facilitation to lower factor and transaction costs.
  - Services: Eliminate restrictions on cross-border provision of services whether by supply, consumption abroad, direct ownership or the movement of natural persons.
  - Investment: a broad set of rules for liberalisation, protection, facilitation and promotion of inward investment.
  - Capital: note the use of "freer", rather than "free". Financial integration on the capital account, while important, is secondary in this phase of liberalisation.
  - Skilled labour: closely linked to services liberalisation, with similar aims.

##### • Plus 2:

- Priority integration sectors: 12 sectors identified – agro-based products, fisheries, rubber-based products, wood-based products, textiles and apparel, automotive, electronics, e-ASEAN, air transport, healthcare, logistics, and tourism.
- Enhance trade and long-term competitiveness of the food, agriculture and forestry products and commodities.

##### Focus

Goods: primarily on tariff elimination, with some focus on trade facilitation. Slow progress on non-tariff barrier elimination.

Investment: primarily on investment protection and liberalisation, with much less to show in facilitation or co-operation.

Priority integration sectors: significant progress in all sectors, but uneven in application.

Services, Capital and Skilled Labour present steep challenges, so have not had as great a focus.

#### Pillar II: Competitive economic region

##### Aim

Create a region which has the framework to foster competition in a manner that benefits investors, businesses and consumers.

##### Core Elements

- 3 where frameworks are to be introduced and/or co-ordinated:
  - Competition policy
  - Consumer protection
  - Intellectual property rights
- 3 others where concerted action is needed:
  - Infrastructure development
  - Taxation
  - E-commerce

##### Focus

All areas have plans under way.

Competition policy: implementation of a framework in each member state, as well as co-operation and co-ordination in cases brought.

### **Pillar III: Equitable economic development**

#### **Aim**

Narrow income disparities both between and within member states.

#### **Core Elements**

- Development of small or medium-sized enterprises (SMEs)
- Initiative for ASEAN Integration (IAI)

#### **Focus**

SMEs: SMEs are a critical component of ASEAN economies – up to 96% by number of all enterprises; between 50% and 95% of all employment; and between 30% and 53% of GDP. The focus has been on capacity building, access to finance, entrepreneurship of women, links into the global supply chain, access to information and fostering innovation.

IAI: Identify and implement technical assistance and capacity-building programmes aimed at accelerating the integration of CLMV to narrow the development divide. Driven mainly by the six-year IAI Work Plans (IAI-WP).

### **Pillar IV: Integration into the global economy**

#### **Aim**

Strengthen the trade and investment links between ASEAN and the world economy.

#### **Core Elements**

- Build a coherent approach towards external economic relations
- Enhance participation in global supply networks

#### **Focus**

Put in place FTAs with all major trading partners.

Participating in RCEP, as a supplement to the existing FTAs.

Continuing to adopt international best practice and standards in production and distribution in the ASEAN-6, as well as assisting CLMV to develop their industrial capabilities.

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It is...  
**...open, outward  
looking, inclusive**

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It is not...  
**the creation of  
"Fortress ASEAN"**

# What's been done

## Progress to date

Our research – which includes a survey of leading companies doing business in Southeast Asia – is unequivocal. The vast majority of business leaders believe the AEC will be implemented; certainly late, and possibly not completely, but it will happen.

Progress to date supports that view. Much has been done; certainly much more than most realise. A credible case can be made that a strong base is now in place.

Summarising the progress across the 4 Pillars shows some interesting insights:

It is...  
...further along  
than most  
believe

It is not...  
...not as far  
along as the  
numbers would  
suggest

## Pillar I: Single Market and Production Base

### AEC Scorecard

**65.9%**  
completed (lowest  
of all 4 pillars)

**114/173**  
measures fully  
implemented

### Mid-Term Review

- Good progress on tariff reduction, trade facilitation and investment liberalisation
- Free flow of skilled labour in progress via the ASEAN Mutual Recognition Agreement (MRA)

#### Free Flow of Goods

- Tariffs:
  - CEPT rates virtually zero for ASEAN-6
  - 2.6% for CLMV
- Trade facilitation:
  - National Single Windows of 5 member states fully implemented, and 2 more in advanced stages
  - Preparation and implementation of ASEAN Single Window by 2015

#### Key Agreements:

- ASEAN Free Trade Agreement (AFTA)
- ASEAN Trade in Goods Agreement (ATIGA)

#### Free Flow of Services

- 5 rounds of negotiation, involving 8 packages, covering:
  - Business services
  - Professional services
  - Construction
  - Distribution
  - Education
  - Environmental services
  - Healthcare
  - Maritime transport
  - Telecommunication
  - Tourism

#### Key Agreement:

ASEAN Framework Agreement in Services (AFAS)

#### Free Flow of Investments

- Liberalisation rate of:
  - ≥90% – Philippines, Malaysia and Cambodia
  - 85 – 89% – Brunei, Laos, Myanmar, Singapore and Thailand
  - <80% – Indonesia and Vietnam
- A relatively open investment regime in the overall sense

#### Free Flow of Skilled Labour

- 7 MRAs signed:
  - Engineering
  - Architecture
  - Surveying
  - Medical
  - Nursing
  - Accountancy
  - Dental practice

#### Key Agreement:

ASEAN Agreement on Movement of Natural Persons (MNP)

#### Free Flow of Capital

- 6 rounds of negotiation of financial services liberalisation completed
- Marketing and branding campaign for the ASEAN Exchanges initiative launched
- Development of ASEAN Bond Market Development Scorecard
- US\$ 485.2 million ASEAN Infrastructure Fund (AIF) established

#### Key Agreements:

- Chiang Mai Initiative Multilateralization (CMIM) with a US\$120 billion swap arrangement (ASEAN+3)
- Arrangements of regional financial surveillance (AMRO)
- Asian Bond Market Initiative (ABMI)

#### Priority Integration Services

- Agreements in the area of air transport signed under the ASEAN-X formula

#### Strategic Plans:

- ASEAN Tourism Strategic Plan (2011 – 2015)
- ASEAN Automotive Industry Strategy
- MRAs for Telecommunication equipment

#### Food, Agriculture and Forestry

- Implementation of:
  - Reference diagnostic laboratories and phytosanitary guidelines for the importation of rice-milled products
  - Regulatory harmonisation of agro-products
  - New cooperation initiatives with external partners at the ASEAN+3 level

#### Key Agreement:

ASEAN Integrated Food Security (AIFS) Framework

Progress has been formally reviewed in two principal exercises:

- The AEC Scorecard: A self-assessment monitoring achievement of milestones in the AEC Blueprint’s Strategic Schedule. Two such scorecards have been published: one in 2008 and the latest in 2012.
- The Midterm Review (MTR): A specific exercise commissioned by The ASEAN Summit of the Economic Research Institute for ASEAN and East Asia (ERIA) as a review of progress of The AEC Blueprint. It was published in 2012.

## Pillar II: Competitive Economic Region

### AEC Scorecard

**67.9%**  
completed

**53/78**  
measures fully implemented

#### Competition Policy

- ASEAN Experts Group on Competition formed
- ASEAN Regional Guidelines on Competition Policy and Handbook on Competition Policy and Laws in ASEAN for Business launched

#### Consumer Protection

- ASEAN Committee on Consumer Protection (ACCP) established

### Mid-Term Review

- Competition policy is still at an initial stage, but significant milestones have been achieved
- Infrastructure development – Some progress in air transportation, but key protocols remain incomplete

#### Intellectual Property Rights (IPR)

- ASEAN IPR Action Plan 2011 – 2015 endorsed

#### Infrastructure Development

- Regional efforts put in areas of:
  - Air transport
  - Shipping services
  - Information Communication and Technology (ICT)
  - E-commerce
  - Energy
  - Minerals

## Pillar III: Equitable Economic Development

### AEC Scorecard

**66.7%**  
completed

**8/12**  
measures fully implemented

#### SME Development

- Strategic Action Plan for the ASEAN SME Development (2010 – 2015) implemented
- ASEAN SME Advisory Board established
- Conceptual Framework for Regional SME Development Fund to lock into financing facilities for SMEs developed

### Mid-Term Review

- Survey feedback on the effectiveness of SME-related programmes - “Moderate to low effectiveness”
- Survey feedback on IAI programmes “Generally useful but lacks customisation”

#### Initiative for ASEAN Integration (IAI)

- IAI Strategic Framework and Work Plan phase I and II to facilitate CLMV projects endorsed
- ASEAN Framework on Equitable Economic Development (EED) endorsed

## Pillar IV: Integration into the Global Economy

### AEC Scorecard

**85.7%**  
completed (highest of all 4 pillars)

**12/14**  
measures fully implemented

- ASEAN+1 FTA signed with Australia, New Zealand, China, India, Japan and Korea
- Negotiations for Regional Comprehensive Economic Partnership (RCEP) launched
- Negotiations for Trans-Pacific Partnership (TPP) launched

### Mid-Term Review

- The true benefit lies in the integration at the East Asia level, which is most likely to happen after 2015

### What it really means

The numbers are all very interesting but, in our experience, a scorecard can tell only a part of the story. By ticking off a list of targets the Scorecards attribute equal weight to each target. In practice, some goals are more important than others.

Equally, the Scorecards don't weight or otherwise analyse the ease of implementation for specific targets. In practice, it is usually the easiest steps that are taken first with the harder (but fewer in number) left to the later stages.

Also, it should be noted that the data that member states supply that is used to derive the AEC Scorecards is self-reported, with no objective third-party verification or evaluation.

Finally, completion for this purpose is what has been agreed rather than what has been implemented or, better still, what has been objectively confirmed as having been implemented.

Using a wide range of unofficial but published sources of progress, we have built up a simple summary of what all the activity has achieved to-date:

### Pillar I: Single market and production base

Several basic components are now in place, after a slow start and a range of challenges.

#### Free flow of goods

Tariffs	✓✓✓✓
Non-tariff barriers	✓
Trade facilitation	✓✓✓

ASEAN has done well in tariff reductions. Tariffs still exist on sensitive goods (such as rice), but that is not uncommon with FTAs in general. As measures of progress, ASEAN's simple average tariff rate (inclusive of sensitive goods) stands at 0.05%, which is comparable to NAFTA's 0.03%. Fully 99.1% of all tariff lines are zero rated for the ASEAN 6 and CLMV is at 67.6% on the same basis.

The performance on reducing non-tariff barriers hasn't measured up as well. States are committed to review non-tariff measures (NTM) and eliminate those that act as barriers by 2018. An NTM database has been created, but little progress has been made to identify NTBs or to phase them out.

On trade facilitation, there has been real improvement. ATIGA has clear and relatively simple rules-of-origin. The ASEAN Single Window programme has advanced, but it is difficult to see it being in place by the end of 2015. Whatever the delays, empirical evidence points to progress – according to the World Bank, the costs of trading across ASEAN have dropped by up to 15% over the last decade (now roughly on par with NAFTA).

#### Free flow of services

Services	✓
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Services liberalisation has had some success, but overall has been very challenging.

There have been eight rounds of negotiations, each yielding successive commitments to liberalise. The aim now for 2015 is to have no restrictions on cross-border supply of services or on consumption of services abroad; to permit 70% ownership of local service companies; and to have agreed (but not implemented) procedures to liberalise the presence of natural persons. The latter two points seem to present the greatest challenges. In terms of sectors, member states have been extremely cautious about liberalisation in financial services. Further services liberalisation is closely linked to institutional and regulatory strengthening, which will inevitably slow progress.

Real world data supports this conclusion. Using the World Bank's Services Trade Restrictiveness Index (STRI), the average of the six ASEAN member states for which there is data (Cambodia, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam) has been and remains marginally below the East Asian average and some way below the world average. A similar picture emerges using the World Bank's Ease of Doing Business survey, where there has been little discernible improvement for ASEAN countries.

### Free flow of investment

Protection, liberalisation



Facilitation, collaboration



Protection and liberalisation has seen progress. There remains much to do – the World Bank estimates that there are 130 sector specific reservations that have been lodged by member states, all of which require peer review with a view to reduction and/or elimination.

That said, there are signs of positive progress. In a qualitative manner, a recent ERIA study which examined the market openness of the region gave ASEAN a very respectable score in terms of market openness. In a quantitative manner, the net FDI numbers for the region have been impressive, rising to a record level of US\$110 billion in 2012.

Progress on facilitation has been limited. While ACIA creates a broad set of rules for investment, in reality inward investors still encounter 10 different regimes. Collaboration has been hampered by national interests and competition between member states.

### Freer flow of capital

Capital account



The use of the word "freer" (as opposed to "free") in itself gives a hint – this is an area where liberalisation will be a challenge.

The ASEAN Roadmap for Monetary and Financial Integration has been in place for some time. Three areas have been identified as priorities: deepening capital markets (where there is a separate strategic framework); liberalising financial services (as an integral part of AFAS and where there have been 5 rounds of commitments to liberalise); and liberalisation of the capital accounts. Progress on all 3 has been limited.

Still, ASEAN is doggedly pushing on. The Task Force on ASEAN Banking Integration Framework and the ASEAN Capital Markets Forum have been taking steps (albeit small ones) towards the integration of banking and securities markets respectively, and have recently begun to work with insurance regulators. At an ASEAN +3 level, the ASEAN Macroeconomic Research Office has been set up to support the operationalisation of the Chiang Mai Initiative Multilateralisation, a swap arrangement that was expanded to US\$240 billion in 2012<sup>8</sup>. In short, though not much has been achieved, targets still remain, and steps are being taken to reach them.

### Free flow of skilled labour

Skilled labour flows



The Agreement on Movement of Natural Persons was a major milestone event. It was reinforced somewhat by progress on the MRAs for 7 professions. However, all the MRAs have loopholes, many have not been ratified by all ASEAN member states and there remain significant issues in implementation.

In a sense, movement of skilled labour has been happening in spite of existing regulations due to the laws of supply and demand. Most member states seem to be willing to allow such flows to continue and even increase, although they are hesitant to formalise the capacity to allow such a free flow of skilled labour. As such, policies relating to the cross-border movement of people continue to lag behind.

8 James Wallar, "Achieving the Promise of the ASEAN Economic Community: Less Than You Imagine, More Than You Know," The National Bureau of Asian Research, July 2014

### Pillar II: Competitive economic region

- Infrastructure ✓
- Competition policy ✓✓
- IPR protection ✓

Efforts to-date have centred on infrastructure, competition policy and intellectual property rights (IPR) protection.

Infrastructure is a critical success factor for the region, but progress has been uneven. An ambitious ASEAN Strategic Transport Plan has been drawn up which covers land, air, and marine transport and transport facilitation. However, apart from a number of aviation-related liberalisation agreements being entered into by selected member states (with some opting out under the ASEAN-X formula), progress in other sectors has been less than stellar.

On competition policy, there has been progress. Five member states now have functioning competition policy while the other five have said they will put laws in place by 2015. A single competition regime across ASEAN is not realistic. The focus presently is on cooperation and collaboration in cases brought, as well as capacity-building in national enforcement.

### Pillar III: Equitable economic development

- Development of SMEs ✓✓
- Initiative for ASEAN Integration ✓✓

Progress has been made on both of these elements. However, each task is very significant and will require substantial commitment over a long period of time to make material improvement.

For SMEs, there has been positive progress on capacity-building, entrepreneurship for women and links into the global supply chain. More work is needed on access to finance, access to information and fostering innovation.

For IAI, there are six-year IAI Work Plans which are being implemented. These comprise technical assistance and capacity-building programmes aimed at narrowing the development divide between the ASEAN-6 and CLMV.

### Pillar IV: Integration into the global economy

- Global Integration ✓✓✓✓

This pillar has not been aided by the fact that many of ASEAN's FTAs are actually doing little to promote regional economic integration or integration into the wider economy. While these agreements commit the parties to eliminating tariffs on trade between themselves, they do not effectively address regulatory barriers and other NTBs, the removal of which are vital for effective integration.<sup>9</sup>

Still, much has been done through the various FTAs in place. In addition, if RCEP and the more ambitious TPP plans pan out, ASEAN will definitely stand to gain from the effects of enlarged integration in the medium and long term.

9 'Towards an ASEAN Economic Community—and Beyond.' Asian Economic Monitor, October 2013.



# What remains?

Time flies – especially when you are trying to bind together a diverse group of countries through mutual cooperation. Given the limited time that remains in the run-up to 2015, ASEAN’s leaders have called for the prioritisation of certain measures, including:

- **Tariff and NTMs**
  - Elimination of tariffs on all products for CLMV, other than certain sensitive goods
  - Put in place a robust mechanism to address NTMs
- **Facilitating trade, investment and transport**
- **Services liberalization and domestic reform**
  - Allow for at least majority foreign ownership in many of the service sectors
- **Investment liberalisation and facilitation**
  - Some movement on raising foreign investment limits
  - Overall, improved facilitation
  - Better collaboration between member states (but still dominated by competition)
- **Connectivity and transport facilitation**
- **A renewed focus on both SME development & IAI**
- **Substantially progressing, if not implementing, RCEP to strengthen trade links between ASEAN and its major Asia Pacific trade and investment partners**

The AEC should be viewed as a process, rather than a fixed-end point. The goals of the AEC Blueprint will be a continuing and evolving challenge and driver for member states well beyond 2015.

A post-2015 agenda has been developed to help ensure that the AEC reaches its potential in the longer term:

- Standards and conformance
- Financial markets integration
- MRAs on professional services & skilled labour mobility
- ICT and energy
- IPR
- Competition policy
- Agriculture

Some of the measures proposed here are on the list because they involve complex technical or prudential issues that require a more deliberate approach to implementation – financial standards and conformance, for instance. Priority policy actions related to these include capital market development and financial market integration.

Other measures are there because it is expected they will increase in importance once the AEC becomes operational – such as those on IPR, competition policy and MRAs on professional services to facilitate the flow of skilled labour in the region.

Policy actions on ICT and energy that centre on major physical infrastructure development have also been placed on the post-2015 agenda, as have certain agricultural initiatives that involve addressing climate change.

Also, even measures that have been achieved by 2015 do not halt at that point; their implementation will continue to be deepened and expanded in scope in terms of policy actions beyond 2015. For instance, even if the RCEP negotiations were concluded prior to the 2015 deadline, implementation will carry on into the future.

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It is...  
**...an ambitious  
plan to  
transform  
ASEAN**

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It is not...  
**...something  
arcane which  
won't affect  
business**

# So what's next?

By now, if you've been following along you may be singing a paraphrased version of the Jackson 5 classic: "AEC – easy as ABC." Unfortunately, as we said at the beginning, this is just that – only the beginning.

The good news is that Deloitte is ready to guide you on this journey. This is the first of a series of pieces from a dedicated team brought together from across our various specialisations to give you insights on what the AEC means for your business.

In future papers we will look at the prospects for particular industries, the outlook for the AEC beyond 2015 and the importance of the so-called "AEC+" trade alliances being formed with neighbouring regional blocs and economic powers and how you can make the most of those.

Whatever your organisation looks like – big or small, national or international, public or private – there are opportunities for you from the AEC. There are also threats. While getting to grips with the AEC now is not a cast-iron guarantee of you ending up on the winning side, failing to do so is a good first step towards being on the losing end.

As we said earlier, understanding is the first step; planning is the next.

**The AEC is not an "if" – it's a "when".  
So ask yourself: are you ready?**

# Find out more

To find out more information on the AEC, please visit [www.deloitte.com/sg/aec](http://www.deloitte.com/sg/aec) or contact one of the Deloitte partners and directors below.

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## Abbreviations

AEC	ASEAN Economic Community
ASEAN	Association of Southeast Asian Nations
ABMI	Asian Bond Market Initiative
ACCP	ASEAN Community on Consumer Protection
ACIA	ASEAN Comprehensive Investment Agreement
AEM	ASEAN Economic Ministers
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
AIF	ASEAN Infrastructure Fund
AIFS	ASEAN Integrated Food Security
APEC	Asia-Pacific Economic Cooperation
ATIGA	ASEAN Trade in Goods Agreement
CAGR	Compound Annual Growth Rate
CEPT	Common Effective Preferential Tariff

CMIM	Chiang Mai Initiative Multilateralization
EED	Equitable Economic Development
ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
HLTF-EI	High Level Task Force on ASEAN Economic Integration
IAI	Initiative for ASEAN Integration
IAI-WP	IAI Work Plans
ICT	Information Communications and Technology
MNC	Multinational Corporation
MNP	Movement of Natural Persons

MRA	Mutual Recognition Agreement
MTR	Mid-Term Review
NAFTA	North American Free Trade Agreement
NSW	National Single Window
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measure
IPR	Intellectual Property Rights
RCEP	Regional Comprehensive Economic Partnership
ROO	Rules of Origin
SEA	Southeast Asia
SEOM	Senior Economic Officials Meeting
SME	Small or Medium-sized Enterprise
STRI	Services Trade Restrictiveness Index
TPP	Trans-Pacific Partnership

ETA

MRA

CE

AIF

ACIA

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