

Media Coverage

AEC will be a welcome economic catalyst

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ASEAN has far greater economic potential when viewed as a whole rather than the sum of its parts.

As a region, ASEAN trade is on course to double to US\$2.8 trillion by 2025 fueling a doubling of its middle class to 120 million. This will add the equivalent of 'two Britains' to world consumption - a consumer spurt mirroring China's between 2000 and 2010.

The question is how the nations of South-east Asia can pull together to turn impressive projections into a future reality?

Boosting intra-regional trade is one sure way of spreading wealth. Intra-ASEAN trade accounts for approximately 25% of South-east Asia's total, compared to 50% in the case of the European Union.

To help address this shortfall in potential, ASEAN's 10-member countries are forming the ASEAN Economic Community (AEC).

The AEC will create a single market and production base by freeing the flow of goods, services, investment and skilled labour across South-east Asia. And it will be a mechanism to facilitate the region's further opening to, and integration with, the global economy.

Even though its impact will be more strongly felt over the medium term, the AEC's commencement will be a welcome development for member countries in need of an economic catalyst following subdued growth from falling commodity prices, lower consumption, and currency volatility in 2015.

The opening up of services across the region coming out of the AEC framework will be of particular interest.

ASEAN's intra-regional flow of services has lagged the corresponding flow of goods and is a real paradox for the region given the service sector's importance to most ASEAN economies.

In fact the top six countries in ASEAN – Singapore, Malaysia, Indonesia, Thailand and Vietnam and Philippines - have 50% or more of their GDP coming from services, with Singapore having the highest concentration at 65%.

Despite its domestic importance, the services share of intra-regional trade only hit 20% in 2015. There is plenty of scope for the AEC to help drive that proportion higher.

Goods trade has had no such impediments. Roughly 99% of goods tariffs have been removed by numerous bi-lateral trade agreements signed between member countries over the past 10 years.

The ASEAN Framework Agreement on Services (AFAS) has been slowly working to unlock services trade since talks were launched in 1995.

But an end to the of AFAS talks is finally in sight, with the final two of its 11 streams expected to be completed in 2016.

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As one of the most connected countries to ASEAN's intra-regional trade, Singapore stands to be a winner from the AEC, particularly with regards to the opening up of services.

HSBC research forecasts an additional 9.5 per cent aggregate lift to Singapore GDP to 2030 from the implementation of the AEC's blueprint - more than any other market in the bloc.

Singapore's services sector is already seeing an increase in its exports, with the Ministry of Trade and Industry confirming Services' share of total exports for Singapore increased from 17% in 2004 to 26% in 2014.

The AEC will ignite this further.

Indeed, the higher volume of cross-border activity across ASEAN – triggered by the creation of the AEC - will lead to an expansion of financial products and services within the region and further consolidate Singapore's position as its financial hub.

ASEAN's larger and borderless production base for manufacturing should also increase its appeal for more Foreign Direct Investment. Again, this investment will either come from capital-rich Singapore, or will at least flow through its financial system from other countries like Japan, South Korea and China into the rest of the region.

The regional expansion of Singapore's services sector will not just be limited to finance, but will also play to its strengths in innovation including IT, high-end manufacturing, business services and engineering.

Singapore already meets the zero tariff rules at the core of the AEC's basic requirements, which means the Lion City's leading companies will be able to hit the ground running from day one of the AEC's establishment.

Firms that seek to open up commercial corridors now will be best-placed to benefit from the ensuing collaboration as AEC governments work to deliver on the promises of the most ambitious trade policy changes in a generation.

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