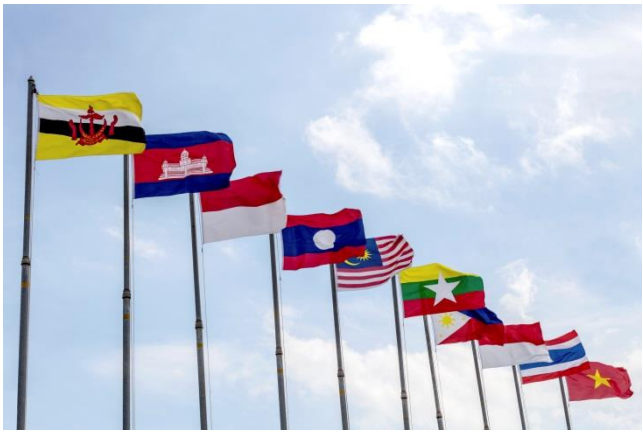
# The ASEAN Way: Big Bang or Fizzle?

In less than a year, the countries that collectively form the Association of Southeast Asian Nations (ASEAN) will implement an ASEAN Economic Community (AEC) that is meant to establish a single economic bloc in the region. Preparations have been underway for more than ten years and the creation of a single market and production base is much anticipated.



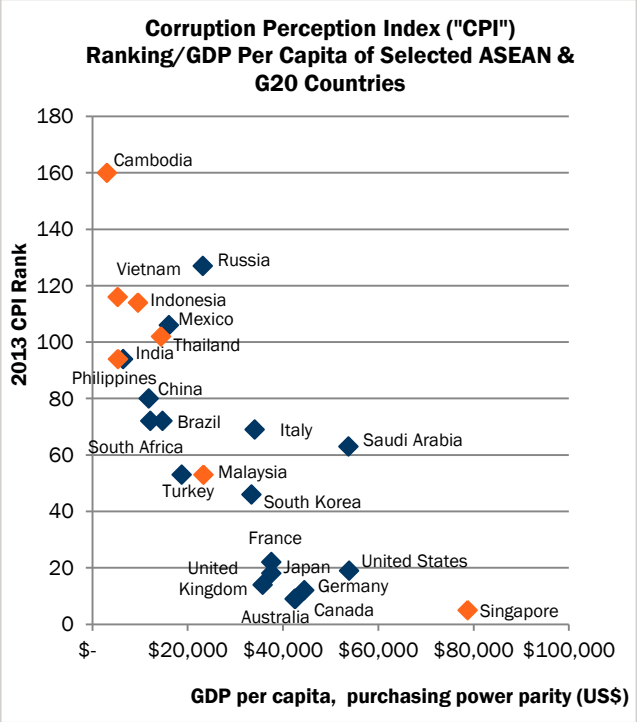
The case for a single economic trading bloc in Southeast Asia is compelling. The region is home to around 600 million people with a combined nominal GDP of more than US$2.3 trillion, which would make it the sixth largest economy in the world. Further, three of the most populated countries (Indonesia, Philippines and Vietnam) have a median age below 30 years old, meanwhile GDP per capita in almost all the ASEAN countries (there is no data available for Myanmar) has increased by a factor of 2.5 to 5 times since 1990.

> **"The AEC will establish ASEAN as a single market and production base. It will transform ASEAN into a region with free movement of goods, services, investment, skilled labour, and freer flow of capital."**

Like the precursor to the European Union ("EU") — the European Economic Community — the AEC aims for economic integration and is one of three pillars which support the creation of a regional community. The parallels between the AEC and its European counterpart are not coincidental. ASEAN has closely observed and largely aims to emulate a Southeast Asian version of the EU. However, there are crucial differences between the two communities, which come into consideration as ASEAN moves towards the AEC. These differences pose a unique set of challenges towards regional integration that the ASEAN member states will have to navigate through without the benefit of another's experience.

Unlike their European counterparts, ASEAN's member countries have very disparate levels of development and income. Southeast Asia is home to one of the wealthiest nations in the world by GDP per capita (Singapore), contrastingly the bloc also includes countries where GDP per capita is less than one tenth of what it is in Singapore. While the ASEAN countries have had positive growth trajectories over the past 50 years, the timing and the magnitude of growth has been varied, as have the strategies employed by national governments. Consequentially, the economic structures in the ten countries range from service-based to primary commodity-driven.

These differences are reflected in various indicators, both socio-economic and investment-related. Both the best performing country in the World Bank's Ease of Doing Business ranking (Singapore) and some of the worst (Myanmar, Laos) are located in Southeast Asia. This is mirrored to varying degrees in matters such as corruption, control and policy stability, where the former is a significant concern across most of the region.




Moving beyond the different conditions present in the ASEAN member countries, the creation of AEC characterized by five elements (free flow of goods, free flow of services, free flow of investment, freer flow of capital, and free flow of skilled labour) will pose its own set of challenges. Local companies will face more competition as restrictions on trade are lifted and more products from the region enter domestic markets.

The free flow of skilled labour, while a boon for more knowledge and skill-intensive industries, will also require firms to provide more incentives to lure and retain talent.

With the problems that a sudden opening of markets would pose to domestic companies, and with due consideration to the "ASEAN way," the AEC should not be viewed as a hard deadline for full and deep economic integration. Rather than a "big bang" change to the way businesses and investors in the ASEAN region operate, the changes wrought by the AEC 2015 are more likely to be incremental in nature, setting the stage for further integration.

Over the next three months, FTI Consulting will highlight the eight most promising economies of Southeast Asia with a focus on the challenges that each of these countries face, both in relation to the AEC and more broadly. This series will kick-off with Indonesia (*A Rising Giant*) and Philippines *(Establishing Stability)*, and move through maritime Southeast Asia, covering Singapore (*Progress, Protests and Population Woes*) and Malaysia (*Potholes on the Road to 2020*) before heading to the continental countries of Thailand *(The Cost of Empowerment)*, Cambodia and Vietnam. The series will conclude with the newest member of the global economy, Myanmar, where the regulatory and political environment continues to evolve.

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