



## **Business Statement to the OECD Southeast Asia Regional Forum and Steering Group Meeting: *Priorities for Regional Integration*** *24-26 March 2015, Jakarta*

### ***Preamble***

ASEAN is the third largest trade market and one of the largest economies in the world, with tremendous potential for further growth over the next decades. The private sector supports greater integration among Southeast Asian economies, in particular the launch of the ASEAN Economic Community (AEC) by the end of 2015, as an essential catalyst in spurring and maintaining the growth trajectory of the past decade.

Moving towards competitive markets is a prerequisite for investor confidence, job creation, and economic growth. Countries in Southeast Asia are benefiting thanks to efforts to reduce protectionism and overcome market barriers. Intra- and extra-ASEAN trade more than doubled in volume between 2004 and 2011.<sup>1</sup> Meanwhile, intra-ASEAN foreign direct investment (FDI) leaped nearly six fold from 2000 to 2011, and extra-ASEAN FDI more than quadrupled.<sup>2</sup>

But there is still much left to do to ensure strong and sustainable growth across Southeast Asia. We welcome the commitment by ASEAN heads of state in 2013 to create a “Post-2015 Vision” for further integration. In support of that vision, we believe it will be important for ASEAN countries, with the support of the business community and the OECD Southeast Asia Regional Programme, to generate evidence that shows the benefits of integration – both among ASEAN countries and between ASEAN and world markets.

The OECD is in a unique position to contribute relevant analysis and tools relating to macroeconomic growth, investment policies, sound governance and legal frameworks, SME promotion, trade facilitation, regional and global value chains, risk mitigation instruments, and the development of human capital. OECD guidance can be of great value to provide governments and stakeholders with objective fact-based analysis for

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<sup>1</sup> ASEAN (2013) “Latest ASEAN Statistics Show Progress Towards 2015 Integration”, ASEAN Secretariat News, available online at: <http://www.asean.org/news/asean-secretariat-news/item/latest-asean-statistics-show-progress-towards-2015-integration>

<sup>2</sup> Ibid.



constructive dialogue. Business welcomes the launch of the Southeast Asia Regional Programme (SEARP), including the 2014 and 2015 Southeast Asia Regional Forums.

### *AEC Integration: The business perspective*

Business welcomes further ASEAN integration in particular and regional integration overall, as it would bring substantial benefit to economies – both in terms of efficiencies and business opportunities. At the same time, the effects of integration are not yet fully realised – in fact, trade and investment linkages with China, Japan, and the United States are stronger than those between ASEAN countries.

While business welcomes the lowering of tariff barriers, the full potential of integration is still hampered by a range of general and sector-specific non-tariff measures, technical barriers to trade, and restrictions on investment. Major services sectors such as telecommunications and air travel are regulated in many ASEAN countries, at times slowing the potential for further integration. In several countries, poor infrastructure imposes inordinate transaction costs on businesses, preventing investment. Intra-ASEAN infrastructure remains a constraint to economic development, wherein road and rail links are often insufficient to meet demand. Inadequate financial intermediation may further hinder development.

There is also widespread concern about the consequences of structural adjustment for competitiveness and employment, as domestically oriented sectors, particularly in large economies such as Indonesia, the Philippines, and Thailand, face increased competition from abroad. While the long-term benefits of freeing up these sectors outweigh the shorter-term consequences, policymakers and the private sector need to collaborate to help the private sector adjust to changing conditions, both in terms of tackling challenges and benefiting from opportunities.

More broadly, much needs to be done to encourage innovation and entrepreneurship. To develop an economic structure that can support long-term economic growth and progress towards developed country status, governments and the private sector must co-operate to promote research and development and entrepreneurship through a range of mechanisms.

## *AEC Integration: Priority integration sectors*

In the AEC Blueprint, ASEAN leaders agreed on a set of priority integration sectors (PIS). Taking stock of progress, participants highlighted that progress differs markedly from sector to sector. Electronics and automotive, for example, exhibit stronger integration with the entire value chain dispersed over more than 20 different countries and several continents. On the other hand, services and agri-food remain relatively local, as a result both of intra-sector dynamics and restrictions.

Business leaders call for a review of the PIS in the post-2015 agenda, based on a multi-stakeholder process involving policymakers and the business community and based on quantitative evidence, including a sound assessment of the competitive advantages of the region as a whole. Each PIS should be backed up by a concrete action plan setting the objectives for sector liberalisation and development. Progress should be monitored carefully both at the micro- and macro-level in a comprehensive manner, building on the existing ASEAN Integration Monitoring Office (AIMO). The business community should be consulted in both contributing to and evaluating the success of joint initiatives.

## *Five important steps for economic integration in Southeast Asia*

Based on the discussion in the Business Network meeting held on 24 March 2015 in Jakarta, participants agreed on the following five important areas that policy makers, in co-operation and consultation with the business community, should concentrate on in the run-up to the AEC launch and in developing the post-2015 agenda.

- 1. Reduce remaining barriers to trade and investment both within ASEAN and towards the rest of the world across a number of sectors, while simultaneously undertaking reforms to tackle structural adjustment costs, primarily by increasing the competitiveness of domestic industries to compete fully and responsibly in regional and global value chains.**
  - The SEARP Regional Policy Network on Investment, the OECD Investment Policy Reviews currently underway, the OECD Policy Framework for Investment, and the OECD Freedom of Investment Roundtable, can all provide helpful support to countries for strengthening investment.

- We encourage Southeast Asian countries to work with the OECD to develop accurate, regular and comparable data on the intra- and extra-ASEAN flows of trade in goods and services. Using such data, the OECD Services Trade Restrictiveness Index (STRI) and the OECD-WTO Trade in Value-Added database, through the SEARP, should be used to help identify remaining barriers, improve domestic policy environments, and open up international trade in services.
- We believe that the proliferation of national standards and regulations, along with several overlapping trade agreements, can result in duplicated or conflicting regulatory requirements that impede business and trade in the Southeast Asia region and globally. We encourage that governments in the region work with the OECD to promote best practices and guidance for effective regulations that do not hinder sound trade and investment flows and that take into account the particular vulnerabilities of individual countries.
- Improving corporate governance is essential to increase the competitiveness of ASEAN companies, domestically, regionally, and worldwide. Southeast Asian countries could co-operate with the private sector to encourage due consideration to relevant instruments, such as the OECD Principles on Corporate Governance and OECD Guidelines for Multinational Enterprises, and work towards improving corporate governance practices among domestic companies, including encouraging gender diversity on corporate boards.
- We underscore the need for business and governments to co-operate to upgrade the competitiveness of strategic sectors of the domestic economy, while at the same time implementing policies to support those segments of society affected in the short-run by the transition to regional integration and openness. Given the development divergences between ASEAN countries, it is important that increasing competitiveness and opening markets should take place in tandem.

- 2. Request governments to co-operate with the private sector to review the priority integration sector (PIS) list in the post-AEC agenda and increase efforts to speed up integration, including case studies to identify and reduce impediments.**
  - While some sectors in the ASEAN Framework Agreement for the Integration of Priority Sectors, such as automotives and electronics, have a solid track record of integration as a result of global market forces, others, such as agro-based products, healthcare, and air travel remain relatively local. We encourage countries to co-operate with the private sector on a sector-specific basis, attempting to eliminate constraints and promote joint action on a regional level.
  - Although electronics, textile, and automotives benefit strongly from the rise of global value chains, there is considerable potential in developing stronger linkages to domestic and regional suppliers. ASEAN leaders should provide the support and co-ordination needed to strengthen such linkages and help ASEAN companies explore further links in the value chains.
  - Given the immense changes to the regional and global economy since the Framework Agreement, we underscore the need for public-private dialogue to agree on an updated Priority Integration Sector list, each with a clear action plan.
  - In addition to the Scoreboard and other mechanisms, business leaders could contribute their expertise to the monitoring and evaluation of sector integration. We encourage the OECD, through the SEARP, to contribute to this process.
- 3. Given the infrastructure bottlenecks hampering growth in most ASEAN countries and the need for better intra-ASEAN connectivity, we encourage leaders to ramp up their efforts to mobilise private investment in infrastructure, such as water, electricity, transport and telecommunications.**
  - Within the post 2015 agenda framework, we encourage ASEAN leaders, to deepen co-operation on regional and cross-border infrastructure to facilitate trade and reduce transaction costs.

- We underline the need for predictable and consistent policies to attract international private investment into long-term projects such as infrastructure. We therefore encourage countries in ASEAN to work more closely with the private sector and OECD on investment policies, investor protection, and public-private partnerships. In particular, we encourage ASEAN to drive the process of promoting and implementing the ASEAN PPP Policy Principles, developed in co-operation with OECD.
- Given the substantial institutional capacities required to handle the complexity of PPP transactions, we encourage ASEAN countries to co-operate with OECD and the Regional Policy Network on Public-Private Partnerships to further the use of the OECD-ASEAN PPP Principles, officially endorsed by ASEAN leaders.
- We encourage cooperation between the OECD, the private sector, and Southeast Asia countries in the area of risk mitigation instruments that could be used strategically to enhance investor confidence and catalyse strategic projects.
- We encourage ASEAN and Governments, in co-operation with the OECD, to support the private sector in taking advantage of these opportunities in infrastructure investment and construction.
- KADIN particularly encourages OECD to develop further the concept of ASEAN Connectivity together with KADIN and ASEAN BAC. ASEAN-BAC in turn suggest that OECD examine how infrastructure finance can be further enhanced.

#### **4. Improve and co-ordinate policies, programmes, and instruments supporting private sector development and economic restructuring.**

- A range of public support policies already exist under different guises (SME, export, innovation promotion; entrepreneurship support; credit guarantees), and while they are important, they are often poorly co-ordinated and monitored, offering limited value-for-money from the perspective of the Government and the whole economy.
- We welcome the OECD contribution to a regional dialogue on productivity-enhancing policies, with a coherent approach to designing, implementing, and monitoring, in close consultation with national

chambers of commerce and business associations such as KADIN, policies that could help change the structure of the economy for sustainable growth.

- Given the importance that SMEs could play in the region, and the marked lack of competitive enterprises that could act as suppliers to global value chains in particular, we encourage co-operation between the OECD SEARP Regional Policy Network on SME policies and the ASEAN SME Working Group.
- With R&D spending far below the average of OECD countries, concerted efforts to promote innovation are needed throughout the region. We strongly encourage ASEAN countries to engage with the OECD on innovation policies, including through the Innovation Initiative of SEARP.
- We encourage policy-makers to make more efforts to bring women into the labour force and encourage women entrepreneurship, as they represent a substantial pool of underused resources in the economy. We therefore welcome the SEARP Gender Initiative.
- We encourage the OECD to assist KADIN in developing social entrepreneurship in ASEAN.

**5. Strengthen skills and entrepreneurship and facilitate the movement of skilled labour.**

- We call for greater co-operation between ASEAN countries and the OECD in the area of education, such as through the Programme for International Student Assessment (PISA) and the Survey of Adult Skills. The objective should be to develop and implement reforms for increasing the quality of education in the region, while also enhancing the mutual recognition of qualifications in key professions across Southeast Asia countries.
- There is a particularly large gap among technical staff, with vocational training suffering from a negative image and often failing to respond flexibly to the needs of the labour market. We encourage ASEAN countries to consider public-private co-operation designed to integrate businesses and education further, both on the vocational and tertiary level.



- In line with the implementation of the ASEAN Economic Community, we support the free movement of skilled labour across borders.

We strongly encourage initiatives to strengthen entrepreneurship, including those addressing the concerns of women, minorities, and other underrepresented groups in society, such as ASEAN Women's Entrepreneurship Network and the ASEAN-BAC Working Group on women's entrepreneurship. These initiatives go a long way in addressing the stark wage gap which continues to persist and in improving the overall position of women in business. Similarly, strong corporate governance is needed to diversify representation on Boards and support balanced decision-making processes. Moreover, women, minorities and other underrepresented groups in society should be consulted on policy decisions towards regional integration. For example, a gender-oriented review of ASEAN's regional integration initiatives would be a positive step in this direction.

## Conclusions

Business thanks the OECD and Ministers from Southeast Asian countries for hosting the 2015 Southeast Asia Regional Forum. International co-operation of this nature is conducive to better economic governance and a level playing field for companies to compete in and across markets. In support of both regional and global integration, the OECD, through the Southeast Asia Regional Programme, has an important role to play in sharing its evidence, tools, instruments and advice with ASEAN countries.

Contributing to these efforts, the private sector looks forward to working more closely with the OECD Southeast Asia Regional Programme and governments in the region – including in further meetings of the business network.

*Jakarta, Indonesia, 24 March 2015.*