

# The impact of the ASEAN Economic Community – a panel discussion on trends, opportunities and challenges

The Association of South East Asian Nations (ASEAN) plans to form a single economic market, the ASEAN Economic Community (the AEC), by December 2015 with the aim of easing cross-border trade and investment as well as the flow of capital and the movement of skilled labour. In March, Clifford Chance Singapore hosted a panel discussion focussing on some of the major opportunities and challenges facing businesses across the region. Participants included clients, business leaders and contacts from across the finance, diplomatic, regulatory and legal sectors.

Justin Wood, Chief Economist and a director at the Economist Group with responsibility for the Economist Corporate Network in South and South-East Asia, provided an insight into the main issues and trends for the ASEAN region.

Singapore Partner Paul Landless then moderated a panel discussion between:

- Jeremy Grant of the Financial Times
- Michael Syn, Executive Vice President, Head of Derivatives at SGX
- Yu Yen-Wen, Supervising Counsel, Downstream Law, Chevron
- Peter Mumford, SE Asia Regional Director for Economic and Trade Policy at the British High Commission
- Sam Cheong Chwee Kin, Executive Director of Commercial Banking and Head of Group Foreign Direct Investment Advisory at United Overseas Bank (UOB)

Here is a snapshot of the issues discussed at the event.

## Economic forecasts for ASEAN

Justin Wood discussed economic trends for the region. He said that China is experiencing a slowdown but that this should be viewed positively as it is more sustainable than previous growth patterns. He added that the economies in South-East Asia are all expected to see positive GDP growth during 2015, and that the annual rate of economic growth for ASEAN in the next five years is forecast at approximately 5.5% – only marginally less than India and China. He also said that ASEAN has become a hotbed for investors and that the value of foreign direct investment flowing into the region reached almost US\$ 130 billion in 2013 and surpassed that of China.

## ASEAN integration and multinational corporations

Justin also spoke about the AEC and its growing importance to multinational corporations (MNCs). He said that a survey carried out by the Economist Group in December 2013, indicated that less than a quarter of MNCs said that ASEAN integration policies were



extremely important to their regional strategy, but by July 2014, that had risen to almost a third. Interestingly, non-ASEAN companies appeared to be more concerned about their regional strategy than ASEAN companies. He said that 80.9% of surveyed non-ASEAN companies have a strategy oriented around the ASEAN region compared with only 55% of surveyed ASEAN companies. He suggested that a regional strategy would make more economic and operational sense than a country-specific strategy, as this would make

manufacturing and supply chains easier to organise. He also added that regional integration is not only taking place at the policy-making and ASEAN secretariat level but also from the bottom up due to both an increasing volume of cross-border transactions and the increasing similarity of customers and products and services across ASEAN.

### **Prospects for the AEC**

Justin Wood's presentation was followed by a panel discussion on the benefits of the AEC and the prospects for integration.

The panel members had varied views on the reality of establishing the AEC and its impact on ASEAN member states. One panellist noted that the AEC may be "an illusion" considering the slow progress being made on setting it up. Another panellist took the view that ASEAN continues to be a "successful brand" or "wrapper" for the member states and that the establishment of the AEC will be a significant milestone. A third member of the panel took a glass half full and half empty approach; highlighting the growth potential of ASEAN which has a good mix of developed and developing economies and a large consumer base, but pointing out that there are real barriers to economic integration, such as domestic monopolies and significant differences between the ASEAN member states.

The panellists discussed the dominance of Indonesia in the region and said that domestic concerns may take precedence over regional benefits, which could be a stumbling block to progress. The recently imposed ban on the sale of alcohol in mini-marts in Indonesia was raised as an example of how domestic

policy may have an adverse impact on the activities of MNCs. By contrast, Thailand was identified as an ASEAN member state that is generally supportive of integration and the AEC. For example, in particular, the panel highlighted significant supply chain adjustments in the automotive sector taking place between Thailand and Indonesia.

The panel also said that investors were less concerned about political and security risks and high profile territorial disputes such as the ongoing tensions surrounding the South China Sea, and regional strategists remained more concerned about the political risks of terrorist activity by "lone wolves".

### **AEC impact for businesses**

The panel noted that the business sector is generally supportive of the AEC initiative. Being part of a regional union would be beneficial for domestic growth as, according to one panellist, "the ASEAN countries will not all have the same competition and intellectual property policies by the end of 2015, but ... they all will at least have competition and intellectual property policies ... by the end of the year". They said that proposed AEC competition law policies would lead to greater economic efficiencies and better intellectual property protection for MNCs and other investors into the region. The increase in market access could additionally lead to improvements in the business environment and strengthen ASEAN's position in the global market.

However, one panellist observed that few companies have started strategising within an AEC framework and that MNCs have been more proactive in this regard.

The panel recognised that there are opportunities in economic integration and free trade. The ASEAN Funds Passport, ASEAN Open Skies Policy, ASEAN Common Prospectus and the ASEAN Trading Link, were all raised as illustrations of how trade could be improved and costs lowered between member states if integration is embraced by all participants. The panel also emphasised that the AEC was realistic considering the differing priorities and stages of development of the ASEAN members, and that certain initiatives allowed for gradual participation by different ASEAN members, such as the ASEAN Trading Link, where only Thailand, Malaysia and Singapore are participating, with Philippines and Indonesia anticipated to follow in due course.

### **The AEC and the EU – are they alike?**

When asked for their thoughts on whether the development of the AEC would approach what is currently being done in the context of the European Union (EU), the panel said that the AEC would be a vastly different creature to the EU. The panellists noted that banking integration is progressing, but said that they did not foresee monetary union nor the introduction of EU-type supranational level bodies such as the European Central Bank, for the region. In response to a question on regulatory harmonisation, a panellist noted that whether this would happen was greatly dependent on domestic political will and desire for legal integration, but that Singapore was certainly emerging as a predominant legal hub for dispute resolution.

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