

# The ASEAN Economic Community 2015: Implications for Supply Chain Management



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### *The Evolution of the AEC*

**A**SEAN (Association of Southeast Asian Nations) has come a long way from a security forum in 1967, to its current multifaceted effort to address security, sociocultural integration, and economic integration. Experts have long been divided over ASEAN; some believed that the association has shown dramatic progress, while others see it as simply treading water and muddling along. Regardless of their opinions, it is impossible to dismiss ASEAN's effort in fostering strong economic integration through the highly anticipated ASEAN Economic Community (AEC) for the supply chain management (SCM) industry.

AEC 2015 consists of a four-pillar effort to create a single production base, common market, and a competitive economic region, as well as to address the issue of equitable economic development, and bolster its economic integration in the global economy. As with the European Union, ASEAN's focus has been on developing the elements of an integrated market that focuses on a free flow of goods, services, capital, and people.

But critics have highlighted the shortcomings of AEC. In a book written by Ms Sanchita Basu Das that features a comprehensive analysis of the score on AEC, she criticises the increasing use of non-tariff barriers (NTBs) in the ASEAN region. However, the last five years has seen a dramatic rise in NTBs of various forms throughout the world, so ASEAN countries are not unique on this score. On services, Ms Das argues that ASEAN has only seen marginal liberalisation. On investment, she finds that there has been a lack of enforcement to address violations.

### *AFTA and SCM Challenges*

ASEAN Free Trade Area (AFTA) has brought down a significant number of tariffs and non-tariff barriers in the region. Yet persistent problems that affect the SCM industry include customs-related barriers and transportation barriers.

A study by Logistics Institute-Asia Pacific found that the greatest impediment that the SCM industry faced is in customs procedures and inspections, which include time-consuming documentation requirements, burdensome inspection requirements, and different classification of goods in different countries. Land transportation barriers continue to exist owing to regulations on the operation of trucks in cross-border and in-country transportation. In ASEAN, Singapore was ranked very good in logistics friendliness, followed by Brunei and Thailand (good), and the Philippines, Cambodia, Vietnam, Myanmar, Lao PDR, and Malaysia (average), while Indonesia ranked weak in logistics friendliness as it has the most barriers to trade in logistics. According to the 2010 Logistics Performance Index Report on Indonesia, costs and lead times were much higher for imports than exports.

Many of the issues facing SCM stem from the lack of business representation and dialogue with government officials. In addition to facing the barriers to finance, logistics, technology development, and human development in the region, small and medium enterprises (SMEs) in the region also lack opportunities to provide input into policymaking or update information on policies that affect their enterprises.



# FEATURES

## AEC and SMEs

The biggest challenge and opportunity for the SCM industry in gearing up for AEC 2015 is the industrial shift from manufacturing to services. With the services sector growing rapidly and accounting for an ever larger share of the GDP of countries in the region, services liberalisation is crucial. In terms of SCM, it presents challenges for the free movement of labour and demands for the new and adaptive processes for certification, customs, transportation, and other logistics—especially with respect to the issue of transparency—a core element of AEC 2015. If the SCM industry can provide logistics for professional services and basic services such as finance, health care, travel, and real estate, the interconnected and people-to-people community of AEC 2015 could provide more opportunities than challenges.

The manufacturing sector also has areas for improvement in transportation, storage, customs, and payment services. There have been calls for a comprehensive NTB database that member states could follow easily. To facilitate transportation and address equitable development challenges, an ASEAN development fund was set up with the allocation of US\$485m in equity and US\$4bn in lending commitments by nine ASEAN members and the ADB. On information technology, there are significant gaps among member states. Countries like Singapore and Indonesia, have one of the highest Internet penetration rates in Asia, whereas countries like Cambodia and Myanmar have very low rates of Internet penetration. The supply chain industry and the member governments could pool resources to enhance connectivity and the flow of goods and services in the region.



**Score: 4.13**  
**% of highest performer: 100.0**

### Logistics Performance Index Ranking and Scores, 2012

	Rank	Score	% of highest performer
<b>Cambodia</b>	<b>101</b>	<b>2.56</b>	<b>50.0</b>
<b>Indonesia</b>	<b>59</b>	<b>2.94</b>	<b>62.2</b>
<b>Laos</b>	<b>109</b>	<b>2.50</b>	<b>48.0</b>
<b>Malaysia</b>	<b>29</b>	<b>3.49</b>	<b>79.8</b>
<b>Myanmar</b>	<b>129</b>	<b>2.37</b>	<b>43.8</b>
<b>Philippines</b>	<b>52</b>	<b>3.02</b>	<b>64.8</b>
<b>Singapore</b>	<b>1</b>	<b>4.13</b>	<b>100.0</b>
<b>Thailand</b>	<b>38</b>	<b>3.18</b>	<b>69.6</b>
<b>Vietnam</b>	<b>53</b>	<b>3.00</b>	<b>64.1</b>

*Source: Connecting to Compete: Trade Logistics in the Global Economy Report, World Bank, 2012*

## Preparing for AEC 2015

The supply chain industry should prepare for the shift towards a bigger services sector in the ASEAN economies. The diverging rate of efficiency and capacity within ASEAN challenges the facilitation of trade among members of the region and with other regional institutions. The table shows the Logistics Performance Index Ranking of ASEAN member states. As can be seen, there are significant gaps between Singapore, ranked number one globally, and countries like Cambodia, Laos, and Myanmar that are ranked below 100 of the 155 countries surveyed.

Logistics could affect the prices of goods and services by passing costs on to consumers or the government, and there needs to be closer collaboration between government and businesses.

## Conclusion

The lack of rapid progress in efforts to create a full-fledged AEC should not come as a surprise. It is worth noting that ASEAN security origins have created a reluctance to move forward aggressively, with the norms it has created over the years of respect for sovereignty, non-interference in other member states' domestic affairs, elite-based diplomacy, decision-making by mutual consultation and consensus, and a preference for incrementalism spilling over into its efforts to promote economic integration. Still, to this point, given these constraints, AEC continues to make progress. With appropriate strategies for the changing environment, the SCM industry can benefit from this deeper integration in the region. ⚙️