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5-2017

### Threats and opportunities for the AEC

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#### Citation

Singapore Management University. Threats and opportunities for the AEC. (2017).

Available at: <https://ink.library.smu.edu.sg/pers/341>

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# THREATS AND OPPORTUNITIES FOR THE AEC

Published:

31 May 2017



*Gains need to be redistributed equitably to keep societies invested in the AEC's success*

When the United Kingdom voted to leave the European Union (EU) in June last year, the reasons were clear to most observers: economics and rising nationalism. Europe as a continental economy was stagnating, so the argument to leave what had become a drag on British fortunes was easy to make. The latter was perhaps an easier sell for populist politicians: multinational bodies have made the rich richer while restricting the prospects of the majority of the populace, and Brexit was the way to wrest back what is 'ours'.

Looking on from Southeast Asia, the Association of Southeast Asian Nations (ASEAN) cannot but wonder if its 17-month-old ASEAN Economic Community (AEC) initiative, based loosely on the European Union (EU), could unravel even before it has properly taken off.

"Whether you have your common agreements or not, there is a divide, there is a development divide in among many of these countries between them and also within them," explains **Noeleen Heyzer**, Lee Kong Chian Distinguished Fellow at the Singapore Management University (SMU) & Former Under-Secretary-General at the United Nations. "The issue is: how do you deal with the population that lives precarious lives and work in precarious conditions. And there are so many of them.

"The undocumented workers, the unskilled workers, the semi-skilled workers, and whether you like it or not, whether you have your agreements, these people are moving. They are moving

across the ASEAN countries and they are the backbone. And unless you know how to benefit them, you're going to have grievances.

"I would suggest there is a tremendous opportunity for ASEAN to turn its challenges around so that the common market can truly function."

**Arjun Goswami** at the Asia Development Bank, on the other hand, points to what had kept ASEAN together for over 50 years, warning against emulating the EU's institution building and exercise of central power via a supranational governing body.

"[ASEAN] are holding fast to the principle that you can both serve national, sovereign economic interests and regional cohesion. You have to have a combination of both," he says. "If you try to superimpose too much, one over the other, you start getting fracturing.

"And the second thing is that ASEAN, through its efforts, has continued to focus on the fact that it is a diverse set of countries. Diverse within them, and diverse across them. Unless you deal with those issues, it's very difficult to integrate."

## GETTING BUY-IN

Heyzer and Goswami were panelists at a recent discussion "ASEAN Economic Community: Opportunities and Challenges" for Singapore-based station Channel NewsAsia's Perspectives programme where they were joined by **John J. Brandon**, Director, International Relations Programs, The Asia Foundation; and **Hoon Hian Teck**, Professor of Economics & Associate Dean (Faculty and Research), SMU who points to the importance of having citizens buying into the idea of the AEC.

"What I think recent experience tells us is that while there are aggregate gains to the economy from integration to global economy...[it is important to] get buy-in [from society] because the gains are unequally distributed," says Hoon. "If economies are willing to do what is needed internally to redistribute gains, then we can have this buy-in and we can have the advantage of a region that today is 600 over million people.

"In other words, ultimately if the political system is going to continue to marshal countries together to take benefits of globalisation, you need to move at the pace where your domestic residents are willing to move along with you."

Globalisation has been a hard sell of late. While U.S. President Donald Trump has made little reference to trade matters in Southeast Asia, his stated preference for bilateralism instead of multilateral trade agreements bodes poorly for the AEC. Add to the demise of the Transpacific Partnership (TPP) and China's promotion of the Belt and Road Initiative, might it make more sense for individual countries within the AEC to negotiate individual trade agreements with whomever they choose?

"Does China have bilateral relations with each ASEAN country? Of course they do," states Goswami. "But essentially what's happening in the Chinese economy is a big rebalancing. It's moving towards consumption, it's moving towards services, their wage cost are changing. And ultimately they may become a final destination for goods."

He adds, "China has grown as part of a value chain, it's grown as part of a global value chain. Can the value chain simply happen between China and one ASEAN member country? Less likely. I think the likelihood is that you need multiple countries with different skills all integrating and making sure that they can use that Chinese market.

"And that doesn't just have to be on the manufacturing side. You know if you look at the opportunities for agriculture, and agricultural products, good strong agricultural products, there's

a big opportunity there, so I think ASEAN has every opportunity to engage as a grouping with China, and China has every interest in engaging with ASEAN as a block.”

Meanwhile, Brandon points out the amount of intra-ASEAN trade that sometimes get overlooked.

“If you look at intra-ASEAN trade, Singapore, Malaysia and Thailand...represent 71 percent of all intra-ASEAN trade,” Brandon points out. “That leaves 29 percent to the rest of the other seven countries that are members. How do you bring them into all of these so that they get a greater share that they feel they are part of the ASEAN economic community?”

## LESSONS OF BREXIT

In the final analysis, Brexit forces into focus the choices facing ASEAN and, by extension, the AEC: stay with consensus decision-making or create a central government modeled on the EU, Brexit or otherwise?

“Despite all these frustrations with the ASEAN way...I expect that consensus system to continue,” asserts Goswami. “However, given the fact that ASEAN needs to move forward and AEC needs to move forward, there are some changes, and here, here are the sort of changes that are necessary.

“One, there has to be monitoring of compliance with actions that ASEAN has agreed to. And the fact that in the new blueprint that we’re talking about, the ASEAN economic community counsel, which will act in that role, that’s a very good thing.

“There has to be proper feedback mechanism from private sector, from civil society, from universities, there has to be an opening up of the score carding. If that isn’t done, it’s really hard to have everybody involved, and I think that opening up will help.”

He concludes: “The last thing I would tell you is, you can have specialized institutions, within ASEAN, that can have a voting structure. That offer technical services of funding and that operate on a voting basis without changing that overall consensus situation. And I think if those are done as complementary steps, you can have the best of all worlds.”

*Noeleen Heyzer, Arjun Goswami, John J. Brandon, and Hoon Hian Teck were part of a discussion panel, “ASEAN Economic Community: Opportunities and Challenges” for the SMU-Channel NewsAsia programme Perspectives that was recorded at SMU Labs at Singapore Management University.*

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