

# **The Challenges and Opportunities towards ASEAN Economic Community in Developing Country: A Case Study of Bangladesh**

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## **1.0 Introduction**

The year 2015 is a key milestone in the ASEAN integration agenda. The first ASEAN Economic Community (AEC) Blueprint, signed in November 2007, has served as a comprehensive master plan to chart the region's journey towards the formal establishment of the AEC on 31 December 2015. Under this Blueprint, the AEC is built on four interrelated and mutually-reinforcing characteristics: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy [1].

The establishment of the ASEAN Economic Community (AEC) in 2015 is a major milestone in the regional economic integration agenda in ASEAN, offering opportunities in the form of a huge market of US\$2.6 trillion and over 622 million people. In 2014, AEC was collectively the third largest economy in Asia and the seventh largest in the world [2].

The first AEC characteristic seeks to create a single market and production base through free flow of goods, services, investment, skilled labour and freer flow of capital. The second characteristic helps to create a business-friendly and innovation-supporting regional environment through the adoption of common frameworks, standards and mutual co-operation across many areas, such as in agriculture and financial services, and in competition policy, intellectual property rights, and consumer protection. It also supports improvements in transport connectivity and other infrastructure networks. The third characteristic seeks to achieve equitable economic development through creative initiatives that encourage small and medium enterprises to participate in regional and global value chains and focused efforts to build the capacity of newer ASEAN Member States to ensure their effective integration into the economic community. The fourth characteristic envisages ASEAN's full integration into the global economy pursued

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through a coherent approach towards external economic relations, and with enhanced participation in global supply networks [1].

ASEAN Economic Community at a glance [1]:



Source: Fact Sheet – ASEAN Economic Community Jakarta: ASEAN Secretariat, December 2015

## 2.0 AEC 2025: The Way Forward [1, 2]

The AEC Blueprint 2025, adopted by the ASEAN Leaders at the 27th ASEAN Summit on 22 November 2015 in Kuala Lumpur, Malaysia, provides broad directions through strategic measures for the AEC from 2016 to 2025. The AEM agreed to develop a single and coherent plan progressing step by step to the AEC. In essence, this was undertaken by identifying the characteristics and elements of the AEC consistent with the Bali Concord II, involving clear

targets and timelines for implementation, while taking into account ASEAN Member States' varying levels of development.

Under the new Blueprint, a stronger AEC is envisaged by 2025 with the following characteristics:

- (a) A Highly Integrated and Cohesive Economy;
- (b) A Competitive, Innovative, and Dynamic ASEAN;
- (c) Enhanced Connectivity and Sectoral Cooperation;
- (d) A Resilient, Inclusive and People-Oriented, People-Centred ASEAN; and
- (e) A Global ASEAN

Looking at the decade ahead, ASEAN will strive to build on the early gains from the AEC 2015 as well as be forward looking in anticipating new opportunities and challenges. The post-2015 agenda would thus include a clear strategy to address any unfinished agenda from AEC 2015 which are deemed critical in deepening regional economic integration. Furthermore, efficient institutions, adequate resources as well as effective planning and monitoring are imperative to ensure successful outcomes of the community building process beyond the establishment of the AEC 2015.

## **2.1 AEC 2015: Key Achievements [1, 2]**

Key achievements under the AEC 2015 include the following:

(i) More liberalised market: Intra-ASEAN import tariffs have been virtually eliminated and formal restrictions in services sector gradually removed, providing its peoples with greater opportunities in trading and doing business within the region.

(ii) Reduced trade costs: Cross-border trading processes have been simplified, including in customs procedures and rules of origin, harmonisation of technical regulations and mutual recognition arrangements.

(iii) Improved investment regimes: ASEAN has become a more attractive investment destination for international and domestic investors alike.

(iv) Enhanced mobility of skilled people: Cross-border movement of skilled people and professionals has been facilitated.

(v) Free trade and comprehensive economic partnership agreements: ASEAN businesses are provided with more opportunities to expand their reach in the external markets, and strengthen their role in regional and global value chains.

(vi) A business-friendly and innovation-supportive environment: This is achieved through the adoption of common frameworks, standards and mutual cooperation in various areas, such as in agriculture and financial services, and in competition policy, intellectual property rights, consumer protection as well as SME development.

(vii) Physical improvements in transportation and other infrastructure networks: These improvements have facilitated cross-border transportation and contributed to the reduction of overall costs of doing business, providing ASEAN peoples and business the opportunity to work together more productively.

(viii) Narrowing the development gap: Along with the process of regional integration, initiatives that help narrow the development gap among and within ASEAN Member States have also been put in place.

### **3.0 Literature Review**

Sadrel Reza cited (2015) in his Bangladesh-ASEAN Trade Relations that Specifically, an effort is made here to assess the current state of trade and tariff co-operation between South Asia and ASEAN in so far as it relates to the position of Bangladesh. This exercise, along with the knowledge on the current investment co-operation (see the paper by Siddiqi in this volume) will hopefully help to identify and formulate selected schemes for strengthening economic relations among the above-mentioned countries [4].

Siowyue Chia (2013) shows that by end-2011 only an implementation rate of 67.5% had been achieved by AEC. While tariff elimination is found to be largely on schedule, there are

difficulties with the removal of non-tariff barriers as well as with the liberalization of services and investment regimes. The author also described that this AEC scorecard had a perfect score for implementation of this fourth pillar. ASEAN has a market of 600 million people, exceeding NAFTA and the EU in population size but only a fraction of their economic size. Hence the need for ASEAN to practice open regionalism and widen its economic networking through various ASEAN-wide FTAs, integrate further into global production networks and supply chains, and play a more active role in the WTO [8].

#### **4.0 Investment and Trade of ASEAN Member Countries**

According to ASEAN Investment Report 2015, intra-ASEAN investment rose by 26%, from \$19.4 billion in 2013 to \$24.4 billion in 2014 – accounting for 18% of total inflows into the region (figure 2). This upward intraregional investment trend suggests a growing interest of ASEAN companies in establishing a stronger regional presence, in particular in recent years, in light of emerging opportunities and the influence of the impending ASEAN Economic Community (AEC) 2015 [5].

In 2014–2015, ASEAN Member States continued to introduce measures favourable to investment. They included measures to make investing easier, increase transparency and improve the investment environment. Others included national investment policy reforms, industrial development policies, incentives and tax reforms, investment facilitation, streamlining of investment procedures, strengthening of institutional support for investors, establishment of more economic zones and infrastructure development. The ASEAN Member States are also involved with other investment-related agreements at the bilateral, plurilateral and regional levels, at various stages of negotiation and development. They include investment agreements for ASEAN free trade agreements with Dialogue Partners and the Regional Comprehensive Economic Partnership. Some Member States continue to negotiate and implement bilateral and plurilateral free trade agreements that include investment agreements or chapters, and bilateral investment treaties [5].

#### **5.0 ASEAN, AEC and Bangladesh**

ASEAN offers Bangladesh many opportunities for building co-operation and sharing expertise with sophisticated economies such as Singapore.

India, Nepal, Bhutan and Bangladesh signed a landmark Motor Vehicles Agreement (MVA) for the Regulation of Passenger, Personnel and Cargo Vehicular Traffic among the four South Asian neighbours in Thimpu, Bhutan. The MVA agreement between sub-grouping of four SAARC nations, Bangladesh, Bhutan, India and Nepal (BBIN) will pave the way for a seamless movement of people and goods across their borders for the benefit and integration of the region and its economic development [6]

The IMT MVA is also instrumental to making Asian Highway (AH-1) functional which is again a part of the IMT Trilateral Highway. The starting point of the route is Imphal, capital of Indian north-eastern province Manipur. It stretches to Moreh in Myanmar, adjunct to Indian border, then crosses through Tamu, Kalewa, Monywa, Mandalaya to Yangon, capital of Myanmar. The final destination is Mae Sot of Thailand. It is a road network of some 3,200 km which will be extended later to link Cambodia, Laos and Vietnam. India has already provided Myanmar with a loan worth \$500 million for upgrading the 1,600-km of the Myanmar-section of the trilateral highway. Meanwhile, 25.6 km Myawaddy-Thinggan Nyenaung-Kawkareik section of the highway is now open [6].

## **6.0 AEC and Education Sector of Bangladesh**

Successful and full implementation of the AEC will remain an important ASEAN priority. But as the focus over the coming decade shifts to the implementation of the ASEAN 2025 agenda for further integration, the emphasis is also on building stronger people-to-people links across the region which shall reflect on the education sector too [7]. It also opens up new avenues of cooperation with foreign partners like education.

Bangladesh can work with ASEAN to increase student mobility by helping to harmonize the recognition systems between higher education institutions in ASEAN. We may improve the comparability of university qualifications and make it easier for our students to transfer credits

obtained at one university to another through the development of qualifications frameworks, quality assurance systems and credit transfer systems as followed by the examples of EU [7]. Exchange of student and faculty members amongst Bangladesh and ASEAN member countries can play vital role of a catalyst to inculcate regional consciousness. To meet the globalization challenges raising higher education quality to the world standard is essential. Bangladesh Govt. has taken initiatives to develop the quality of tertiary education. Govt. plans to prepare university graduates in such way that they can successfully compete in the context of international knowledge society.

## **7.0 AEC and IT sector of Bangladesh**

From 2005 onwards, the Bangladeshi services sector grew substantially. This led to a robust growth in the domestic IT & ITES services demand: currently the revenue from domestic IT services is almost twice the amount of the revenue from IT & ITES exports. The growth of the domestic market has spurred a process of growth in the functional and technical knowledge of the local IT & ITES companies. With ambitious growth forecast, however, depends on the improved visibility of Bangladesh as a sourcing destination on the global IT & ITES market and a large, competitive supply side. Although Bangladesh has been featured on the top 30 offshore locations ranking established by Gartner in 2011 and 2013, it is still seen as a tier-3 global sourcing destination, while countries like India and the Philippines are in the tier-1 league (According to the NTF III project of ITC). With the help of ASEAN Economic Community, the market of Bangladesh can grow at even more faster pace.

## **Conclusion**

AEC Blueprint 2025 will provide ASEAN with a new master plan for economic integration for the coming 10 years. Charting the region's trajectory over the next decade, institutions will be strengthened, commitments followed through with implementation, and monitoring and evaluation enhanced. Unique, dynamic and brimming with potential, ASEAN will assume its aspiring role as a key driver for regional as well as growth for developing countries [3].