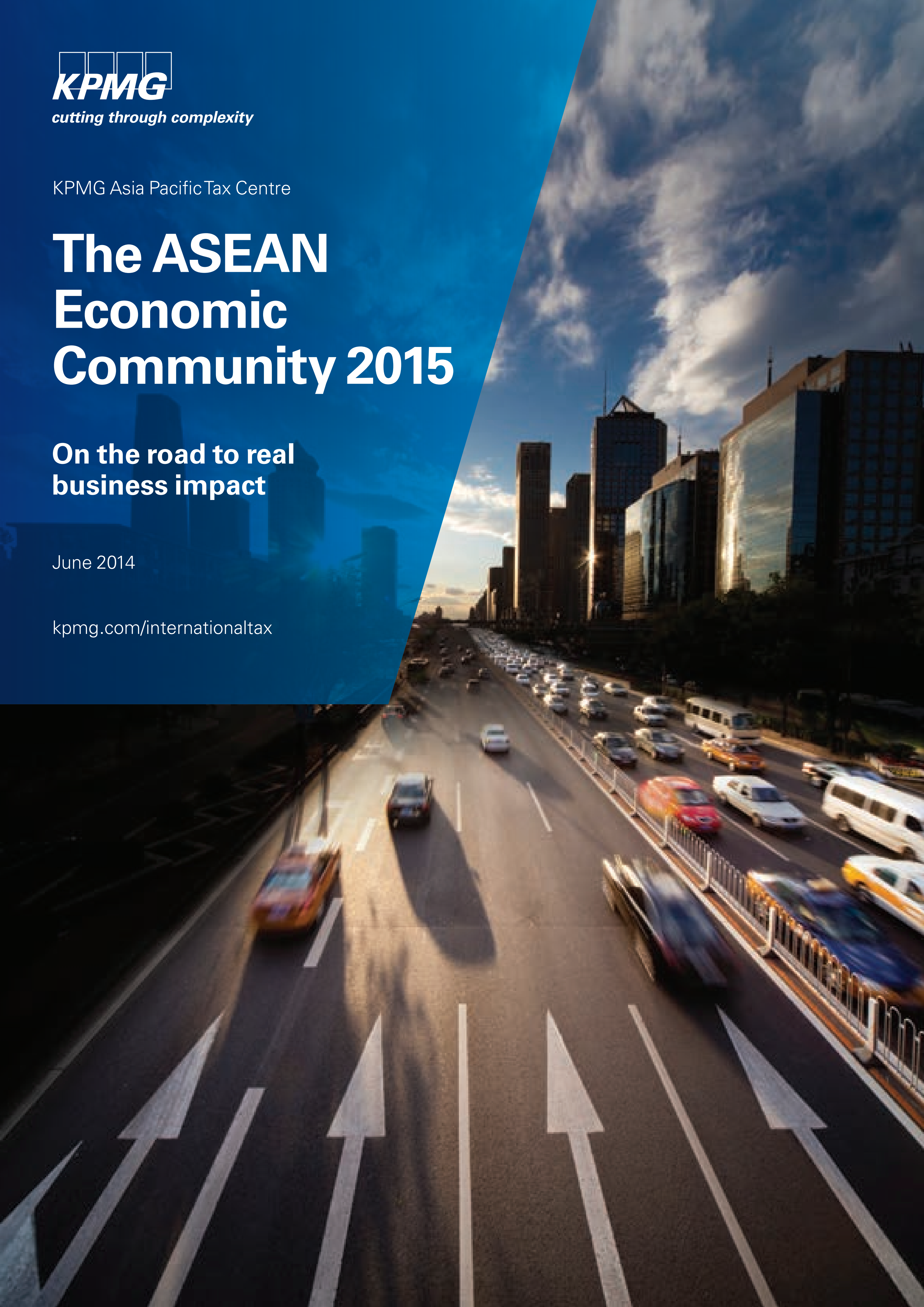

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The ASEAN Economic Community 2015

On the road to real business impact

June 2014

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The Association of Southeast Asian Nations (ASEAN), including Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam, is rapidly approaching a new milestone; the implementation of the ASEAN Economic Community (AEC) at the end of 2015. The AEC fundamental freedoms are becoming a point of increased focus for international business. The AEC sets the foundations of a single market and production base allowing for the free movement of goods, services, investment, capital and skilled labor. In addition, the ten member countries of the ASEAN are aiming at jointly realizing the development of a competition policy, the protection of intellectual property, the facilitation of e-commerce, and the introduction of a more comprehensive investment protection and dispute resolution system. The AEC is expected to have far-reaching economic consequences, by significantly promoting intra-ASEAN trade and investment and strengthening the global importance of the ASEAN as an economic block. Apart from the reduction of tariffs, ASEAN tax coordination is limited to the elimination of certain withholding taxes and the completion of the network of double tax treaties among all ASEAN countries. This leaves increased tax competition between ASEAN countries in order to attract foreign direct investment promoting further regional and global integration of businesses. In this rapidly changing environment, global businesses need to closely monitor the ASEAN developments and consider their trade and investment opportunities further optimizing their global supply chains.

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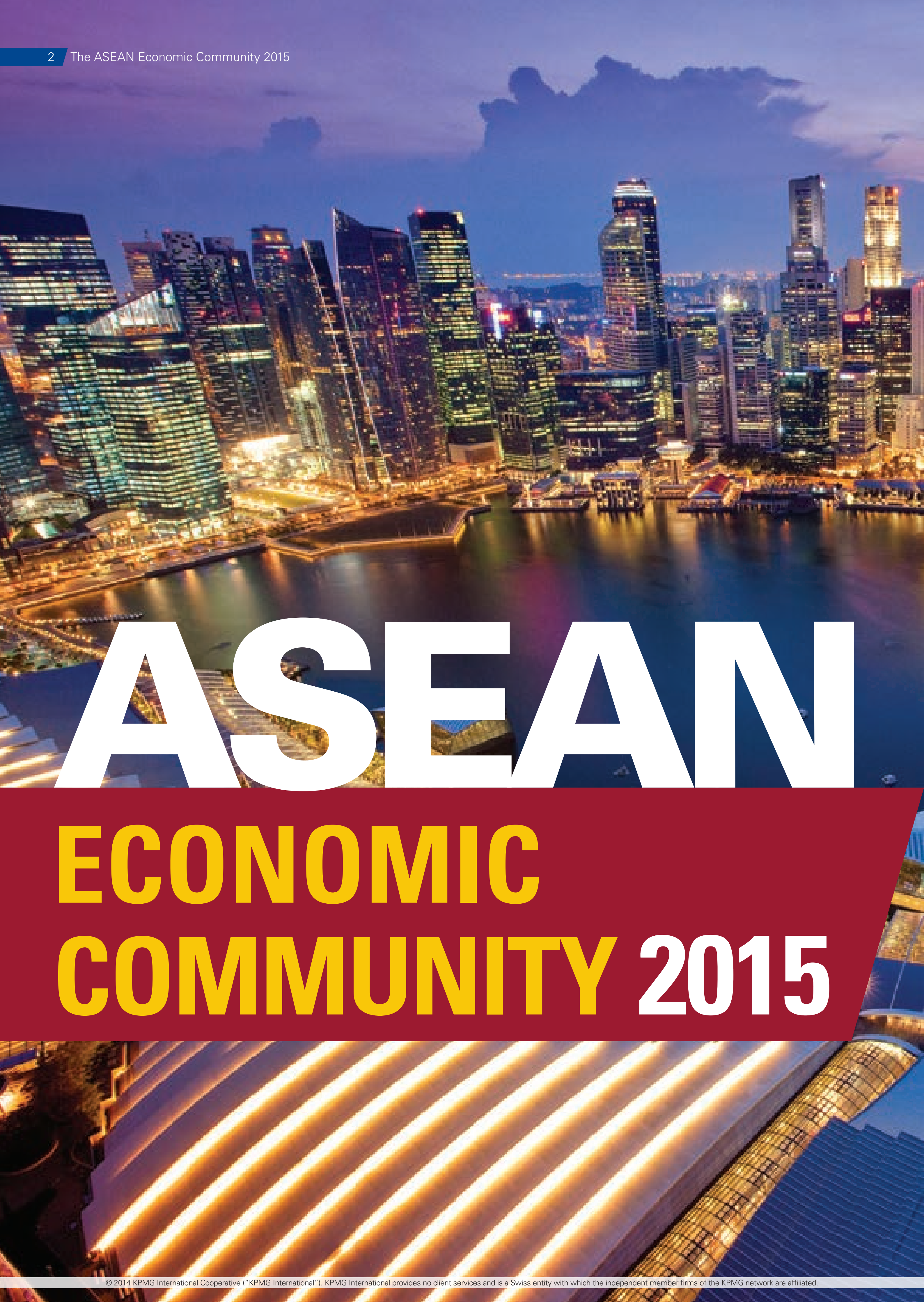

ASEAN ECONOMIC COMMUNITY 2015

The Association of Southeast Asian Nations (ASEAN)[1], established on 8 August 1967 in Bangkok is rapidly approaching a new milestone: the implementation of the ASEAN Economic Community (AEC) at the end of 2015. The AEC is one of the strategic objectives of the ASEAN Community next to the ASEAN Political-Security Community and the ASEAN Socio-Cultural Community. Even if at the end of 2015 not 100 percent of the AEC targets will have been reached, a result of more than 85 percent completion[2] is a huge achievement for all countries involved and provides for a stepping stone for further integration in the years after 2015.

[1] Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.

[2] ASEAN Integration monitoring report 2013 (www.asean.org)

ASEAN Economic Community:

five fundamental freedoms leading to real business impact

The principles of AEC[3] provide for fundamental freedoms relevant for international business, to ensure a single AEC market and opening of an AEC single production base. The following table includes the key characteristics of the AEC goals.

Table 1:

ASEAN Economic Community (AEC 2015): key characteristics

• Free flow of goods • Free flow of services • Free flow of investment • Free flow of capital • Free flow of skilled labor	**Single market and production base**	**Competitive economic region**	• Competition policy • Consumer protection • Intellectual property rights • Infrastructure development • Taxation & e-commerce
• SME development • Initiative for ASEAN integration	**Region of equitable economic development**	**Region fully integrated into the global economy**	• Coherent approach towards external economic relations • Enhanced participation in global supply networks

The AEC free flow of goods includes the elimination of tariff and non-tariff barriers to internal trade, coordination of rules of origin for customs purposes and trade facilitation including implementation of the ASEAN Harmonized Tariff Nomenclature (AHTN) and the completion of the ASEAN Single Window. This will provide for significant facilitation for crossborder intra-ASEAN trade. The implementation of this part of the AEC Blueprint has proven to be most successful in integrating markets and opening up trade in goods intra-ASEAN as on

[3] ASEAN Economic Community Blueprint 2009 (www.asean.org)

average intra-ASEAN tariffs went from 13 percent in 1993 to near zero in 2013. All ASEAN countries have eliminated tariffs on almost all imports from other ASEAN countries except on a few sensitive goods.

The AEC free flow of services including the removal of restrictions on trade in services, started with priority sectors such as air transport, e-ASEAN, healthcare, tourism, logistics services and it is intended to lift all other restrictions for all sectors by the end of 2015. The aim is to gradually allow foreign (ASEAN) equity participation of 70 percent for all service sectors and include mutual recognition arrangements for professional services such as architects, accountancy, surveying, medical and dental and all others. The financial services sector remains a sensitive sector allowing members to ensure orderly financial sector development.

The AEC free flow of investment offers enhanced investment protection to all ASEAN investors and their investments in other ASEAN countries, including an investor state dispute settlement mechanism leading to a non-discrimination principle including national treatment and most-favored nation treatment for all ASEAN investors when investing in other ASEAN countries.

The free flow of capital offers greater harmonization in capital markets standards in ASEAN in the areas of offering rules for debt securities, disclosure requirements and distribution rules and enhancing withholding tax structure.

Furthermore, the AEC **free flow of skilled labor** facilitates issuance of visa and employment passes for ASEAN professionals. Apart from these five AEC freedoms, the AEC blueprint offers a roadmap for developing a competition policy, protection of intellectual property rights, the aim for completion of the network of bilateral agreements on avoidance of double taxation intra-ASEAN countries and the facilitation of e-commerce (e-ASEAN).

And finally, the AEC framework for **investment protection and dispute resolution** is highly relevant for the business community. In the ASEAN framework, investment protection has been in the forefront since the 1987 Agreement for the Promotion and Protection of investments which evolved into the 2009 ASEAN Comprehensive Investment Agreement (ACIA). In practice, investment arbitration can result in a greater degree of legal protection than proceedings before national courts. AEC offers arbitration at an independent arbitration tribunal. This means that an investor who considers that the host state has violated its rights, for example through discriminatory treatment compared to domestic competitors, has the right to sue the host state by submitting a claim to the World Bank International Centre for Settlement of Investment Disputes (ICSID) or the United Nations Commission on International Trade Law (UNCITRAL). A key to the success of the rules is that the investor is an independent and equal party at the arbitration proceedings. This ASEAN investor protection and dispute resolution becomes even more important given the recent developments of several countries reviewing and terminating bilateral investment protection agreements, prompted by the number of cases brought by foreign companies who claim that changes in government affect their future profits. For example, Indonesia has given notice it will terminate its bilateral investment treaty (BIT) with several states, joining Venezuela and South Africa, which last year announced that it will be ending all its BITs. Also, other countries are also reviewing their investment treaties. This means that the wider, regional, multilateral agreements such as AEC become even more important in providing legal certainty to foreign investors. Companies from the EU, the US or the wider ASPAC region, could benefit from the ACIA investment protection if they fulfill certain conditions. For example, if the foreign based company already has active business in another ASEAN country (e.g. Thailand), the Thai group company can be considered an ASEAN investor investing in the host state (e.g. Indonesia). The Thai operations should contain 'substantial business operations' meaning real economic activities with resident employees that actively manage the investment project in Indonesia, among other conditions.

The AEC fundamental principles for regional integration follow closely the fundamental freedoms stemming from the European treaties where for almost 60 years the European Member States have been developing an EU internal market offering fundamental freedoms of crossborder movement for citizens and workers, goods and services, companies, investment and capital, including investment protection, based on an EU Treaty that supersedes domestic law and is supported by strong EU institutions such as the EU Commission (the EU day-to-day governing body and civil service), the EU Council, the EU Court of Justice and the European Parliament as co-legislator. Especially the role of the EU treaties and EU Court of Justice ensure a proper application for all EU citizens and companies with a right of dispute resolution to keep EU Member States in line. By contrast, the ASEAN Community does not provide this rule-based approach with transfer of sovereign powers to international institutions but is much more focused on a consensus-based approach (the ASEAN way). That the EU integration process has been a great success in terms of additional GDP growth is a widely accepted view of most research done on the subject. The same will surely apply for ASEAN integration where the reduction of tariff and non-tariff barriers will urge economies to focus on their competitive industries and increase productivity. Furthermore a larger internal market will encourage businesses to operate on a greater scale and take advantage from the free flows of investment, people, business ideas and innovative technologies, creating higher productivity and higher value added in increasingly varying business sectors.

Integrating AEC into the global economy

The importance of the ASEAN member countries as a regional block has been growing fast for over a decade and currently stands at a combined ASEAN GDP of US$2.3 trillion leaving three out of the four BRIC countries, namely Brazil, Russia and India, behind in size. Of the emerging markets, only China is bigger in size and ASEAN is and growing fast with 6 percent per year towards the size of the Japanese GDP.

Table 2:

Country	Gross domestic product at current prices	Gross domestic product per capita at current prices		International merchandise trade			Foreign direct investments inflow	
	US$ million	US$	US$ PPP	US$ million	US$ million	US$ million	US$ million	US$ million
	2012	2012	2012	2012	2012	2012	2011	2012
Brunei Darussalam	16,969.7	42,445.5	55,399.6	13,182.2	3,674.1	16,856.3	1,208.3	N/A
Cambodia	14,411.2	977.6	2,515.6	7,434.9	11,228.8	18,663.7	891.7	1,557.1
Indonesia	878,223.4	3,587.9	4,971.4	190,031.8	191,689.5	381,721.3	19,241.6	19,853.4
Lao PDR	9,083.1	1,394.3	2,904.5	2,655.2	3,503.5	6,158.8	300.7	294.4
Malaysia	305,154.4	10,337.9	16,975.4	227,537.8	196,392.6	423,930.3	12,000.9	9,400.0
Myanmar	52,524.9	861.4	1,450.2	9,314.9	9,188.4	18,503.3	2,057.0	1,152.3
Philippines	250,542.7	2,564.6	4,339.4	51,995.2	65,386.4	117,381.6	1,815.9	2,797.0
Singapore	276,609.5	52,068.7	61,461.2	408,393.6	379,723.3	788,116.9	55,285.2	56,172.0
Thailand	366,126.6	5,391.2	9,610.8	229,524.2	247,777.7	477,301.9	8,999.4	10,697.0
Viet Nam	141,669.1	1,595.9	3,706.5	114,510.7	113,282.5	227,793.3	7,519.0	8,368.0
ASEAN	2,311,314.7	3,748.4	5,865.4	1,254,580.7	1,221,846.8	2,476,427.4	109,319.9	110,291.2

Source: http://www.asean.org/news/item/selected-key-indicators

The importance of the ASEAN integration as a single market and production base, for other international businesses originating from the United States, China, India, Japan and the European Union, gains in strength due to the fact that the ASEAN member countries as a block already have concluded free trade agreements within the Asia Pacific region (ASPAC)[4]. Many individual ASEAN countries are also involved in *bilateral free trade negotiations* with the European Union.

Furthermore, the ASEAN countries are also part of negotiations on *multilateral free trade agreements* such as the **Trans-Pacific Partnership (TPP)[5] and the Regional Comprehensive Economic Partnership (RCEP)[6].** This comprehensive network of bilateral and multilateral free trade agreements with the biggest economies in the world provides for a legal highway for trade and investment with the AEC. The TPP, for example, represents around 39 percent of the world GDP and covers a wide range of free trade and investment principles such as the elimination of tariff and non-tariff barriers for goods and investments, rules of origin, opening service sectors including financial services, telecom, e-commerce and investment protection[7]. The RCEP with the major Asia Pacific economies would be the world's largest trade bloc in terms of population. The sheer size of the TPP and RCEP is highlighted in Table 3 comparing TPP and RCEP with the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the EU member states.

Table 3:

Free trade agreements under negotiation	Value of bilateral trade in goods US$bn, 2011 or latest	Date launched
Trans-Pacific Partnership (TPP)	1,492.2	June 2005
Regional Comprehensive Economic Partnership (RCEP)	1,412.6	November 2012
Transatlantic Trade and Investment Partnership (TTIP)	618.5	February 2013

Sources: Economist 16 March 2013, European Commission, UNCTAD and http://www.ustr.gov/about-us/press-office/press-releases/2013/july/statement-18th-round-tpp

4 ASEAN–Australia–New Zealand Free Trade Area (AANZFTA) effective 1 January 2010.
ASEAN–China Free Trade Area (ACFTA), effective 1 January 2010
ASEAN–India Free Trade Area (AIFTA), effective 1 January 2010.
ASEAN–Korea Free Trade Area (AKFTA), effective of 1 January 2010
ASEAN–Japan Comprehensive Economic Partnership (AJCEP) gradually entering into force since 2009

5 Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, Vietnam. Several other countries including other ASEAN countries have expressed interest in joining.

6 All 10 ASEAN member countries and Australia, China, India, Japan, New Zealand, South Korea.

7 At the same time the US and the EU member states are negotiating the **Transatlantic Trade and Investment Partnership (TTIP)**

ASEAN countries ready for implementation of AEC?

The million dollar question is whether all ASEAN countries are ready for the AEC single market and production base. At present the estimate is that on the five freedoms more than 85 percent implementation has been achieved on the liberalization and facilitation of free flow of goods, services, investment, skilled labor and capital. In most ASEAN countries, the services sector is not yet open for full foreign equity participation and this remains one of the biggest challenges. The AEC target is to allow foreign equity investments in the services sector up to 70 percent by 2015 but at present it seems that this goal will not be reached by most ASEAN countries. The ASEAN services sector is already a significant part of the economy in terms of output and employment and could grow if barriers would be reduced. Some ASEAN countries, particularly Singapore, Malaysia and the Philippines, have already become significant exporters of modern services in sectors such as professional and information services, transport and communication technology, business processing outsourcing, higher education, and health tourism. As the ASEANs per capita income rises further, the demand for services will grow rapidly. And, within the ASEAN region, many options are identified for further growth on the supply side of other sectors such as finance and other more sophisticated service sectors.

Given the growing importance of ASEAN as an economic block and the ASEAN role in global supply chains (especially in the wider ASPAC region) the level of awareness about how companies can benefit from ASEAN and AEC's existence is starting to take off. ASEAN as a single production base and single market for some 600 million people is not only being monitored by business from the ASPAC region but also from the United States and the European Union. Up to now ASEAN governments have been focusing on reaching the AEC 2015 targets and talking to stakeholders about sensitivities and perhaps protecting certain domestic interests. However, the attention should more be given to informing the public on what benefits and opportunities AEC could bring for crossborder trade and investment.

Given the wide range of topics to be implemented on the AEC roadmap, it is clear that the ASEAN countries willingness needs to be matched with administrative capacity and procedures to implement all the necessary changes. The wide differences in stages of economic development can be indicated by for example (see Table 2) the GDP per capita for all 10 ASEAN countries ranging from US$861 per year for Myanmar to US$52,000 per year for Singapore. Moreover the ASEAN countries are also widely diverging on providing a business friendly environment as highlighted by the ASEAN country ranking on the World Bank list of Ease of Doing Business in Table 4.

Each individual ASEAN country is currently preparing for taking the opportunities and assessing risks in the AEC integration process.

Table 4:

Country	Ease of Doing Business Rank (out of 183)	Starting a Business	Protecting Investors	Trading Across Borders
Singapore	1	3	2	1
Malaysia	6	16	4	5
Thailand	18	91	12	24
Brunei Darussalam	59	137	115	39
Vietnam	99	109	157	65
Philippines	108	170	128	42
Indonesia	120	175	52	54
Cambodia	137	184	80	114
Lao PDR	159	85	187	161
Myanmar	182	189	182	113

Source: http://www.doingbusiness.org/rankings

Singapore is ready for taking the regional hub role which it already had for a long time for foreign direct investment coming inbound and ASEAN investment going outbound. Singapore is also most likely the only ASEAN country that will be completely ready for economic integration under AEC by 2015 and is also the first ASEAN country to have concluded a free trade agreement with the European Union providing for a competitive advantage. All other individual ASEAN countries also evaluate their position as a regional hub for differing kinds of businesses. **Malaysia** continues to welcome foreign companies looking to do business in Malaysia offering tax incentives and other concessions. **Thailand** also targets the regional hub function and is explicitly focusing on research and development (R&D) for the automobile industry and other industrial products. At the same time Thailand could benefit from a staged liberalization of the services sector and improved quality through increased competition. **Indonesia** is fully committed to face the challenging times ahead and is finding its own route in the implementation process facing domestic challenges for sensitive production sectors. The **Philippines** services sector is expected to benefit from the integration in 2015 based on a high proficiency in English as a business language relevant for information technology and business process outsourcing. Furthermore, countries such as Spain are interested in strengthening its trade relations with the Philippines, which it sees as an investment hub for Spanish companies that are keen to invest in ASEAN region. **Cambodia**, just as Laos and Myanmar, should be supported in reaching their targets and to a certain extent perhaps protect vulnerable domestic sectors with transitional arrangements as has been done in the European experience many times before. Cambodia is an export-driven economy and is focusing on significant reforms to facilitating trade and pushing ahead with logistics reforms. **Vietnam** has not yet fully reached compliance with all its ASEAN free trade obligations but is expected to do so by the end of next year. **Myanmar** has been in the limelight since the easing of international restrictions. There are opportunities through business partnerships, mergers and acquisitions, joint-ventures or strategic alliances that could be a driver for business expansion in Myanmar going forward into 2015[8]. KPMG was the first among the Big 4 that officially re-entered Myanmar after the easing of international sanctions and has seen with confidence the enactment of the Foreign Investment Law, the Special Economic Zone law and are monitoring the rapid pace of change in Myanmar **Laos** has increased investment interest from e.g. Japan in order to expand its economic presence particularly in the manufacturing, transport, agribusiness, and construction sectors. Also Vietnamese, Thai, and Chinese investors are expected to remain key investment sources in Laos, particularly in the country's main economic sectors of mining and hydropower. Concluding, the challenge for most ASEAN countries is to avoid the 'middle income trap' where the low-cost advantage has made them successful in the past but the relatively low productivity and skills are not yet good enough to create higher-value production. At the same time, given the widely different levels of economic development, the best opportunities for all of the ASEAN countries exist where they each manage to specialize in certain industry and service sectors rather than compete for all of them.

[8] KPMG Myanmar Business Forum http://www.kpmg.com/global/en/issuesandinsights/articlespublications/press-releases/pages/propelling-growth-in-myanmar.aspx

ASEAN Economic Community and tax competition?

In this process of preparing for AEC 2015, the ASEAN countries have also developed tax policies to try and encourage business development and attract foreign investments. The AEC Blueprint in principle does not contain provisions on coordination or harmonization of tax policies. The Blueprint only provides for two taxation action points:

1. Enhance withholding tax structure, where possible, to promote the broadening of investor base in ASEAN debt issuance (Item 31, Action iv, AEC Blueprint); and
2. Complete the network of bilateral agreements on avoidance of double taxation among all Member Countries (Item 58, AEC Blueprint).

From the European experience, it is clear that taxation is a sensitive area where individual countries are reluctant in transferring sovereign powers to international institutions. Also the AEC approach places no restrictions on national tax policies where governments are responsible for raising taxes and setting tax rates. Just at a glance of the ASEAN corporate tax rates and tax incentives granted to attract FDI it seems evident that in the past decade, rates are going down and incentives are being widened. This observation finds support at the track record of ASEAN member states which dramatically lowered their corporate income tax rates following the signing of the ASEAN Blueprint in 2007.
The current tax situation per ASEAN country can be found in the ASEAN tax guide[9] where ASEAN members offer corporate tax rates ranging from 17 percent in Singapore to 30 percent in the Philippines, where given the fast approaching deadline for the integration, member states have steadily worked towards decreasing their corporate income tax rates. As it now stands, the average statutory corporate income tax rate in ASEAN member countries is around 23.1 percent. It is predicted that there might be a possible convergence of rates at 20 percent very similar to the type of convergence seen in the European Union.

All ASEAN member countries have also continued to improve their tax competitiveness by providing more targeted tax policies such as long term tax holidays, specific (R&D) tax incentives, the establishment of foreign direct investment promotion agencies, programs to reduce the tax compliance and administrative burden and the conclusion of international tax treaties to avoid double taxation. With an ASEAN single market in goods and services, taxation becomes one of the policy tools still available for national governments to compete for investment. Of course, equally important are non-tax elements such as legal and physical infrastructure, political climate, corruption, investment and intellectual property protection in attracting FDI. However, a lack of tax coordination and harmonization will most likely result in continued ASEAN tax competition that can significantly

[9] KPMG ASEAN tax guide 2013 www.kpmg.com/asiapacifictaxcentre and High Growth Markets Insights ASEAN Asia's new powerhouse January 2014 http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/High-growth-markets/Documents/high-growth-markets-magazine-jan-2014.pdf

Table 5:

Country	Corporate tax rates 2014*	Paying Taxes overall rank (out of 183)	Total tax payments (No.)	Total tax compliance time (hours)	Total tax rate
Singapore	17%	**5**	5	82	27.1
Brunei Darussalam	20%	**20**	27	96	16.1
Malaysia	25% **	**36**	13	133	36.3
Cambodia	20%	**65**	40	173	21.4
Thailand	20%	**70**	22	264	29.8
Myanmar	25%***	**107**	31	155	48.7
Lao PDR	24%	**119**	34	362	26.8
Philippines	30%	**131**	36	193	44.5
Indonesia	25%	**137**	52	259	32.2
Vietnam	22%****	**149**	32	872	35.2

*http://www.kpmg.com/global/en/services/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx
**24% from 2016
***35% for branches
****20% from 2016

Source: http://www.doingbusiness.org/rankings

affect the business location decisions. The current situation regarding tax rates and administrative burden on taxes can be found on the World Bank list of Ease of Doing Business in Table 5.

When it comes to tax competition the European experience has also learned that the fight for attracting foreign investors could also have detrimental effects to tax bases in the region. From the late nineties of the previous century, the EU member states started to 'coordinate' tax competition in order to combat harmful tax practices that would erode tax bases throughout the EU and this fight is ongoing until this present day where the OECD and the EU are trying to find ways to combat aggressive tax planning and base erosion and profit shifting. Perhaps in a longer term the ASEAN countries could discuss a form of tax coordination, similar to the EU, to mitigate unwanted consequences of a potential 'race to the bottom' on corporate taxes.

This observation finds support at the track record of ASEAN member states which dramatically lowered their corporate income tax rates following the signing of the ASEAN Blueprint in 2007.

ASEAN integration into the global economy:

implications for business and supply chains globally

Looking at all the ASEAN developments the impact for businesses will not only be felt **intra-ASEAN** but also on a wider, global scale (**extra-ASEAN**). The AEC results up to now shows significantly lower tariffs and non-tariff barriers which have increased **trade flows** and resulted in market access for ASEAN business into larger markets and benefiting from market conditions similar to domestic competitors. Intra-ASEAN regional trade and investment is highly connected to global trade and investment since an important part of the intra-ASEAN trade is linked to global supply chains from companies headquartered outside ASEAN. And similarly, opening of the ASEAN internal market for other ASEAN countries, will likely be followed by gradual opening of markets for non-ASEAN trade and investment as the whole region is keen to be part of the global market and production base. Currently the ASEAN countries already have implemented free trade agreements with several individual countries[10] which means that for effective trade with these non-ASEAN countries, the ASEAN region has de facto become a single market already for trade flows. The full elimination of both tariff and non-tariff barriers is still the main target and the expectation is that all ASEAN countries will achieve these goals within a few years providing the basis for the AEC single market. And when the TPP and the RCEP and the individual free trade agreements with the European Union will take effect, the effect on global trade can be widened significantly in reaching a 600m consumer base in the ASEAN region, for companies from United States, China, Japan, the European Union members and many more. Moreover, non ASEAN companies can use the ASEAN region as a production base for further trade with the wider ASPAC region such as China, Japan, Korea, Australia and due to the ASEAN free trade arrangements in place in the wider region reaching a even greater consumer base.

The AEC principles of investment protection and non-discrimination meaning that ASEAN companies **investing** in another ASEAN country cannot be treated less favorably than a domestic company is a very important element in providing investor confidence when investing crossborder. The European experience has taught that this non-discrimination principle is paramount in facilitating cross border investment and has led to significant growth in cross border transactions. AEC provides the stepping stones for creating a true single block to compete in at the global level for trading and investment opportunities and will enhance the attractiveness of **ASEAN as a single investment destination**. The continued efforts of ASEAN countries to enhance tax competitiveness will continue to offer significant incentives for business location decisions.

[10] See footnote 4.

...integration of global value chains ranging from agriculture, production and manufacturing, servicing, logistics and distribution, sales and marketing, R&D and innovation and regional headquarters in different countries in the ASEAN region.

In any event, from a global supply chain perspective, the **ASEAN region as a single production base** should be successful in streamlining production in less developed economies where costs are cheaper, provided that the cost of connecting to the supply chain such as transport and logistics is also lowered. Foreign investment into the ASEAN region has been focused on global and regional supply chain (export) manufacturing and as such is set to compete further with foreign direct investments going into China, India and other jurisdictions. Companies from the United States, European Union, Japan, Australia are looking for appropriate solutions in terms of cost and production efficiencies. The aim for the ASEAN region is to develop higher-value-added products given the increased manufacturing attractiveness in the United States and parts of Europe. The AEC should provide for an increased intra-ASEAN trade and investment competition leading to individual country initiatives to boost productivity and competitiveness and strengthening capabilities to take advantage of the expanded market and the single production bases.

All these developments will lead to possibilities to enhance the **integration of global value chains ranging from agriculture, production and manufacturing, servicing, logistics and distribution, sales and marketing, R&D and innovation and regional headquarters in different countries in the ASEAN region**.

Also, the EU as a regional block has experienced great success in economic growth. The EU saw changing regional and global supply chains providing for more cost efficient and higher value added production bases and reaching all EU consumers in a single market. And this European success was also achieved even while – as is the case within ASEAN – EU members were in very different stages of economic development. And these opportunities are not only valid for ASEAN businesses but for multinational companies worldwide. The combination of AEC, RECP and TPP creates the basis for continuing the ASEAN production hub which has been a dynamic growth model over past decades, with a focus on global value chains – for electronics, garments, information technology, automobile industry and many others – distributed across a range of countries to form a critical source of growth in global trade. The AEC project could lead to an even more effective integration into the global value chains. And this will continue to make ASEAN a strategic economic region that is expected to exceed the global growth average for the foreseeable future. The regional integration will further pursue it goals towards 2020 and for global business it will be important to already set up in the ASEAN region and develop a business strategy from within.

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