

The rise of free trade agreements within ASEAN

Beng Chai Tay

The AEC stands for the Association of South East Asian Nations (ASEAN) Economic Community. That comprises ten countries in ASEAN. The AEC has been in the making for many years. In count 2015, Asia would take a chair of ASEAN and will officially launch it. What this means is that the concept of AEC will be official and trade liberalisation will start to accelerate at a faster pace. What this means for businesses is that businesses will enjoy greater trade facilitation, reduction in tariffs and perhaps even eventual removal of all tariffs within ASEAN.

The EU is ASEAN's largest trading partner. Trade has been increasing, but there are issues as well in the sense that from the EU's perspective there is the US which is making big inroads into ASEAN. What is happening today is that the EU and ASEAN are starting to talk about a free trade agreement and we think it is of absolute importance to businesses in the EU and ASEAN to have that. From the EU's perspective, it wants to secure its trade position because the US is making big inroads into ASEAN. The US is negotiating a trans-pacific partnership agreement and the EU, in my view, should actually be accelerating by putting the foot down on the pedal to get the ASEAN/EU/FTA on the road.

The World Trade Organisation (WTO) is not really functioning. It has stumbled and therefore what is happening is that countries are looking to form trade blocks and these trade blocks will eventually one day amalgamate and form what the WTO has originally intended to do, the multi-lateral trade agreement. Increased trade has brought about lots more

investment for the AEC. Just as an example in the year 2013, AEC received more investments for indirect investments than China. Now you would have thought that China would continue to dominate FTA's in the world, but the centre of gravity has actually been shifting subtly and the reason for this is because there are some countries that come together and form the AEC. AEC has got a single market of 600 million people. It is a single production base where a company can set up a factory in one country within the ASEAN and be able to export relatively free of tariffs to any of the nine countries and for that reason it is in the interest of investors to look at these ten countries as one trade block, and if we were to increase the investments in one country, it serves a single market for all ten. Mind you, this is 600 million people so with the AEC concept what you have is not a disparate group of ten countries. We are one block that stands shoulder to shoulder with China and with India, and therefore the AEC is an attractive investment destination and proof of concept 2013 the AEC received more investments than China. Now if you think about it, there are other reasons of course at play. The wages in China are no longer cheap, if you set up a factory and employ workers in a coastal city in China, the wages are probably equivalent to what you would pay in say Malaysia and certainly the Chinese wages are certainly today far more expensive than in Thailand or Indonesia, and unless you are setting up the investment in China to sell within China, you wouldn't want to do it anymore. If you are setting up an investment in China to export elsewhere you might be better off if you site the investment in the

AEC.

END

This document is a transcript of an edited video recorded in
September 2014.

twobirds.com

Abu Dhabi & Beijing & Bratislava & Brussels & Budapest & Copenhagen & Dubai & Düsseldorf & Frankfurt & The Hague & Hamburg & Helsinki & Hong Kong
& London & Lyon & Madrid & Milan & Munich & Paris & Prague & Rome & Shanghai & Singapore & Skanderborg & Stockholm & Warsaw

Bird & Bird is an international legal practice comprising Bird & Bird LLP and its affiliated and associated businesses.
Bird & Bird LLP is a limited liability partnership, registered in England and Wales with registered number OC340318 and is authorised and regulated by the
Solicitors Regulation Authority. Its registered office and principal place of business is at 15 Fetter Lane, London EC4A 1JP. A list of members of Bird & Bird LLP and
of any non-members who are designated as partners, and of their respective professional qualifications, is open to inspection at that address.