



GIA White Paper, January 2015

Gaining Competitive Advantage through AEC

As ASEAN approaches the AEC deadline of 31st December 2015, it is clear that not everyone understands its potential impact or the significance of the AEC itself. Businesses are growing more curious about how it will shape their industries, their firms, their organisation charts and their jobs. How different is the world going to be on January 1, 2016? Here at Global Intelligence Alliance (GIA), we aim to tackle these questions. As with every new policy that aims to increase competition and provide a level playing field for firms, there will be winners and losers. How should companies prepare and strategise in order to come out as the winners?

Executive Summary

Like many other industries, market and business intelligence has to adapt and take into account various changes in the economic and business landscape. To unravel what lies ahead, GIA surveyed 32 industry specialists and thought leaders to draw insightful conclusions from their viewpoints. Some of the highlights of the survey results have been summarized below:

Are our goals aligned with the AEC's? 50% of the respondents in GIA's AEC survey agree that their strategic goals are well aligned with the goals of AEC. Companies are gradually shaping up their strategic vision and intention for the next few years to make the best out of AEC.

Do I have enough information? More than 50% of the respondents do not think information regarding AEC has been adequate. Companies are of the viewpoint that there should be more information dispersed, especially in the run up to 2015 for businesses to make informed decisions.

Do I have what it takes to tackle the competition? Opening up of markets will result in greater demand for goods and increase competition. Approximately 45% of our respondents agree that they have the proper internal infrastructure and capabilities in place to tackle the competition.

Is my firm prepared? 60% of the respondents believe that they are prepared for the impact of AEC. Companies expressed that regular workforce training, knowledge sharing and exposure to the market will provide them the leverage they need over the competition. This will also allow companies to introduce new and enhanced services and products that give them an edge over others.

Is my nation prepared? Businesses in Singapore expressed that the efficient nature of the country's policies and regulations and transparent framework will make them adapt well to the AEC. However, nations such as Myanmar, Laos, Brunei and Indonesia need to step up their efforts in developing their infrastructure and legislative framework and tackling institutional challenges such as corruption.

How much of an impact will there be to my business? 84% of the respondents say that they are expecting a medium to very high impact of the AEC once it is rolled in. Quality of labour, investment potential and expansion capabilities are crucial elements when it comes to the impact of AEC on businesses. As Singapore has had a head start in terms of industrialisation and education, companies believe the quality of the workforce in Singapore serves as a big push-and-pull factor to enhance productivity and efficiency.

Should I consider developing my business in other nations? 41% of the respondents are looking to increase investment in ASEAN in the 5% to 10% range. Singapore and Indonesia are ranked at the top in terms of promising markets with a lot of potential to grow and develop despite the uncertainty around Indonesia's progress. Markets that will likely lose out from additional investment would be Laos, Brunei, and Myanmar, unless they shape their policies and structure to become more investor friendly.

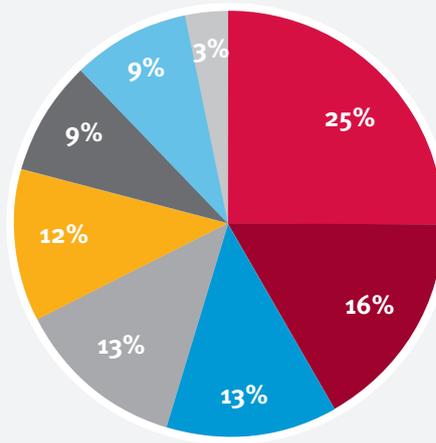
Opportunities from the ASEAN Economic Community (AEC) for Businesses in Singapore

The Association of Southeast Asian Nations (ASEAN), which includes Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam, is fast moving towards the implementation of the ASEAN Economic Community (AEC) at the end of 2015, which aims to create a single market and production base for the region. The objective of AEC is to ensure that the entire ASEAN population is able to enjoy a free flow of goods and services and at the same time, observe a competitive environment for businesses to grow and expand. How are businesses and industries in Singapore preparing for this change and what do they view as the potential opportunities and challenges that lie ahead? This White Paper by Global Intelligence Alliance includes key findings from a survey with senior business executives in Singapore and presents answers to these questions.

This is a one-stop guide to how businesses in Singapore actually view the AEC and the likelihood of its policies and intended benefits to materialize: what they are doing to prepare themselves; what additional information they need; what are the potential challenges they face; what pitfalls they expect in the future; and how to be a winner in such a dynamic environment.

Exhibit 1. Survey Respondent Industry Segmentation (32 respondents)

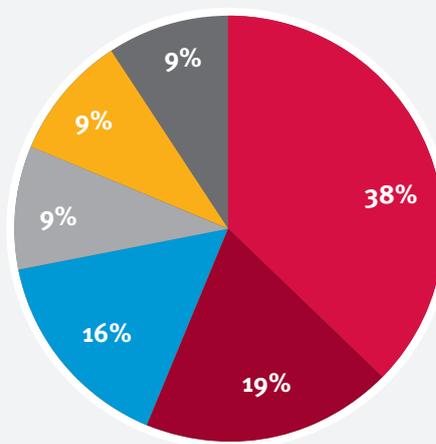
- Pharmaceuticals
- Energy and Chemicals
- Consumer & Retail
- Technology
- Manufacturing
- Logistics
- Others
- Automotive



Source: GIA Interviews, November 2014

Exhibit 2. Survey Respondent Role Segmentation (32 respondents)

- Managerial
- Executive
- Director
- Senior Executive
- C-Management
- Others



Source: GIA Interviews, November 2014

Table of Contents

EXECUTIVE SUMMARY	1
TABLE OF CONTENTS	4
INTRODUCTION	5
FUNDAMENTALS OF AEC 2015	5
ASEAN IN THE GLOBAL PICTURE.....	5
ARE BUSINESSES AND INDUSTRIES IN SINGAPORE READY FOR AEC?	7
PREPAREDNESS OF BUSINESSES	9
ALIGNMENT OF AEC WITH STRATEGIC GOALS OF BUSINESSES	9
OPPORTUNITIES FOR BUSINESSES	11
IMPACT OF AEC ON BUSINESSES	12
LOOKING AHEAD: DRIVING GROWTH IN ASEAN	13
CONCLUSION	16
APPENDIX	18

Introduction

Fundamentals of AEC

The AEC's goal of regional integration rests on four key pillars that will help create a single market and production base for the region. The following table includes the four pillars of AEC's targets.

Exhibit 3. Key Pillars of ASEAN Economic Community (AEC) 2015

<p>Single Market and Production Base</p> <ul style="list-style-type: none"> • Free flow of goods • Free flow of services • Free flow of investment • Freer flow of capital • Free flow of skilled labour 	<p>Competitive Economic Region</p> <ul style="list-style-type: none"> • Fair competition • Consumer protection • Intellectual property rights • Infrastructure enhancement • E-commerce development • Taxation
<p>A region of Equitable Economic Development</p> <ul style="list-style-type: none"> • Small and Medium Enterprises (SME) Development • Initiative for ASEAN integration 	<p>A region fully integrated into the global economy</p> <ul style="list-style-type: none"> • Development of coherent approach towards external economic relations • Boost participation in global supply chains • Develop strong trade links with regional economies

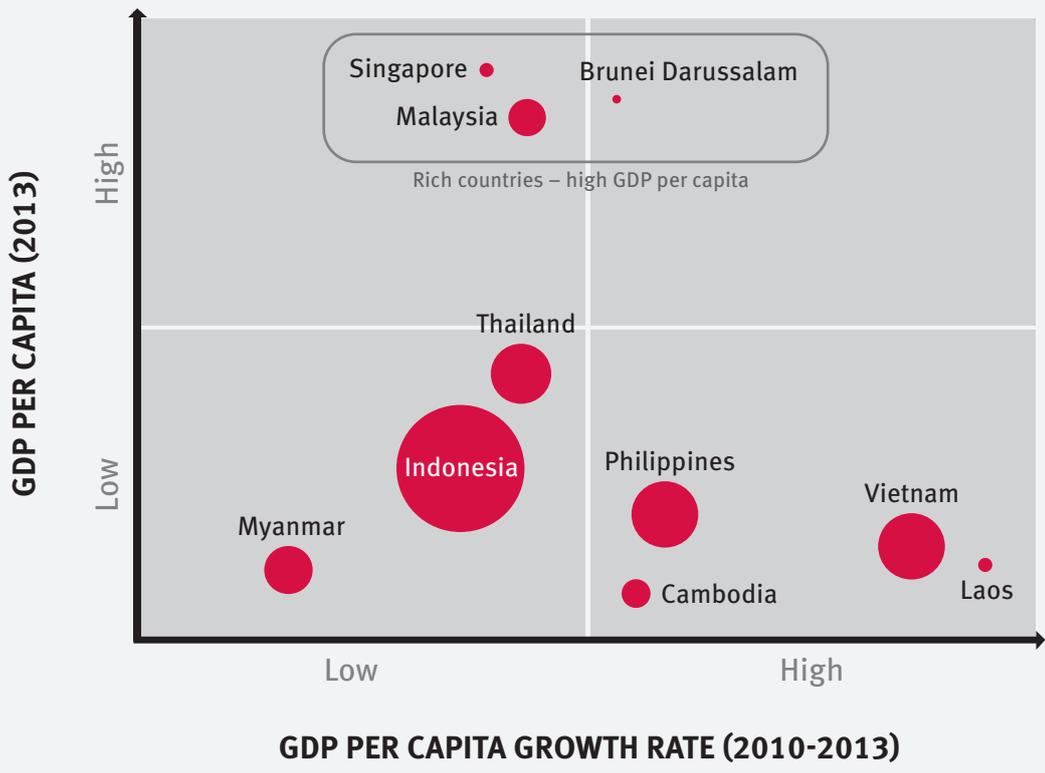
Since the adoption of the ASEAN Economic Community (AEC) Blueprint in 2007, ASEAN has focused its attention on policy making and key integration markers to enable the realization of its goals. The AEC areas of cooperation include everything from human resource development and clear consultation on macroeconomic and financial policies, to the development of better communication channels and infrastructure, to ensure closer integration between the private and public sectors.

ASEAN in the Global Picture

Amid increasing globalization, the ASEAN region presents ample opportunity for investors to increase trade and benefit from one of the fastest growing regions in the world. Within ASEAN itself, the economies are so diverse and varied that their integration in the global economy as envisaged by AEC will present many opportunities for the region.

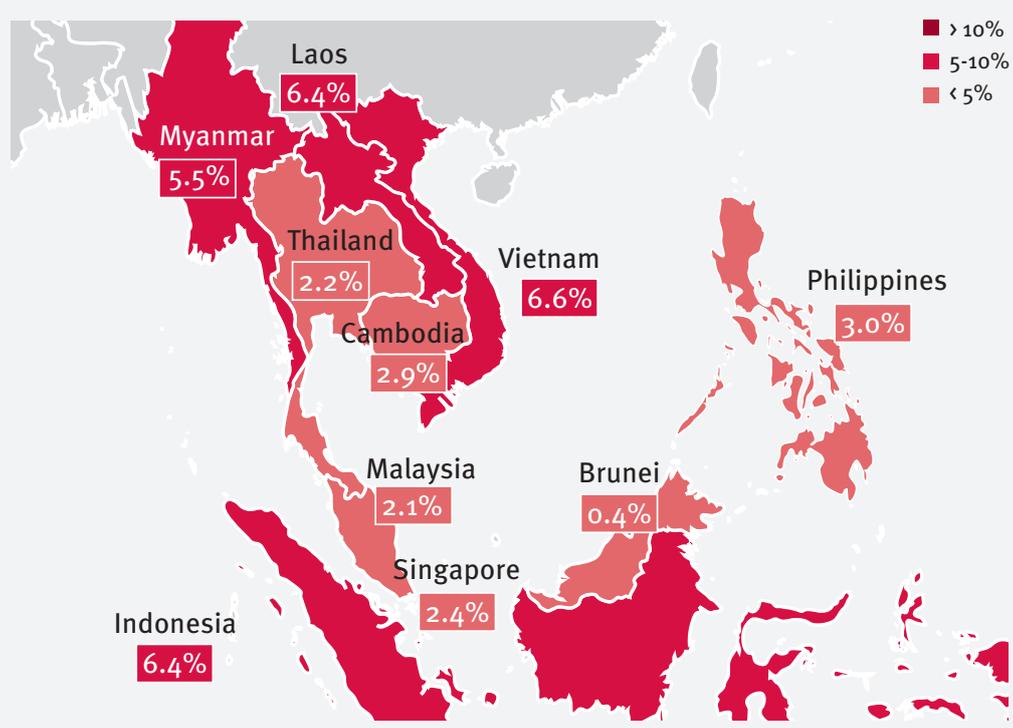
With a market of over 600 million consumers and combined GDP of nearly US\$3 trillion, ASEAN is dynamic, growing and offers huge potential for its people and investors from within the region and abroad.

Exhibit 4. ASEAN GDP per Capita & Population (2013)



Size of bubble = Population (2013)
 Source: World Bank (2014), GIA Analysis

Exhibit 5. ASEAN Inflation Rate, YoY (2013)



Source: World Bank (2014), CIA (2014), GIA Analysis

Exhibit 6. ASEAN Foreign Direct Investment (Net Inflows) (2013)

Source: World Bank (2014), CIA (2014), GIA Analysis

Singapore is a key market to attract foreign direct investment (FDI). **Singapore receives more than 50% of the total FDIs in the region, with Indonesia, Thailand and Malaysia trailing behind.** From 1995 through 2012, the European Union (EU), Japan, and the United States accounted for half of FDI in ASEAN. However, in the recent years, Australia, Korea and other ASEAN nations have become important sources of FDI*. This will be a crucial indicator to follow as the AEC is likely to result in less dependence on non-ASEAN markets (such as Europe, United States). Companies will need to increase their regional presence in order to ensure a continued inflow of business.

Are businesses and industries in Singapore ready for AEC?

The December 31, 2015 AEC deadline is a stepping stone towards the ultimate goal of complete regional integration and having a single market and production base.

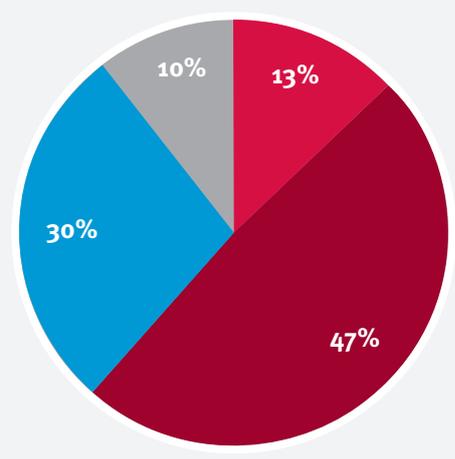
Exhibit 7 gives a quick snapshot of the confidence levels that businesses have with regards to their own preparation and their perception of how prepared government(s) are.

“With AEC coming online, Singapore can explore bigger external markets. It opens up greater avenues to cooperate and collaborate further, partner with new companies, launch new products and expand business,” says the Head of Strategic Development of one of the leading energy companies in Singapore. Businesses in Singapore have expressed a positive sentiment towards how prepared they are for AEC with more than 50% agreeing that they are ready for AEC.

* World Bank (2014)

Exhibit 7. Respondents' level of agreement to "Is your company prepared for AEC?"

- Strongly agree
- Somewhat agree
- Neither agree or disagree
- Somewhat disagree



Source: GIA Interviews (N=30), November 2014

Considering Singapore is one of the top countries with low barriers of entry for doing business, many companies around the region are looking towards Singapore as a platform for regional expansion. At the same time, adapting and reacting to the change that comes with it might be difficult for businesses. There is a desire among businesses to step up protectionist measures and oppose the competition that comes with AEC.

With Singapore's strong legislative framework, transparency in policies and regulations, enhanced infrastructure and steady growth, companies now face the task of learning more about their potential overseas markets, ensuring that there is seamless entry into new markets and building an established network. The next section aims to dig deeper into the preparation, opportunities, impact and investment outlook for businesses in the context of AEC.

Exhibit 8. Country ranking based on key indexes

Overall ranking	Country	GDP growth rate (2014-16)	Ease of doing business	Corruption perception index	Political risk	Literacy rate	Internet users
1	Singapore	●	●	●	●	●	●
2	Malaysia	●	●	●	●	●	●
3	Brunei	●	●	●	●	●	●
4	Philippines	●	●	●	●	●	●
5	Vietnam	●	●	●	●	●	●
6	Thailand	●	●	●	●	●	●
7	Indonesia	●	●	●	●	●	●
8	Laos	●	●	●	●	●	●
9	Cambodia	●	●	●	●	●	●
10	Myanmar	●	●	●	●	●	●

■ Tier 1 (rank 1-2)
 ■ Tier 2 (rank 3-5)
 ■ Tier 3 (rank 6-8)
 ■ Tier 4 (rank 9-10)

Source: World Bank (2014), GIA Analysis

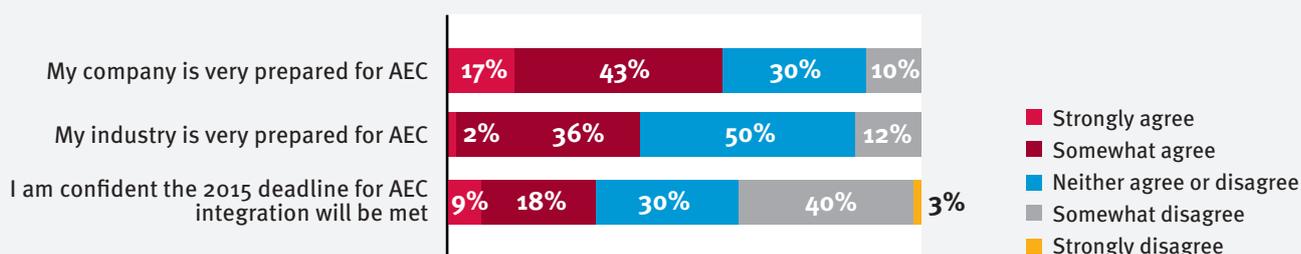
Preparedness of businesses

“Singapore is one of the most well prepared for the implementation of AEC. It is already a financial hub with all the required infrastructures in place. Among the main advantages that Singapore has is that it has one of the lowest corporate tax rates which will continue to encourage companies to set up their regional bases in Singapore,” says Mr. Michael Vrolijk, Regional Sales Manager, South East Asia, at ThyssenKrupp.

60% of the respondents state that their companies are prepared for the change. However, slightly over 40% of the respondents also express uncertainty about the ASEAN’s preparedness for meeting the December 31, 2015 timeline. Businesses have expressed that even though their companies might be ready for the change and even though there will likely be a lot of momentum once AEC is in place, the governments need to step up their efforts in ensuring that these goals of AEC are met.

“AEC will definitely impact business development activities, but the level of expected impact will be varied across the member nations since there is a wide dispersion of starting points among the countries,” says Mr. Vinay Dixit, Vice President of Strategy at Electrolux Major Appliances, Asia Pacific. With the aim of increasing intra-ASEAN investment and bringing more prosperity to the residents of the region, there needs to be high level of cross-border collaboration and governments need to be unified in tackling the differences and set up the infrastructure for companies to be comfortable in investing.

Exhibit 9. How convinced are businesses in Singapore about their and government’s preparedness?



Source: GIA Interviews (N=30), November 2014

Alignment of AEC with strategic goals of businesses

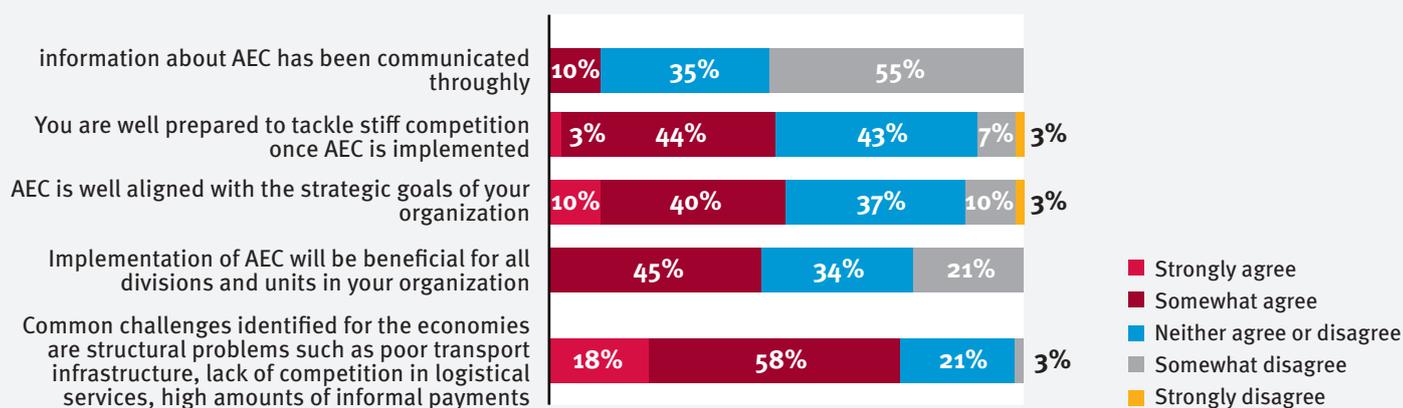
“There has been very little mention of it so far. The momentum on the ground is very sporadic. There should be more information discussed and shared with the industries,” says the Head of Strategic Development of one of the leading energy companies in Singapore. More than 50% of the respondents say that information about AEC has not been distributed thoroughly amongst them. In the run up to December 2015, governments should be more open about the AEC framework; so they are able to align their companies’ strategic goals with the final objectives of AEC. For instance, governments need to share more about how they expect to shape their policies in the future, what collaborations are they expecting to have and what they are already working on with other nations.

75% of the respondents are concerned about the structural problems in ASEAN economies possibly hindering the AEC goals, such as poor transport infrastructure, lack of competition in logistical services and high amounts of informal payments. Boosting competition amongst logistics and construction companies and stepping up government’s efforts to better facilitate logistical services (such as port infrastructure, shipping customs and cross-border trade barriers) will help alleviate some of these challenges. Of the economies in question, Laos, Myanmar, Cambodia and Indonesia are at the bottom order of ‘ease of doing business’ index (see exhibit 8). Ms. Yumei Chan, Research Manager at CNBC Asia clearly points out this paradox

as she expresses her view that **“the developing countries should benefit the most out of AEC, and hence should be working hardest to reap the benefits from the AEC.”**

As we discuss businesses’ strategic alignment with AEC, it is also important to note that by bringing all players across the region on a level playing field, it will be even more crucial for them to continuously innovate, enhance their production and distribution channels to stay ahead of the competition. Our survey results are fairly positive in that businesses in Singapore are confident that their strategic goals are well aligned with AEC. Close to **50% of the respondents agree that they have the internal infrastructure and capabilities** in place to meet the foreseeable growing demand and competition.

Exhibit 10. Alignment of AEC with strategic goals



Source: GIA Interviews (N=30), November 2014

Another factor that assists in tackling competition is Singapore’s **continuous reinforcement towards SME development**, which ultimately helps create an equitable economic region. Local companies are given the push to enhance their product portfolio. Having a strong backing from the government and world-class infrastructure, companies in **Singapore have tactically positioned themselves and are bracing for the opportunities that the AEC can bring**. Many large multinational companies have already been continuously developing their infrastructure and capabilities to meet the demand in the region, irrespective of AEC. For instance, Biologics manufacturing companies such as Amgen, Novartis, Baxter, Lonza, GlaxoSmithKline and Roche announced their investments to set up major biologics facilities that amount to S\$2.4 billion in capital expenditure*.

In general, companies aren’t expecting a ‘big boom’ once AEC kicks in, as the existing treaties** and step by step roll out of policies are helping businesses adapt and spread the impact over a longer duration of time. Considering Singapore is ranked one of the top countries in ease of doing business, local and global companies can take advantage of the competition and its business friendly policies once AEC kicks in and look to expansion. Singapore can act as a hub for regional operations of businesses and companies can look at developing their high skilled talent pool.

* Source: Singapore Biotech Guide 2014 / 2015

** Existing treaties include:

- ASEAN Free Trade Agreement, since 2010
- ASEAN–India Free Trade Area (AIFTA), since 2010
- ASEAN–Korea Free Trade Area (AKFTA), since 2010
- ASEAN–China Free Trade Area (ACFTA), since 2010
- ASEAN–Australia–New Zealand Free Trade Area (AANZFTA) since 2010
- ASEAN–Japan Comprehensive Economic Partnership (AJCEP) gradually entering into force since 2009

Opportunities for the businesses

“Singapore has a big pool of talent and we need to make sure that we have the right skills on board as well as continuously look to invest in training. We should also regularly upgrade on-the-job skills to keep our workforce engaged and make the best of the opportunities at hand,” says Ms. Anuprita Bhomick, Director, Asia Pacific and Japan (APJ) Enterprise Product Management & Pricing at Dell Corporation.

Respondents have identified Singapore’s vast pool of talent as one of the key advantages for the nation. In terms of preparedness and opportunities that lie ahead, Singapore is one step ahead of rest of the ASEAN nations in introducing initiatives and investing in good quality training and education to meet the region’s needs. For example, key programmes include EDB’s Medical Technology IDEAS (Innovate, Design, Engineer for Asia in Singapore) which helps build up a pool of engineers, VOC specialists and regulatory experts through on-the-job training in companies’ global and Singapore-based R&D facilities*.

“Singapore is probably the best prepared for AEC as it has a relatively better infrastructure than most other ASEAN countries and much higher standard and quality of life. Talents from other member nations might be encouraged to move to Singapore in order to get a better exposure in the business world and a better quality of life,” says Mr. Felix Kuswanto, Senior Executive at Mtisui Corporation.

We foresee that opening up of the markets via AEC can result in an influx of talent from neighbouring countries. Similarly, due to the diverse economies within ASEAN, Singapore can expect an outflow of talent to countries such as Indonesia, Thailand and Vietnam where such advanced levels of infrastructure are yet to be established. Ms. Chan at CNBC Asia shares with us, ***“As AEC will open up new jobs and opportunities, it will be even more crucial to attract new talent in ASEAN countries by collaborating with tertiary institutions, forming scholarships and awards to attract talented labour.”***

One of the attempts to facilitate labor mobility within the AEC is to **develop Mutual Recognition Agreements (MRAs) to enable the qualifications of professional services to be recognized, allowing easier movement of labour in the ASEAN region.** ASEAN has already concluded Mutual Recognition Agreements (MRA) in 7 fields, namely engineering, nursing, architecture, surveying, medicine, dentistry, and accountancy.

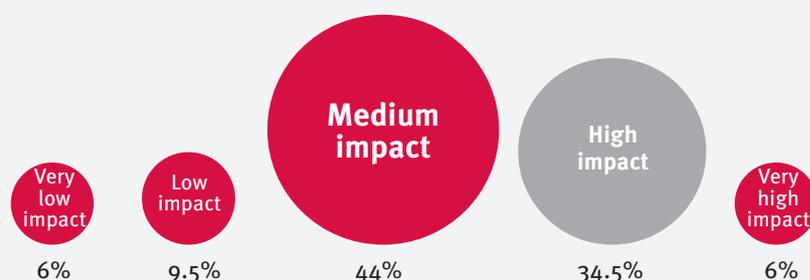
Mr. Edward Ng, Expansion Analysis Manager at Ikano Retail Asia, says ***“a single, production base will improve supply chain efficiency, flow of labor, reduce unnecessary costs and increase competitiveness.”*** In order to have a single production base, there also needs to be harmonisation of standards and simplification of technical standards and regulations. Measures to reduce technical barriers to trade are also in place, including mutual recognition arrangements (MRAs), and the harmonisation of standards and a regulatory regime. This brings us to another key advantage for **Singapore - which is the transparency in its legislative framework, making it attractive** for investors and global/regional businesses alike to invest in Singapore and make it their regional hub for operations.

“The key to tackling the opportunities and challenges that come along with workforce changes is to essentially focus on improving productivity by giving ample training and exposure to the wider business and regulatory environment. With AEC in place, cross market movement of key personnel to get first-hand experience of working in different social, cultural, regulatory environments can benefit us in having a stronger presence in the market,” says Mr. Dixit. As a small and efficient hub, the growth potential in Singapore is massive. Having a transparent and strong policy network will allow businesses to expand into new markets, presumably, less mature markets and establish a strong foothold in the region.

* Source: Singapore Biotech Guide 2014 / 2015

As AEC opens up markets and harmonizes standards, companies can expand their capabilities and take further advantage of Singapore's innovative prowess, highly-skilled workforce and leverage upon it to set up their base in Singapore in order to have regional access. As Ms. Audrey Gerard, Global Account Coordinator at DHL says, ***"In the Automotive sector, local demand in ASEAN markets is increasing and it also offers cost-competitive manufacturing advantage. The AEC will facilitate intra- ASEAN trade and could develop ASEAN as a strategic and regional hub for automotive. This requires, however, that ASEAN agreements are fully implemented at the national level, such as those related to harmonisation of customs rules and processes, technical standards, import rules and rules on foreign direct investment. In addition, the AEC has the potential to intensify investments to foreign OEMs' locally. As Indonesia has the 4th largest population in the world and low labour costs, it is in a prime position to be very competitive vis a vis other big automotive markets such as China, where labour costs and investment costs are rising."***

Exhibit 11. Level of impact of AEC on businesses



Source: GIA Interviews (N=32), November 2014

Impact of AEC on businesses

44% of the respondents in our survey are expecting a medium impact to their business, while close to 40% (34.5% + 6%) are expecting a high to very high impact. As companies aim to make a mark in the global market, regional policies are also going to play a role in defining the impact a company can make, once AEC comes into place. As Ms. Gerard points out, ***"We expect the AEC to intensify intra-ASEAN trade, and this will in turn increase requirements for logistics services – both from transportation flows within ASEAN and from setting up regional distribution facilities which will support the demands of the entire ASEAN region. We believe these trends will positively impact us."*** Free flow of services, seamless labour mobility, abolition of tariffs, harmonisation of standards and regulations will be crucial to ensure the level of impact. In the technology space for instance, Ms. Bhomick from Dell says, ***"The technology industry is one of the most important in solving big problems in Asian economies. With AEC in place, many countries will benefit as they will be able to go to the next wave of technology investment as there wouldn't be any legacy systems."***

"We're not expecting AEC to have a massive impact right from the get-go. Implementation of policies will take time to materialize and take effect. The countries' state of readiness is not the same across the member nations, so it's highly unlikely that they can move in tandem in the short term," says the Marketing Head of one of the leading manufacturing companies in Singapore. Companies prefer to adopt a 'wait and see' strategy, where they first observe how the market reacts and how the governments correspond to such an implementation before looking to invest or expand their businesses.

Mr. Ng from Ikano Retail Asia says, ***“Integration into global economy opens up the ASEAN economies for international trade with less restrictions, encouraging competition and innovation.”*** However, for businesses, the integration into the global economy wouldn't be seen as early as 2015 as ASEAN needs to make a concentrated effort to solve the complex hurdles of maintaining a more cooperative structure to facilitate trade, expansion and expediting the stability of the regulatory systems. ***“With AEC's roll out, a lot more business opportunities will be made available in the market. For example, local manufacturing can increase and exports to other ASEAN member nations can hugely prosper with the increase in demand,”*** says Mr. Vrolijk at ThyssenKrupp. The effort is crucial for meeting increasing demand needs and for improving living standards in order to fully take advantage of the AEC's implementation.

“AEC is expected to have a high impact on us. Together with increased demand for exporting, there would also be an increased demand for having skilled workers in the market which will eventually help impact the future of having a regional presence,” says Ms. Michelle Chua, Senior Executive from Pall Corporation. According to Ms. Chua, one of the biggest impacts that businesses foresee is in terms of labour. Labour cost differentials across the ASEAN region may result in massive shift of personnel. Mr Christopher Lo, Consultant at iADD Private Limited, expresses his view that ***“businesses should emphasise and invest more into disciplined and structured training of people to deal and cope with the structural changes, capability and mental shifts arising from this change in the regional business environment.”*** However, there are other barriers such as domestic regulations that can hinder the seamless movement of capital, services and people. For example, even though the MRAs are in place for free flow of labour, professionals need to pass tests in local languages and obtain licenses to actually be able to work in another country.

Looking ahead: Driving growth in ASEAN

Ultimately, industries need to be innovative, have highly skilled talent and make the best out of every opportunity that comes out of the AEC. Companies in Singapore need to look outward in the region in order to expand their manufacturing activities, commercial operations and develop robust supply chain channels. However, they must not lose sight of looking inward and invest in training, upgrading skill set of personnel and developing in-house capabilities.

With regards to business development across the region, companies in Singapore have responded with three probable outcomes that would shape the industries once AEC kicks in.

1. Increased transparency

There would be increased transparency and greater competition within the region. As Ms. Bhomick says, ***“AEC will likely result in a lot of momentum in business development activities, especially in terms of consolidation and creating ASEAN wide networks and collaborations.”***

With increased transparency and removal of barriers, there is scope for faster pace of development in the region whereby companies can invest and grow organically. Also, with the opening up of borders, companies believe that legislative approval for cross border acquisition, divestment and invest would result in more choices due to geographical proximity. Ms Chua agrees that opening up of the borders will result in increased activity in ASEAN, ***“there will certainly be a lot of momentum in the business development space once AEC kicks in. An increase in acquisitions will enhance product capabilities of companies and strengthen their portfolio to fend off the competition in the market.”***

2. Consolidation

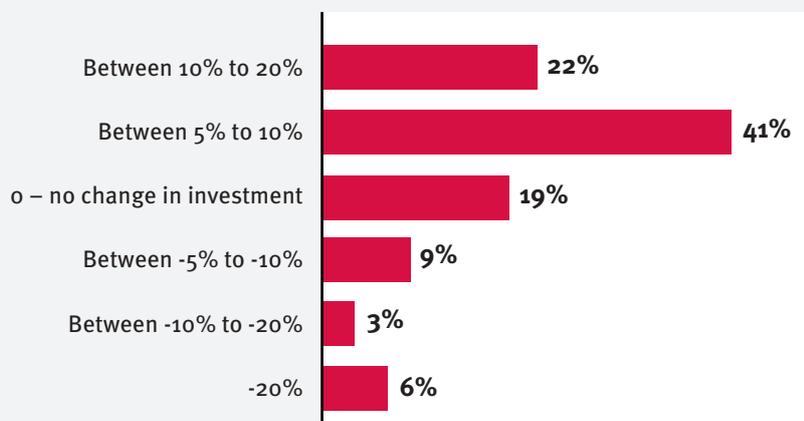
Larger players will look to merge and acquire new and small players to gain entry into unexplored markets. Mr. Lo points out, ***“It will make greater sense for the larger players to merge and acquire new players to gain entry and access into new markets, and for more divestment of business units to lower cost economies.”*** As AEC pushes for a level playing field, businesses with a larger growing and purchasing power will look to consolidate small companies to establish a stronger foothold in new markets and enhance their product portfolio

and capabilities. For example, Philippines has recently removed restrictions on foreign entities owning stakes in domestic banks in order to attract foreign direct investment. *“Following the removal of ownership restrictions, foreign banks might be enticed by owning a bank 100% without having to consider minority shareholders. Foreign institutions are looking with increased interest because now there is a clearer path to control and whatever artificial constraints there were have been removed,”** shares BPI Capital’s President, Mr. Dennis Montecillo with FinanceAsia. *“CIMB and DBS are the banks most likely to look for deals in the Philippines. We are ready for them and we know we can compete with them,”** says Eugene Acevedo, Senior Executive Vice-president for retail and corporate banking at Union Bank of the Philippines. At the same time, in order to stay competitive, they may look to divest business units that are loss-making to achieve lower cost of economies. Mr. Ng from Ikano Retail Asia agrees with the viewpoint that some businesses might get condensed, resulting in a more competitive environment. *“Every industry will go through adjustments due to freer market forces. Some industry will see consolidation into oligopolies or a similar structure. Others will see larger numbers of new competitors, forming a perfectly competitive industry environment,”* he says.

3. Businesses to adopt a “wait and see” approach

“In my opinion, there will not be much impact to business development activities. Given that AEC is new, most investors will want to wait and see how it pans out regionally before deciding to invest in any which nation or business,” says Mr. Kuswanto from Mitsui. As Mr. Kuswanto points out, investors may be sceptical about investing in any business at the moment. The reason for this is that they are still wary of new markets, local companies and domestic regulations, and they would want to wait for more constructive action in this space in the region.

Exhibit 12. Change in organization’s investment in ASEAN over next 2 years



Source: GIA Interviews (N=32), November 2014

Companies in Singapore are not expecting a massive change in their investment model over the next 2 years. **About 41% of the respondents are looking to increase investment in ASEAN in between 5 to 10% range**, whereas 22% are looking to dig deeper in ASEAN with 10-20% increase in investment. About 37% of the respondents are more risk averse with plans to keep to the same or decrease investment in ASEAN. These players would like to observe how the AEC policies pan out regionally and how competitive the market becomes before looking at how to invest. Ms. Chan agrees with the view that it will take much longer than the hard deadline of

* “Philippine banks on the block”, FinanceAsia, 28 November 2014

** “Philippine banks on the block”, FinanceAsia, 28 November 2014

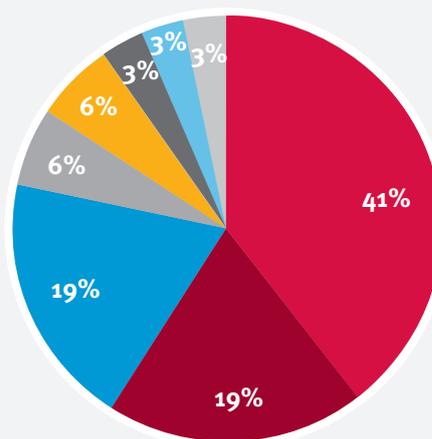
31 December 2015 to convince investors, **“AEC will definitely boost business development activities in the long run, but it is overly optimistic to think it will flourish by 2015, due to political challenges in some countries,”** she says.

In terms of readiness of the economies, Singapore has been identified almost unanimously as the most well prepared economy. **“Singapore is the most well prepared for AEC as it has a global, integrated economy with low taxes, a well-developed financial and judicial system together with a multi-cultural workforce which gives Singapore the edge to excel,”** says Mr. Dixit.

Exhibit 13. Respondents’ vote for economies that are least prepared for AEC



Brunei 0%, Singapore: 0%



Source: GIA Interviews (N=32), November 2014

Among the economies at the bottom of the ‘preparedness index’ is **Myanmar, together with Laos and Indonesia. 41% of the respondents have expressed their lack of confidence in Myanmar’s preparation for AEC.** This may not be surprising because of its weak legislative backbone and lack of developed infrastructure. In recent times, there has been plenty of talk around the economic viability of Myanmar and massive investment potential it holds, but one has to note that with poor infrastructure, poor organisation, and too much bureaucracy, Myanmar wouldn’t be in any strong position to benefit from the AEC. Myanmar has many hurdles to pass before the impact of AEC can be felt.

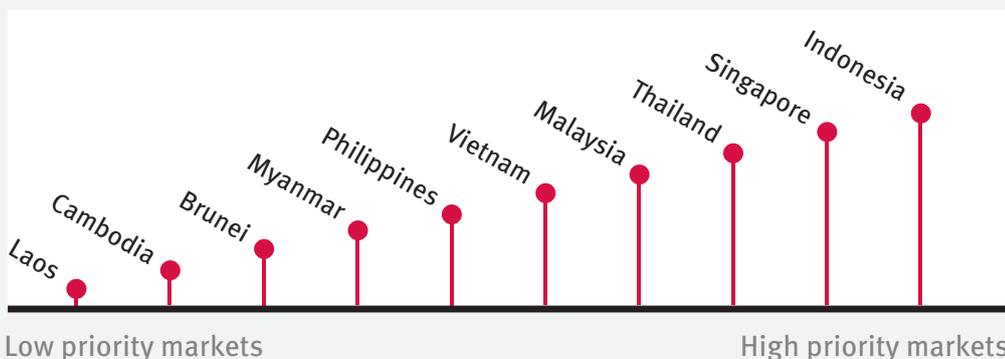
“Myanmar is probably the least prepared for AEC, as its economy is still in the growing phase – the banking system is not fully implemented or recognized internationally which will make a huge difference especially once trade opens up,” says Mr. Vrolijk of ThyssenKrupp.

Both Laos and Indonesia grab 19% each of the votes to tie for second place for the least prepared economies. **“In my personal opinion, Laos would likely be the least well prepared for AEC as it lacks business infrastructure and there is limited mention of Laos as an investment-worthy destination for business purposes,”** says Mr. Kuswanto of Mitsui. This is not entirely surprising because of the lack of talk around and about Laos in the business world. For the most part, Laos needs to develop a lot more economically, socio-culturally and politically to be able to compete on the same ground as other fast moving ASEAN nations, such as Singapore, Malaysia and Thailand.

Mr Dixit who voted that Indonesia is probably the least prepared nation says, **“Indonesia is the least prepared nation for the implementation of AEC as their focus largely lies in local politics at the moment; the government is looking to address short term issues rather than focus on AEC.”** As the AEC rolls out next year, Indonesia needs to step up its game and shift its attention towards developing their infrastructure and regulatory system. There is massive intra-ASEAN

flow expected to occur once the economies open up, and for Indonesia to make the most of this opportunity, the government has to look inward and first shape its infrastructure institutionally, develop its workforce, and introduce policies to enhance competition and product innovation.

Exhibit 14. Priority markets for investment in ASEAN



Source: GIA Interviews (N=30), November 2014

Indonesia is described by an analyst in a leading logistics firm, **“it has one of the highest corruption levels which make it difficult for them to do business with other countries. It also faces challenges such as port congestion and road infrastructure but this country has huge potential of growth.”** This view resonates with our survey results, where **Indonesia has been voted as one of the top markets where businesses will look to invest** despite its challenges. It will become more important now than ever for companies to understand the Indonesian market even better, in terms of which regions within Indonesia to invest in, which sectors are seeing high levels of growth, who are the strong players in the market and how strong is the international and local competition in Indonesia.

Among the least interesting markets to invest in are Cambodia, Laos and Brunei reflecting their weak infrastructure, lack of economic stability and lack of solid framework and visibility around policies that will help shape the markets in the future.

Businesses are sceptical of the growth potential that ASEAN has to offer. The general sentiment in the market is very lukewarm. Most companies believe that results won't be visible in the short term.

Conclusion

As we observe the ASEAN developments, not only will the impact be felt regionally, it will be felt on a global level. Looking at the growth figures for ASEAN, businesses and industries will be looking towards the region to expand and grow their capabilities.

When ASEAN comes to fruition at the end of the year, businesses need to be prepared to tackle the associated challenges and opportunities that come along with it. **With the abolition of tariff and non-tariff barriers, businesses in Singapore will need to look outward to expand their market share**, especially in markets such as Indonesia, Vietnam and Thailand where there is abundant opportunity with population sizes of 250 million, 90 million and 67 million respectively as compared to Singapore (5.4 million)*. Businesses and industries will become closely linked to

* Population figures from World Bank. Figures as of 2013.

one another as they would move up the value chain, opening up further avenues to cooperate and collaborate and introduce new products in the market.

With AEC's principles of **investment protection and equal treatment towards all nations**, companies can no longer effectively discriminate between nations and their own domestic ground for investment. This would not only boost investor confidence but also make the region a level playing field for all businesses looking inward and outward. **Businesses can move up the value chain through integration with other companies** and expand their horizons. The **harmonisation of standards and regulations** will make it a more attractive region to invest in. With the **opening up of labour markets, companies in Singapore can capitalize on their highly-skilled talent** and potentially look to train businesses outside of Singapore. Similarly, regionally, people can look to move to Singapore to develop their skill set and capabilities. The osmosis of labour across the region will help integrate the nations and harmonise their strengths.

The AEC will help bring together the vast differences in culture, socio-economic developments and individual growth, which will only help to make the region stronger. As the goal is towards making ASEAN into a single production market, individual nations can capitalize on each of their strengths to grow and collectively become a stronger economic force on the global front.

Appendix – fundamentals of AEC

Single Market and Production Base

AEC's **free flow of goods** is one of the key criteria in order to realize the goal of the 'single market and production base' and in order to achieve that, it would not only require the removal of tariffs but also non-tariff barriers. Enhancing custom procedures and the Common Effective Preferential Tariffs (CEPT) would also be an added boost to ensure free flow of goods. In the process of simplifying the tax and duty structure, governments need to make sure that where there is a need for regional rules, they stay as consistent as possible to the international best practices.

This aspect of the AEC Blueprint is not only crucial for the growth of intra-ASEAN trade, but it also helps to ensure that there is transparency and visibility across the field to ensure the effective implementation of second level initiatives.

Together with free flow of goods, **free flow of services** is also essential in realizing ASEAN Economic Community. By 2015, all restrictions for trade in services will be lifted to facilitate the liberalization. Priority service sectors include aviation, e-ASEAN, healthcare, tourism and logistics and all other sectors follow.

To enhance regional integration and to maintain a competitive economy, ASEAN countries are moving towards **free flow of investment** in the region. The objective is to have a more comprehensive investment framework that is outward looking and enables greater investor confidence in ASEAN. AEC's free flow of investment will provide increased protection to all investors and their investments together with ensuring full transparency on all rules and regulations governing the policies.

As a segment of a single market and production base, AEC's **free flow of capital** will help achieve greater harmony in capital market standards in ASEAN. What is essential to achieve this is facilitation of efforts towards recognition of qualifications, flexibility in law requirements for securities issuance, consistent and simplified tax structures to promote greater investment and at the same time, having ample safeguard measures against potential macroeconomic instability, financial turmoil and risks that arise from volatile markets.

Complementing the above features is ASEAN's move towards **free flow of skilled labour**. This is one of the most crucial elements in regional integration because of the massive difference in skill and compensation structures across various economies of ASEAN. Economies at this stage are working towards increased cooperation among ASEAN University Network (AUN) to increase mobility for both students and staff within the region and at the same time, creating training programs and strengthening research capabilities for the development of core qualifications, promoting skills and enhancement of competencies.

In terms of how far ASEAN has implemented these measures; there have been significant achievements in free flow of skilled labour and capital with more services sub-sectors and higher thresholds of liberalization being targeted together with increased commitment to facilitate movement of labour across sectors. Based on the AEC Scorecard*, 65.9% of the measures have been implemented under Pillar 1.

* ASEAN Economic Community Scorecard 2012, www.asean.org

Exhibit 15. AEC Single Market and Production Base Scorecard

Key Areas	Phase I (2008-09)		Phase II (2010-11)		Total Measures	
	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented
Free flow of goods	9	0	23	24	32	24
Free flow of services	10	3	13	17	23	20
Free flow of investments	5	1	5	8	10	9
Free flow of capital	1	0	5	0	6	0
Free flow of skilled labour	-	-	1	0	1	0
Priority integration sectors	28	0	1	0	29	0
Food, agriculture and forestry	8	0	5	6	13	6
Total number of measures	61	4	53	55	114	59
Implementation rate	93.80%		49.10%		65.90%	

* Implementation rate is calculated as the ratio of measures that are fully implemented to total number of measures targeted

(-) Indicates no measures targeted for this phase

Competitive Economic Region

As ASEAN is gaining more and more attention on the global economic front, its member countries want to create a **fair competitive environment** with laws and institutions fostering a culture of such.

Through the establishment of ASEAN Coordinating Committee on Consumer Protection (ACCCP), ASEAN nations are strengthening the **consumers' rights** and pushing for a people-centred approach in the region. A network of consumer protection agencies has been established to enable information sharing. Along with the consumer protection rights, AEC also fosters the enhancement of **intellectual property rights** to raise a dynamic culture of adaptation to advanced technologies, creativity and invention which will eventually impact both the volume and quality of trade and investment from within the region and from outside the region as well.

The benefits of a fair competitive environment, consumers' rights, and property rights are further maximised if it is complemented with an **advanced infrastructure and e-commerce**. One of the focuses for infrastructure development is transportation. Having efficient transport linkages regionally not only enhances the attractiveness of ASEAN but also narrows the gaps between the countries and paves way for smooth logistical connection, integration of tourism and greater operational activity across air and maritime ports. Together with transportation development, AEC is also looking to enable inter-connectivity across the information infrastructure – where countries can leverage on existing national networks with interoperability among ICT systems, and take advantage of features like greater security for electronic transactions.

Based on AEC Scorecard, Around 67.9% of measures under Pillar II were implemented as at end-December 2011, with notable progress in the areas of competition policy, Intellectual Property Rights, and regional cooperation in minerals and ICT.

Exhibit 16. Competitive Economic Region Scorecard

Key Areas	Phase I (2008-09)		Phase II (2010-11)		Total Measures	
	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented
Competition policy	2	0	2	0	4	0
Consumer protection	2	0	5	4	7	4
Intellectual property rights	-	-	4	1	4	1
Transport	15	10	6	8	21	18
Energy	0	0	2	1	2	1
Minerals	1	0	7	0	8	0
ICT	2	0	4	0	6	0
Taxation	-	-	0	1	0	1
E-commerce	-	-	1	0	1	0
Total number of measures	22	10	31	15	53	25
Implementation rate	68.70%		67.40%		67.90%	

* Implementation rate is calculated as the ratio of measures that are fully implemented to total number of measures targeted

(-) Indicates no measures targeted for this phase

Equitable Economic Development

The ASEAN policy blueprint fosters the **development of SMEs** within the ASEAN region through policy measures, work programmes that will help in the networking of the SMEs and grow their participation towards regional integration.

Another aspect of nurturing economic development comes from ensuring the integration among the member nations of ASEAN. Seeing that each country is on a different level of development, there is need to address the divide issues amongst these nations and bridge the gap as much as possible. The **Initiative for ASEAN Integration (IAI)**, launched in 2000, helps to bring together the nations' efforts on the global front. Areas such as infrastructure, human resource development, ICT, energy, investment climate, improvement in quality of life, regional economic integration, tourism, poverty reduction are on the forefront for IAI's strategy.

Based on AEC Scorecard, Around 66.7% of measures under Pillar III were implemented where SME development and Initiative for ASEAN integration was largely on track.

Exhibit 17. Equitable Economic Development Scorecard

Key Areas	Phase I (2008-09)		Phase II (2010-11)		Total Measures	
	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented
SME development	1	0	4	3	5	3
Initiative for ASEAN integration	2	0	1	1	3	1
Total number of measures	3	0	5	4	8	4
Implementation rate	100%		55.50%		66.70%	

* Implementation rate is calculated as the ratio of measures that are fully implemented to total number of measures targeted

(-) Indicates no measures targeted for this phase

Full Integration into Global Economy

As we move into an increasingly global environment, it is crucial for ASEAN to be more flexible, dynamic and stronger in order for ASEAN businesses to grow and compete at a global level. Policies and regulations must increasingly adapt with AEC goals and look outward for development of Free Trade Agreements (FTAs) and comprehensive economic partnership (CEPs) agreements. Moreover, ASEAN will also encourage the member nations to participate in the global supply chain by further upgrading their industrial capacities and capabilities and enhancing their productivity to be recognized in the global supply chain.

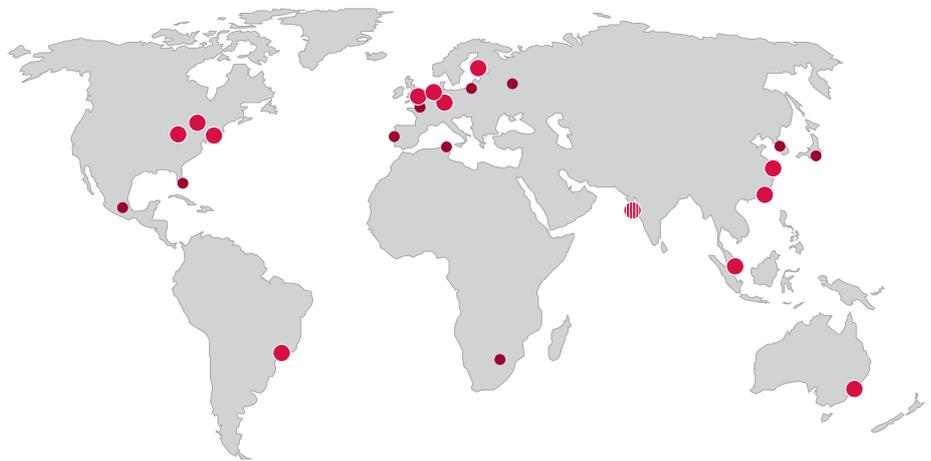
As we move towards a more central and global economy, ASEAN has obtained 85.7% of its goals, including various Free Trade Agreements (FTAs) with multiple nations across the globe, such as, China, Japan, India, New Zealand, Australia and Korea.

Exhibit 18. Full Integration into Global Economy Scorecard

Key Areas	Phase I (2008-09)		Phase II (2010-11)		Total Measures	
	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented
External economic relations	5	0	7	32	12	2
Total number of measures	5	0	7	2	12	2
Implementation rate	100%		77.80%		85.70%	

* Implementation rate is calculated as the ratio of measures that are fully implemented to total number of measures targeted

(-) Indicates no measures targeted for this phase



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