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Thailand and the ASEAN Economic Community: An Overview and Expectations

By Matthew Christensen, Kunal Bir Singh Sachdev and Thanyaluck Thong-Rompo

Thailand and Southeast Asia are currently in the process of going through substantial changes to meet the ASEAN Economic Community (“AEC”) framework that is expected to debut at the end of 2015. The subject has been covered extensively, but questions still linger. What is the AEC? Why is there so much hype regarding it throughout the region? And will it turn the ASEAN region into something similar to the European Union? These are just some of the questions we look to answer.

As the governing bodies of the Association of Southeast Asian Nations (“ASEAN”) continue their policy preparation for the emergence of the AEC, set to debut on 31 December 2015, uncertainty exists amongst both the ASEAN citizenry as well as the broader international community as to the potential implications of the AEC for businesses. Dr. Prasarn Trairatvorakul, the Governor of the Bank of Thailand, raised similar concerns by stating that “if we ask any of the 580 million ASEAN citizens what they think ASEAN will become in 2015, we are likely to get 580 million different answers”.

It is worth noting that the formulation of an ASEAN community is based on 3 pillars: (i) Political – Security Community; (ii) Economic Community; and (iii) Socio-Cultural Community.

To achieve the AEC, ASEAN has specified eight areas of cooperation with the goal of transforming ASEAN into a region with free movement of goods, services, investments, skilled labor and capital. The focus areas of cooperation are:



- Human resources development and capacity building;
- Recognition of professional qualification;
- Closer consultation on macroeconomic and financial policies;
- Trade financing measures;
- Enhanced infrastructure and communications connectivity;
- Development of electronic transactions through e-ASEAN;
- Integrating industries across the region to promote regional sourcing; and
- Enhancing private sector involvement for the building of the AEC.

These areas of cooperation are intended to function similar to the European Union precursor, the European Economic Community, with respect to achieving regional economic integration with effective facili-

tation for trade and investment. However, though the EU serves as the most achieved model in modern history of regional cooperation, unlike their European counterparts, the majority of ASEAN nations are still in the developmental stages. As a community, ASEAN also lacks supranational policy making bodies such as the European Central Bank or the European Commission which are at the core of regional functionality. Lacking this infrastructure, ASEAN must forge a different path towards integration.

The full implementation of the AEC will see the ASEAN region achieve four characteristics on which the regional community will be built:

- (a) A single market and production base;
- (b) A highly competitive economic region;

- (c) A region of economic development; and
- (d) A region fully integrated into the global economy.

Creating a single market and production base is considered the core characteristic of the AEC, and it is certainly where most changes have happened thus far. Effective implementation of the AEC will see a free flow of goods, trade, investments, capital and labor throughout the region. This is being achieved through various regional agreements such as the ASEAN Free Trade Area Agreement, the ASEAN Comprehensive Investment Agreement and Mutual Recognition Arrangements.

As a result, the movement of goods within the region will be subject to zero tariffs and will be facilitated through harmonized and standardized trade and customs procedures. 2015 should also see the elimination of intra-regional trade restrictions and an expansion in services in order to foster free market competition. Mutual recogni-

tion of professional qualifications for engineers, medical practitioners, accountants and others will enable professionals to work freely throughout the region.

Looking at the bigger picture, 2015 will see the ASEAN region move towards being a region that is fully integrated into the global economy. To achieve this goal, ASEAN has negotiated several free trade agreements with China, Japan, Korea, India, Australia and New Zealand. This is expected and thus far has been successful in achieving free movement of goods, trade, investments, capital and labor between ASEAN and its trade partners.

Although it is unlikely that 100 per cent of ASEAN's goals will be reached by 2015, a large percentage of them are expected to be achieved. Concerns were raised by the Asia Development Bank as not enough has been done to ensure that ASEAN becomes a region of economic development, especially for lower developed countries such as Lao PDR, Cam-

bodia and Indonesia.

How many of the characteristics of the AEC will be seen in 2015? At this stage it seems that by the end of 2015 ASEAN would have closed in on its target of creating a single market and production base. However, more cooperation is needed between the member countries to achieve the remaining goals. Rather than viewing the AEC on a pass/fail basis, it is worth taking a step back and looking at exactly what has been achieved thus far, and how the framework calls for further development and integration of the AEC. Investors and businesses would do well to prepare themselves for the AEC so that they may reap the benefits and face the challenges to come with confidence. ■

The authors of this article are representatives of DFDL, a leading international law firm specialized in emerging markets, with legal and tax expertise in countries across Asia. For more information, please visit www.dfdl.com.



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