

AEC, Integrated ASEAN, and SMEs

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ASEAN Economic Community: Vision and Blueprint

- ▶ **Pillar 1: Single Market and Production Base**
 - Free flow of goods, services, investment & skilled labor; Freer flow of capital.
- ▶ **Pillar 2: Highly Competitive Economic Region**
 - Transport facilitation, infrastructure, ICT and connectivity; IPR, taxation, competition policy
- ▶ **Pillar 3: Region of Equitable Economic Development**
 - SME development; Initiative for ASEAN Integration
- ▶ **Pillar 4: Region Fully Integrated into the Global Economy**
 - Coherent approach to external economic relations

Tariffs

- ▶ ***Success story of political commitment.***
 - ▶ *Virtually Zero for ASEAN-6.*
 - ▶ *Avg. CEPT rate for CLMV: 2.6 % (2010).*
 - ▶ *On track. Almost done.*

- ▶ Overall, success story also on impact:
 - Higher intra-ASEAN trade share
 - Intra-ASEAN trade more spread out among AMSs
 - Gravity Model results show many industries where imports are responsive to tariff differentials

Non-tariff Measures

- Incidence of core NTMs varies tremendously among AMSs
- Voluntary approach yielded few NTB elimination
- Some success in solving complaints on NTMS under current matrix of actual cases approach (35 cases)
- No comprehensive and up to date NTM database.
- No definition of NTBs or degree of NTB effects of NTMs
- Need for a robust mechanism to address NTB effects of NTMs
 - Transparency
 - Better regulation initiative

Trade Facilitation

- ▶ Top priority for private sector
- ▶ Huge gap between best and poor performers
- ▶ Live implementation of NSW in 7 AMSs before 2015.
- ▶ *Huge effort needed* for pilot live NSW implementation in **CLM** countries.
- ▶ Partial ASW implementation probable by 2015
- ▶ Private sector noted improvements in import/customs processes in recent years
- ▶ *Emerging success story* for ASEAN if there is strong political will in all AMSs

Standards and Conformance

- ▶ Second top priority after trade facilitation for private sector
- ▶ Addressing TBTs is a long term, continuing, technically complex, wide-ranging process.
- ▶ Some achievements but AMSs vary substantially on S & C implementation
- ▶ Strong private sector involvement advisable
- ▶ Key Issue: How can there be a facilitative S & C regime, especially for SMEs, is a big challenge

Liberalization Initiatives

▶ Free Flows of Services

- Robust liberalization in Mode 1 but slow liberalization rate in Mode 3 under AFAS
- Slow liberalization in financial services and Mode 3 for air transport services

▶ Free Flows of Investment

- Relatively open especially manufacturing; substantial achievement
- Some AMSs near global best practice in investment facilitation
- Private sector noted improvements in a number of AMSs
- Room for improvement still significant

▶ Freer Flow of Capital

- Slow progress in capital market development and financial liberalization

▶ Free Flows of Skilled Labor

- Significant progress on implementation mechanism for engineering and architecture
- Key bottleneck: revision of domestic regulations to be consistent with provisions of MRAs

ASEAN SME Policy Index

Figure 5A.2. ASEAN SME Policy Index - Average

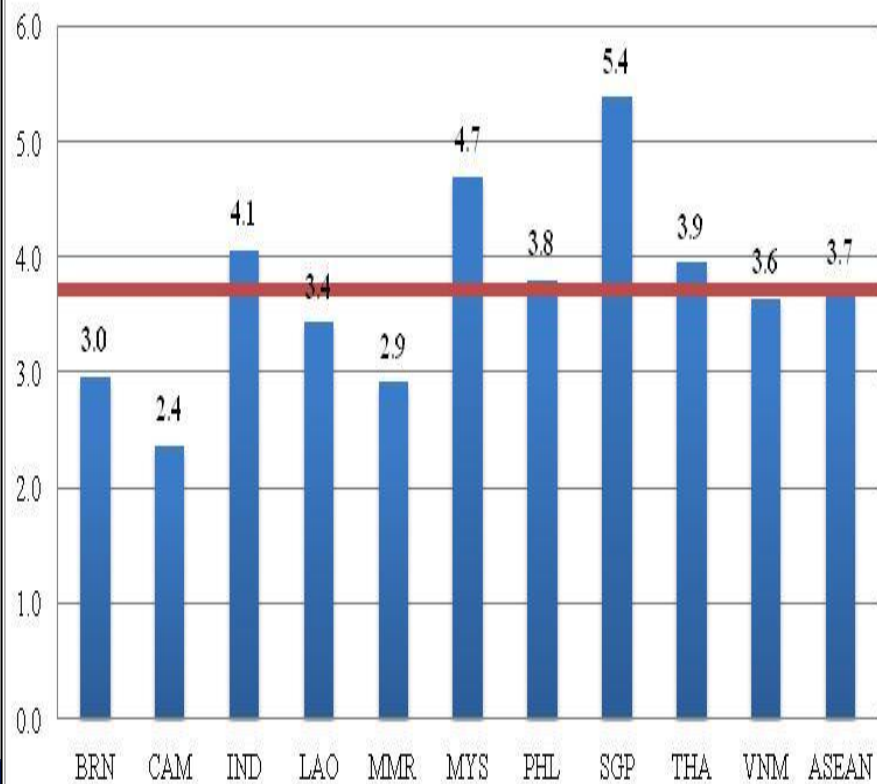
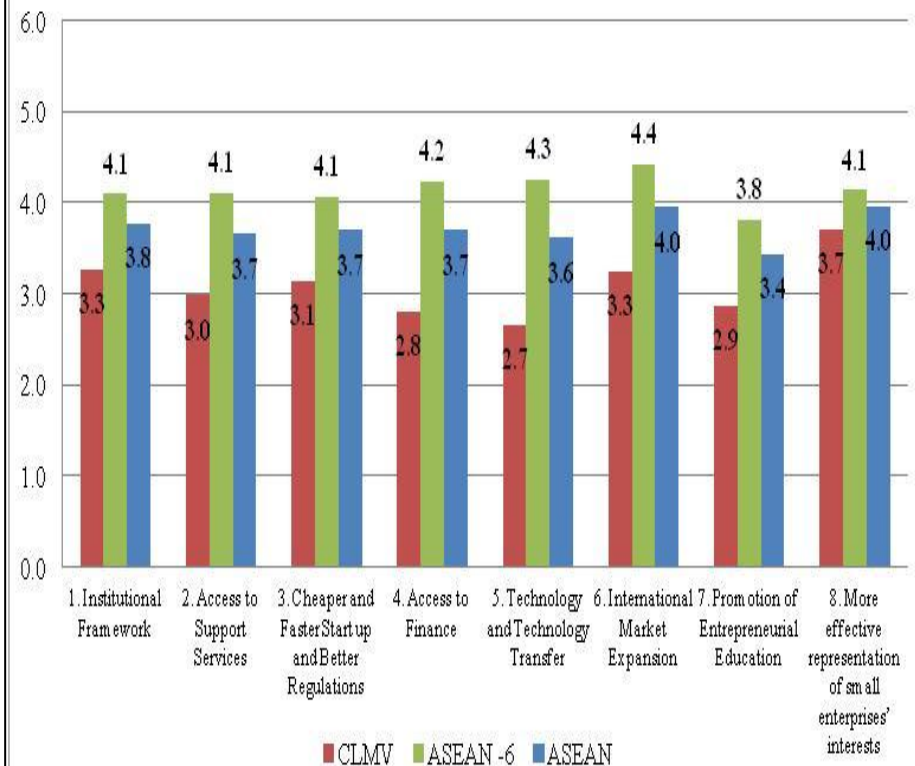
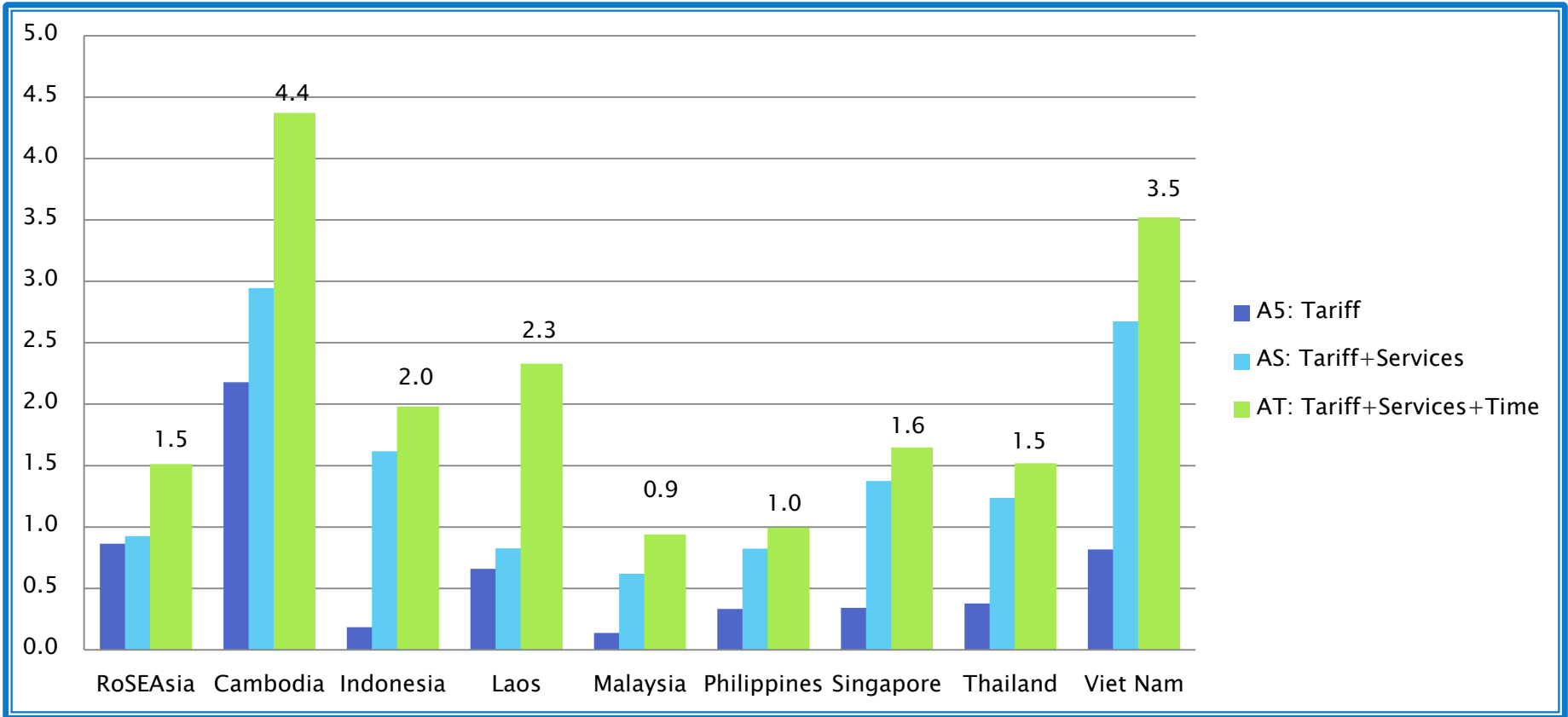


Figure 5A.3. ASEAN SME Policy Index - By Group of Countries and Policy Dimension



ASEAN Integration Matters: Potential Economic Impact of AEC Measures on AMSs' GDP



Notes: Brunei is proxied by “Rest of South East Asia” in the simulation, excluding Myanmar. No estimates for Myanmar because of GTAP model constraints.
Cumulative Percentage Point, deviation from baseline, 2011 to 2015
Source: Computed by Itakura for MTR project.

Estimates of ASEAN's and East Asia's Middle Class

- ▶ **METI:** 880 million (2008) incl. NIEs
- ▶ **Estimate A:** \$3–12 per capita per day PPP (similar to D & B)
and McKinsey and China)
 - ▶ ASEAN 7 : 194 million around 2010
 - ▶ China : 657 million around 2010
 - ▶ India : 143 million around 2010
- ▶ **Estimate B:** \$4 – 30 per capita per day PPP (similar to METI)
 - ▶ ASEAN 7 : 144 million around 2010
 - ▶ China : 550 million around 2010
 - ▶ India : 75 million around 2010

Implications of Rise of Middle Class in ASEAN (and East Asia)

- ❖ Increased demand for durables and differentiated products
- ❖ Production of some durables linked to regional production networks in East Asia
- ❖ Increased demand for differentiated products, domestically produced or imported
- Rising middle class consumption makes domestic market as breeding ground for growth of domestic firms and springboard for regional expansion
- Rising middle class also an investment magnet from FDI and locals

Opportunities from AEC for SMEs

- ▶ SME Beneficiaries
 - Entrepreneurial SMEs selling final goods and services to “retail” customers within AEC
 - SME suppliers in regional production networks led by MNCs
 - SME producers and sellers to robustly growing domestic market and can compete with imports
 - In short, virtually all SMEs can potentially benefit from AEC

Adjustment Challenges for SMEs

- ▶ **Firm level capability and resource constraints**
 - Product quality and design; standards and certification; access to information/market knowledge; business culture not geared for internationalization
- ▶ **SMEs in clusters and networks**
 - Limited interaction and linkages with other enterprises. Clusters help raise productivity, commercialization of ideas, and concentrated availability of skills, suppliers, etc.
- ▶ **Policy environment for SMEs**
 - The more advanced AMSs have better policy environments for SME development (see next slide on ASEAN SME Policy Index)

- ▶ In conclusion, AEC is a continuing and evolving process. SMEs best adjust to it and seize its opportunities and embrace its challenges.

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