



## ECONOMICS

International freight movements are often impeded by national and regional trade barriers. ASEAN's attempt to create a single market is moving slowly towards fruition. Leschaco discusses how this may help logistics providers and what it is already doing to take advantage of the opportunities

'AEC 2015' can be overheard in many discussions nowadays. Everybody wants to be prepared, but unfortunately very few details are known by most of the people concerned. Is the ASEAN Economic Community (AEC) hype or reality? What is AEC exactly?

Ostensibly, AEC is not exactly a new idea. There are similar economic blocs around the world, but a straightforward comparison with, say, the European Union, is flawed, not only

because of the specific history of the Association of Southeast Asian Nations (ASEAN) and the diversity of member states' economies, but also because of a lack of a central executive body to carry out implementation of AEC.

What we do know about AEC is that it is a strategic agreement promoting a single market and production base as well as competition in the region's economies. While it is expected to become a reality next year, that is still far from certain, although it may be partly in place. But it will be a reality and companies operating in the region need to be taking steps to take advantage.

### A first step

Leschaco Thailand, which was previously a Customs Gold Card Broker, has already taken one important step towards AEC by becoming one of Thailand's first certified Authorised Economic Operators (AEO). The AEO certificate replaces the former Gold Card. AEO is one milestone in the implementation of AEC in Thailand. Operators commit to integrity of personnel and data as well as secured access to the premises. With more than 200 staff and 10 certified customs specialists, Leschaco's Customs Clearance Department is a well respected institution in the market.

Leschaco's customers profit from the AEO certification through Green Line channels both for imports and for exports, which expedites the clearance procedure. Additionally, for cross-border transport, Leschaco's customers do not have to provide a bank guarantee for the import

duty of the cargo. Leschaco's AEO certification is its own guarantee to Thai customs authorities that Leschaco will handle the products appropriately and in full compliance with the regulations. So, while AEC is still a vague concept, there are concrete advantages to those prepared to take part.

### Hub of the matter

Thailand has a distinctive geographic advantage as the centre of ASEAN. With the implementation of the AEC it will therefore have not only a key responsibility but also an opportunity as a hub and transit country, similar to Germany in the EU. Thailand's logistics hub concept has been discussed for years, and the Government of Thailand and the private sector have been very active in promoting Thailand as the logistics hub of ASEAN. AEC can be Thailand's chance to finally and fully realise this hub ambition. In that regard, many operators are attentively following the revival of the rail infrastructure projects.

Likewise, the potential exists for becoming a road freight hub, based on statistics that indicate road transport will account for some 80 per cent or more of all logistics activities. These and many other circumstances could give Thailand and its logistics sector a strong competitive edge.

Leschaco Thailand recognised the huge potential of Thailand quite early on and established a Freezone Warehouse in 2009. The Freezone model was another incentive to promote Thailand as a logistics hub. Since 2009, Leschaco Thailand has expanded its warehousing

footprint to 25,000 m<sup>2</sup> of Freezone and Non-Freezone. At the same time, Leschaco is able to store general cargo with hazardous goods at one and the same location. This is a unique advantage that gives Leschaco's customers full flexibility.

However, several obstacles remain that hinder Thailand in its aim of achieving its full potential. For example, companies are faced with some unclear and partly contradictory statutes of different government departments. In addition, foreign entrepreneurs who are looking at Thailand as their potential distribution hub, and who are not yet established in Thailand, are always surprised to find that one needs a locally registered company to act as importer or exporter of record, even in a Freezone. Finally, land transportation across intra-ASEAN borders is often difficult and expensive due to the fact that cargo, in most cases, has to be transloaded from one vehicle to another. That is the reason why there are expectations and hopes that the AEC will help to harmonise standards and thus create more attractive conditions for the market.

### Promise of openness

The growth of investment will also depend on the implementation of the AEC. Service companies such as Leschaco have been prohibited from holding 50 per cent or more of foreign shares in businesses in Thailand. There are only a few exceptions under several Acts (eg the Foreign Business Act and the Investment Promotion Act). Nevertheless, one of the key factors in successful AEC implementation will be the measure of the free flow of services and goods that will be directly affected by the present limitation on foreign equity participation, such as foreign land ownership restrictions and licensing.

As part of AEC implementation, logistics service providers will be able to have up to 70 per cent equity participation in local activities. This will have a significant impact on inward investment to the region. Correspondingly, the AEC blueprint states that as logistics is identified as one of the priority services, the target is to substantially reduce or remove all services restrictions and duties on products. That is, of course, another important point for any potential

foreign investor. Hence, theoretically the AEC looks promising; however, only time will tell whether and when steps will be actually taken to overcome the present rather traditional mindset.

In summary, the AEC is an interesting and desirable concept for many operators in the logistics sector. Distinctive positive changes have already been made, e.g., the implementation of the AEO scheme with its resulting benefits for importers and exporters. On the other hand, there are a few non-tariff barriers that need to be looked at, such as conflicting regulations, importer and exporter of record ruling, and cross-border land transport modalities. However, the planned changes to various aspects of legislation in the AEC blueprint will increase the confidence of foreign investors. With the implementation of the AEC Leschaco sees a major opportunity for the region, and especially Thailand. Leschaco will therefore follow up all developments in order to further position itself strategically, and to offer all Leschaco customers the greatest possible advantages.

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