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How the ASEAN Economic Community Will Benefit American Companies

BY ASAD LATIF

Asad Latif, Associate Fellow at the Institute of Southeast Asian Studies (ISEAS) in Singapore, explains that “The AEC’s strategic purpose benefits a country such as the United States, which has long been associated with open and liberal economic regimes that reject protectionism and seek to curb corruption and intellectual property rights abuses.”

The scheduled formation of the ASEAN Economic Community (AEC) by the end of this year offers American businesses advantages across a wide range of fronts. This spectrum itself reflects the ambitious way in which the community has been envisaged around the free flow of goods, services, labor, and investment.

The AEC’s crucial components are a single market and production base, a highly-competitive economic region, equitable economic development, and a region fully integrated into the global economy. An update on the AEC’s progress was provided at the 26th ASEAN Summit, held in Malaysia in April, 2015. The summit statement noted that the implementation of the AEC Scorecard—which measures the degree of implementation of targets in the AEC Blueprint—stood at 90.5 per cent out of 506 measures. While the figure itself is not wrong, some commentators query whether it reflects the actual progress achieved. However, there is consensus that at least some progress has been made.

To be sure, the AEC is taking shape in a way that stands to benefit American companies. That optimism is underscored by the ASEAN Business Outlook Survey 2015, produced by the American Chamber of Commerce (AmCham) in Singapore in collaboration with the US Chamber of Commerce and other AmChams in the region. The survey shows that ASEAN’s efforts to integrate the economies of its ten members more closely are important to American companies’ investment plans in the region. Thus, 53 per cent of respondents said that their company had a strategy based on the goals of the AEC.

The key goal is the formation of an ASEAN single market and production base. This objective has several components, including low tariff and non-tariff barriers to the movement of goods and services, and the ASEAN Single Window. Tariffs have been almost eliminated; the real benefits now will be derived from trade facilitation measures such as those inherent to the Single Window. Moving towards a single market should allow the grouping to benefit from producing economies of scale and efficiency in production network processes. The harmonization of technical standards, with the objective of “One standard, one test accepted everywhere,” is an initiative in facilitating trade. Likewise, mutual recognition agreements (MRAs) enable companies to produce more standardized products and pool skilled labor effectively.

Importantly, a more integrated market could lower transaction costs. In particular, it could bring down inventory costs by reducing the number of specialized products that companies need to keep in stock and by minimizing the chances of goods arriving after customers need them. Electronics and pharmaceuticals, two sectors in which

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American competitiveness is clear, will be buoyed by the development. Standardization is important for multinationals, which have global networks. However, small and medium enterprises, too, will find harmonization useful.

Trade facilitation, achieved by standardizing and simplifying trade and customs procedures through the Single Window, is an important element of the AEC Blueprint. It would help American companies, including those based in Singapore, to penetrate the ASEAN market.

Already, the figures are substantial for American relations with the ASEAN countries, whose total population of 625 million people exceeds that of the European Union. US goods and services trade with ASEAN nations totaled US\$241.7 billion in 2013. Americans benefit directly from these business ties.

According to the US Department of Commerce, American goods and services exports to ASEAN supported an estimated 499,000 jobs in 2013—365,000 from goods exports and 134,000 from services exports. American goods exports to ASEAN in 2013 were worth US\$79 billion, up 4.7 per cent from 2012 and a remarkable 75 per cent from 2003. The top categories of US exports to ASEAN in 2013 were electrical machinery, machinery, aircraft, mineral fuel and oil, and optic and medical instruments. Agricultural exports include soybeans, dairy products, wheat, and cotton.

Together, the ASEAN countries ranked as the fourth largest export market for the United States in 2013. Placing trade relations in comparative perspective, the US-ASEAN Business Council notes that the average ASEAN consumer purchases nearly 1.75 times as many US goods per capita as the average Chinese consumer, and nearly nine times as many as the average Indian consumer.

Looking ahead as ASEAN integrates further, air travel and banking will be two areas of particular interest to American companies. ASEAN states are on course to achieve the Single Aviation Market policy, expected to be completed this year. The liberalization of the aviation sector, which has been cited as a substantial catalyst for regional growth by 2030, will bring advantages to companies in the tourism industry and facilitate the development of the airline industry, in which Boeing is a major player. Liberalization of the banking sector is a slower process, but even there, American multinationals will benefit from ASEAN’s objective of achieving an integrated regional financial system characterized by liberal capital account regimes and linked capital markets.

Finally, American companies operating in ASEAN will gain from the political stability created and underpinned by enhanced economic integration. The ASEAN exercise differs from the pooling of sovereignty embodied in the European Union, an idea whose limitations the Eurozone crisis has revealed. Instead, economic cooperation is strengthening the political comfort zone that allows ASEAN polities to talk to one another even when a crisis erupts occasionally. It is the stability born of this political comfort that offers American companies a further incentive for investing in the region.

The AEC’s strategic purpose benefits a country such as the United States, which has long been associated with open and liberal economic regimes that reject protectionism and seek to curb corruption and intellectual property rights abuses. By investing in ASEAN, particularly in the welcoming light of the AEC, American companies will be advancing a larger national interest that will serve them in the long term.

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