

# Korea's Readiness for the ASEAN Economic Community

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## I. The AEC Launch in 2015

On December 30th, 2015, ASEAN Member States (AMS; ten countries in Southeast Asia) announced the launch of the ASEAN Community, including the ASEAN Economic Community (AEC). All AMS held high expectations for more extensive and stronger economic integration facilitated by the AEC. Last November, however, ASEAN released a new AEC roadmap for the next decade, called ASEAN 2025: Forging Ahead Together, which could ironically imply the incompleteness of the AEC launch.

Although AMS originally agreed, in the Declaration of ASEAN Concord II in 2003, to have established the AEC by 2020, they brought forward its target date to the end of 2015 in the 2007 AEC Blueprint. This implied that AMS were strongly determined, at the time, to achieve ASEAN integration. According to the AEC scorecard, a biennial process to monitor the progress of measures in the AEC Blueprint, 469 out of 506 measures had been undertaken by 2015. Measures to achieve the AEC pillars of 'Equitable Economic Development' and 'Integration into the Global Economy' have been

fully implemented. However, 21 and 16 measures under the pillars of a 'Single Market and Production Base' and 'Competitive Economic Region', respectively, have not been implemented. AMS agreed to complete the unfinished measures by the end of 2016.

The AEC's establishment in 2015, in fact, was progress toward, rather than a completion of, economic integration. Its launch was an opportunity to assess its achievements and identify measures with insufficient outcomes. Although the AEC launch may merely be considered a declarative event, the gradual progress and efforts toward economic integration will continue. It should also be noted that the AEC launch holds significance in that it was driven by the self-awareness of ASEAN countries, which place importance on economic integration and the development of a regional trade agreement among AMS.

## II. AEC Development: Improving Business Environments

The ASEAN Secretariat highlighted eight key goals: market liberalization, reduction of trade costs, improvement of investment regimes, mobility of skilled labor, FTA and CEPA, business-friendly and innovation-supportive environment, improvements of transportation and other infrastructure networks, and reduction of the development gap.

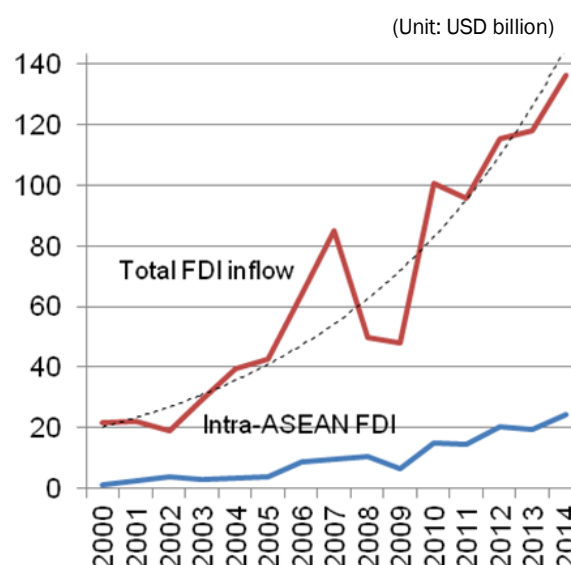
Market liberalization was the most fully accomplished among the key goals underlined by the AEC. The ASEAN-6<sup>1</sup> have virtually eliminated their intra-regional import duties on 99.65% of tariff lines. Cambodia, Lao PDR, Myanmar, and Viet Nam have reduced their import duties to 0-5 per cent on 98.86% of their tariff lines, though the utilization rate and non-tariff measures still remain as obstacles to the free flow of goods. Intra-trade in services has been also liberalized. AMS decided to lift all restrictions by 2015, particularly in air transport, e-ASEAN, healthcare and the tourism sector. According to the ASEAN Framework Agreement on Services (AFAS), Mutual Recognition Arrangements on eight sectors (engineering services, nursing services, architectural services, surveying, medical practitioners, dental practitioners, accounting services and tourism professionals) have been concluded to facilitate a free flow of skilled labor. In parallel, work towards the enhancement of the AFAS through the ASEAN Trade in Services Agreement (ATISA) will be continued, and is targeted for conclusion in 2016.

Trade facilitation measures such as the ASEAN Trade Repository, elimination of non-tariff barriers, and the ASEAN single window have been implemented to simplify trade procedures and reduce costs. Rules of origin, harmonization of technical regulations and mutual

recognition have also been discussed.

### III. AEC Development: Shaping the ASEAN into an Attractive Investment Destination

Figure 1. FDI Inflow of ASEAN



Note: The dotted line stands for the trend line of total FDI inflows in exponential function.

Source: ASEAN stats Database (<http://aseanstats.asean.org>).

Investment regimes have been improved through the 'ASEAN Comprehensive Investment Agreement (ACIA)', which entered into force in 2012. Now ASEAN has become one of the world's most attractive investment destinations. In 2010, FDI into ASEAN exceeded USD 100 billion. In 2014, it recorded a 15.7% increase from 2013, which beat FDI inflows to China. In addition, intra-ASEAN FDI flows have been stable. The share of intra-investment to total FDI has been above 10% since 2006. Since 2010, intra-investment has maintained a

<sup>1</sup> ASEAN-6 represents Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

share of above 15%.

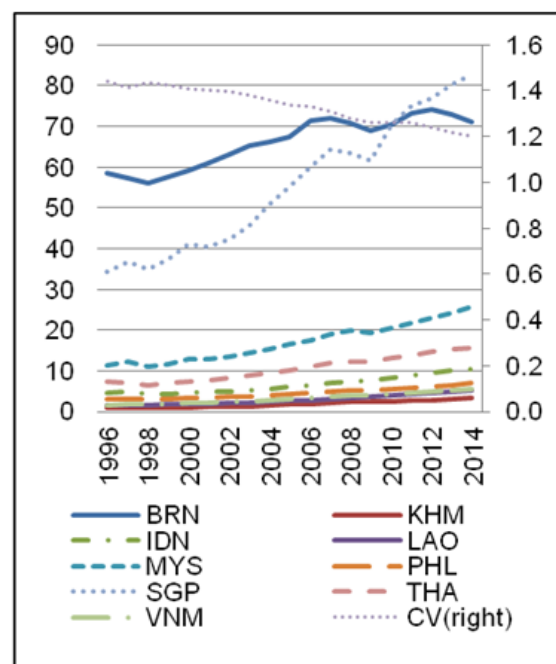
Both external and internal linkages were improved through FTAs and CEPAs. To date, there are 50 bilateral agreements (such as the Korea-Vietnam FTA), 11 plurilateral agreements (such as the Malaysia-EU Free Trade Agreement) and 23 multilateral agreements (such as the TPP). In 2014, the share of merchandise trade with ASEAN's top five dialogue partners<sup>2</sup> to total trade reached about 50%, compared to intra-ASEAN trade, which stood at 24%.

Transportation and other infrastructure networks have been improved in line with the progress of the AEC. The Master Plan on ASEAN Connectivity released in 2010 has played a key role in physical, institutional and people-to-people linkages among AMS. In the case of land transport, the ASEAN Highway Network is about 67.6% (26,627/39,400 km, as of 2015) complete, although the SKRL Project connecting Singapore and Kunming, China has been delayed. Maritime and air transportation are also witnessing improvements, as seen in the construction of sea ports and the development of the ASEAN Single Aviation Market.

The development gap among AMS has narrowed. As seen in Figure 2, the difference of GDP per Capita (PPP) among AMS has decreased. The coefficient of variation of GDP fell from 1.44 in 1996 to 1.20 in 2014. This achievement will be further enhanced by ensuring that the benefits of ASEAN integration are shared equitably among AMS, in particular with CLMV countries. To do so, ASEAN has highlighted SME development through the ASEAN Strategic Action Plan for SME Development (2016-2025).

Figure 2. GDP per Capita, PPP

(Unit: USD thousand)



Note: The axe on the right hand side represents CV. CV (Coefficient of Variation) was computed by standard deviation/mean of AMS' GDP. Myanmar is omitted.

Source: World development indicators

(<http://data.worldbank.org/data-catalog/world-development-indicators>).

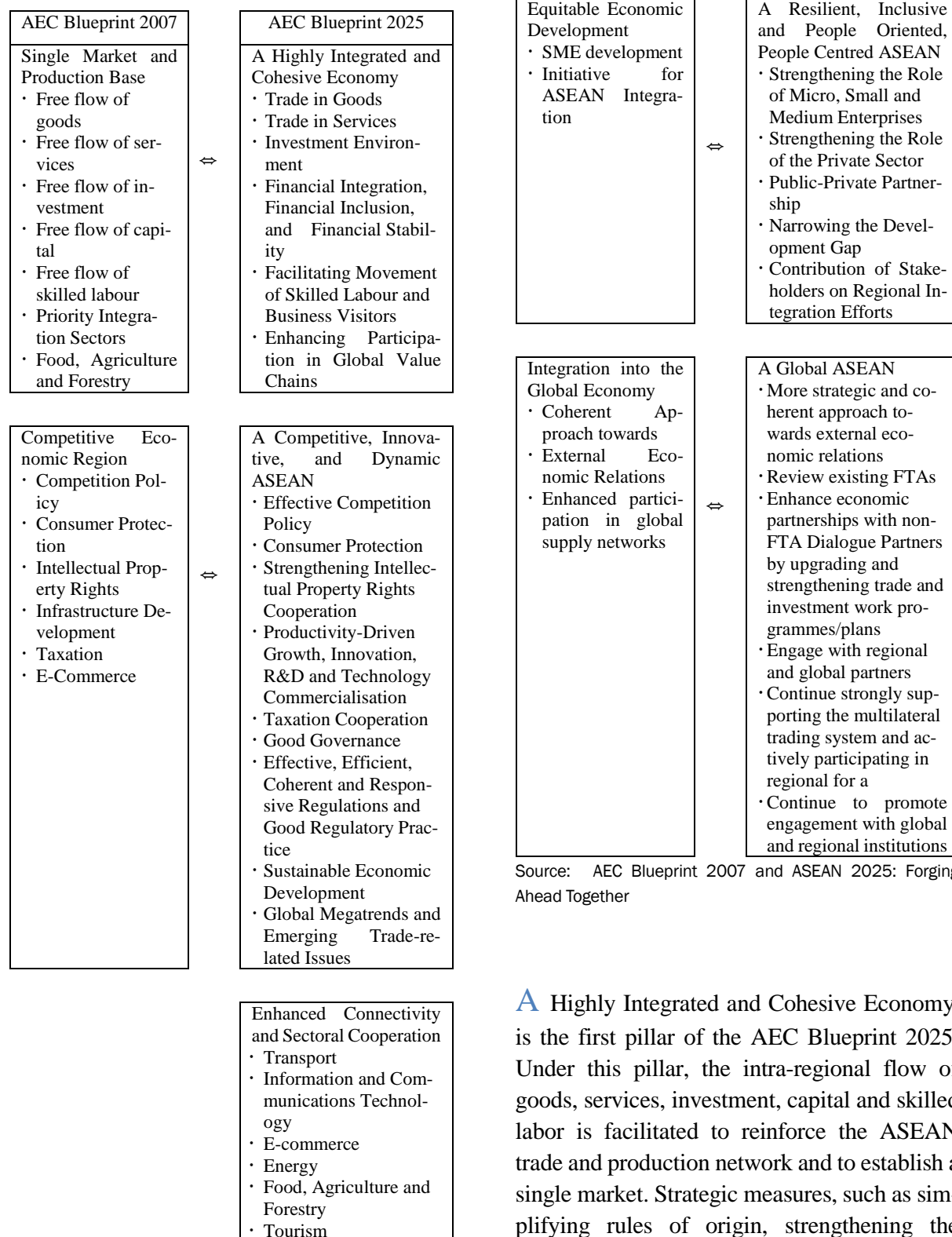
## IV. The Future of the AEC Under the New Blueprint 2025

At the 27th ASEAN Summit held in Kuala Lumpur, Malaysia, a new roadmap called “ASEAN 2025: Forging Ahead Together” was introduced. It consists of three parts: the new AEC Blueprint, the new ASEAN Political-Security Community Blueprint, and the new ASEAN Socio-Cultural Community Blueprint. The new AEC Blueprint defined five new pillars succeeding the four pillars of the AEC Blueprint adopted in 2007. Figure 3 shows the four pillars of the AEC Blueprint of 2007 and

<sup>2</sup> China, EU, Japan, USA and Korea, in order of magnitude.

the five new pillars of the AEC Blueprint 2025.

Figure 3. AEC Blueprint 2007 VS. 2025



A 'Highly Integrated and Cohesive Economy' is the first pillar of the AEC Blueprint 2025. Under this pillar, the intra-regional flow of goods, services, investment, capital and skilled labor is facilitated to reinforce the ASEAN trade and production network and to establish a single market. Strategic measures, such as simplifying rules of origin, strengthening the

ASEAN Trade in Goods Agreement, and accelerating trade facilitation, will be undertaken.

**B**uilding a more competitive and innovative ASEAN is another objective. Competition policies, knowledge protection and participation in the global value chain are key measures that could support this goal.

**E**nhancing regional economic connectivity and sectoral cooperation is the third and new pillar of the AEC Blueprint 2025. Recognizing the importance of intra- and inter-regional connection in economic development, ASEAN will strengthen the connectivity of transportation, telecommunications and the economy in line with the Master Plan on ASEAN Connectivity.

**A** Resilient, Inclusive, People-Oriented, and People-Centred ASEAN' is the pillar that succeeds 'Equitable Economic Development' of the 2007 blueprint. ASEAN highlights the development of SMEs and the private sector as key players of the economy. By promoting their role and participation in the economy, ASEAN looks forward to narrowing the development gap between AMS or firms of different sizes.

**B**y participating in the global economy, ASEAN seeks to maximize economic profit. Through FTAs and RTAs, ASEAN has made progress toward integration into the global economy, and intends to sustain efforts in this direction.

**T**he achievements of the AEC cannot easily be overlooked, although the launch last year was on the large part declaratory. AMS are on a new journey toward the fulfillment of the AEC. Of course, complete integration will not be an easy task to achieve in the short term, given the fact that AMS are greatly diverse in terms of eco-

nomics structure and development levels. However, their aspiration to complete the AEC will push them to realize their goals soon. Therefore, Korean firms and the government must be ready to cooperate with the new economic bloc representing a population of 600 million, and \$ 1.7 trillion in GDP.

## **V. Preparing for the AEC: Korea's Public and Private Sectors**

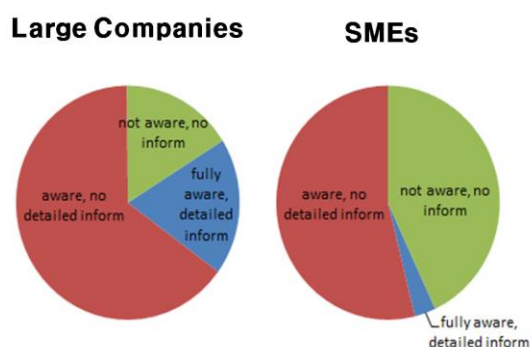
**T**here exist, however, disparities among firms in terms of their awareness of or information on the AEC. According to interviews and survey conducted with 100 Korean firms working in Southeast Asia, carried out by KIEP last year, large Korean firms were more aware about the AEC than Korean SMEs. The large firms were in general informed of the launch of the AEC. Meanwhile, 43% of the Korean SMEs interviewed reported to have no knowledge of the launch. They went so far as to misunderstand the concept of the AEC as a bilateral FTA. To make things worse, the SMEs are not connected to any organization that helps analyze information on AEC development. In other words, they have no capability to prepare for the advent of the AEC. Unless these SMEs make some extraordinary efforts, they may lag behind the wave of change. Therefore, continuous efforts should be made to devise measures that help ease this information gap.

**S**ome firms, especially large ones, have already set their strategies in response to the AEC launch. For example, a Korean food production company plans to educate its employees to transfer them to other AMS under the 'free flow of skilled labor.' Such companies hope to enjoy zero-tariff benefits when importing ingredients from other AMS. Another case in point would



be the finance company that considers ASEAN as a potential market, and has accordingly drawn up plans to penetrate the e-ASEAN market after the AEC is realized.

**Figure 4. Awareness on the AEC**



Source: KIEP (2015).

Efforts toward regional integration and the development of the economic environment will continue in line with the new AEC Blueprint 2025. The Korean government should install a permanent committee to monitor not only the AEC's policies, strategic measures and implementations, but also those of individual member countries and those of Japan, China, and the United States. It is highly probable that AMS will amend their regulations and policies in accordance with the AEC Blueprint once the AEC is launched. During the transition to economic integration, certain industries, firms or partner countries will enjoy benefits while others may be unable to do so. Thus, it is important to understand how other partner countries or private sectors intend to respond.

The Korean government's response to the AEC launch should be more strategic. The action it took last January was tentative. Its first reaction to the AEC launch was to relaunch the 'ASEAN Commercial Attache Meeting.' All commercial attaches shared information on intra-ASEAN

policy changes, and built a cooperation network to support the activities of Korean firms in the ASEAN region. Plans were also developed to underline the roles of existing bilateral economic consultative groups, and organize a new cooperation committee with Cambodia and Malaysia. The 'Seminar on Strategic Countermeasures in Preparation for the AEC' was organized by the Mission of the Republic of Korea to ASEAN, targeting Korean firms in Indonesia and Singapore.

## VI. Concluding Remarks

The shift in the AEC could be a good opportunity to intensify partnerships and cooperation between Korea and AMS. Efforts to realize the AEC continue to take place despite the fact that the UK 'Brexit' vote is forcing a rethink of regional integration strategies and maritime frictions between China, the United States, and Japan. In particular, bilateral meetings between the ASEAN bloc and the countries aforementioned have generated diplomatic momentum, as seen in the ASEAN-US Summit last February. The Korean government should be careful to avoid being isolated from this dynamic relationship. In other words, the Korean government should prepare more concrete strategies in response to these changes in the ASEAN region.

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