



# ASEAN Economic Community (AEC)

A potential game changer for ASEAN countries

June 14, 2013

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ASEAN, a bloc of 10 nations with an aggregate economic size of USD 2.3 tr, is preparing to go through profound changes. Already today, ASEAN is the 3rd pillar of growth in Asia in addition to China and India, with average GDP growth over the past 15 years at around 6% p.a.

The region's prospects will be much enhanced by an ambitious integration effort which seeks to achieve a single market and production base, including higher mobility of labour and capital within the region, and promote closer linkages with other key economies such as China, Japan, South Korea, India, Australia and New Zealand. Exciting projects to increase and improve connectivity in transport, communication and IT networks are in the making. Financial flows within the region are set to increase, and initiatives such as a pan-ASEAN stock exchange collaboration are taking place already.

The ASEAN Economic Community's envisaged launch at the end of 2015 will not only be an integration milestone but a potential game changer for ASEAN. The bloc's diversity – ranging from advanced economies like Singapore to developing countries like Myanmar – could be a source of synergies, bringing the capital and know-how of the more mature economies together with the competitive costs and abundant labour and resources of the less-developed member countries. To be sure, there will be winners and losers in the process, but overall, we expect AEC to bring about a net positive contribution to ASEAN's economies and its people.

This paper provides an overview about AEC's goals and main components, presents its progress review and makes an educated guess at what can be expected to happen when AEC rolls out.



ASEAN Economic Community

ASEAN-10 at a glance (2012)

**ASEAN-10**

Real GDP growth: 5.4% (e)  
Nominal GDP: USD 2.3 tr  
GDP per capita USD 3,745  
Population: 616 m

**India**

Real GDP growth: 4.0%  
Nominal GDP: USD 1.8 tr  
GDP per capita: USD 1,492  
Population: 1,223 m

**China**

Real GDP growth: 7.8%  
Nominal GDP: USD 8.3 tr  
GDP per capita: USD 6,076  
Population: 1,354 m



**Lao PDR**

Real GDP growth: 8.3%  
Nominal GDP: USD 9.2 bn  
GDP per capita: USD 1,446  
Population: 6.4 m

**Vietnam**

Real GDP growth: 5.0%  
Nominal GDP: USD 138 bn  
GDP per capita : USD 1,528  
Population: 90.4 m

**Philippines**

Real GDP growth: 6.6%  
Nominal GDP: USD 250 bn  
GDP per capita : USD 2,614  
Population: 95.8 m

**Myanmar**

Real GDP growth: 6.3%  
Nominal GDP: USD 53.1 bn  
GDP per capita : USD 835  
Population: 63.7 m

**Malaysia**

Real GDP growth: 5.6%  
Nominal GDP: USD 304 bn  
GDP per capita : USD 10,304  
Population: 29.5 m

**Indonesia**

Real GDP growth: 6.2%  
Nominal GDP: USD 878 bn  
GDP per capita : USD 3,592  
Population: 244 m

**Thailand**

Real GDP growth: 6.4%  
Nominal GDP: USD 366 bn  
GDP per capita : USD 5,678  
Population: 64.4 m

**Cambodia**

Real GDP growth: 6.5%  
Nominal GDP: USD 14.2 bn  
GDP per capita : USD 934  
Population: 15.3 m

**Singapore**

Real GDP growth: 1.3%  
Nominal GDP: USD 277 bn  
GDP per capita : USD 51,162  
Population: 5.4 m

**Brunei**

Real GDP growth: 1.3%  
Nominal GDP: USD 16.6 bn  
GDP per capita : USD 41,703  
Population: 0.4 m

Sources: IMF, DB Research

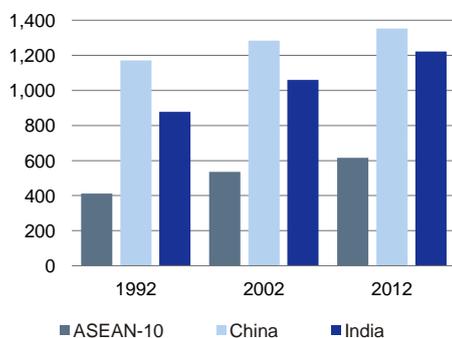


## ASEAN Economic Community

ASEAN population in comparison to China and India

1

Population, million persons

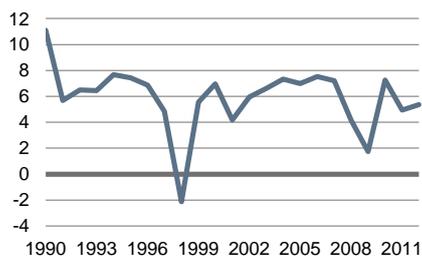


Source: IMF

ASEAN economic growth

2

Real GDP growth, % yoy\*



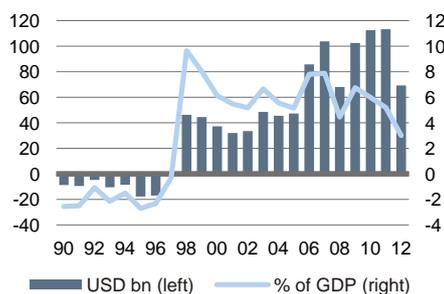
\*Simple average of ASEAN countries

Source: IMF

ASEAN current account turnaround after 1997 crisis

3

Current account balance



Source: IMF

### Introduction

ASEAN (Association of Southeast Asian Nations), established in 1967, is a large economic bloc in Asia. Comprising 10 countries – Brunei Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam –, the region boasts a population of over 600 million (chart 1), roughly half that of China’s or India’s and around 9% of the world’s total. ASEAN’s economic weight is also substantial, with a GDP of USD 2.3 trillion in 2012 – around 30% the size of China’s, roughly the same size as that of the UK and 25% larger than India’s. Its GDP accounts for 3% of the world’s total<sup>1</sup>.

ASEAN is a middle-income region. Nominal per-capita GDP of the five ASEAN founding members (or ASEAN-5: Indonesia, Malaysia, Philippines, Singapore and Thailand) was USD 4,500 in 2011, slightly lower than China’s USD 5,400. Taking into account the 10 members, ASEAN’s GDP per capita was USD 3,600. Income levels among ASEAN member countries are hugely diverse. Countries such as Singapore and Brunei enjoy a very high GDP per capita at around USD 49,000 and USD 39,000, respectively, on par with the top tier of developed-market economies. In contrast, Myanmar and Cambodia have a GDP per capita of just below USD 900.

ASEAN growth was very robust over the past two decades, except around the time of the Asian financial crisis in 1997-98 and the global financial crisis in 2008-09. For the next few years we expect ASEAN’s annual real GDP growth to reach around 6% (chart 2).

### ASEAN: A region in need of investment

During the 1990s, the investment/GDP ratio was 30%-40% in the ASEAN-5 countries, except in the Philippines. Investment exceeded domestic savings, as manifested in substantial current-account deficits, funded to a large extent by “hot money”. This changed abruptly after the 1997 financial crisis (chart 3). Current-account balances turned to surplus mostly at the expense of domestic investment, which dropped to 20%-30% of GDP.

In comparison, China and India were much less affected by the Asian financial crisis, and their domestic investment activity remained strong. In the case of China, investment has been funded by a vast pool of domestic savings and huge FDI inflows. India, by contrast, does not have sufficient domestic savings to fund its investment needs, but it managed to increase FDI inflows almost eightfold from 2003-2011.

Having adjusted its external balances and become an “excess savings” region, ASEAN now needs to increase domestic investment in order to lift its potential rate of growth. Among other things, ASEAN countries would benefit from savings being channelled to intra-regional investment. To be sure, this is already happening: intra-ASEAN FDI rose from 14% of total FDI during 2002-09 to 18.5% in 2009-11 (chart 4), overtaking the EU’s share of 17%. With the EU still beset by the Eurozone debt crisis, the role of intra-ASEAN FDI flows is even more significant. The share of other traditional sources of FDI to ASEAN such as Japan (12%) and the US (10%) also saw a decline during 2009-2011.

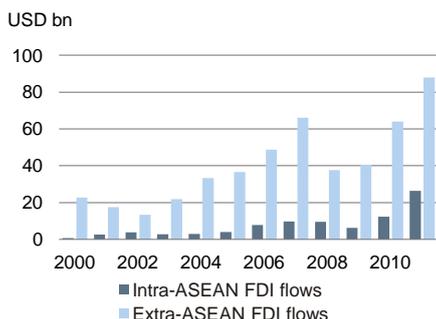
<sup>1</sup> On a purchasing power parity (PPP) basis, ASEAN’s global share was 4.3% in 2012 (vs 3.3% in 1992 and 3.7% in 2002).



## ASEAN Economic Community

### Intra-ASEAN FDI rising but still small

4



Sources: ASEANstats, ASEAN Secretariat

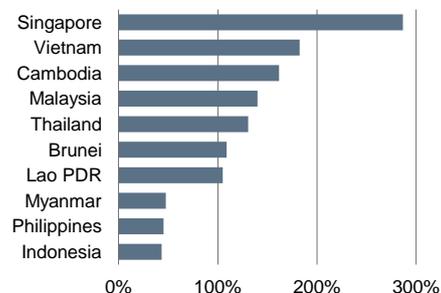
### A case for further facilitating investment flows

Investment liberalisation and the promotion of intra-regional flows also serve to enhance the region's attractiveness to global investors. For example in the case of the EU, the formation of the Single Market led to the gradual increase in its share of global FDI inflows from 34% during 1980-1992 to 41% during 1993-2007<sup>2</sup>. In ASEAN, early investment liberalisation measures were effective but they need to be supplemented with new measures to maintain the region's attractiveness. The 1992 ASEAN Investment Agreement (AIA) and ASEAN Investment Guarantee Agreement (IGA) were effective in increasing global inflows into ASEAN until the Asian financial crisis. Its share of global FDI inflows rose to around 7% during 1992-1997 from 5% during 1980-1991. It then saw a slide to 4% during 1998-2009, which, among other factors, might suggest a lack of improvement in the region's investment framework. In 2009, a new and enhanced ASEAN Comprehensive Investment Agreement (ACIA) replaced the previous AIA and IGA frameworks. Industries including manufacturing, agriculture, fishery, forestry & mining and quarrying are now required to grant national treatment to foreign investors. Following the revamped agreements, the region saw a jump in its share of global FDI inflows to around 7.5-8% in 2010-11.

### AEC could enhance trade openness for some ASEAN economies

5

#### Trade/GDP ratio 2012



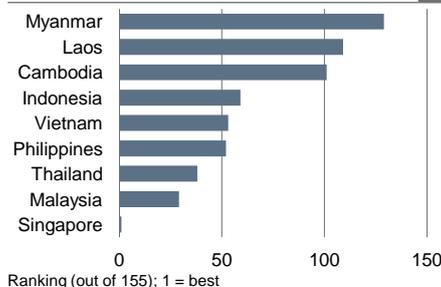
Source: IMF

### Intra-regional trade boosted by the most open ASEAN countries

ASEAN is a substantial trading bloc with a merchandise trade value of USD 2.4 trillion (as of 2011), 25% of which is intra-regional trade. Intra-ASEAN exports amounted to USD 328 bn in 2011, 26% of total exports. Intra-ASEAN imports totalled USD 271 bn, or 24% of total imports.

### Wide gap among ASEAN countries' logistics standards

6

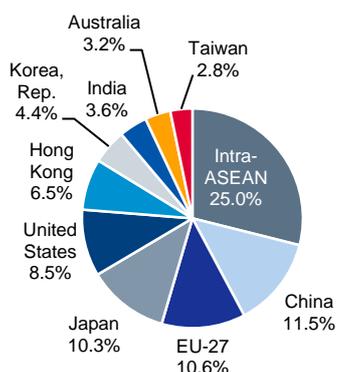


Sources: LPI ranking and scores, 2012, World Bank

ASEAN's trade openness is high, at 110% of GDP. Among its members, Singapore has the by far highest trade-to-GDP ratio, at close to 300% of GDP. Malaysia and Thailand have trade-to-GDP ratios way above 100% (chart 5). All three countries are tightly integrated into regional and global manufacturing supply chains. Moreover, they have high standards in trade logistics: the World Bank's Logistics Performance Index (LPI) places Singapore, Malaysia and Thailand at the top of ASEAN (chart 6). It is thus not by co-incidence that these countries have been the most active contributors to intra-regional trade<sup>3</sup>. Vietnam, Cambodia, Brunei and Laos have seen their trade-to-GDP ratios rise strongly in recent years to around 100% of GDP, indicating an increasing openness, but the contribution to intra-regional trade remains small. Indonesia, Philippines and Myanmar still have a relatively low trade-to-GDP ratio of below 100%, suggesting plenty of headroom to increase openness.

### ASEAN top 10 export markets (2011)

7



Sources: ASEANstats, ASEAN Secretariat

### China has become ASEAN's main trading partner

Integration efforts and global developments have shifted the pattern of ASEAN countries' international trade. The share of the bloc's trade with the US, the EU and Japan has declined markedly over the past two decades or so. In 2011, ASEAN trade with the US accounted for 8.5% of the total (vs 18% in 1993), with the EU-27 for 10.6% (15% in 1993), and with Japan for 10.3% (20% in 1993) (chart 7). China has emerged as the No. 1 trading partner for ASEAN, with its share rising to 12% in 2011 vs just 2% in 1993. The rise in ASEAN-China trade provides evidence of the role of China in the Asian supply-chain networks. In 2011, 11% of ASEAN's exports went to China and 13% of ASEAN imports came from China. ASEAN consistently ran a trade surplus with the US and EU but a

<sup>2</sup> Includes inflows to all 27 EU countries.

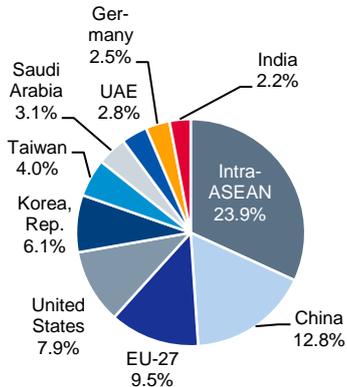
<sup>3</sup> Singapore, Malaysia and Thailand contribute 41.3%, 18.2% and 17.3%, respectively, of total intra-regional exports.



## ASEAN Economic Community

ASEAN top 10 import markets (2011)

8



Sources: ASEANstats, ASEAN Secretariat

trade deficit with China, suggesting a supply-chain pattern in which ASEAN imports parts from China and exports the final product to the US and the EU.

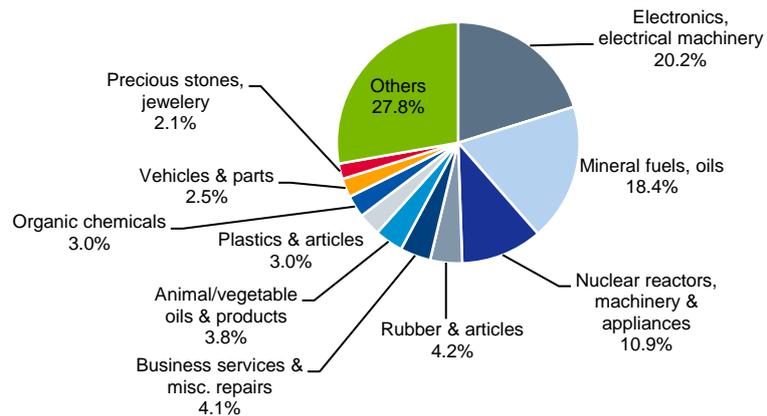
### Trade patterns reflect product specialisation and rising domestic consumption in ASEAN countries

The majority of the region's trade reflects the specialisation in electronics, heavy machinery, vehicles and parts, chemicals, plastics and processed raw materials such as oil and rubber (chart 9). ASEAN exports to China include commodities such as rubber, oil, coal and palm oil in addition to electronic integrated circuits (ICs). Exports to the US and EU are dominated by electronics and machinery and natural rubber. The trade pattern reflects of the significance the US and the EU as final consumers of electronic products and China's important role as a commodities import market.

Intra-ASEAN trade has seen an uptrend in trade of final consumer goods, which is an encouraging sign of the growing importance of domestic consumption within ASEAN. According to the IMF, "the increasing role of intraregional trade in final consumption goods, together with a large domestic market, especially in Indonesia, appears to provide the region with a potential source of resilience against global demand shocks"<sup>4</sup>.

Top 10 ASEAN exports by products (2011)

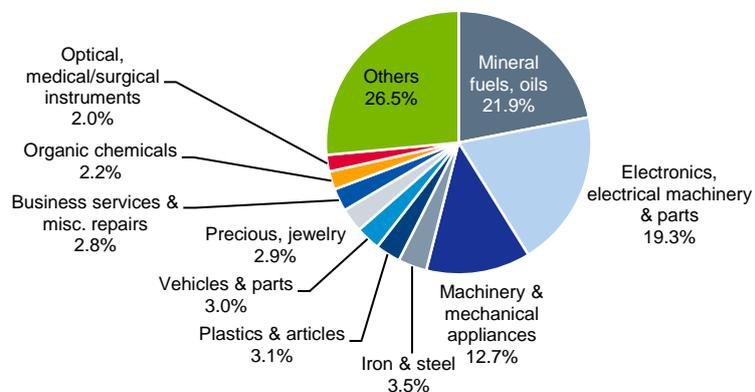
9



Sources: ASEANstats, ASEAN Secretariat

Top 10 ASEAN imports by products (2011)

10



Sources: ASEANstats, ASEAN Secretariat

<sup>4</sup> IMF World Economic and Financial Surveys, Regional Economic Outlook, Asia and Pacific: Shifting Risks, New Foundations for Growth, April 2013.



## What is the ASEAN Economic Community?

ASEAN Economic Community (AEC) is the end-goal of the bloc's economic integration<sup>5</sup> as espoused in its "Vision 2020". The latter was articulated in 1997 by the ASEAN heads of state, in the aftermath of the eruption of the Asian financial crisis, seeking to create a stable, prosperous and highly competitive economic region.

The decision to establish the ASEAN Economic Community was affirmed by the Declaration of ASEAN Concord II in Bali, Indonesia, in 2003. The Declaration came not long after China joined the WTO and India emerged as an investment and offshore location for multinational corporations. The rise of the emerging markets, in particular the BRIC, appears to have given ASEAN leaders the impetus to do something to keep the region under investors' radar.

The launch of AEC is currently planned for the end of 2015. The start date was initially set for 2020 and subsequently moved forward to January 1, 2015. In November 2012, ASEAN leaders agreed to move the launch date again to December 31, 2015 in order to give member states more time to prepare for necessary regulatory changes.

## AEC Blueprint's vision and goals

AEC was further boosted by the adoption of the AEC Blueprint in Singapore in 2007. The Blueprint stipulates the vision, goals and strategic schedule, envisaging four key characteristics for the Economic Community:

1) **A single market and production base.** In short, barriers to trade in goods and services will be brought down or kept to a minimum. Flows of investment, capital and skilled labour will be facilitated and co-operation in sectors designated as priority integration sectors will be promoted.

- Free flow of goods
- Free flow of services
- Free flow of investment
- Freer flow of capital
- Free flow of skilled labour
- Priority integration sectors
- Food, agriculture and forestry

2) **A competitive economic region.** To promote ASEAN as a competitive economic bloc, it is important to have a regional standard in trade policy and for the business operating environment. This pillar seeks to address the following areas to enhance the region's competitiveness to investors:

- Competition policy
- Consumer protection
- Intellectual property rights
- Infrastructure development
- Taxation
- E-commerce

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<sup>5</sup> The other two integration pillars are the Security Community and the Socio-Cultural Community.



3) **Equitable economic development.** ASEAN member states will strive to level the playing field as much as possible. In this regard, two areas will be under focus:

- SME development
- Initiative for ASEAN integration (IAI). Its objectives are to narrow the development gap between members and to accelerate economic integration of the newer members, namely Cambodia, Lao PDR, Myanmar and Vietnam (CLMV)

4) **Integration into the global economy.** ASEAN strives to integrate itself better as a bloc into the global supply chain. For this purpose, two main lines of action are pursued:

- Coherent approach regarding external economic relations
- Enhanced participation in global supply networks

### AEC organisation and main agreements

ASEAN progress thus far has been driven by consensus based on the agreements by the Heads of State and subsequent action plans. No special organisation has been set up to support the establishment of the AEC. The ASEAN Economic Ministers (AEM) group is accountable for the overall implementation of the Blueprint. Relevant ASEAN sectoral bodies are responsible for the implementation of programmes and measures. At the national level, government agencies are responsible for overseeing implementation and preparing more detailed action plans. Partnerships with the private sector, industry associations and the community in general are urged to ensure participation of all stakeholders. The Secretary-General of ASEAN<sup>6</sup> is responsible for reporting the progress of AEC to ASEAN ministerial meetings and the ASEAN Summit.

To date there have been numerous agreements in the run-up to the AEC. Among the key agreements are:

a) **Master Plan on ASEAN Connectivity** (chart 11): The plan strives to make production and distribution networks in ASEAN deeper, wider, and more entrenched in the East Asian and global economy. It provides a 3-pronged strategy:

- Physical connectivity through enhanced physical infrastructure development;
- institutional connectivity through effective institutions, mechanisms and processes;
- people-to-people connectivity by providing education, promoting tourism, etc.

Examples of projects to enhance ASEAN connectivity include the ASEAN Highway Network and high-speed railways between Malaysia and Singapore. The ASEAN Infrastructure Fund was established with the Asian Development Bank to fund physical infrastructure projects in ASEAN.

b) **ASEAN Trade in Goods Agreement (ATIGA)**: Its key objective is to achieve a free flow of goods in ASEAN as a means to establish a single market and production base. ATIGA seeks to eliminate non-tariff barriers and implement the cross-border ASEAN Trade Facilitation Work Program (ATFWP). The ATFWP in

#### Physical connectivity

- Transport
- Information and Communications Technology (ICT)
- Energy

#### Institutional connectivity

- Trade liberalisation and facilitation
- Investment and service liberalisation and facilitation
- Mutual recognition agreements/arrangements
- Regional transport agreements
- Cross-border procedures
- Capacity-building programmes

#### People-to-people connectivity

- Education and culture
- Tourism

<sup>6</sup> ASEAN's Secretariat is located in Jakarta. The current Secretary-General (2013-2017) is H.E. Le Luong Minh. For more details see [www.asean.org](http://www.asean.org).



### Single market and production base

- ASEAN-6\* have applied 0% tariff on 99% of goods
- CLMV are trading 98.6% of goods at 0-5% tariff rates
- National Single Windows implemented in IDN, PHL, SGP, THA
- Some progress in services trade and investment liberalisation
- ASEAN Exchange took off: MYS, SGP, THA
- Mutual Recognition Arrangements (MRAs) for skilled professionals in progress

### Competitive economic region

- Master Plan on ASEAN Connectivity adopted in 2010
- ASEAN Infrastructure Fund established with the ADB to promote physical infrastructure. Private-public partnership encouraged for infrastructure projects

### Equitable economic development

- 2<sup>nd</sup> phase of Initiative for ASEAN Integration (IAI) work plan (2009-2015): Developed ASEAN states to help less developed ASEAN states in 7 priority projects: infrastructure development, human resources development, ICT development, capacity building, tourism, poverty and quality of life

### Integration into global economy

- ASEAN-China FTA
- ASEAN-Korea FTA
- ASEAN-CER (Australia, New Zealand) FTA
- ASEAN-India trade in goods agreement

\* Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand

Sources: Mid-Term Review of the Implementation of AEC Blueprint, ERIA; DB Research

turn seeks to simplify the rules of origin, harmonise product standards and regulations and carry out customs integration. The ASEAN Single Window (ASW) is intended to streamline and synchronise the processing of data and information, creating a single decision-making point for customs release and clearance. Successful implementation of ATFWP will reduce transaction costs and time, accelerating the movement of goods within ASEAN and facilitating access to raw materials, labour and technology from various parts of the region.

There are numerous agreements with regard to other areas of cooperation such as investment, capital markets, aviation, etc. Implementation of the agreements is done by consensus; there is no enforcement of penalty for non-compliance.

## Progress report: How far has AEC advanced?

A Mid-Term Review of the implementation of the AEC Blueprint was conducted by the Economic Research Institute for ASEAN and East Asia (ERIA). The Mid-Term Review's Executive Summary was published in October 2012<sup>7</sup> (chart 12). Progress with the implementation of AEC measures is noted in the following areas:

- **Lowering of goods tariffs.** This is a continuation of the ASEAN Free Trade Area (AFTA) Agreement introduced in 1992, which had sought to achieve Common Effective Preferential Tariffs (CEPT), gradually reducing and eliminating 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<sup>8</sup>, although a full roll-out is still pending. Brunei and Vietnam are in an advanced stage toward live implementation by 2015.
- **Investment liberalisation (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.
- **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.** A number of 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 which are not yet ready. The success of the air transport agreements gives rise to hopes that the ASEAN-X formula could be replicated to forge forward other parts of the regional agenda.
- **Monetary cooperation.** The signing and implementation of the Chiangmai Initiative is a notable development. Signatory countries agree to pool their foreign-exchange resources to provide liquidity to member countries in times of emergency through bilateral swap arrangements. The Chiangmai Initiative is but one example of institutional mechanisms and arrangements at the ASEAN+3 level that increase the region's ability to respond to a crisis.

<sup>7</sup> Mid-Term Review of the Implementation of AEC Blueprint Executive Summary, October 2012, Economic Research Institute for ASEAN and East Asia (ERIA), Jakarta.

<sup>8</sup> A facility that allows the parties involved in trade and transport to lodge standardised information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements.



The establishment of the ASEAN+3 Macroeconomic Research Office also enhances the region's surveillance and co-ordination efforts.

- **Free flow of skilled labour.** Mutual Recognition Arrangements (MRAs) for skilled professionals will cover 7 professions: doctor of medicine, dentist, nurse, engineer, architect, accountant and surveyor. The aim is for professional qualifications in these fields to be recognised in other ASEAN member states, facilitating flows of skilled labour within ASEAN. According to the Mid-Term Review findings, MRAs on engineers and architects are underway to full implementation, with regional and national systems in place. A few ASEAN countries already made recommendations for regional accreditation.
- **Capital markets.** The ASEAN Exchange, a collaboration of the seven stock exchanges of ASEAN<sup>9</sup>, kicked off in September 2012 with the live roll-out of the ASEAN Trading Link, connecting Bursa Malaysia and the Singapore Exchange. The Stock Exchange of Thailand joined in October 2012. The system currently 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 USD 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 standardised 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.

AEC scorecard

13

Score out of 100

ASEAN Economic Community	Pillar I: Single market production base	Pillar II: Competitive economic region	Pillar III: Equitable economic development	Pillar IV: Integration into global economy
68.2	66.5	69.2	66.7	85.7

Sources: ASEAN Economic Community Scorecard, ASEAN Secretariat, 2012

ASEAN has established a monitoring mechanism called the AEC Scorecard to ensure timely implementation of the AEC initiatives. The AEC Scorecard reports progress with implementing the various AEC measures. According to the latest AEC Scorecard published in March 2012, the overall score is 68.2 (out of 100) (chart 13). Among the four pillars, Pillar IV, Integration into Global Economy, has made the most progress, scoring 85.7. Pillar I, Single Market and Production Base, has the lowest score of 66.5. The score appears to suggest that challenges with regard to non-trade barriers remain considerable and have yet to be tackled to create a smooth-functioning single market and production base.

## AEC final lap: Remaining tasks

It is now less than three years before the expected AEC launch at end-2015. A lot of work remains to be done to achieve a credible and meaningful start. Progress in the following areas would be especially helpful:

- **Non-trade barriers (NTBs) and non-tariff measures (NTMs).** Non-tariff barriers and non-tariff measures such as safety and health regulations or technical barriers remain obstacles to the free flow of trade in both goods and services. One recommendation put forward in the mid-term review is to address the non-trade barriers and non-tariff measures systematically through the set-up of a comprehensive database of NTMs in ASEAN. The database could then be the starting point for member countries to negotiate and reduce NTBs and NTMs in an efficient and systematic manner.
- **Trade and investment facilitation.** Although several countries have started implementing National Single Windows (NSW), customs and logistical integration still has some way to go. A wide gap still exists in terms of the

<sup>9</sup> These are the Singapore Exchange, Bursa Malaysia, Hanoi Stock Exchange, Ho Chi Minh Stock Exchange, Indonesia Stock Exchange, The Philippine Stock Exchange and The Stock Exchange of Thailand.



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 trading across borders. For example, it would be beneficial if ASEAN countries agreed and accepted standardised business processes and harmonised data for electronic exchange under an ASEAN Single Window (see page 8). As for investment facilitation, further process streamlining and more inter-agency co-operation within each country and among member states have been recommended.

- **SME development.** The corporate sector in many ASEAN economies is dominated by large government-linked companies or multinational corporations (MNCs). The potential of small and medium-sized enterprises is underutilised, often due to a lack of investment and technical know-how. Helping SMEs in terms of trade and investment facilitation and technological development would make the AEC's impact on member countries more far-reaching.
- **Public-private sector partnership.** Thus far, the public impression of AEC is that it is driven by the government sector, which needs to be corrected. While the AEC concept was drawn up by the countries' leaders and the government has a key role in providing a conducive legal and business environment, AEC success depends crucially on private-sector involvement and public support. In this regard, greater efforts should be made to raise awareness of AEC among the business community to bring it on board. There should be regular public-private consultation forums for brainstorming and strategy sessions.



## Conclusion

When the AEC officially comes into effect on December 31, 2015, it will mark a significant milestone of ASEAN member countries' commitment to come and work together as an economic bloc. While it would be unrealistic to expect a smoothly functioning economic community right from the start, the AEC framework could lift the sense of solidarity and ultimately business and consumer confidence. The AEC will still be a work in progress and should be perceived in that light. It is also important to recognise that a regional network will not cure domestic economic ills. Different countries and different sectors will see different effects.

A potential negative impact could be fiercer competition and wage constraints for low-skilled workers in high-cost (high-income) countries, similar to what blue-collar workers in the US and EU have faced in the wake of globalisation. For small businesses in the high-cost countries, more competition could also bring about a squeeze in profit margins. For small countries, a sudden surge in capital inflows can be overwhelming and lead to high inflation, bubble risks, a boom-bust cycle and stress for the banking sector. Measures should thus be prepared to help potentially affected workers (i.e. expanding social security nets and training) and, in the smaller economies, to build institutions to cope with the new economic paradigm.

Those that stand to gain from the AEC are companies that already have a regional or global network, as the ease of moving goods, capital and labour around will reduce costs and save time and thus enhance productivity. Educated workers from lower-wage countries are likely to be in demand in the initial stage. Job creation is expected to be strong in the lower-wage countries. The financial sector is another clear winner. Increasing trade and investment flows spell more business for financial institutions. Overall, we expect the AEC to bring about a net positive contribution to ASEAN members' economic growth and the welfare of its people.

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