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Understanding the ASEAN Economic Community (AEC) – Frequently Asked Questions

For quick reference statistics and metrics, please refer to the Addendum.

1. What is ASEAN?

The Association of Southeast Asian Nations (ASEAN) was established in 1967 and has 10 members (Indonesia, Singapore, Malaysia, Brunei, Philippines, Vietnam, Cambodia, Laos, Thailand, and Burma (Myanmar)). The ASEAN Secretariat is located in Jakarta, Indonesia. ASEAN comprises a population of 600 million people and has a combined GDP of \$2.3 trillion.

The purpose of ASEAN is to strengthen cooperation among its member nations on economic, social, cultural, technical, educational, and other fields, and to promote regional peace and stability and respect for the rule of law.

In 2003, the decision was made to establish an ASEAN Community by 2020, guided by an ASEAN Charter that provides a legal status and institutional framework for the region. It also codifies norms, rules, and values among member nations, sets targets for regional integration and cooperation, and addresses compliance and accountability towards achieving the goals of the ASEAN Community.

The ASEAN Community comprises three “pillars,” the ASEAN Political-Security Community, the ASEAN Economic Community, and the ASEAN Socio-Cultural Community, all designed to work in tandem.

In 2007, the ASEAN Leaders decided to accelerate the implementation of the ASEAN Economic Community (AEC) by 2015. The AEC is the “pillar” under the ASEAN Community most relevant to foreign investors interested in establishing operations or trading in the ASEAN region.

2. What is the ASEAN Economic Community (AEC)?

The AEC is ultimately designed to create a single market and production base within ASEAN. The AEC will allow for the free movement of goods, services, skilled labor, and investment among the 10 ASEAN member nations and to facilitate the freer flow of capital.

In order to achieve this, ASEAN created the AEC Blueprint. This Blueprint serves as a “master plan” for the implementation of the AEC outlining targets and timelines for specific reforms.

In broad numbers, the AEC constitutes a huge potential marketplace for investors. As a bloc, the 10 ASEAN member nations are a \$2.3 trillion market, with average GDP growth of 6% per year in the last 15 years.

3. What are the key elements of the AEC Blueprint for economic integration?

There are four key elements of the AEC as outlined in the Blueprint:

- 1) A single market and production base
 - Free flow of goods
 - Free flow of services
 - Free flow of investment
 - Freer flow of capital
 - Free flow of skilled labor
 - Priority integration sectors
 - Food, agriculture, and forestry
- 2) A competitive economic region
 - Competition policy
 - Consumer protection
 - Intellectual property rights
 - Infrastructure development
 - Taxation
 - E-commerce
- 3) Equitable economic development
 - SME development
 - Initiative for ASEAN Integration (IAI), designed to narrow the development gap between members and accelerate integration of Cambodia, Laos, Burma (Myanmar), and Vietnam
- 4) Integration into the global economy
 - Coherent approach to external economic relations
 - Enhanced participation in global supply networks

4. What are ASEAN’s main trading partners?¹

China is ASEAN’s largest trading partner, followed by the EU and Japan. By 2011, trade with the US accounted for only 8.5% of the total, down from 18% in 1993. Evidence suggests that supply-chain linkages with China are growing, with parts supplied from China for assembly and export from ASEAN member countries.

¹ Source: ASEANstats, ASEAN Secretariat

Regarding imports, the U.S. is ranked 3rd with 7.9% of all imports to ASEAN. The largest is China at 12.8% followed by the EU at 9.5%.

5. What are ASEAN's key imports and exports?²

ASEAN's top 10 exports are: electronics and electrical machinery (20.2%), mineral fuels & oils (18.4%), nuclear reactors, machinery & appliances (10.9%), rubber & articles (4.2%), business services & miscellaneous repairs (4.1%), animal/vegetable oils & products (3.8%), plastics & articles (3.0%), organic chemicals (3.0%), vehicles & parts (2.5%), and precious stones & jewelry (2.1%).

ASEAN's top 10 imports are: mineral fuels & oils (21.9%), electronics, electrical machinery, & parts (19.3%), machinery & mechanical appliances (12.7%), iron & steel (3.5%), plastics & articles (3.1%), vehicles & parts (3.0%), precious stones and jewelry (2.1%).

6. What are key opportunities and constraints regarding ASEAN's development of a single market and production base?

Opportunities: The ASEAN member nations are strategically located, particularly as a shipping and freight hub. The region is experiencing strong economic growth, with an average GDP growth rate of 6% per year. ASEAN is seeing an increase in the middle class. Collectively ASEAN comprises 600 million people, has a wide range of natural resources, and strong production capabilities in agriculture, manufacturing, services, and tourism. The ASEAN member nations are at different stages of development, which can be a weakness but has the advantage that highly technical, innovation-driven companies in developed markets in ASEAN can also benefit from cheaper labor and production costs in other member nations.

Constraints: Development gaps in terms of infrastructure, income levels, and human capital are problematic, as are disparities in the enforcement of the rule of law, transparency, competitiveness, and good governance. Though in aggregate ASEAN is experiencing reasonably strong economic growth, some member nations continue to lag behind. Skilled labor migration is difficult though illegal migration of low-skilled labor remains an issue. The ASEAN Secretariat's ability to implement agreed upon reforms at the national level remains weak. Progress and decision making on reforms is slowed by the need for full consensus among member nations. The AEC development process is largely seen as government-led, and is hindered by a lack of understanding of private sector stakeholders. In order to fully achieve the vision of a single market and production base, private sector engagement and dialogue needs to increase, driven by both the ASEAN Secretariat and member nations, as well as key industry stakeholders.

7. What kinds of companies and industries will the AEC benefit most?

² Sources: ASEANstats, ASEAN Secretariat; Deutsche Bank, DB Research

According to a 2013 Deutsche Bank report, the companies that stand to gain the most from the AEC are those companies that already have a regional or global network because the ease of moving goods, capital, and labor around will reduce costs and improve productivity.

Financial sector companies stand to gain from the increase in trade and investment flows, providing business opportunities for financial institutions. Logistics companies should see greater opportunities with the freer flow of goods. The U.S. education sector stands to gain as ASEAN household incomes increase. Currently, students from ASEAN countries contribute over \$1.4 billion to U.S. economy annually.³ Cosmetics, electronic goods, and pharmaceuticals produced within ASEAN should benefit from efforts to harmonize standards and certifications for intra-ASEAN trade.

Local SMEs in supply chains may be squeezed in the early stages of AEC integration as increased competitiveness may provide greater opportunities to competitors outside their traditional markets. Some ASEAN countries have barriers to competitiveness that, once eliminated, will reduce protections on some local businesses. Likewise, in the early stages skilled workers from low wage ASEAN countries will be in increased demand, and reduced barriers to investment may push manufacturing businesses towards lower wage countries and away from traditional investment markets in the region.

8. What benefit will the AEC create for the U.S. and for American companies?⁴

ASEAN is the 3rd largest trading partner for the U.S. behind China and Japan, and it is the largest destination for U.S. investment in Asia.

The U.S. exports \$100 billion in goods and services to ASEAN, with 21 U.S. states sending at least \$1 billion in goods to ASEAN each year. These numbers are projected to grow as AEC implementation occurs. Trade between the U.S. and ASEAN supports 560,000 U.S. export jobs.

According to a report by the East-West Center, the U.S. government and private sector should be strong supporters of the AEC for three reasons:

- 1) The AEC will strengthen commercial ties between the U.S. and ASEAN member countries. The value of U.S. exports to ASEAN nations in aggregate equals that to China and is four times greater than exports to India. U.S. businesses favor investment in the ASEAN region at four times greater than in China and ten times greater than in India, despite the significant emphasis placed on those two markets.
- 2) The AEC should reduce development gaps among ASEAN member nations and lead to reforms that could create better opportunities for foreign investors. Likewise, economic integration typically leads to greater regional stability and cooperation. These outcomes of

³ Source: East-West Center, "ASEAN Matters for America"

⁴ Source: www.eastwestcenter.org

- AEC integration align strongly with U.S. strategic interests, and can lead to stronger ties with the U.S. not just on the economic front, but in terms of combating international terrorism, strengthening intellectual property rights enforcement, reducing transnational crimes and money laundering, and increasing legal and regulatory transparency.
- 3) ASEAN integration will help balance the economic power of China and India. When looked at collectively, the 10 ASEAN member nations comprise 600 million people and have a combined GDP of \$2.3 trillion. If the AEC is able to achieve its goal of a single market and production base, as a whole it could rival China and India.

9. How successful have AEC reforms been so far?⁵

Some progress towards achieving the AEC Blueprint has been made, but according to the AEC Scorecard, a monitoring and evaluation metric developed by ASEAN, considerable challenges remain, particularly concerning non-tariff barriers and measures. Key areas yet to be addressed to a significant degree include safety and health regulations and technical barriers, which remain obstacles to the free flow of trade in goods and services.

According to the mid-term review of AEC Blueprint implementation conducted by the Economic Research Institute for ASEAN and East Asia (ERIA), progress was achieved in the following areas:

- Lowering of goods tariff: This regards the Common Effective Preferential Tariffs (CEPT) as outlined in the ASEAN Free Trade Area (AFTA) Agreement of 1992, which seeks to reduce or eliminate tariffs to 0-5% for each member country. CEPT rates are virtually zero in ASEAN-5 and Brunei. For Cambodia, Laos, Myanmar and Vietnam the CEPT average rate was 2.6% in 2010.
- Trade facilitation: The ASEAN-5 countries have achieved “live” implementation of the National Single Windows, though full roll-out is still pending. Brunei and Vietnam are in an advanced stage towards “live” implementation by 2015. Although some member nations have started implementing National Single Windows (NSW), customs and logistical integration still have some way to go. A wide gap still exists in terms of the number of days needed to carry out exports and imports, with the highest number registered in Laos (45 days) and the lowest in Singapore (3 days), according to World Bank data on cross-border trade.
- Standards: Harmonized standards and technical requirements for electrical products, pharmaceutical goods manufacturing practices, and cosmetic products have been completed. A Pharmaceutical Common Technical Dossier is being adopted and medical devices are a priority industry for the development of standards.
- Investment liberalization (goods sector): Commitments in the goods sector under the ASEAN Comprehensive Investment Agreement (ACIA) are already liberal in most ASEAN member countries, according to the benchmark of 70% permissible foreign ownership.

⁵ Source: DB Research, “ASEAN Economic Community: A Potential Game Changer for ASEAN Countries,” June 2013

- Free Trade Agreements: Five “ASEAN+1” FTAs were signed, with China, Japan, Korea, India and Australia/New Zealand. Negotiations are ongoing for services and investment agreements with Japan and India.
- Air transport: Several air transport agreements have been signed under the ASEAN-X formula. The ASEAN-X formula gives the flexibility for ASEAN member states to sign agreements with one another without having to include members that are not yet ready. The success of the air transport agreements gives rise to hopes that the ASEAN-X formula could be replicated in other areas of implementation in the AEC Blueprint.
- Monetary cooperation: Signatory countries to the Chiang Mai Initiative agree to pool foreign-exchange resources to provide liquidity to member countries in times of emergency through bilateral swap arrangements. The Chiang Mai Initiative is one example of institutional mechanisms and arrangements at the ASEAN+3 level that increase the region’s ability to respond to a crisis. The establishment of the ASEAN+3 Macroeconomic Research Office also enhances the region’s surveillance and co-ordination efforts.
- Free flow of skilled labor: Mutual Recognition Arrangements (MRAs) for skilled professionals in 7 professions (medical doctors, dentists, nurses, engineers, architects, accountants, and surveyors) are in various stages of implementation. MRAs on engineers and architects are underway to full implementation, with regional and national systems in place. Regional accreditation is being recommended by some ASEAN member nations.
- Capital markets: The ASEAN Exchange, a collaboration of the ASEAN stock exchanges kicked off in September 2012 and now has 3 participating exchanges. The system uses an electronic order routing system that allows brokers from the three exchanges to connect their clients to trading on the exchanges of the other countries. The potential for ASEAN capital market collaboration is huge. In 2010, aggregate gross domestic savings of ASEAN nations amounted to \$616 billion, with the largest contributions coming from Indonesia, Singapore and Thailand. To facilitate the mobility of savings across national borders, the AEC has put in place standardized offering and distribution rules and disclosure requirements, as well as an enhanced withholding tax structure to attract cross-border investors in debt paper, with a view to lowering transaction costs and exploiting economies of scale.

10. How will the AEC improve Intellectual Property Rights (IPR) protection and patent/copyright enforcement?

Although some efforts have been made at IPR protection and harmonization at the ASEAN level, registration and enforcement remains at the national level, and to date it is difficult to see how IP related elements of the AEC Blueprint will be implemented.

ASEAN has established an ASEAN Working Group on Intellectual Property Cooperation (AWGIPC), comprised of the IP offices of the 10 member nations, which focuses on regional harmonization of IPR enforcement issues. The AWGIPC has agreed an IPR Action Plan with the goal of creating a legal and policy infrastructure to effectively address IP issues, the promotion of IP creation as a tool for innovation and development, and stronger cooperation among member nations on enforcement. However, enforcement remains at the national level and harmonization has yet to be realized.

AWGIPC is drafting work plans for the process of implementing accession to IP treaties like the Madrid Protocol, Hague Agreement, and Patent Cooperation Treaty. ASEAN is also considering the establishment of a joint database of IP registrations within its member countries, but this remains at the discussion phase.

The ASEAN Patent Examination Cooperation (ASPEC) initiative has been established to facilitate the patent granting process through work-sharing among ASEAN member nation IP offices, some of which are severely backlogged. This should help to reduce the time necessary to file patents in member nations, but implementation has yet to be realized.

11. Since intra-ASEAN tariffs have mostly been eliminated, what is needed to encourage greater intra-ASEAN trade?

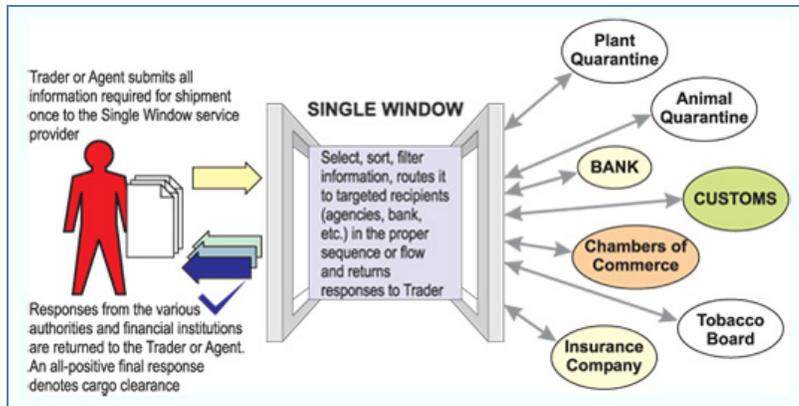
With the creation of the ASEAN Free Trade Area (AFTA) and implementation of the Common Effective Preferential Tariff (CEPT) Scheme, intra-ASEAN trade tariffs have largely been eliminated. Average intra-ASEAN tariffs have been reduced to 1.06%, and among the original CEPT-AFTA Agreement signatories – Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand – they have been reduced to 0.05%.

Key inhibitors now are non-tariff barriers to trade and efforts to improve trade facilitation. This includes efforts to realize the ASEAN Single Window, improve the free flow of skilled labor, encourage competitiveness and FDI, IPR cooperation and enforcement, and narrow the development gap among member nations.

Harmonizing standards and technical requirements is still a barrier, though standards for electrical products, pharmaceutical goods manufacturing practices, and cosmetic products have been completed. A Pharmaceutical Common Technical Dossier is being adopted and medical devices are a priority industry.

12. What is the ASEAN Single Window and how will it improve trade?

A “Single Window” is a trade facilitation mechanism designed to create a single electronic clearinghouse for all import, export, and trade-related documentation. The purpose is to make the customs clearance process more efficient and transparent.



The ASEAN region has vastly different customs clearance requirements and lead times, taking hours in some countries while taking several days in others. The ASEAN Single Window (ASW) is an attempt to standardize the customs clearance process, simplify and standardize documentation requirements, and expedite clearance times throughout the region.

In order to achieve the ASW, each of the 10 member nations must create National Single Windows that are then linked by the ASW. Currently, National Single Windows in four states are operational, while two others are being developed. ASW data exchange and testing is slated for 2015.

13. How does ASEAN treat Rules of Origin?

ASEAN's Rules of Origin provisions in its trade agreements are guided by the ASEAN-Common Effective Preferential Tariff (ASEAN-CEPT) scheme, and are delineated between products that are "wholly produced or obtained" and "not wholly produced or obtained" in the ASEAN region. Currently, not wholly produced products require a minimum regional accumulated value added criteria of 40 percent to be considered ASEAN products, though moves are being made to reduce this to 20 percent to support lower-income ASEAN countries that source raw materials or unfinished goods from outside the region. ASEAN-CEPT also outlines how cumulation and direct consignment is treated within ASEAN.

14. If I certify, test, or register my product in one ASEAN country, is it applicable in other ASEAN countries?

For most products it is necessary to undergo certifications, testing, and registration separately in individual member countries, though some progress has been made on common standards and conformance in certain industry sectors like cosmetics, electronics, and pharmaceuticals.

Non-conforming standards and duplicative testing procedures under differing systems are a barrier to trade that ASEAN is attempting to address. The ASEAN Consultative Committee on Standards and Quality (ACCSQ) is working on the harmonization of national standards with international standards and creating Mutual Recognition Agreements (MRAs) to streamline this process.

The Agreement on an ASEAN Harmonized Cosmetic Regulatory Scheme has been in place since 2003. In the Pharmaceuticals sector, the ASEAN Common Technical Dossiers (ATCD), covering administrative data, quality, safety and efficacy have also been developed.

The ASEAN Standards and Quality Bulletin is published regularly to provide information and promote transparency on standards, technical regulations, and conformity assessment procedures in ASEAN member countries.

ADDENDUM - Quick Reference Sheet

1) Why is ASEAN important as a single marketplace and production center?

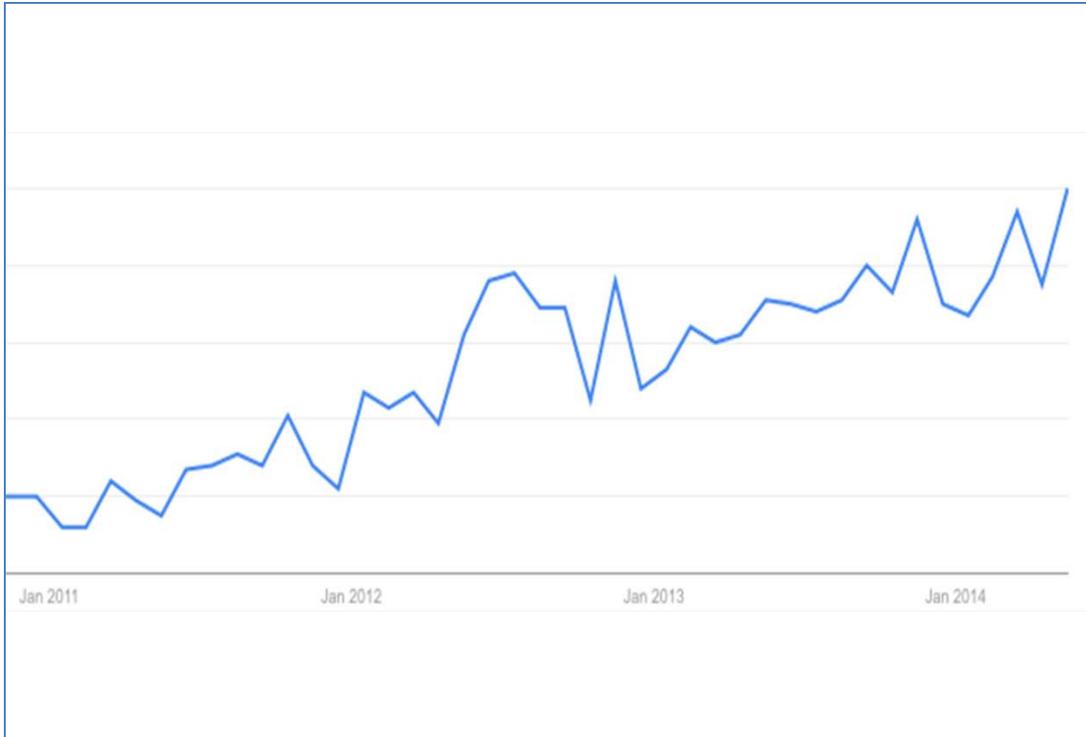
- \$2.3 trillion economy, 600 million people, hundreds of millions of middle class consumers
- Second-fastest growing economy in Asia between 2001-2013 (behind only China)
- 3rd largest economy in Asia and 7th global
- \$5.3 trillion in global trade
- \$1 trillion infrastructure investment needed through 2020

2) Why U.S. interest in ASEAN?

- 3rd largest Asian trading partner (behind China and Japan) of the U.S.
- Largest destination of U.S. investment in Asia
- \$100 billion U.S. goods/services exports to ASEAN
- Supports 560,000 U.S. export jobs
- 21 states send at least \$1 billion in goods exports to ASEAN annually
- Students from ASEAN countries contribute over \$1.4 billion to U.S. economy annually

3) Google Trending on search for “ASEAN Economic Community”

Search requests on AEC have increased 20 – 30% between 2011 and 2014.



4) What progress has been made in developing a single marketplace and production base?

ASEAN Single Window

- National Single Windows in four states are operational, two members on the way
- ASW exchange of data tested and slated for implementation in 2015

ASEAN Customs Transit System

- Currently having implementation challenges; will complete the pilot by 2016

Standards

- Electrical, Pharmaceutical Good Manufacturing Practices, and Cosmetics completed
- Pharmaceutical Common Technical Dossier being adopted
- Medical devices on the way, others in progress

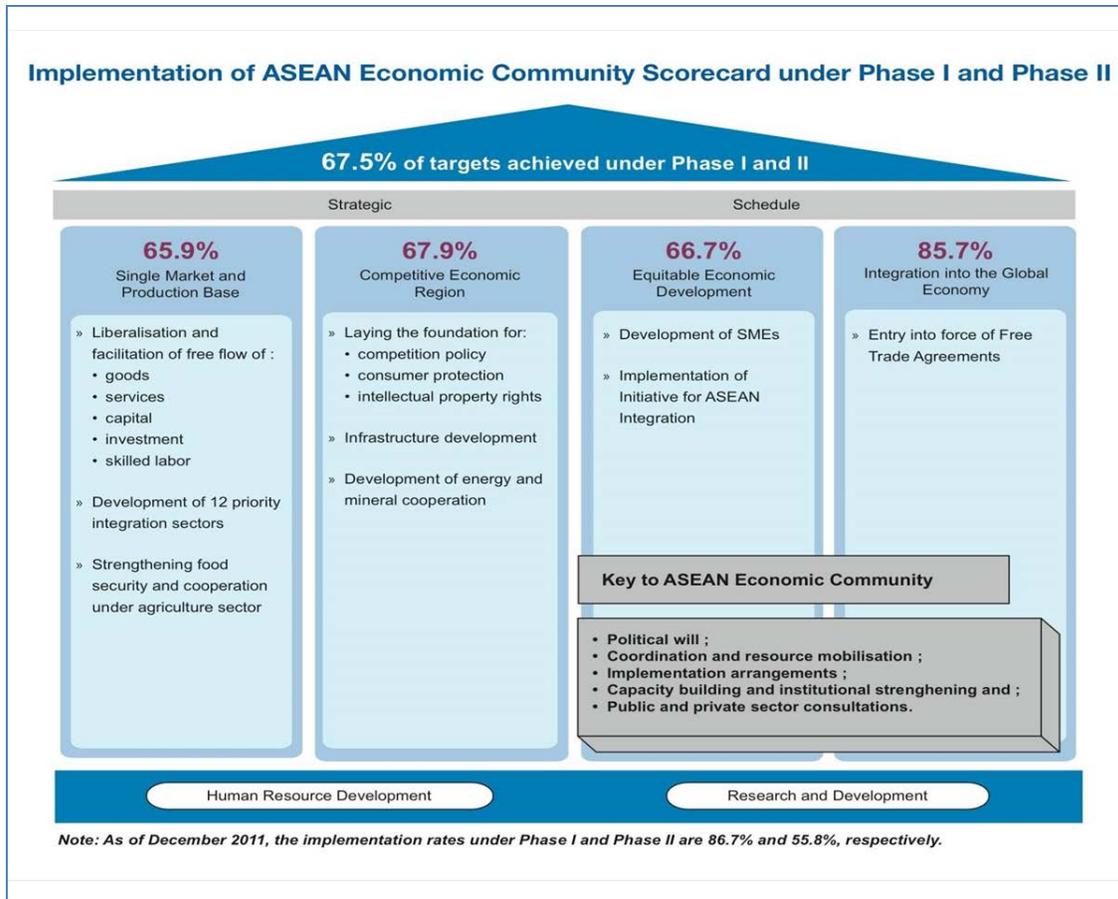
Free Flow of Skilled Labor

- MRAs for engineering services, medical practitioners, dental practitioners, nursing services, architects, surveyors, and accountants

Chang Mai Initiative Multilateralization and Monitoring

- Swap agreements in place for some countries
- Macroeconomic status monitoring unit established

5) Scorecards on Progress of AEC implementation



Achievement of FTAs highlights strong success in the integration with global markets component of the AEC Blueprint, but a weakness in the scoring system regards enforcement of laws/regulations at the national level after adoption. This Scorecard result was developed by the ASEAN Secretariat, which has pressure to show progress. For this reason, independent scoring is needed. Results of independent analysis of progress on the AEC are as follows:

Economic Research Institute for ASEAN and East Asia (ERIA) Midterm Review

- Highlights tariff reductions (CEPT rates 0% in ASEAN-6 and 2.6% for newer CLMV)
- Implementation of the ASEAN Single Window 2015 on schedule
- 5 AMSs with NSW, 2 “well advanced” with NSW, 3 behind
- Identifies eliminating NTBs, improving trade facilitation, expanding services liberalization, SME development, and signing new regional trade agreements as needed next steps

CIMB ASEAN Research Institute

- Finds a significant disparity between aspiration and implementation
- Non-binding agreements and developmental gaps undermining effective integration
- Low uptake of preferential rates, poor implementation of customs reforms (but some progress), low ambition on competition policy, lack of commitment to investment reforms
- Free Trade: accomplishments on paper but not in practice

- Intra-ASEAN trade up 4.4% since '98
- Only 29% of organizations used preferential provisions, 46% said they were not planning to use them in the future (ASEAN-BAC)
- FDI increases needed for both intra-ASEAN and external investment
- SME programs effective but “resemble a patchwork” – no regional coordination