ASEAN Businesses and ASEAN Economic Integration

As the ASEAN governments are busy providing the policy framework for regional integration by 2015, it is only through the decisions and actions of businessmen of the ASEAN countries that integration can be achieved. The trade and investment facilitation reforms, thus, must benefit the private sector. But what is the current state and opinion of the ASEAN private sector on the prospects of achieving ASEAN Economic Community (AEC) by 2015? To answer this question and more, the ASEAN Studies Centre (ASC) at the Institute of Southeast Asian Studies (ISEAS) organized a brainstorming session on 23 September 2010. The main focus of the session was: Achieving the AEC 2015: Challenges for ASEAN Businesses, which examined the opinions and views of ASEAN businesses on regional integration.

- While in some cases, there is hope that AEC 2015 may bring advantages, it is often shadowed by caution and skepticism. The private sector is disappointed by the slow pace of implementation measures to create an AEC. Although, according to the ASEAN official Scorecard I (2008-2009), ASEAN has achieved around 80 percent of its targets, it defies the understanding of the private sector.

- Lack of awareness of ASEAN agreements seems to be uniform across all countries, although there is some understanding of the ASEAN Free Trade Area (AFTA), a process that was initiated in 1992. In most ASEAN countries, awareness of ASEAN agreements amongst the small and medium enterprises (SMEs) is quite low.

- The utilization rate of the AFTA tariff preference is around 15-17 percent for the Philippines and 20 percent for Vietnam. Across ASEAN, the AFTA utilization rate in 2008 was 23 percent. The high administrative cost, low margin of preference (Philippines, Vietnam), and complicated rules of origin (Thailand, Vietnam) are cited as most common reasons for the low utilization rate. The private sector of some countries feels that the product structures of ASEAN member countries are relatively similar. Consequently, the ASEAN member countries find little interest in importing products from one another. The AFTA utilization rate varies according to the sector. For example, in Thailand, basketwork has high AFTA usage rate, whereas manufacturers of pearl, precious stones have very low usage of AFTA tariff preferences.

- Regarding trade in goods, business persons have identified the "elimination of non-tariff barriers" as the most important area for implementation. In the opinion of Singapore and Thai private firms, the elimination of non-tariff barriers (NTBs) would help businesses to reduce cost and enhance competitiveness in the region. For trade in services, some companies consider government domestic policy as the leading obstacle of their efforts to expand overseas. For example, Malaysia has restrictions on the number of student intakes in tertiary education, as government officials seek to prevent over-producing health-related professionals. With regard to the investment agreement, the private sector gets discouraged from investing in ASEAN countries by such factors as strikes in Vietnam, limited local knowledge and lack of capital. Nevertheless, the private sector views the increasing number of professions covered by ASEAN MRAs as a positive development.

- The size of the firm matters with regard to their thoughts on ASEAN regionalism. For example, the SMEs of Singapore tend to be more optimistic, as they are attracted to ASEAN neighbours by the market size, geographical proximity and lower cost due to production networks. However, they are yet to take the AEC as part of their business strategy. The larger players are relatively better informed and more positive about the AEC in Malaysia, Thailand and the Philippines.

- For some countries' private sector, both home-grown and MNCs, ASEAN agreements gain importance because of other factors. The private sector may not want to put all its eggs in one basket, i.e. China. They would prefer to diversify their investments to ASEAN. Private firms also prioritize their investment decisions according to the market for final demand. Thus, China or India becomes important. Indeed, there are firms which consider increased market access a major benefit of using ASEAN Free Trade Agreements.

- In less developed ASEAN countries like Cambodia, slowness in translating ASEAN legal documents for ratification by the government is also preventing them from complying with AEC measures. These countries also suffer from language limitations and difficulty in understanding ASEAN materials. For both the policymakers and private sector in Cambodia and Vietnam, domestic issues take priority over regional concerns. In these countries, private sector engagement with and preparedness for the AEC get further complicated by membership in Greater Mekong Sub-region (GMS) and similar sub-regional programmes.

In this light, private-sector involvement should be a key mission of the economic integration strategy in the region. To do so, the most important thing is to raise awareness of the benefits of AEC to business people. Importance must be given to public-private sector partnerships and regular consultations. Written material on ASEAN and AEC should be readily available to businesses in English and local languages. Industry associations have to play a significant role in this regard and have to arrange workshops and involve mass media in disseminating information about ASEAN and the AEC. They have to serve as intermediaries between the market players and government agencies for the effective implementation of the AEC.

The AEC scorecard should be made transparent, detailed and readily available for private-sector use. Businesses have lost confidence in the scorecard, as much of the explanation is not clear enough for public understanding. Hence, the contents of the scorecard must be fed efficiently to the private sector. It is recommended that the AEC scorecard be supported by regular consultations with the private sector.

To achieve the AEC 2015, measures for trade facilitation should be given priority. Focus should be trained on smoother customs and logistics integration. It is also advisable to review the progress and effectiveness of ASEAN's central NTBs database system and its implementation.

SMEs are more vulnerable to economic integration than the larger firms. The SMEs lack financial and technical know-how and thus need support and knowledge of markets to venture into ASEAN countries. Government agencies need to increase their assistance in providing the support and information needed.

ASEAN leaders should also look into building capacity for less developed countries. This would help their national bodies and sectoral associations to participate more actively in ASEAN and AEC processes. Due consideration should be given to aligning the sub-regional programs into the overall objectives of the AEC.

Changes need to be made in the domestic regulations, and the changes must be implemented at all levels (like customs, municipalities) of the country. Countries should continue to facilitate the development of the private sector in their respective economies, before they ventured abroad. Administrative reforms should be continued and institutions developed.

ASEAN is just four years away from achieving the AEC by 2015. While the top-down approach to establish a single market and production base has so far been carried out, realizing an AEC also requires a bottom-up style that involves the interests and actions of businesses. As the private sector's participation is still weak in ASEAN economies, the leaders and policymakers have vital roles to play in engaging private businesses in ASEAN matters.

We sincerely thank all the participants of the Brainstorming Session on 23rd September 2010 at ISEAS, Singapore.