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US Investors Support the ASEAN Economic Community But Question the 2015 Deadline

BY JOHN GOYER

John Goyer, Senior Director for Southeast Asia at the US Chamber of Commerce, explains that “slightly over half of US companies surveyed said that their companies are preparing strategies based on ASEAN’s plans to reduce and eliminate barriers to trade in goods, services, and investment among its member countries.”

ASEAN Is Integrating Internally...

As ASEAN continues on its long path toward regional economic integration, US companies are responding by developing strategies to operate in and adapt to the region as a single market and production base. In the “ASEAN Business Outlook Survey” released August 2013 and prepared by the US Chamber of Commerce and AmCham Singapore, slightly over half of US companies surveyed said that their companies are preparing strategies based on ASEAN’s plans to reduce and eliminate barriers to trade in goods, services, and investment among its member countries.

The survey, highlights of which were presented at the August 19-21 ASEAN Business and Investment Summit in Brunei Darussalam, polled 475 senior executives representing US companies in all ten ASEAN countries, and found great optimism toward the region. 79 percent of the respondents reported that their company’s level of trade and investment in ASEAN has increased over the past two years, and an overwhelming 91 percent of respondents expect it to increase over the next five years.

This optimism is based, significantly, on economic integration; most respondents—77 percent—say that ASEAN integration is important in helping their companies do business in the region. One survey respondent explained that the “seamless movement of goods and services will enable productive operations across the ASEAN region.”

ASEAN’s work on intra-regional tariff reduction, liberalization of trade in services, liberalization of investment, and streamlining of customs administration and procedures are all factoring into US companies’ investment decisions. The majority of survey respondents were in the services sector and 68 percent attached importance to the ASEAN Framework Agreement on Services. 56 percent of respondents reported that the ASEAN Trade in Goods Agreement is important to their companies’ investment plans; 59 percent said the same of the ASEAN Comprehensive Investment Agreement, while the figure for the trade facilitation and customs development work plan was 63 percent.

The positive outlook for ASEAN should be encouraging for policymakers in the region. Not only are individual ASEAN countries attractive investment destinations, but the potential of an integrated region with a population of 600 million, a \$2 trillion GDP, and good growth prospects is raising ASEAN’s profile in the eyes of US investors.

...and Integrating Externally...

While working to integrate its own internal market, ASEAN has recently entered into

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free trade agreements with a number of its major regional trading partners: China, Japan, India, Korea, and a joint agreement with Australia & New Zealand. The survey sought to gauge usage of these FTAs by US companies with operations in ASEAN. As it turns out, a significant number of US companies are seeking to take full advantage of these agreements. Nearly half of the US manufacturing companies surveyed say that they utilize the provisions of these agreements to export goods from ASEAN to its major FTA partners: China (63 percent), Japan (48 percent), India and Korea (47 percent), and Australia & New Zealand (45 percent). This, in turn, is boosting ASEAN’s total exports, and helping facilitate its integration with the rest of Asia.

Use of the services provisions for these agreements is much lower however, perhaps reflecting the limited coverage of services in those agreements. Of ASEAN’s three FTAs for which services provisions are in effect (services provisions for India and Japan have yet to be implemented), 33 percent of respondents reported exporting services from ASEAN to China. For Korea, and Australia & New Zealand, the figures were 27 percent and 21 percent, respectively. There is likely to be room for significant growth in this area, given that services account for the greatest share of economic output in most ASEAN countries, and that the barriers to trade in services tend to be high relative to trade in goods.

While significant numbers of US companies are using these agreements, many still are not, which raises a question of how much untapped export potential exists. Respondents cited a variety of reasons for not using these FTAs, but one common theme was simply a lack of familiarity with the agreements.

...but Facing Skepticism

The ASEAN Economic Community (AEC) in a sense represents the culmination of ASEAN’s aspirations toward regional integration. The AEC articulates the vision of an economically-integrated region by the end of 2015 between all ten member states: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. The vision is for a single market and production base in a highly competitive economic region with equitable economic development and fully integrated into the global economy.

As the survey demonstrates, US companies clearly think that the AEC is important; however, just over half of respondents surveyed—52 percent—do not think that this goal will in be place by the 2015 deadline. Only 23 percent of respondents believe that ASEAN will realize the goals of the AEC by 2015, with the remainder of respondents neutral on this question. Of the respondents who answered that it was “unlikely” for the AEC’s goals to be met by 2015, 59 percent—or almost two-thirds of respondents—believe it will not happen until 2020 or later.

Whether warranted or not, this skepticism suggests that additional education and outreach needs to be done, and ASEAN should be doing more to broadcast the AEC benchmarks that it has already met. As one survey respondent aptly stated, “The AEC 2015, we feel, will have enormous and positive impact in the years following 2015, but is not well understood within our region, let alone outside of it.”

Looking Ahead

ASEAN is an attractive market in itself, but it has the opportunity to position itself at the very center of a rapidly evolving regional trade architecture. This survey shows that while US companies are thinking regionally, they will need to focus increasingly on strategies to take advantage of ASEAN’s potential as integration accelerates. Meanwhile, ASEAN will need to enhance its efforts to educate investors about the AEC and the advantages of an economically integrated region. If both sides do their part, the benefits of an integrated ASEAN will be realized sooner rather than later and to the benefit of all.

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