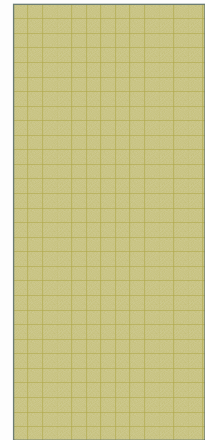


Conference on Sustainability Trends:
Keys for Green Business in AEC

Bangkok, Thailand
August 9, 2013

ASEAN Business and AEC 2015: Five Observations

Cielito F. Habito, Ph.D.



AEC 2015: The Four Pillars



SINGLE MARKET & PRODUCTION BASE

Free flow of
goods
Free flow of
(professional)
services
Freer flow of
skilled labor
Free flow of
investment
Freer
movement of
capital

COMPETITIVE ECONOMIC REGION

Competition
policy
Consumer
protection
Intellectual
property
rights
Infrastructure
development
Taxation
E-commerce

EQUITABLE ECONOMIC DEVELOPMENT

SME
development

Initiative for
ASEAN
integration
(IAI):
Assistance to
less-
developed
member
states

INTEGRATION INTO GLOBAL ECONOMY

Coherent
approach
toward
external
economic
relations

Enhanced
participation
in global
value chains

AEC and ASEAN Business:

Five Observations



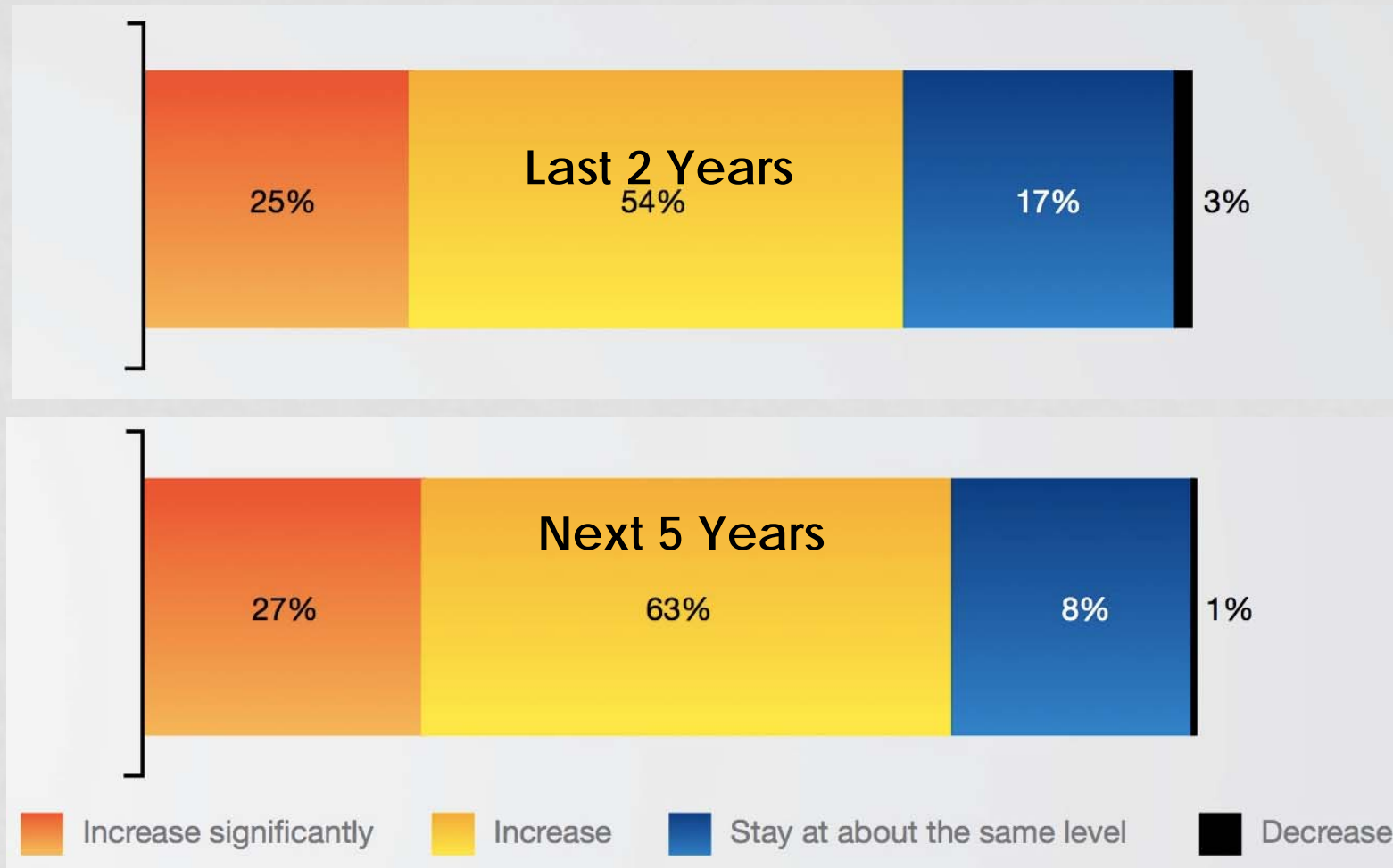
- 1. ASEAN economies are gaining momentum.**
Growth outlook generally favorable
- 2. More complementation, less competition.**
More trade within industries (intra-industry)
- 3. Overall benefits of integration outweigh the costs.** Economies of scale, stronger cohesion
- 4. Some will benefit more than others.**
Gains will differ across & within member countries
- 5. Inclusiveness and sustainability are of paramount importance.**
Social and environmental concerns are key



1. ASEAN economies are gaining momentum

Growth outlook generally favorable

Level of Trade & Investment

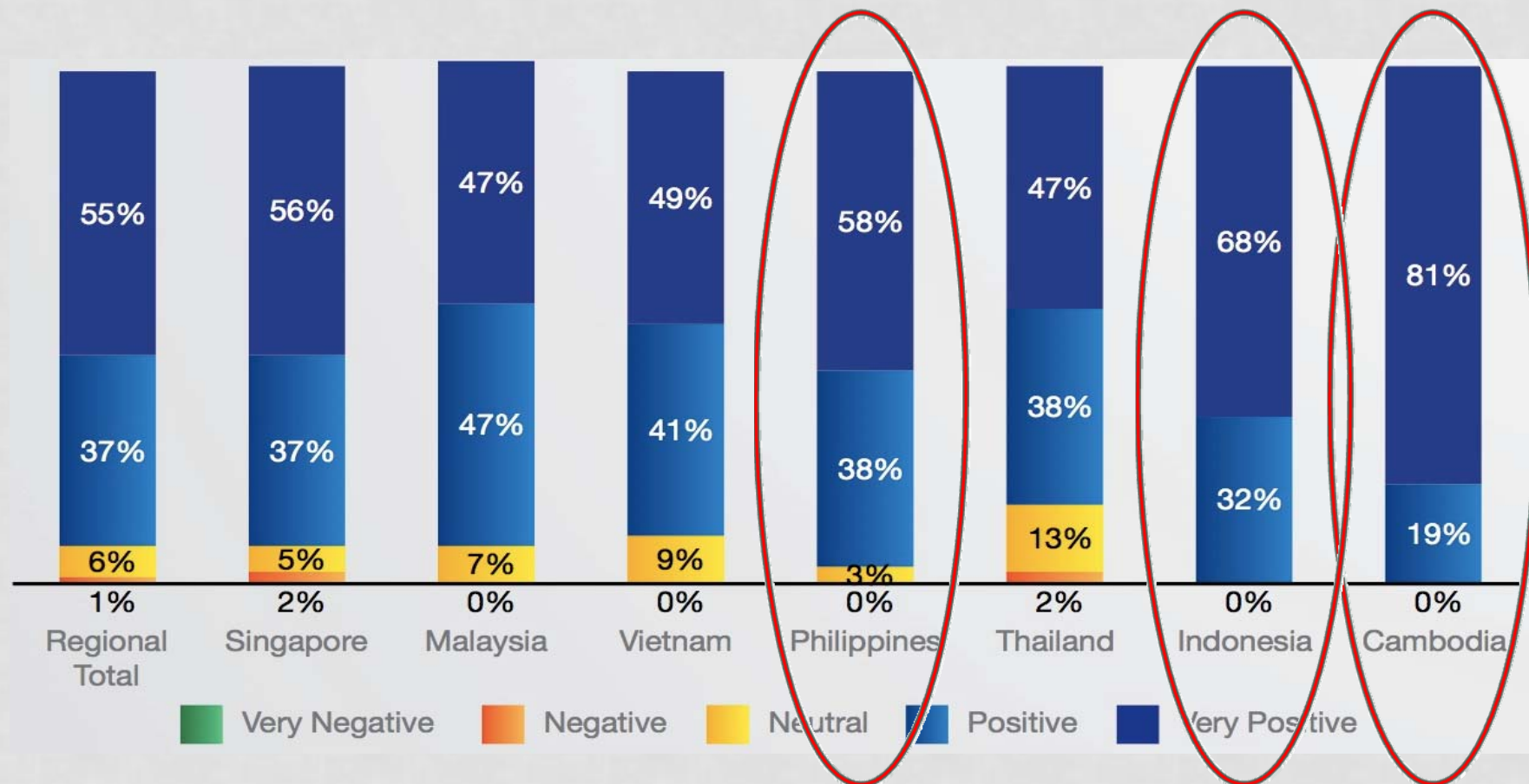


Source: AmCham 2012/13 Business Outlook Survey

Investment Opportunity Outlook in ASEAN



Percentage of US Investors Who See Positive Outlook



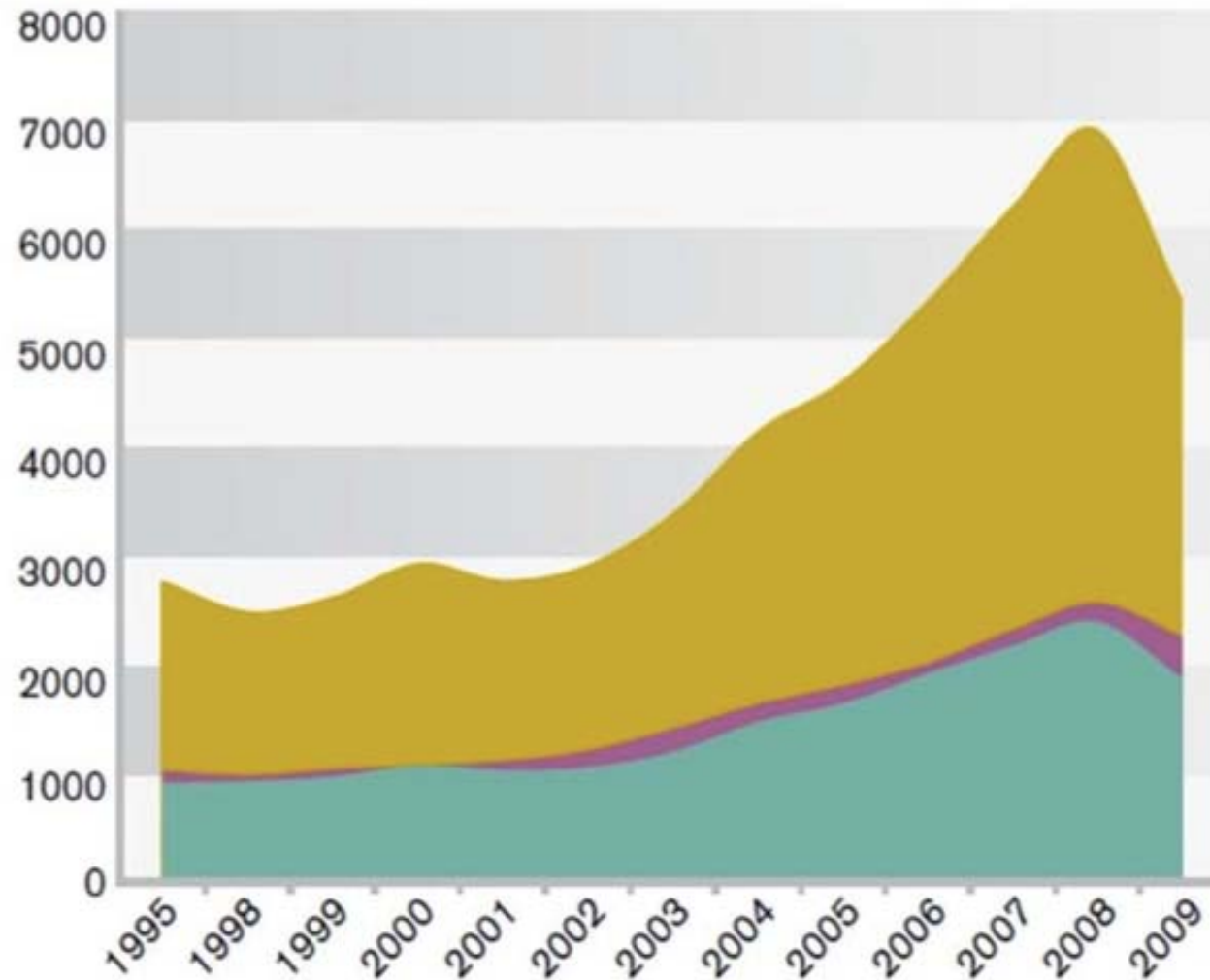
Source: AmCham 2012/13 Business Outlook Survey

2. More complementation, less competition

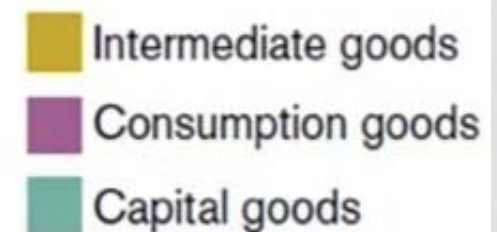
More trade within industries
(intra-industry)



The Changing Shape of Global Trade



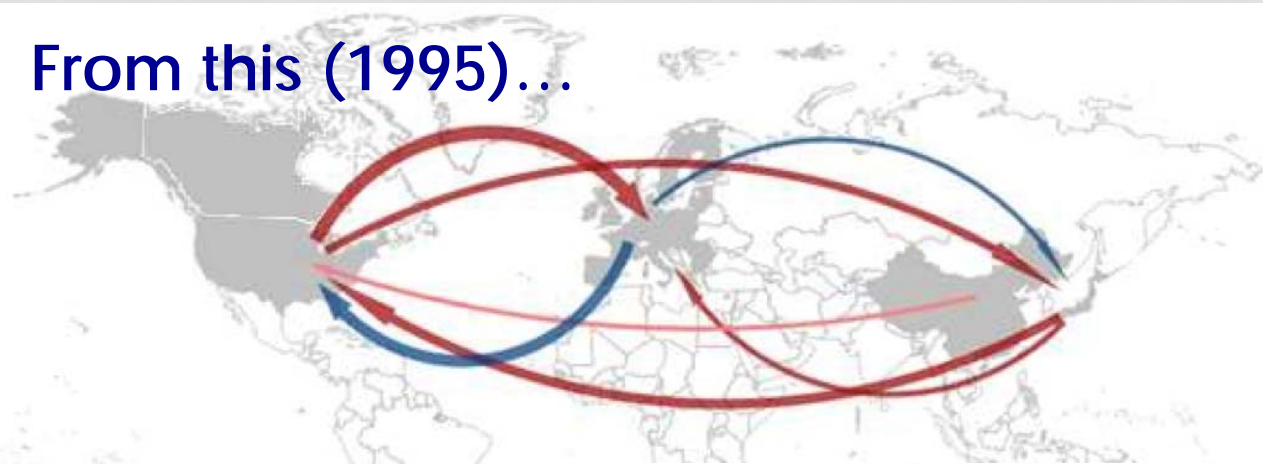
Dramatic growth in intermediate goods trade with the development of global value chains



Source: Sherry Stephenson (2013)

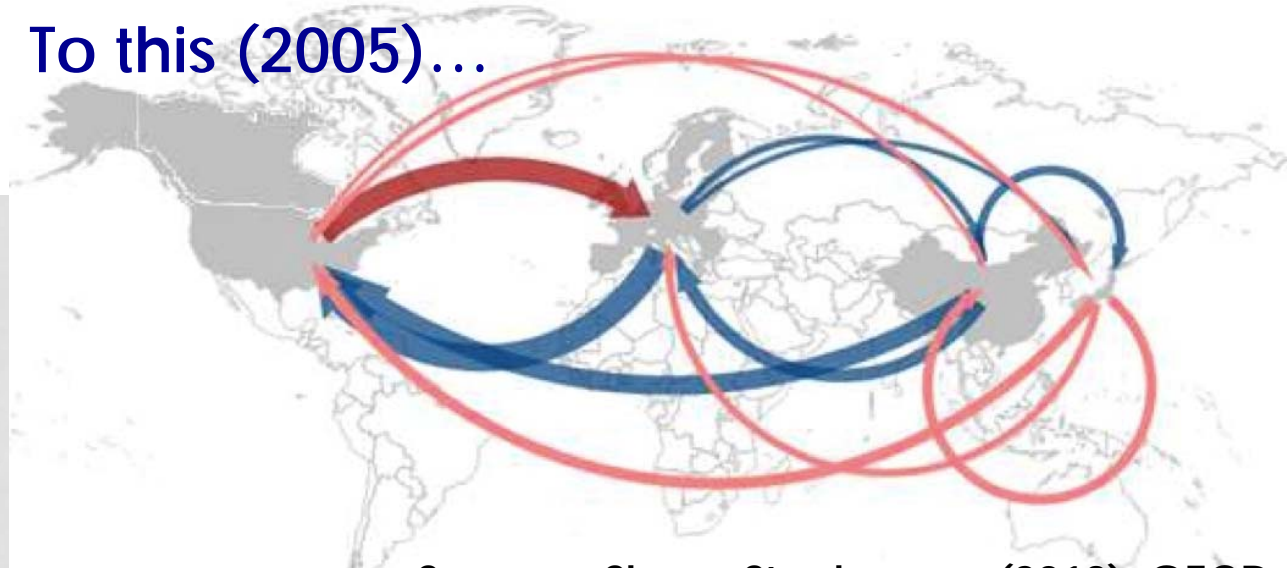
Changing Trade Patterns

From this (1995)...



More intra-regional trade within Asia especially South East Asia

To this (2005)...



Value chains transcend national boundaries: Boeing airplanes; iPhones & iPads are “**Made in the World,**” not “Made in USA” or “Made in China”

Sources: Sherry Stephenson (2013); OECD

ASEAN in the 1990s



- Skeptics predicted little impact and benefit from ASEAN Free Trade Area (AFTA)
- Supposedly producing largely the same products, hence likely to end up competing rather than cooperating
- Led some ASEAN-6 members to push for sensitive lists and exclusion lists (especially Philippines and Indonesia)



Philippines-ASEAN Trade Patterns



- **Thailand**

Top imports: Motor vehicles, electronics, petroleum and chemicals

Top exports: Motor vehicle parts, electronics & electricals, and minerals

- **Singapore**

Top imports: Electronics, machinery and petroleum

Top exports: Electronics & electricals, machinery, and petroleum

- **Malaysia**

Top imports: Electronics, petroleum and chemicals



Thailand-ASEAN Trade Patterns



- High Intra-Industry Trade (IIT) Index between Thailand and Malaysia, Singapore, Myanmar, Indonesia & Philippines
- Low IIT Index with Lao PDR, Brunei and Vietnam
- Rising IIT Index with Malaysia, Singapore, Cambodia, Myanmar, Lao PDR, Brunei
- Falling IIT Index with Indonesia, Philippines

Source: Sujinda Chemsripong (2011)



Thailand-ASEAN Trade Patterns



Top 10 Products in Thailand's Intra-Industry Trade with ASEAN

Rank	Code	Description	IIT (%)
1	54	Manmade filaments	90.75
2	73	Articles of iron or steel	90.26
3	29	Organic chemicals	87.87
4	85	Electrical, electronic equipment	86.76
5	36	Explosives, pyrotechnics, matches, pyrophorics, etc	86.59
6	64	Footwear, gaiters and the like, parts thereof	84.78
7	28	Inorganic chemicals, precious metal compound, isotopes	84.09
8	39	Plastics and articles thereof	82.11
9	76	Aluminums and articles thereof	82.84
10	48	Paper & paperboard, articles of pulp, paper and board	81.93

Source: Sujinda Chemsripong
(2011)

Trade in ASEAN/AEC

Features



- Largely *intra-industry* in nature (trade in products belonging to the same industries), e.g.

Philippines exports intermediate electronic components, disk drives, watches to Singapore, Thailand and Malaysia; imports finished products

Thailand imports motor vehicle parts from Philippines, exports motor vehicles in return

- Trade relationships in ASEAN are increasingly complementary rather than competitive in nature; **the opportunities lie in regional and global value chains or production networks**



3. Overall benefits of integration outweigh the costs

Economies of scale and stronger
cohesion

AEC Benefits and Costs



Benefits

- Economies of scale → Lower unit costs
- Greater efficiency → Lower prices for all
- Higher productivity → Higher incomes
- Stronger interdependence → Greater regional harmony and peace

Costs

- Greater vulnerability to supply chain disruptions?
- Trade diversion from cheaper non-AEC sources?
- Differential gains/benefits; inequitable growth?

4. Some will benefit more than others

Gains will differ among and within countries



Unbalanced Gains



- Some will gain more, and some may be hurt – both across and within member economies
- AEC poses more challenges but also gives more opportunities for less developed members
- Ideally, bigger winners must be able to assist losers; creative compensating mechanisms needed across and within member countries (e.g., IAI; tax and expenditure policies)
- Big businesses are better positioned than SMEs to reap the gains

ASEAN Business:

Questions to Ponder



- Expansion opportunities and new threats from from wider competition
- Leveraging increased consumer demand
- Efficiency enhancements through supply chain design & location of various business functions
- Opportunities from capital markets integration (wider access to capital, listing options, etc.)?
- Attracting and placing skilled labor for maximum productivity
- New laws and compliance processes

Source: KPMG



- 5. Inclusiveness & sustainability
are of paramount importance**
Social & environmental concerns are key

Getting to “RICH ASEAN” by 2030



- Resilient, Inclusive, Competitive and Harmonious ASEAN
- Resource-based economic growth will test environmental sustainability
- Further challenges include the 'middle income trap', climate change, global financial instabilities, rising energy costs, among others

ASEAN Business: The Way Forward



- Find strategic position in cross-border value chains/production networks
- Look beyond AEC toward global value chains (and how AEC fits in): RCEP, TPP, WTO
- Opt for inclusive value chains vs. vertical integration as contribution to inclusive growth
- Pursue the triple bottom line of People, Planet and Profit; foster Social Enterprise and Green Economy



Thank You!