

ASEAN Economic Community (AEC):

◦ Can ASEAN learn from the EU?

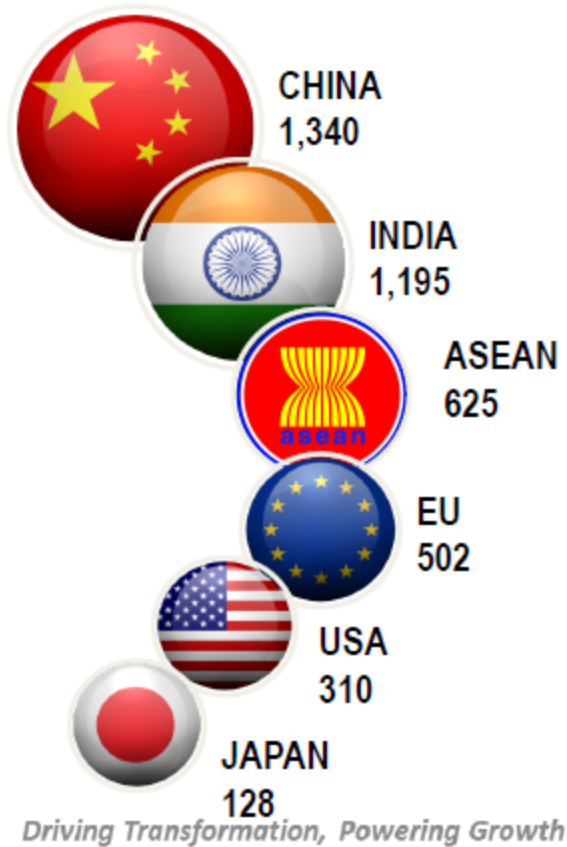


Dr Patrick Ziegenhain
Visiting Professor
Dept of Business Administration
Atma Jaya Catholic University
Jakarta

23 February 2016

ASEAN

3rd largest market in the world
Population in million

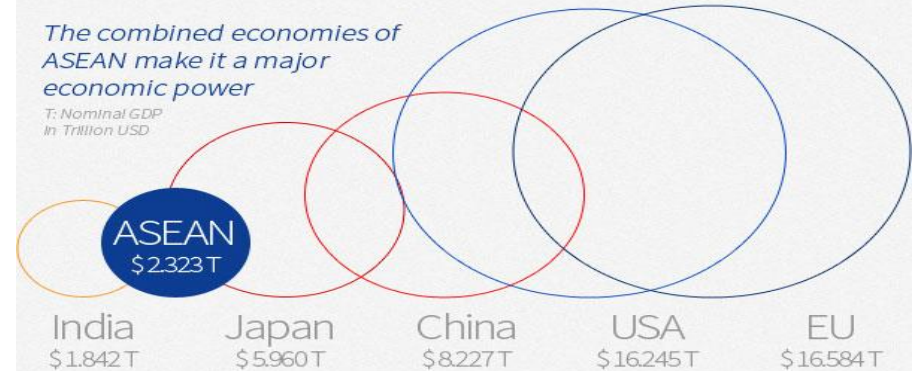


The ASEAN ECONOMY



The combined economies of ASEAN make it a major economic power

T: Nominal GDP
in Trillion USD



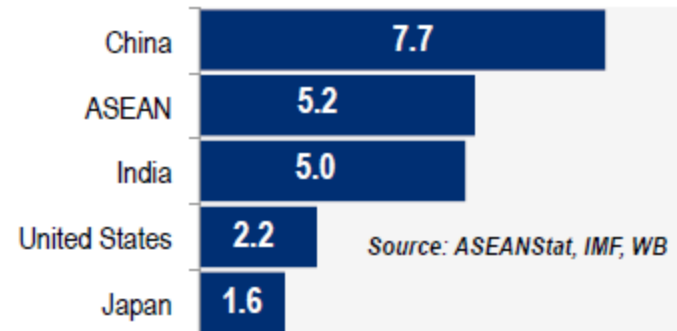
2012 data

aseanup.com - Source: 2012 World Bank data
and Indeksmundi for Myanmar data
Infographics by Fluorcom - Digital Agency - www.fluorcom.com

ASEAN^{UP} Empowering business
in Southeast Asia

Fast growing economy

Real GDP Growth 2013 (%)



ASEAN Economic Community



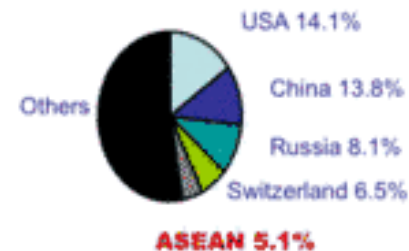
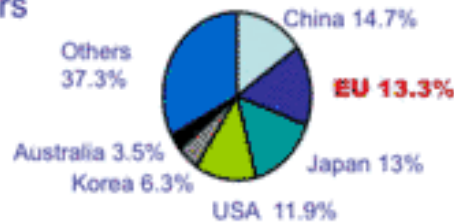
Data 2010

ASEAN AND THE EU : A COMPARISON



Population	590.8 million	➤	501 million	➡
GDP	US\$ 1.7 trillion	➤	US\$ 12.3 trillion	
GDP Growth	7.7%	➤	2%	
GDP per capita (PPP)	US\$ 5,205	➤	US\$ 24,400	
Total Trade*	US\$ 1.6 trillion		US\$ 3.7 trillion	

Main Trade Partners



* Excluding intra-ASEAN and intra-EU trade, respectively

Source: Eurostat, ASEAN , IMF

Structure of this presentation

- ASEAN Economic Community: What does it mean?
- Implications and Consequences for ASEAN and Indonesia
- Comparison EU Single Market vs ASEAN Economic Community
- Conclusion

ASEAN Economic Community

WHO?

Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam

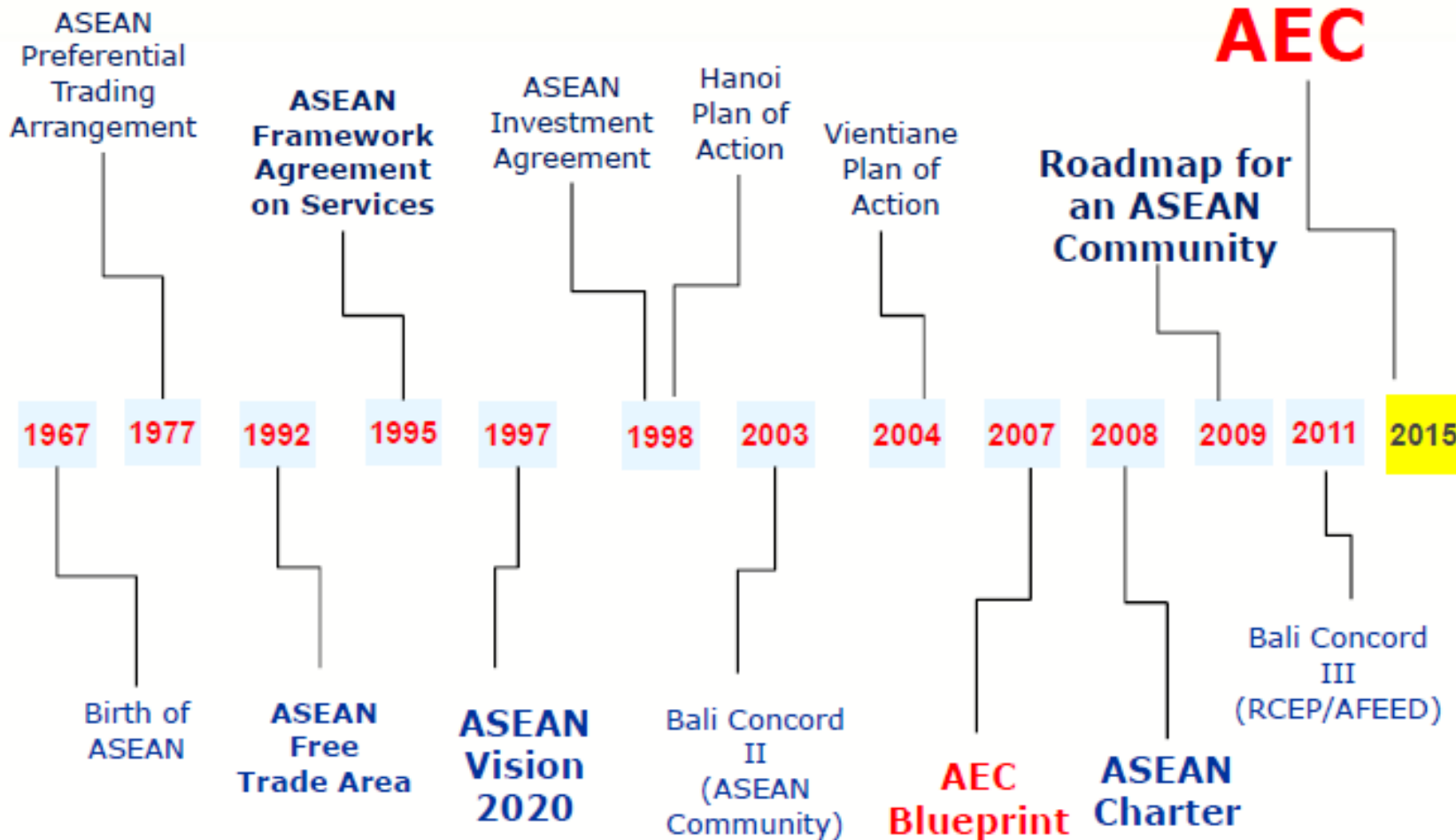
WHAT?

Single market and production base with the free movement of goods, services, investment, skilled labor and the freer flow of capital

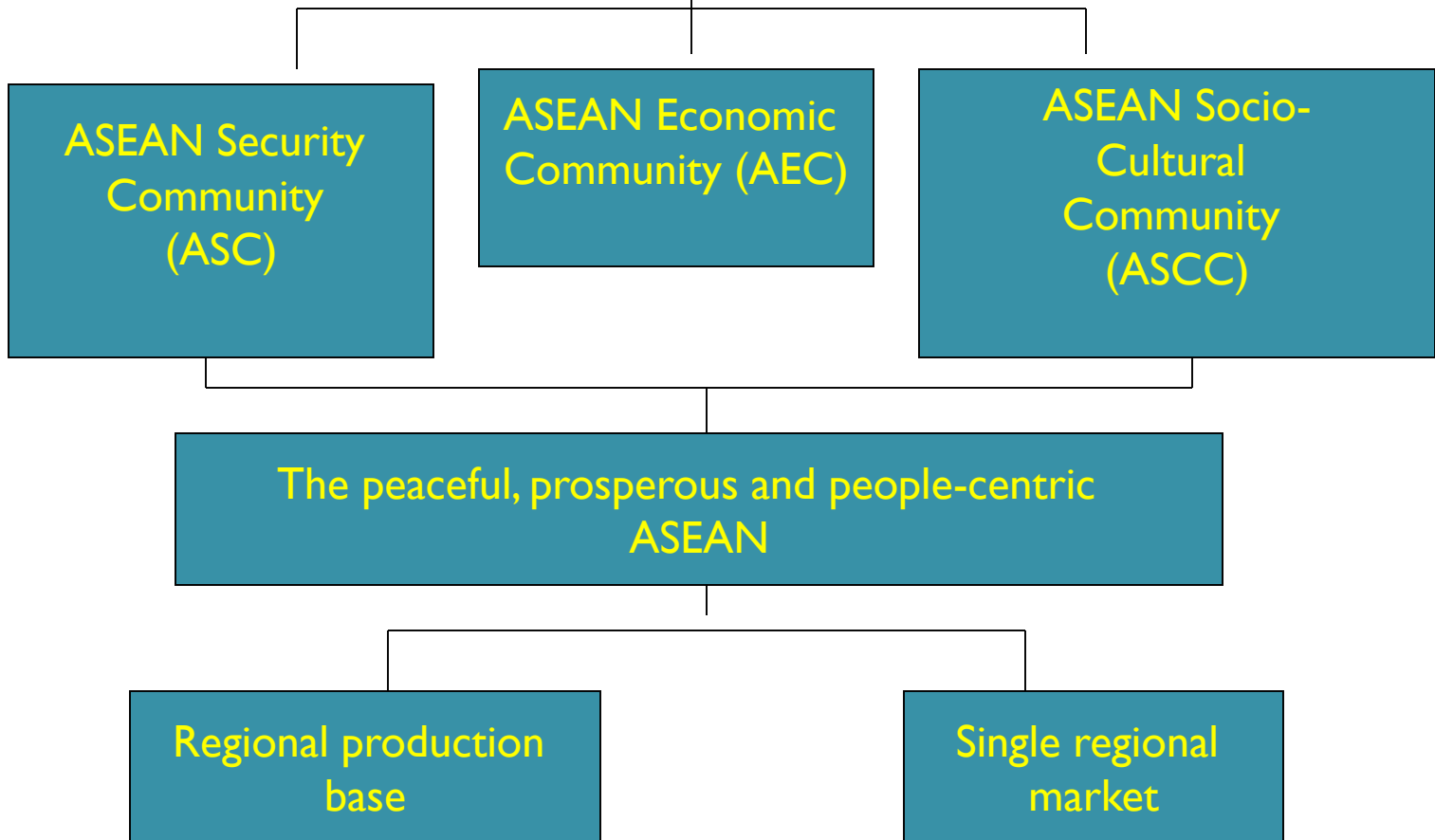
WHY?

Increase competitiveness, narrow development gaps and improve resilience against external shocks

The Way to AEC



ASEAN COMMUNITY 2015



The 4 Pillars of the AEC



The 4 Pillars of the AEC



Free Flow of Services

Mutual Recognition Agreements (MRA)

- MRA – Agreement to facilitate movement of ASEAN professionals across the region.
- ASEAN has concluded 7 MRAs; in various stages of operationalization:

NO.	MRA	DATE OF SIGNING
1.	MRA for Engineering Services	9 Dec 2005
2.	MRA for Nursing Services	8 Dec 2006
3.	MRA for Architectural Services	19 Nov 2007
4.	Framework MRA for Surveying Qualifications	19 Nov 2007
5.	MRA for Medical Practitioners Services	26 Feb 2009
6.	MRA for Dental Practitioners Services	26 Feb 2009
7.	MRA for Accountancy Services	26 Aug 2014



Progress?

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 rate.
- 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.

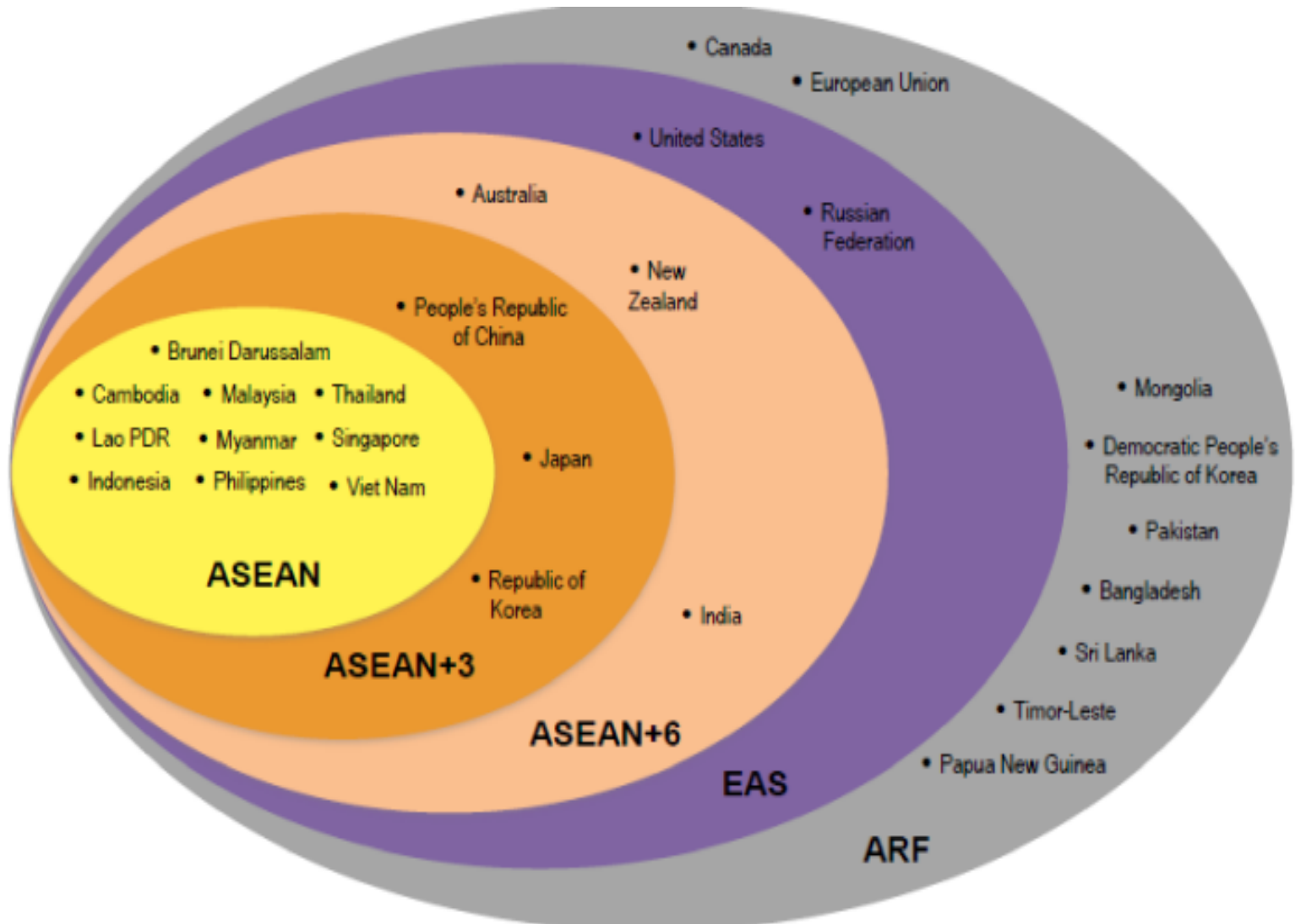
Equitable economic development

- 2nd 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
- Commencement of ASEAN-CER (Australia, New Zealand) FTA
- ASEAN-India trade in goods agreement

ASEAN Economic Co-Operation



Opportunities for Companies

- Expanded **Market Access** Opportunities for companies
- **Lower transaction costs** through elimination of tariffs and NTBs on goods and **improved regulatory environment** on services
- Increased economic integration will **strengthen business networks** across ASEAN
- Larger economies of scale for businesses and industries, thereby **increasing productivity** while reducing production costs
- Increased trade and investment will promote greater entrepreneurship and **innovation** in products and services
- **Improved competitiveness** in the world market

Trade within ASEAN

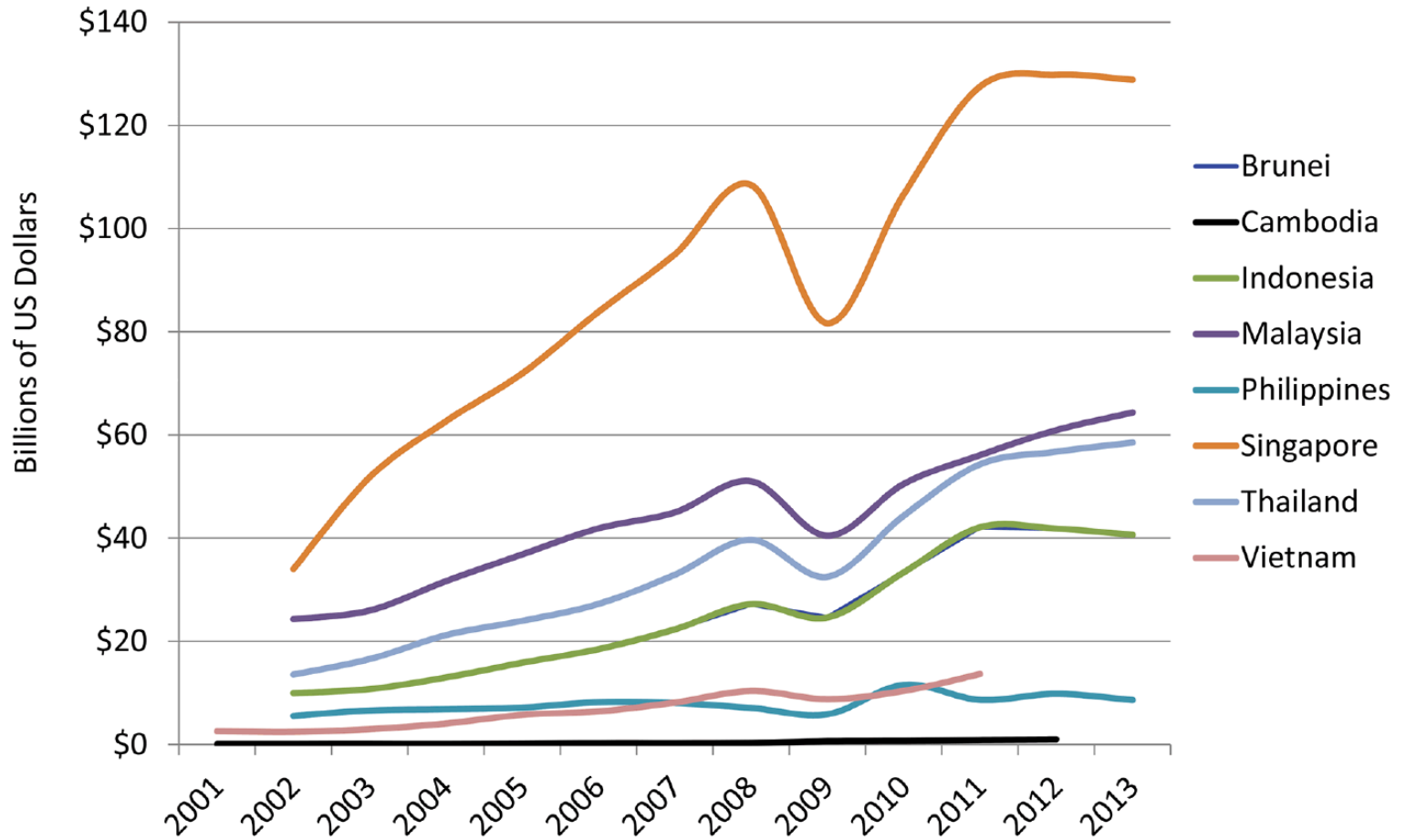
ASEAN's Total Merchandise Exports By Destination			
<i>Region</i>	<i>Percent of ASEAN's Total Exports</i>		
	2000	2011	2020 Forecast
Intra-ASEAN	22.8	25.3	30.0
China	3.9	11.5	15.0
India	1.6	3.7	6.0
Japan	13.6	10.2	8.0
EU 27	14.9	10.7	8.2
United States	20.1	9.8	8.5
Middle East	1.9	2.6	3.5

Source: UOB Report: 'The Rise of Intra-Regional Trade in Asia'

Trade



Intra-ASEAN Trade: Member Exports to ASEAN Region



Opportunities for the ASEAN member states

- Increased attractiveness to **foreign direct investment (FDI)** from outside the region
- Greater demand for goods and services will create **economic growth** (more jobs in industries such as manufacturing, transport, logistics and communications)
- **Less developed ASEAN member states** will get better access to ASEAN capital, investment, technology and technical assistance
- Greater participation possibilities in **global production networks** and **value chains**
- Greater leverage in regional and international **negotiations**

AEC Perspectives

	2010			2030			2010-2030	
	Population (million people)	Nominal GDP (billion USD)	Per-capita GDP (USD)	Population (million people)	Nominal GDP (billion USD)	Per-capita GDP (USD)	Yearly avg. GDP growth (%)	No. times increase per- capita GDP
BRU	0.414	12.371	29,882	0.542	25.768	47,561	3.7	1.6
CAM	14.953	11.255	753	18.363	54.797	2,984	7.9	4.0
INO	237.641	708.352	2,981	277.059	2,121.335	7,657	5.5	2.6
LAO	6.437	6.461	1,004	8.049	30.114	3,741	7.7	3.7
MAL	28.251	237.803	8,418	37.069	694.737	18,742	5.4	2.2
MYA	61.187	45.380	742	69.310	225.259	3,250	8.0	4.4
PHI	94.010	199.591	2,123	127.336	663.418	5,210	6.0	2.5
SIN	5.184	227.382	43,862	6.093	397.842	65,293	2.8	1.5
THA	63.878	318.908	4,992	67.759	823.663	12,156	4.7	2.4
VIE	88.257	103.575	1,174	101.955	439.449	4,310	7.2	3.7
ASEAN	600.212	1,871.078	3,117	713.535	5,476.382	7,675	5.4	2.5
ASEAN-6	429.378	1,704.407	3,969	515.857	4,726.762	9,163	5.1	2.3
CLMV	170.834	166.671	976	197.678	749.620	3,792	7.5	3.9

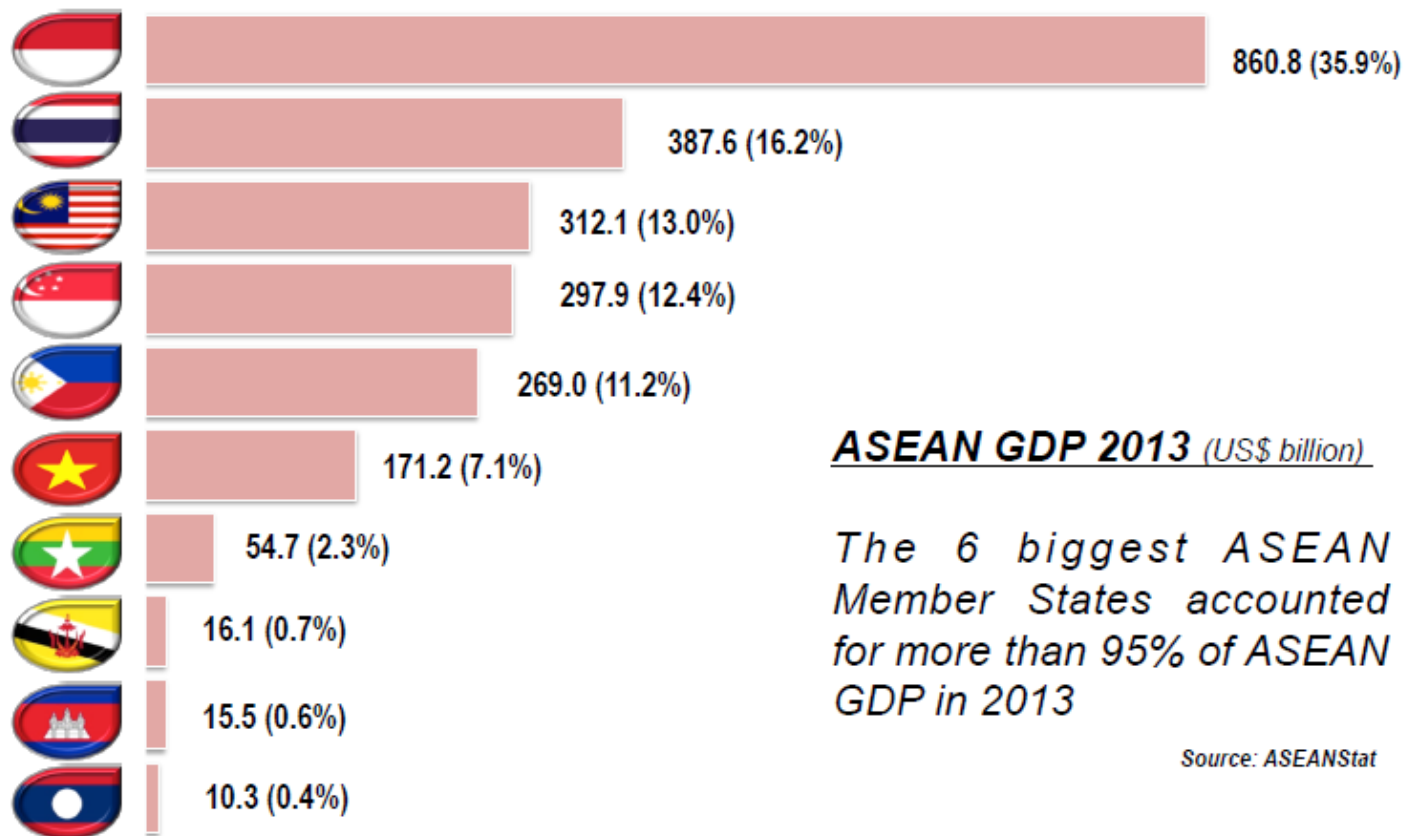
Sources: 2010 data are from IMF. 2030 projections are from the ADB.

Challenges

- The ASEAN member nations are at **different** stages of development
- Diversity of the member states and the economic status of the ASEAN population.
- Gap between rich and poor member states remains very large
- Development gaps in terms of infrastructure, income levels, and human capital
- Disparities in the enforcement of the rule of law, transparency, competitiveness and good governance

GDP of ASEAN member states

Economies at different stages of development



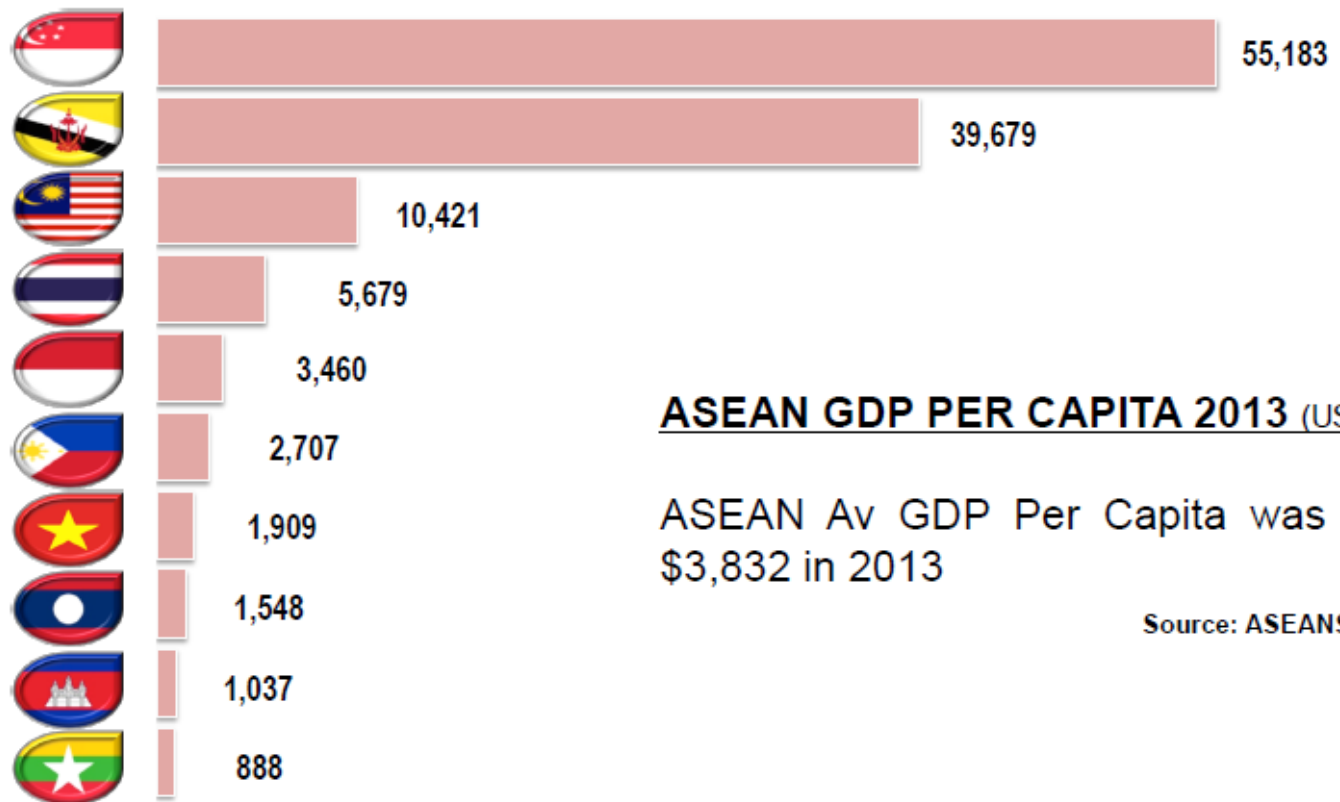
ASEAN GDP 2013 (US\$ billion)

The 6 biggest ASEAN Member States accounted for more than 95% of ASEAN GDP in 2013

Source: ASEANStat

GDP per capita of ASEAN member states

Economies at different stages of development



ASEAN GDP PER CAPITA 2013 (US\$)

ASEAN Av GDP Per Capita was US \$3,832 in 2013

Source: ASEANStat

The Human Development Index in Southeast Asia

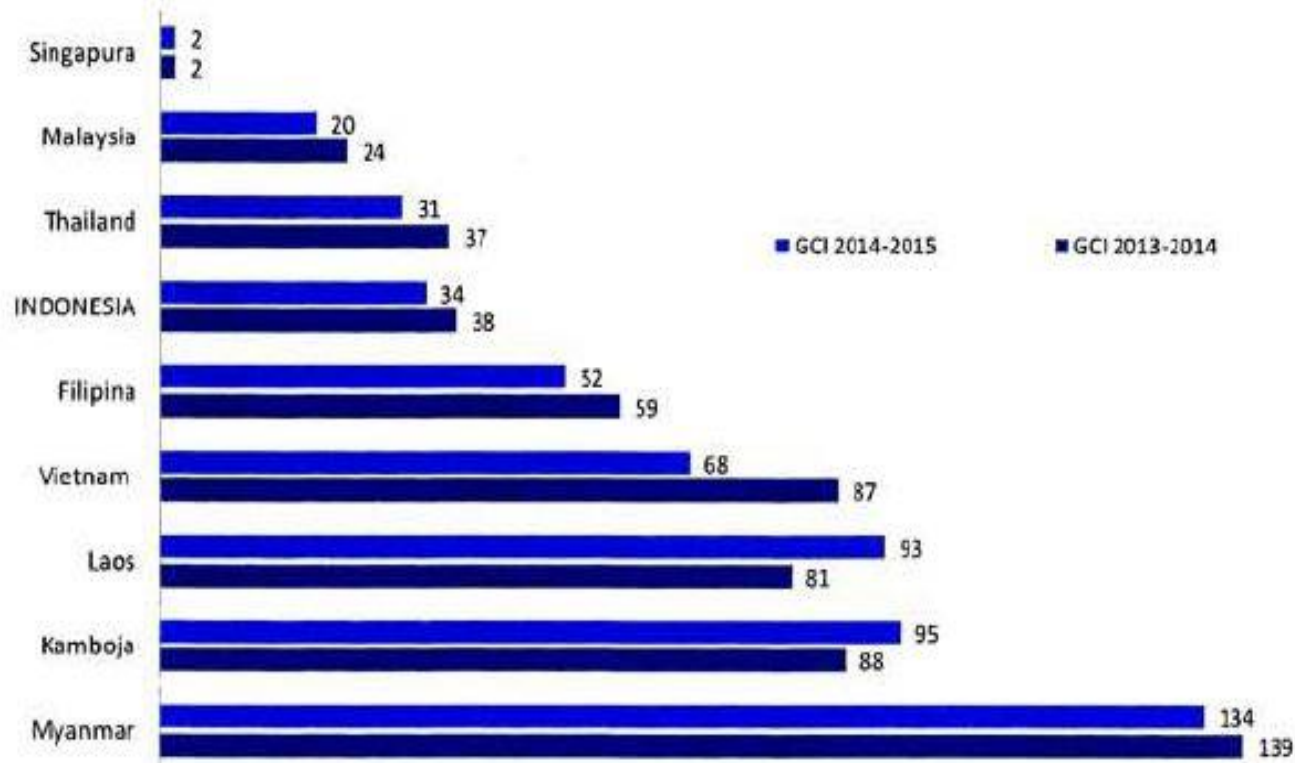
	2013 HDI rank	2013 HDI score	Annual HDI growth (%)	
			1990-2000	2000-2013
Singapore	9	0.901	0.72	0.92
Brunei	30	0.852	0.46	0.27
Malaysia	62	0.773	1.12	0.58
Thailand	89	0.722	1.27	0.83
Indonesia	108	0.684	1.44	0.90
Philippines	117	0.660	0.46	0.49
Vietnam	121	0.638	1.70	0.96
Timor Leste	128	0.620		2.25
Cambodia	138	0.584	1.47	1.75
Lao PDR	139	0.589	1.83	1.44
Myanmar	150	0.524	1.94	1.69

Source: Human Development Report 2014.

* * *

ASEAN Competitiveness Index 2014

Indonesia Competitiveness Index among ASEAN Countries 2014



Source: World Economic Forum (2015)



ASEAN

ASEAN Countries Ranking for World Bank's Ease of Doing Business 2015

Country	2015	2014	Movement Up The Ranking
Singapore	1	1	-
Malaysia	18	20	+2
Thailand	26	28	+2
Viet Nam	78	72	+6
Philippines	95	86	-9
Brunei	101	98	+3
Indonesia	114	117	+3
Cambodia	135	134	+1
Laos	148	155	+7
Myanmar	177	178	+1

Export Orientation

Country	Level	Units	As Of
Brunei	76.16%	% of GDP	2013
Cambodia	65.72%	% of GDP	2013
China	26.40%	% of GDP	2013
Hong Kong	229.59%	% of GDP	2013
Indonesia	23.74%	% of GDP	2013
Japan	14.73%	% of GDP	2012
Laos	37.22%	% of GDP	2013
Malaysia	81.68%	% of GDP	2013
Mongolia	45.14%	% of GDP	2013
Myanmar	0.18%	% of GDP	2004
North Korea	n.a.	% of GDP	n.a.
Philippines	27.91%	% of GDP	2013
Singapore	190.52%	% of GDP	2013

Challenges for ASEAN

- Non-Tariff Barriers (NTBs) still exist and present obstacles to free trade
- Reduction of NTBs will take a long time to make changes, even when the intention and willingness are there, because of the lack of firm and consistent controlling mechanisms in many ASEAN countries
- Domestic industries still demand protection
- Countries, such as Indonesia, have not reduced their NTBs but have actually set up more regulations to protect their domestic economies.

Challenges for ASEAN

- Infrastructure deficiencies, which raise the transport costs of doing business, will take years to address.
- Political instability combined with a high incidence of corruption in many countries
- Lack of uniformity, enforceability, and transparency in investment regulations
- Competition policy (i.e. anti-monopoly law) far from being standardised

Opportunities for Indonesia

- Indonesia might have the benefits of increasing **foreign investment** as well as **increased exports** noted as an important driver of growth for the economy
- The World Bank estimates that the enforcement of AEC will attract about 40 percent more **Foreign Direct Investment (FDI)** to Indonesia
- **Opportunity for economic growth and modernization** because the removal of barriers and encouragement of investment from the ASEAN region
- Changing the **inward-looking mentality** of the Indonesian companies

Challenges for Indonesia

- Tougher competition demands better human resources. Quality of education remains low for Labour: 64 percent of the total 118 million workers have only junior high school or lower education
- Rising Wages – Stagnating Productivity
- Ability to speak foreign languages, especially English is quite low for Indonesians

Challenges for Indonesia

HUMAN CAPITAL INDEX 2015 RANKINGS, ASEAN

The Human Capital Index measures how nations develop and deploy human capital and tracks progress over time. It evaluates the levels of education, skills and employment available to people in five age groups, from those under 15 to those over 65. The index covers 124 economies, representing 92% of the world's people and 98% of its gross domestic product. Asia and the Pacific, the world's most populous region, straddles the middle of the range with an overall average score of 67.83.

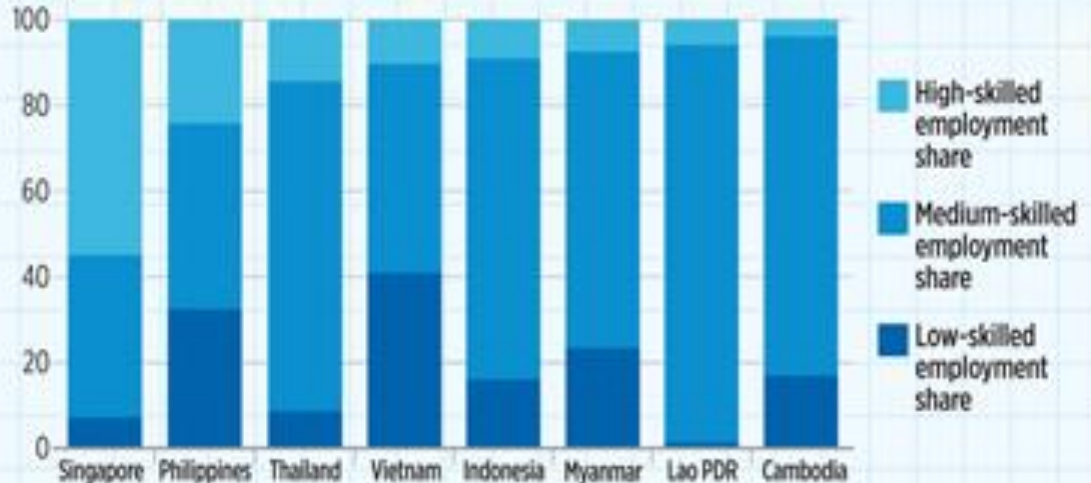


RANK*	ECONOMY	SCORE
24	Singapore	78.15
46	Philippines	71.24
52	Malaysia	70.24
57	Thailand	68.78
59	Vietnam	68.48
69	Indonesia	66.99
97	Cambodia	58.55
105	Lao PDR	56.16
112	Myanmar	52.97

*Out of 124 economies

Skilled employment share

(in %)



Challenges for Indonesia



Source: English Proficiency Index 2015

Challenges for Indonesia

- The industrial sector is fragile due to its dependence on imported raw materials and semi-finished products
- Diversification of exports needed (decreasing commodity prices)
- Limited supply of energy to be supplied to industry (frequent blackouts)
- Availability and quality of infrastructure is still lacking thus affecting the smooth flow of goods and services. Logistics cost are very high in Indonesia

Challenges for Indonesia

LOGISTICS COSTS AMONG ADVANCED AND ASEAN COUNTRIES:

Country	Logistics Cost (% of GDP)
United State of America	9,9
Japan	10,6
South Korea	16,3
Singapore	8,0
Malaysia	13
Thailand	20
Vietnam	25
Indonesia	27

Source: World Bank Report Indonesia, Sept. 2013

What can ASEAN learn from Europe?

ASEAN is not a Southeast Asian EU and never wants to be:
EU is about limiting national sovereignty and obliging compliance with directives determined by Qualified Majority Voting (with some opt-outs)



The ASEAN way:

- ✓ Legally-binding decisions on members, yes. But based on unanimity.
- ✓ Means decision-making runs at the pace of reaching consensus
- ✓ Fierce preservation of national sovereignty

Comparison AEC - EU

Characteristic	AEC	EU
Main principle	Non-interference and respect of national sovereignty of each member state	Pooling of sovereignty for common gains with the EU as a supranational entity adopting legal acts
Binding commitment	None	Strictly binding for all member states. EU economic integration is based on written and hard rules
Enforcement of Agreement	ASEAN Integration Monitoring Office with no specific enforcement power	Enforcement by the EU Commission and the Court of Justice of the EU
Single Currency	None	Euro
Supranational Entity	None	European Central Bank, Court of Justice of the EU

Figure 2: The AEC, between a classic FTA and a single market like the EU

	EU	AEC*	FTA**
Abolition of tariffs	✓	✓	✓
Common external tariffs	✓	✗	✗
Elimination of non-tariff barriers	✓	✓	!
Liberalization of trade in services	✓	✓	✗
Harmonization of rules/ standards	✓	!	✗
Liberalization of the movement of people	✓	!	✗
Trade facilitation	✓	✓	!
Flow of investment	✓	✓	✗
Flow of capital	✓	!	✗
Protection of intellectual property rights	✓	!	✗
Competition policy	✓	!	✗
Common currency	✓	✗	✗
Transfer of sovereignty	!	✗	✗

Notes

- ✓ indicates being included
- ! indicates being included in limited fashion
- ✗ indicates not being included.

* Whether or not the AEC will be able to implement measures towards its goals is a large issue, here we supposed that it is achieved.

** It is FTA's narrow definition. There are exceptions. Among FTAs, those signed by the U.S. stipulate wide-ranging liberalization of trade in services, protection of intellectual property rights and the like.

Sources: ASEAN, *Aiming to Create an Economic Community (AEC)*
by Professor Koichi Ishikawa, Euler Hermes

What can ASEAN learn from Europe?

- The primary purpose of the EU was to help foster economic prosperity in Europe
- Economic integration is the most successful tenet of the EU
- Intra-EU trade has risen enormously and each member state profited from the economic growth of the neighboring states
- However, economic integration is only one are of integration

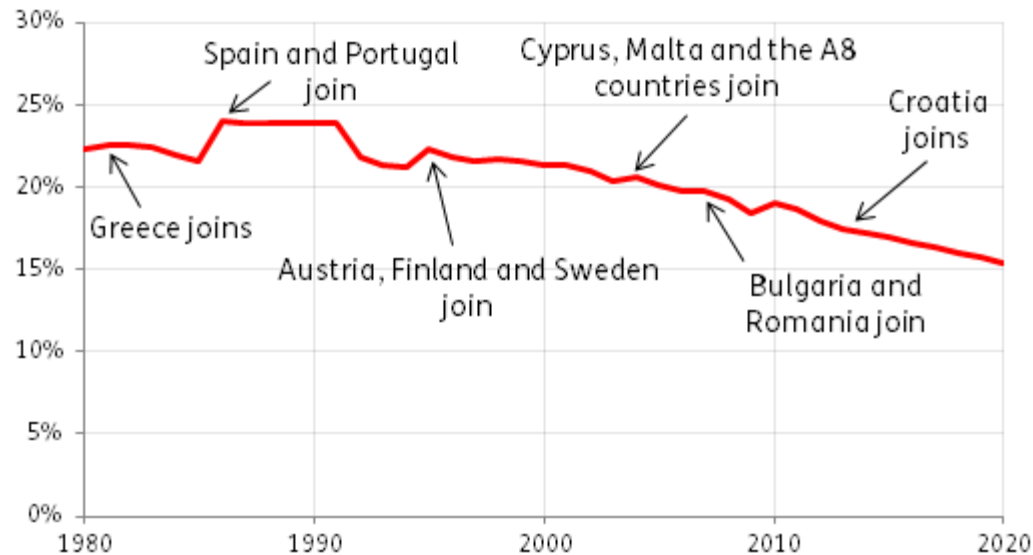
EU in Crisis

- Greek government's default on its debts raised questions about the efficacy of the common European currency
- High state debts in many countries and slow economic growth rates in many states
- More than 1 mio. Refugees from Syria, Iraq, Afghanistan etc.
- Growing right-wing extremism in various countries
- Revival of border controls/ fences/ abolition of Schengen agreement?
- Referendum in the UK: British exit, or Brexit

The EU's falling share of world GDP

% of world GDP accounted for by EU member states, PPP terms, including forecasts from 2015 to 2020

A



Source: IMF World Economic Outlook (April 2015)

Full Fact

Forecast of Share of ASEAN GDP in the World

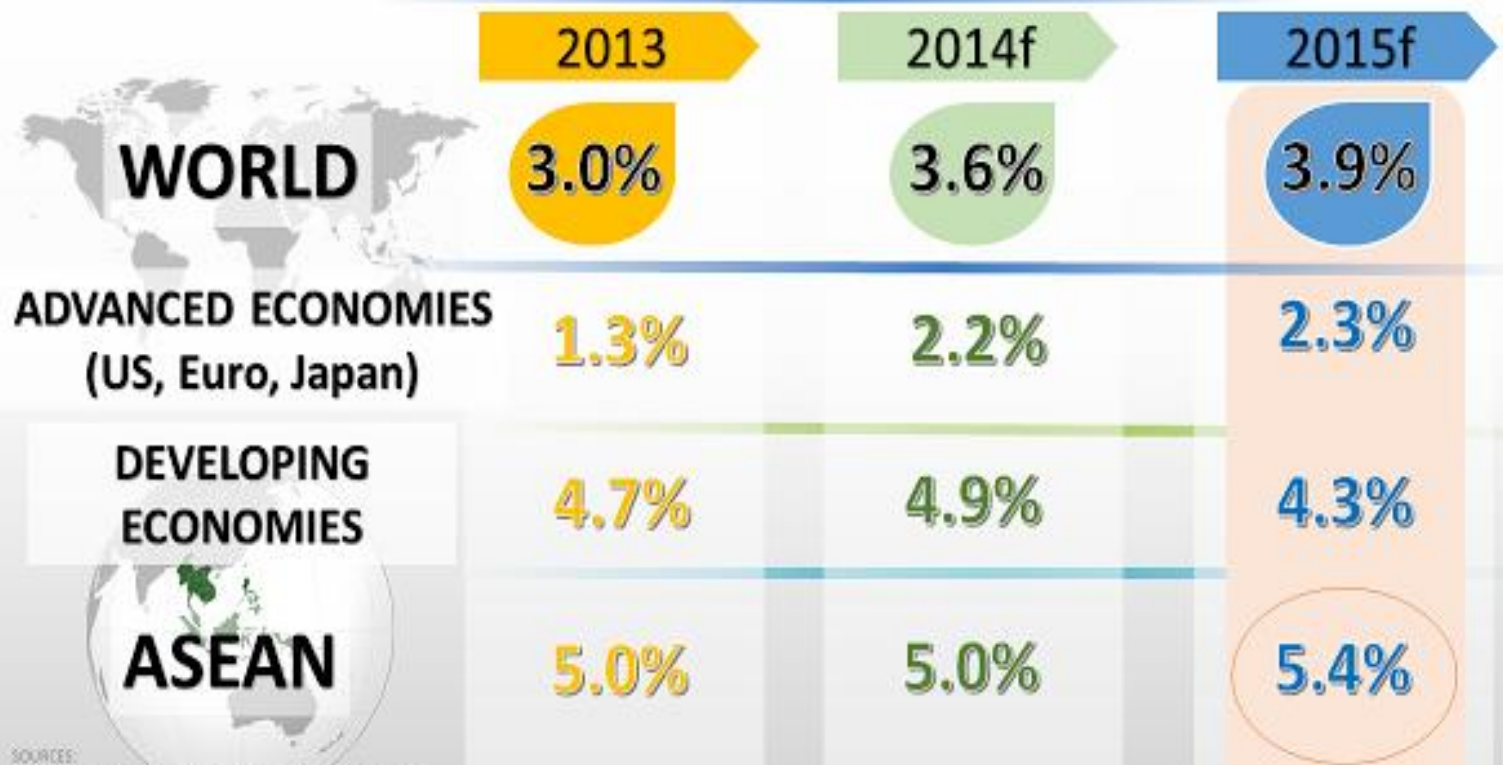
	2007	2008	2009	2010	2011	2012	2013	2014
Brunei Dar.	0.022%	0.024%	0.026%	0.026%	0.026%	0.025%	0.024%	0.023%
Cambodia	0.016%	0.018%	0.019%	0.019%	0.021%	0.022%	0.023%	0.023%
Indonesia	0.782%	0.840%	0.900%	0.940%	0.965%	0.989%	1.016%	1.042%
Lao PDR	0.008%	0.009%	0.010%	0.010%	0.010%	0.011%	0.011%	0.011%
Malaysia	0.337%	0.364%	0.362%	0.357%	0.363%	0.372%	0.383%	0.393%
Myanmar	0.035%	0.043%	0.046%	0.046%	0.046%	0.046%	0.046%	0.045%
Philippines	0.261%	0.274%	0.277%	0.283%	0.283%	0.284%	0.285%	0.285%
Singapore	0.302%	0.299%	0.285%	0.295%	0.295%	0.293%	0.292%	0.290%
Thailand	0.445%	0.449%	0.466%	0.467%	0.474%	0.482%	0.493%	0.503%
Vietnam	0.129%	0.147%	0.160%	0.170%	0.178%	0.185%	0.192%	0.199%
ASEAN	2.34%	2.47%	2.55%	2.61%	2.66%	2.71%	2.76%	2.82%
ASEAN+3	18.28%	19.16%	21.09%	21.30%	21.64%	22.07%	22.55%	23.23%
ASEAN+6	22.15%	23.01%	25.06%	25.34%	25.70%	26.18%	26.73%	27.47%

Source: Outlook 2009-2010, IMF, 2009.

ASEAN

GDP GROWTH OF **ASEAN** VS. OTHER MAJOR ECONOMIES

REAL GDP GROWTH, YEAR-OVER-YEAR (Y-O-Y)



SOURCES:

World Map: <http://www.cbaer.com/clipart-gray-world-map-1.html>

ASEAN Map: http://commons.wikimedia.org/wiki/File:Association_of_Southeast_Asian_Nations_%28orthographic_projection%29.svg

Data: IMF's World Economic Outlook, April 2014; ADB's Asian Development Outlook, April 2014. As cited in Terlingco, A. (2014). ASEAN Economic Community: Implications for the Philippine Economy (Powerpoint Slide), Marketing and Opinion Research Society of the Philippines, Mandaluyong City, Philippines.

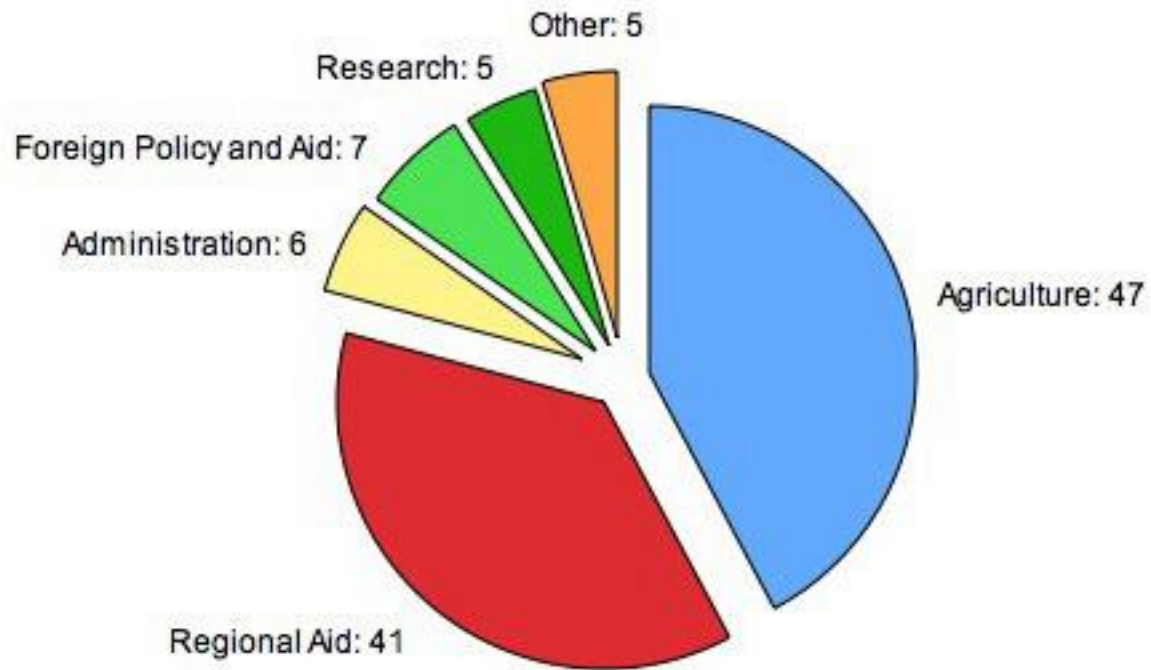
What can ASEAN learn from Europe?

- Free movement of people within the EU sharpened European identity (work and live where you want)
- EU Student exchange programs and a common program for student credit points among EU universities
- Interest in fellow member countries and acceptance of political/ economic dependence

What can ASEAN learn from Europe?

- Own budget for the EU
- EU's experience in bridging the economic gap between West and Eastern Europe as well as between North and Southern Europe
- Structural and cohesion funds
- Not to follow: The immense expenditures of the EU for agricultural subsidies

EU budget (150 billion Euro)



Conclusion I

- The AEC will not have drastic consequences, but rather to incremental changes over the next years
- FTAs with China, Japan, India etc. already in place
- Indonesia will rather profit (more FDI and more exports) from the AEC
- Possibility to change inward-looking mentality of Indonesia's economy (low export-orientation)

Conclusion 2

- The EU and the AEC are only on the first view similar
- The EU used economic integration as start for a political union with supranational features, ASEAN will not
- Economic integration was quite successful in the EU, and will also most probably be beneficial for the ASEAN member states
- The ASEAN member states can learn from the EU about identity-building and financial solidarity between more and less developed member states