

“Management Forum”

The importance of the ASEAN Economic Community (AEC)

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ASEAN
ECONOMIC
COMMUNITY

Introduction

The most prominent regional grouping in Asia is the Association of South-East Asian Nations. ASEAN was established on August 8, 1967 by five countries – Indonesia, Malaysia, Philippines, Singapore, and Thailand when foreign ministers of five countries met at the Thai Department of Foreign Affairs building in Bangkok and signed the ASEAN Declaration known as the Bangkok Declaration.

The ASEAN membership expanded when Brunei Darussalam became the sixth member in 1984. In 1995, Vietnam became the seventh member, Laos and Myanmar or Burma joined in 1997, and Cambodia joined in 1999. ASEAN is a geopolitical and economic organization situated in Southeast Asia. The membership of ASEAN currently has ten countries including Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Laos, Myanmar, and Cambodia. The ASEAN office is located in Jakarta in Indonesia. Its population is more than 600 millions. In the Bali Summit, the 9th ASEAN leaders (see Figure 1 below) including Sultan of Brunei Darussalam Haji Hassanal Bolkiah, Cambodia Prime Minister Samdech Hun Sen, Indonesian President Megawati Soekarnoputri, Lao Prime Minister Bounnhang Vorachith, Malaysia Prime Minister DR. Mahathir Bin Mohamad, Myanmar Prime Minister General Khin Nyunt, Philippines President Gloria Macapagal, Singapore Prime Minister Goh Chok Tong, Thailand Prime Minister DR. Thaksin Shinawatra, and Vietnam Prime Minister Phan Van Khai at the Bali Summit in October 2003 announced to establish the ASEAN economic Community (AEC).

ASEAN Economic Community (AEC)

The 9th ASEAN leaders at the Bali Summit in October 2003 announced that the ASEAN economic Community (AEC) will be the goal of regional economic integration by 2020. Subsequently, the ASEAN Economic Ministers Meeting (AEM) held in August 2006 in Kuala Lumpur agreed to develop “a single and coherent blueprint for advancing the AEC by identifying the characteristics and elements of the ASEAN economic Community by 2015”.

At the 12th ASEAN Summit in January 2007, the leader confirmed their strong commitment to accelerate the establishment of the ASEAN Community by 2015 and signed the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015.



Figure 1: the ASEAN Leaders Summit Bali, Indonesia, 2003.

Source: Adapted from <https://www.gettyimages.com> (accessed December 2015).

Characteristics and Elements of ASEAN Economic Community

The ASEAN leaders agreed to accelerate the establishment of the ASEAN Economic Community by 2015 and to change ASEAN into a region with free movement of goods, services, investment, skilled labor, and freer flow of capital. The AEC will establish ASEAN in the following key characteristics: (1) a single market and production base, (2) a highly competitive economic region, (3) a region of equitable economic development, and (4) a region fully integrated into the global economy. These elements are mutually reinforcing.

Single Market and Production Base

An ASEAN single market and production base consists of five main parts: (1) free flow of goods, (2) free flow of services, (3) free flow of investment, (4) freer flow of capital, and (5) free flow of skilled labor. The details are below.

1. Free flow of goods

Free flow of goods is one of the purposes of a single market and production base achieved. A single market for goods may also facilitate the development of production networks in the region and will enrich the capacity of ASEAN to keep a part of the world supply chain or a global production center.

Free flow of goods may require not only zero tariffs but also the removal of non-tariff barriers; and ASEAN Free Trade Area (AFTA) has achieved important progress in the removal of tariffs. A major component facilitating free flow of goods is trade facilitation measures such as integrating customs procedures, establishing the ASEAN Single Window, and continuously enhancing the Common Effective Preferential Tariffs (CEPT).

The Common Effective Preferential Tariffs for ASEAN Free Trade Area Agreement may be reviewed and enhanced to become a comprehensive agreement in understanding free flow of goods and applicable to ASEAN need for economic integration in 2015. Tariffs on all intra-ASEAN goods shall be eliminated in accordance with the schedules and commitments set up in the CEPT-AFTA Agreement.

2. Free flow of services

Free flow of trade in services is one of the vital characteristic in accomplishing ASEAN Economic Community. There is no restriction to ASEAN services suppliers in providing services and in establishing companies across national borders within the region. Liberalization of services has been completed in rounding of negotiation under The Coordinating Committee on Services. Negotiation of specific services sectors such as financial services and air transport is carried out by respective Ministerial bodies.

3. Free flow of investment

Free flow of investment refers to a free and open investment to be the key for enhancing ASEAN competitiveness in attracting foreign direct investment (FDI) and intra-ASEAN investment. ASEAN investment cooperation is implemented through the Framework Agreement on the ASEAN Investment Area (AIA), 1998. Under the AIA, all of industries such as the manufacturing, agriculture, fishery, forestry and mining and quarrying sectors, and services will be open and granted to investors both in the pre-establishment and the post-establishment stages.

4. Freer flow of capital

Strengthening ASEAN capital market development and integration is known as Freer flow of capital. ASEAN achieves greater harmonization in capital market standards in ASEAN in the areas of offering rules for debt securities, achieves the flexibility in language and governing law requirements for security issuance, and enhances withholding tax structure, where possible, to promote the broadening of investor base in ASEAN.

5. Free flow of skilled labor

ASEAN facilitates the entry of the movement of natural persons engaged in trade in goods, BN facilitates the issuance of visas. The employment passes for ASEAN professionals and skilled labor engaging in cross-border trade and investment related activities.

Trade facilitation

Trade facilitation means that harmonized and standardized trade and customs, processes and related information flows are expected to reduce transaction costs in ASEAN. These will enhance export competitiveness and facilitate the integration of ASEAN into a single market for goods, services, and investments and a single production base.

A custom integration

The custom integration means that in light of the acceleration of AEC, the realization of ASEAN Customs Vision 2020 is brought forward to 2015. In particular, the 2005 -2010 Strategic Plan of Customs Development aims to: (1) integrate custom structures, (2) modernize tariff classification, custom valuation and origin determination and establish ASEAN e-Customs, (3) smoothen custom clearance, (4) strengthen human resources development, (4) promote partnership with relevant international organizations, (6) narrow the development gaps in customs, and (7) adopt risk management techniques for trade facilitation.

An ASEAN Single Window

The ASEAN Single Window means that the implementation of measures of simplifying, harmonizing, and standardizing trade and customs as well as the application of ICT in all areas related to trade facilitation may be important in the significant creation of an ASEAN Single Window. The ASEAN Single Window enables a single submission of data and information, a single and synchronous processing of data and information, and a single decision-making for customs clearance of cargo. These expedite the custom clearance, reduce transaction time and costs, and then enhance trade efficiency and competitiveness.

Working Language of ASEAN

“The Heads of States or Government of the member States of ASEAN had the meeting in Singapore on the historic occasion of the 40th anniversary of the founding of ASEAN and have agreed in this chapter in article 34; it says that the working language of ASEAN shall be English” (Secretariat, 2008, p. 29).

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