



Findings from 2010 ASEAN-BAC Survey on ASEAN Competitiveness*

March 2011

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Key Points

- The survey has collated 355 usable responses from a diverse mix of businesses across various ASEAN countries, firm size categories and nationalities of ownership.
- Businesses in general have a positive view of the attractiveness of the ASEAN region for trade and investment, especially of its potential as a market. 48 percent of respondents select a country in ASEAN as the most attractive country in the world for their offshore direct investments over the next three years. Small firms in particular find ASEAN countries to be attractive investment destinations compared with large firms, which tend to find China more attractive.
- 74 percent of respondents consider implementation of the AEC Blueprint to be of medium to very high importance in their organization's decision to expand exports and investments in ASEAN. 65 percent indicate that the cost to business if ASEAN were to fail to form an ASEAN Economic Community (AEC) by 2015 would be medium to very high.
- 61 percent of businesses assess AEC implementation to be behind or very far behind schedule. 86 percent rate the likelihood of an AEC by 2015 to be medium to not likely.
- On areas of AEC Blueprint implementation to create a single market and production base, respondents express above-average satisfaction across all policy areas although there are differences in the degree of satisfaction. Businesses are more satisfied with the implementation of measures related to investment protection, efforts to establish transparent and predictable investment rules, and the elimination of tariffs. They are less satisfied with the dissemination of information on AEC initiatives, consultation with businesses on AEC initiatives, the removal of restrictions on services trade for priority sectors, rules of origin and harmonization of standards, technical regulations and conformity assessment procedures.
- 71 percent of respondents are unaware of the AEC Scorecard as a mechanism for monitoring members' implementation of AEC commitments.
- 78 percent of businesses do not use preferential provisions in ASEAN economic agreements and a major constraint cited is lack of information.
- Arising from these findings, the ASEAN Business Advisory Council (ASEAN-BAC) would like to put forth the following policy recommendations to ASEAN:
 - (1) Ensure full and timely implementation of commitments in the AEC Blueprint.
 - (2) Intensify the dissemination of information among businesses at two levels:
 - a. Raise general awareness of ASEAN.
 - b. Provide specific information on ASEAN policy measures that are beneficial for businesses.
 - (3) Give more attention to other areas of AEC implementation where businesses have expressed lower satisfaction.
 - (4) Promote SME internationalisation, in particular, the engagement of ASEAN local SMEs in intra-ASEAN trade and investment activities.

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Background and aims

Trade and investments have played an important role in ASEAN countries' economic development. Between 1998 and 2008, the value of ASEAN's total merchandise trade was 131 percent the region's total output (Gross Domestic Product, GDP), up from an average of 97 percent from 1990 to 1997. The value of foreign direct investment (FDI) inward stock in ASEAN between 1998 and 2008 was 46 percent relative to its GDP, compared with 24 percent between 1990 and 1997. Although ASEAN's merchandise trade contracted by 20 percent in 2009 during the global economic crisis, it has rebounded with a 33 percent increase over the first nine months of 2010. FDI inflows to ASEAN shrank by 33 and 22 percent in 2008 and 2009 respectively, but ASEAN's share of total world FDI inflows has increased from 2.7 percent in 2008 to 3.3 percent in 2009. Overall, ASEAN has weathered the global crisis well, registering GDP growth of 1.2 percent in 2009 and 6.6 percent in 2010¹.

ASEAN has set a goal to form an ASEAN Economic Community (AEC) by 2015, which will establish ASEAN as a single market and production base. The AEC is envisaged to enhance the region's competitiveness and facilitate the conduct of business. ASEAN adopted a comprehensive action plan - the AEC Blueprint – in 2007, which sets clear timelines and targets for the implementation of various measures from 2008 to 2015.

To find out how businesses view ASEAN's prospects for attracting trade and investments over the next three years in a post-crisis global economy and how they perceive the impact of ASEAN's policy initiatives towards deeper economic integration, the ASEAN Business Advisory Council (ASEAN-BAC) initiated a survey of businesses in ASEAN. ASEAN-BAC, which comprises three business leaders from each ASEAN economy, was formed in 2003 by the ASEAN Leaders (Heads of State and Government) to provide private sector feedback on ASEAN economic cooperation. The study was designed by a faculty member of the Lee Kuan Yew School of Public Policy, National University of Singapore for ASEAN-BAC. Interim survey results were reported to ASEAN Leaders at their dialogue session with ASEAN-BAC on 28 Oct 2010 in Hanoi.

Survey method

The ASEAN-BAC Survey was conducted between July and November 2010 using a structured questionnaire that was executed differently across ASEAN economies at the expedience of ASEAN-BAC members and the national business organizations supporting them. The survey was administered using a combination of paper and electronic surveys. In Singapore, respondents were drawn mainly from the Singapore S1000 & SME500 company database² through stratified random sampling by firm size and by industry and invited to participate through postal mail, with the support of the Singapore Business Federation. Respondents in Thailand were obtained primarily from participants at the seminar: *AEC and SMEs Challenges: Next Steps* organized by the Thai Chamber of Commerce and Board of Trade of Thailand on 13 October 2010. Businesses in the other ASEAN countries were

invited to participate in the survey mainly via email by their national business organizations or the ASEAN-BAC Secretariat (based in Jakarta).

Respondents were requested to provide responses from their organizations' perspectives so as to approximate organizational-level business perceptions on ASEAN competitiveness and economic integration. In all instances, the survey was self-administered by the respondents and participation was on a voluntary basis.

To validate key survey results, follow-up interviews were conducted with ASEAN-BAC members to ensure that the findings are supported by their observations of business sentiments through their engagements with the business community and participation in various forums at the national and regional level. Results from the ASEAN-BAC Survey have also been compared with the findings from other studies where available.

Respondent profile

A total of 355 usable responses are obtained at the close of the survey, with the bulk of respondents from companies based in Thailand (53 percent) and Singapore (34 percent) (Figure 1(a)). Some 60 percent of the respondents are in senior management while the rest are in middle management. Feedback from ASEAN-BAC members has indicated that the lack of responses from other ASEAN countries is due in part to the focus of local firms, in particular small and medium enterprises, on the domestic market as well as inadequate knowledge of ASEAN policy initiatives. Due to the uneven spread of respondents across ASEAN economies, the survey responses in the Thailand and Singapore subsamples have also been analysed separately to see if the results given by the combined ASEAN sample reflect similar or differing responses from the two subsamples. Where there are interesting differences, these will be highlighted below.

By country of global headquarter, the majority of businesses are headquartered in Thailand (42 percent) and Singapore (29 percent). 14 percent of businesses are headquartered in other ASEAN countries, while the rest have headquarters mainly in Europe, Japan and the United States. The main activity of 65 percent of the firms is in the services sector and 29 percent of firms are in manufacturing.

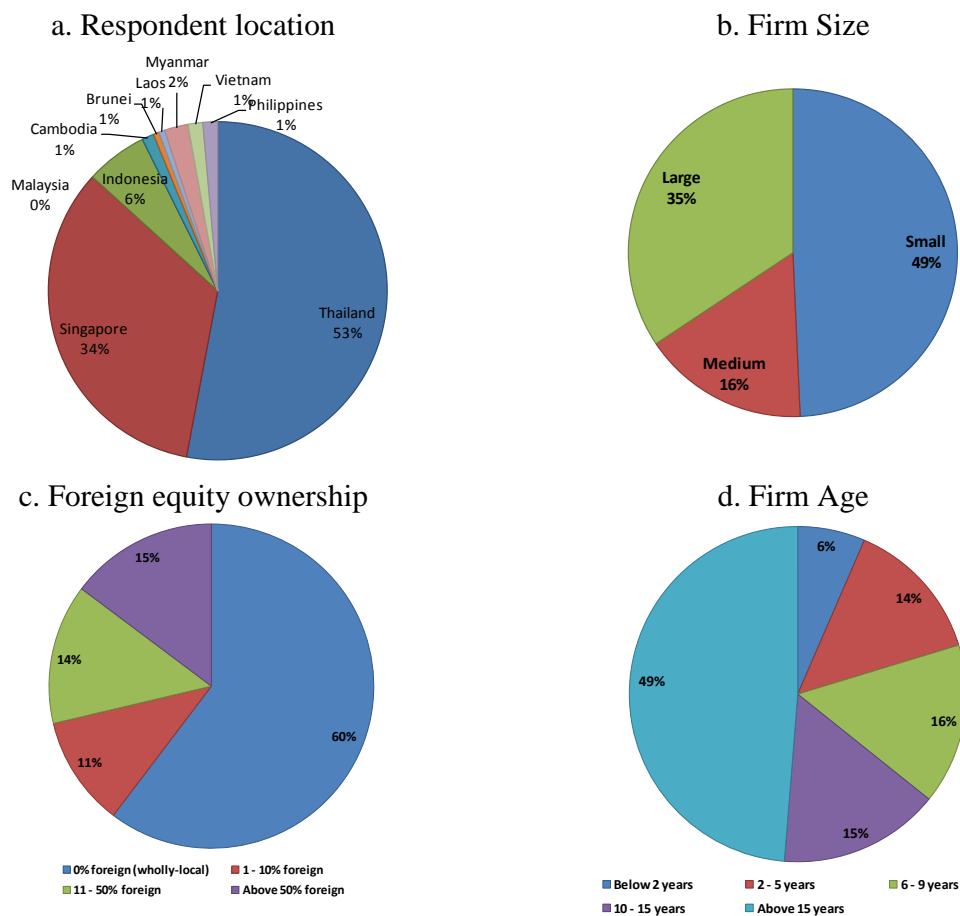
Nearly 90 percent of the businesses represented in the sample are majority-owned by the private sector. By firm size, 49 percent are small firms, while 16 and 35 percent are medium-sized and large firms respectively (Figure 1(b)). There is no standard definition of small and medium enterprises (SMEs) in ASEAN, but the most common measure to distinguish among firm size categories is the number of employees. In this report, small, medium and large enterprises are defined as those having less than 50 employees, 50-250 and more than 250 employees respectively³. The Thailand subsample has a higher share of small firms than the Singapore subsample. Selected results will be analysed by firm size, specifically the difference between small and large firm responses. Given the relatively smaller proportion of

medium-sized firms and seeming lack of a discernible pattern in their responses, their responses will not be separately interpreted.

60 percent of the businesses are wholly locally-owned, while 40 percent have foreign equity to different extents (Figure 1(c)). A larger share of locally-owned businesses are small firms, while a substantial share of businesses with foreign equity are large firms. By firm age, the sample has relatively few young firms with less than 2 years in operation (6 percent). Nearly half of the firms have been in operation for more than 15 years (Figure 1(d)). The Singapore subsample in particular has a very low share of young firms compared with the Thailand subsample.

70 percent of firms in the sample derive a positive percentage (from one to above 50 percent) of their turnover from sales in other ASEAN countries. The intra-ASEAN trade and investment links of businesses in the sample is mainly through the export of finished goods and services to other ASEAN countries, followed by offshore investment in finished goods production or service provision. Fewer firms are involved in the export of components or offshore investment in components production.

Figure 1: Respondent Profile (% of Respondents)

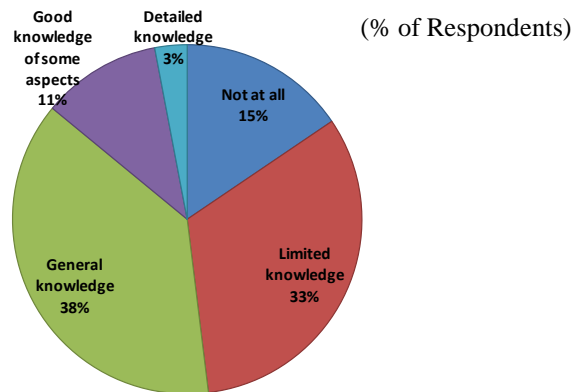


Source: Author's calculations based on survey data.

Familiarity with ASEAN policy initiatives

On familiarity with details of ASEAN policy initiatives related to trade and investments, over half of the respondents indicate that they have general to good and detailed knowledge, while one third indicate that they have limited knowledge. 16 percent respond that they have no knowledge (Figure 2).

Figure 2: Familiarity with Details of ASEAN Policy Initiatives Related to Trade and Investments



Source: Author's calculations based on survey data.

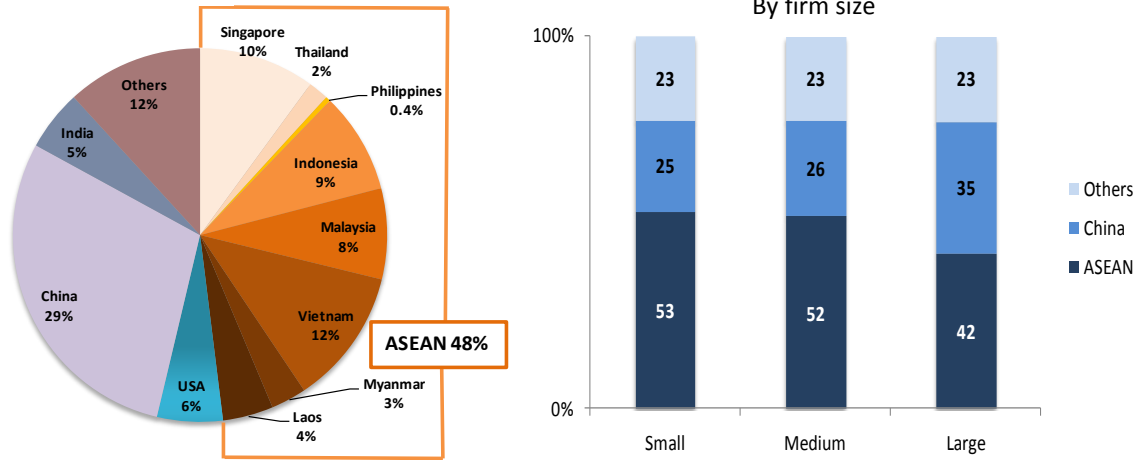
ASEAN's investment attractiveness

ASEAN as most attractive investment destination

A substantial number of businesses find ASEAN countries attractive as destinations for their offshore direct investments over a three-year horizon. On the question of which three countries in the world offer the best prospects for a business' offshore direct investments between 2010 and 2012 in order of attractiveness, 48 percent of respondents select a country in ASEAN as the top-ranked country, with Vietnam, Singapore, Indonesia and Malaysia among the more frequent choices. 29 percent of respondents identify China as the most attractive country for their investments. There is indication that a majority of small firms perceive one of the ASEAN countries to offer the best prospects for their offshore investments, while a higher share of large firms find China to be most attractive (Figure 3). By country subsample, this situation is particularly reflective of responses from Singapore-based companies.

Figure 3: Country that Offers the Best Prospects for Organization's Offshore Direct Investments over the Next Three Years

(% of Respondents)



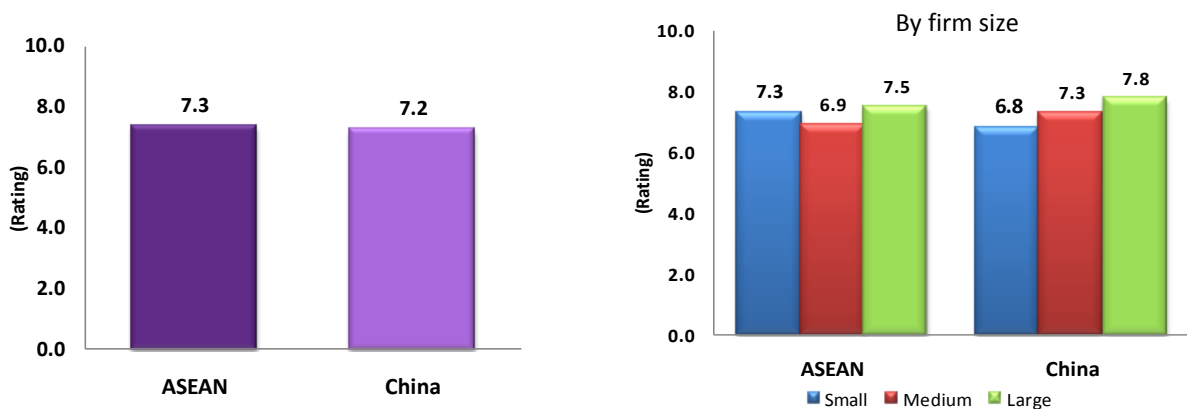
Source: Author's calculations based on survey data.

Relative attractiveness of ASEAN and China as a market and a production base

The relative attractiveness of ASEAN and China for investments is further assessed in a question that requests respondents to rate their attractiveness separately as a market for the sale of goods and services and as a low-cost production location on a scale of 0 to 10 over the next three years. ASEAN is rated as more attractive to China both as a market (7.33 versus 7.22) and a production base (6.73 and 6.61) (Figures 4 and 5). It is further noted that both ASEAN and China are assessed to be considerably more attractive as markets than as low-cost production locations. Small firms on average rate ASEAN more positively compared with China as a market for the sale of goods and services, while large firms on average give China a higher rating. There is less evidence of a clear difference in response by firm size with regards to the relative attractive of ASEAN and China as a low-cost production base.

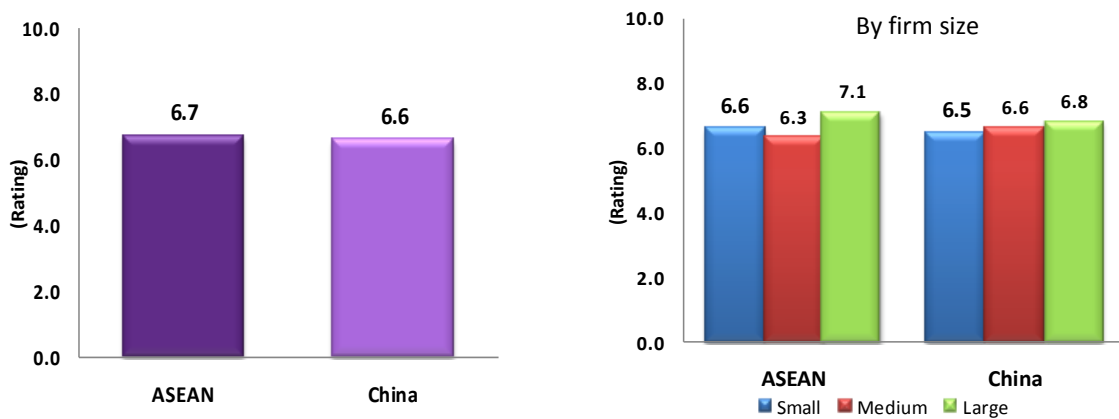
The greater attractiveness of the ASEAN market for small firms over more distant and larger markets such as China may be expected due to their more limited resources and capacity to develop and supply these markets, compared with large firms.

Figure 4: Attractiveness as a Market for the Sale of Goods & Services



Source: Author's calculations based on survey data.

Figure 5: Attractiveness as a Low-Cost Production Location



Source: Author's calculations based on survey data.

Plans for investment in ASEAN countries over the next 3 years

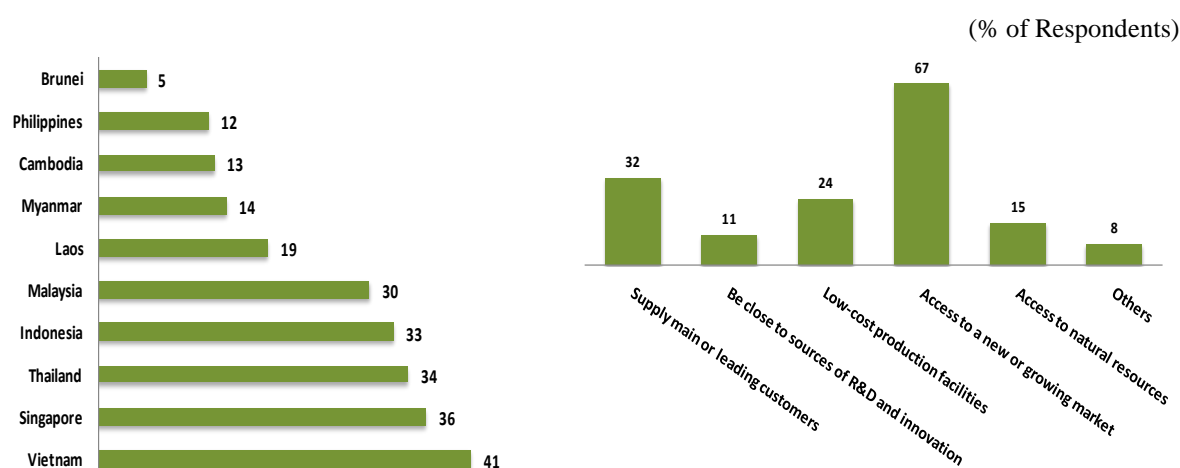
On the question of which ASEAN countries (including the country in which respondents are based) the respondents' organizations plan to invest or increase investments in between 2010 and 2012, 85 percent of respondents indicate that their companies have plans for investment or investment expansion in at least one ASEAN country. The largest proportion of businesses (41 percent) intend to invest in Vietnam. The other countries where 30 or more percent of businesses plan to invest in are Singapore, Thailand, Indonesia and Malaysia (Figure 6).

This result is broadly similar to the findings from a survey by the American Chamber of Commerce (2010) of companies held by or with an American majority interest in the ASEAN region, where 80 percent of respondents plan to expand in ASEAN over the next two years, with Vietnam (31 percent) being the most popular country for expansion. In a survey by Japan External Trade Organization (JETRO) on the international operations of Japanese firms (2011), the top ASEAN destinations for their business expansion over the next three years across sales and production functions are Thailand, Vietnam and Indonesia.

By country subsample, Singapore is indicated by the largest number of Singapore-based companies (55 percent) as the ASEAN country in which they plan to invest over the next three years, followed by Vietnam (36 percent), Malaysia (46 percent) and Indonesia (45 percent). The ASEAN destinations that a greater number of Thailand-based companies intend to invest in are Thailand (40 percent), Vietnam (36 percent) and Laos (32 percent).

The predominant reason for businesses' planned investments in ASEAN countries is to access a new or growing market, which is selected by 67 percent of respondents. The other two more frequently cited reasons are to supply main or leading customers and access low-cost production facilities.

Figure 6: ASEAN Countries that Organizations Plan to Invest or Increase Investments in Over the Next Three Years and Main Reasons



Note: Each Respondent is allowed to select multiple responses; percentages do not sum up to 100%.
Source: Author's calculations based on survey data.

ASEAN's attractiveness as a market may be attributed to businesses looking to tap opportunities offered by a rising middle class in Asia, which is defined as per capita consumption of US\$2-\$20 per day. According to a study by the Asian Development Bank (2010), Malaysia and Thailand are among the top five countries with the largest middle class by population shares in Developing Asia, with shares of 89.3 and 85.8 percent respectively. Vietnam is among the countries making the greatest progress in increasing the population share of middle class over the last two decades. Vietnam's share of middle class in its population rose 57.4 percentage points between 1990 and 2008, with a 77.2 percent rise in yearly expenditures over the period. Indonesia's population share of middle class increased by 46.3 percentage points and middle class yearly spending grew 168.1 percent between 1990 and 2008.

Impact and effectiveness of ASEAN policy initiatives

Utilization of preferential provisions

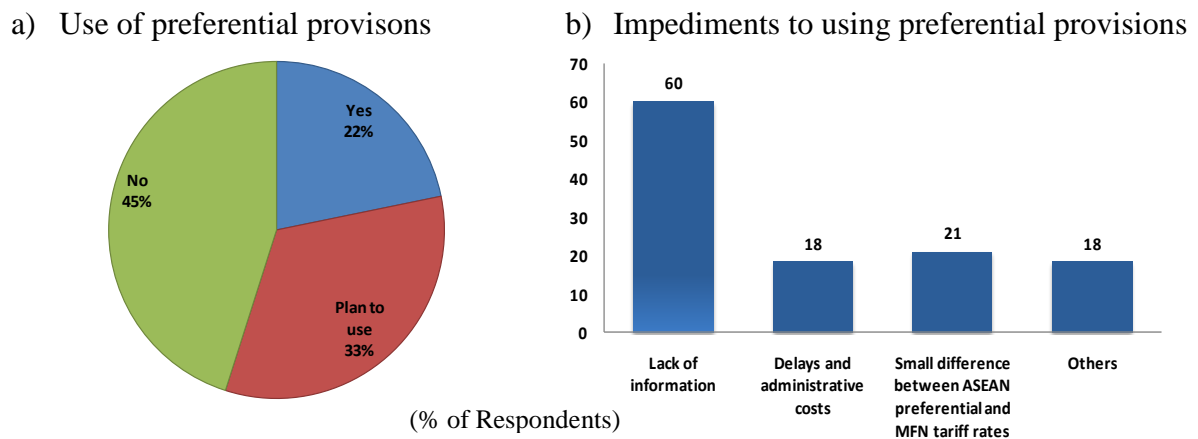
ASEAN's AEC initiative is built on earlier initiatives, the most significant of which is the agreement in 1992 to establish an ASEAN Free Trade Area (AFTA). From 2010, almost all goods are traded among the ASEAN-6 countries of Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand at no tariff. When asked if their organizations have used preferential provisions in ASEAN economic agreements such as AFTA in exporting to other ASEAN countries, 22 percent of respondents reply in the affirmative; 36 percent of large firms are users compared with 17 percent of small firms. 33 percent of respondents indicate that they plan to use preferences, while 45 percent have no plans to do so (Figure 7(a)). By country subsample, 16 percent of Singapore-based companies and 27 percent of Thailand-based companies are users of preferential provisions.

These findings are in line with those in Kawai and Wignaraja (2009), where 22 percent of 609 sample firms in five East Asian countries (Japan, Singapore, Korea, Thailand and the

Philippines) use Asian FTA preferences, with firms in Thailand making more use of FTAs (25 percent) than firms in Singapore (17 percent)⁴. That paper suggests that at the macro level, high FTA use by Thai firms is due to the country’s emergence as a regional production hub particularly in the automotive sector and its strong emphasis on FTAs as a tool of trade policy. Lower FTA use by Singaporean firms can be attributed partly to its open trading system and low tariff margins that would mitigate the need for using FTAs with major trading partners. As an indication of the significant variation in FTA utilization rates that may occur across companies with different nationalities of ownership, the American Chamber of Commerce (2010) reports from its survey of American-owned firms that 77 percent of 1,409 respondents use AFTA. JETRO (2011) finds from its survey that 32.2 percent of 3,080 Japanese firms engaged in trade in the Asia Pacific region utilize AFTA.

A lack of information on ASEAN economic agreements is the main impediment to companies using preferential provisions. Delays and administrative costs and small difference between ASEAN preferential and Most Favoured Nation tariff rates are regarded by substantially fewer firms as constraints (Figure 7(b)).

Figure 7: Preferential Provisions in ASEAN Economic Agreements



Note: Each Respondent is allowed to select multiple responses; percentages do not sum up to 100%.

Source: Author’s calculations based on survey data.

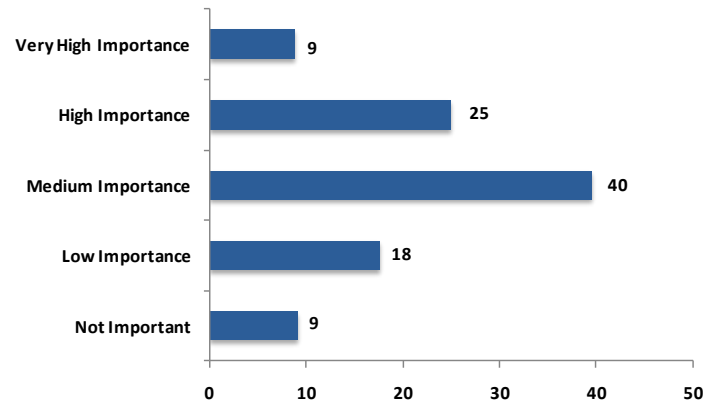
Importance of AEC Blueprint to trade and investment decisions

Over 70 percent of respondents consider implementation of the AEC Blueprint as being of at least medium importance in their organization’s decision to expand exports or investments in ASEAN. On a scale of 1 to 5 ranging from not important to very high importance, the mean rating is 3.1. This is comparable to the finding in the American Chamber of Commerce (2010) survey, where 73 percent of American firms find ASEAN integration to be important to helping their companies do business in the region on a binary yes/no scale.

More Thailand-based firms rate implementation of the AEC Blueprint to be of at least medium importance compared with Singapore-based firms, with the mean ratings of the two subsamples at 3.3 and 2.8 respectively.

Figure 8: Importance of Implementation of the AEC Blueprint to Organization's Decision to Expand Exports or Investments in ASEAN

(% of Respondents)



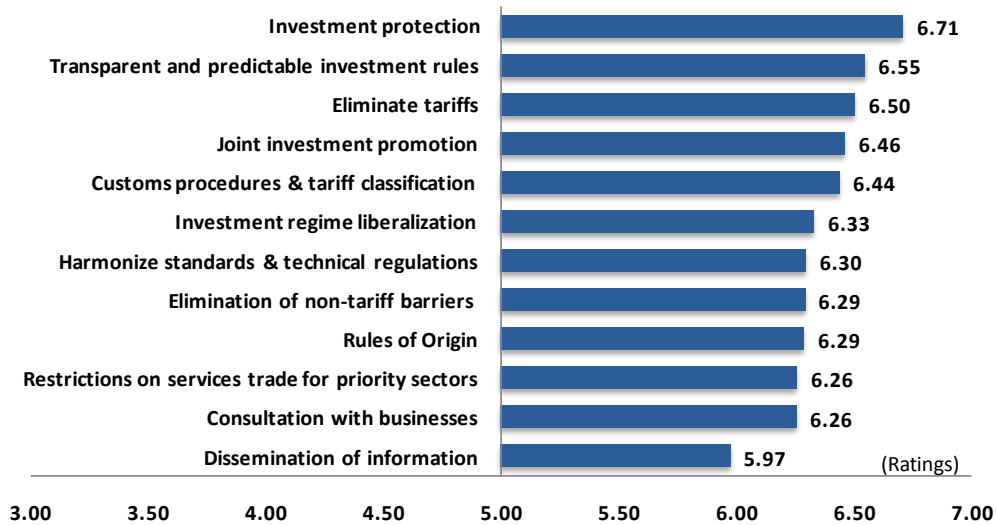
Source: Author's calculations based on survey data.

Satisfaction with different policy areas of AEC implementation

Respondents are asked to rate their level of satisfaction to-date with the implementation of the AEC Blueprint by 12 policy areas that are aimed at enhancing the free flow of goods, services and investments. On a scale of 1 (very low satisfaction) to 10 (very high satisfaction), respondents express above-average satisfaction (that is, giving ratings that are above 5) across all policy areas although there are differences in the degree of satisfaction (Figure 9). The three areas receiving the lowest average satisfaction ratings are dissemination of information on AEC initiatives (5.97), consultation with businesses on AEC initiatives (6.26) and restrictions on services trade for priority sectors (6.26). The three areas receiving the highest average satisfaction ratings are investment protection (6.71), measures to facilitate investment, namely, the establishment of transparent, consistent and predictable investment rules (6.55) and elimination of tariffs (6.50). This may reflect the pro-business stance of governments in ASEAN as well as ASEAN's success in forming an AFTA.

There are some differences in businesses' levels of satisfaction with areas of AEC implementation by firm size and by country subsample. Thailand-based firms, particularly the large firms, generally give higher satisfaction ratings compared with Singapore-based firms. While dissemination of information on AEC initiatives receive the lowest satisfaction rating among policy areas in both the overall Thailand and Singapore subsamples, it is the small firms in the former that are on average least satisfied with this aspect and the large firms that are least satisfied in the latter. Large firms in the Thailand subsample are least satisfied with the harmonization of standards, technical regulations and conformity assessment procedures. Standards also receive low satisfaction ratings from small and medium-sized firms in the Thailand subsample. In the area of rules of origin, it is observed that small and medium-sized firms in both the Thailand and Singapore subsamples have indicated relatively low level of satisfaction.

Figure 9: Organization’s Satisfaction Level with the Implementation of the AEC Blueprint by Policy Areas



Note: The ratings on all areas are statistically different from the mean satisfaction rating of 5.00

Source: Author’s calculations based on survey data.

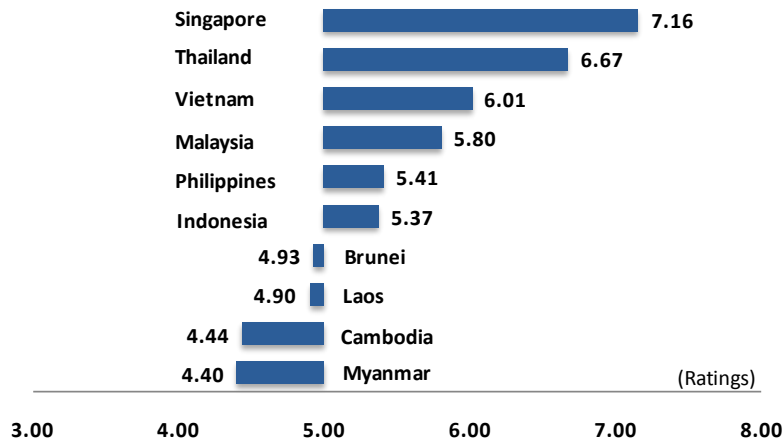
With regards to areas receiving higher satisfaction ratings from businesses, there is more agreement among businesses in the Thailand and Singapore subsamples that measures related to investment protection, investment facilitation and tariff elimination are among the most satisfactory areas in AEC Blueprint implementation. There is consistency in the responses across firm size in the Singapore subsample, while there is some divergence in the responses by firm size in the Thailand subsample. Small firms based in Thailand are most satisfied with the implementation of measures to protect and facilitate investment and large firms are most satisfied with consultation with businesses on AEC initiatives, joint investment promotion and tariff elimination.

Satisfaction with AEC implementation by ASEAN country

On the level of satisfaction with AEC Blueprint implementation by country, businesses are most satisfied with Singapore, which obtains an average rating of 7.16 on a scale of 0 (very low satisfaction) to 10 (very high satisfaction), followed by Thailand (6.67), Vietnam (6.01) and Malaysia (5.80) (Figure 10). Firms in both the Thailand and Singapore subsamples express the highest level of satisfaction with AEC implementation in Singapore, giving the country a rating of 7.23 and 7.15 respectively. Firms in both country subsamples give Thailand the second highest rating, but there is a difference in the absolute average level of satisfaction among Thailand-based firms (7.11) and Singapore-based firms (5.67). While Thailand-based firms rate Vietnam as the third most satisfactory country in AEC Blueprint implementation, Singapore-based firms give Malaysia the third highest satisfaction rating. There is no difference in the relative ordering of countries within each subsample by firm size. It is noted that many respondents who have indicated no knowledge of ASEAN policy initiatives in an earlier question as well as a share of those with limited knowledge have not responded to the questions related to businesses’ satisfaction with implementation towards an

AEC by policy areas and by country. Hence, the responses reflect the views of businesses with some degree of familiarity with details of ASEAN policy initiatives related to trade and investments.

Figure 10: Organization’s Satisfaction Level with the Implementation of the AEC Blueprint in ASEAN Countries



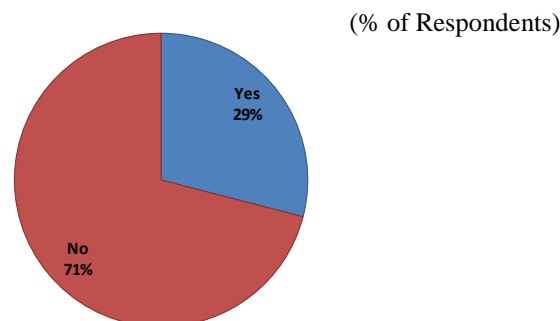
Note: The ratings for Singapore, Thailand, Vietnam, Malaysia, Cambodia and Myanmar are statistically different from the mean satisfaction rating of 5.00

Source: Author’s calculations based on survey data.

Awareness of AEC Scorecard

ASEAN has provided for a scorecard mechanism to monitor and assess the progress of implementation of each element of the AEC. The first AEC Scorecard compiled by the ASEAN Secretariat was published in April 2010. It reported that 73.6 percent of measures scheduled for implementation between January 2008 and December 2009 were implemented by ASEAN member states. 71 percent of respondents are not aware of the AEC Scorecard as a monitoring mechanism (Figure 11). By country subsample, 88 percent of Singapore-based respondents are not aware of the AEC Scorecard, compared with 57 percent of Thailand-based respondents.

Figure 11: Awareness of AEC Scorecard



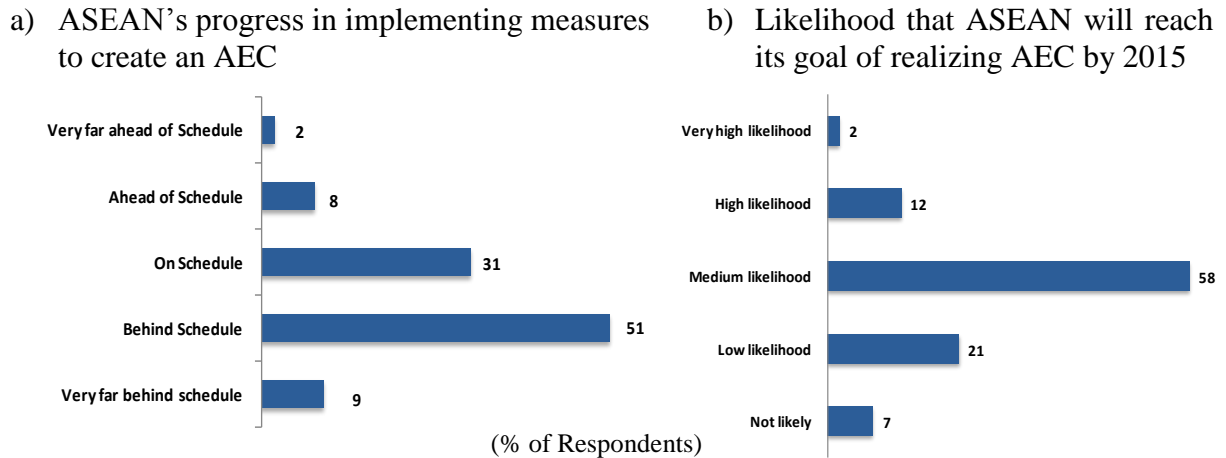
Source: Author’s calculations based on survey data.

Progress in AEC implementation

In terms of progress in AEC implementation, 61 percent of businesses assess ASEAN to be behind or very far behind schedule (Figure 12 (a)). More Singapore-based firms (73 percent)

hold this sentiment compared with Thailand-based firms (52 percent). On the likelihood that ASEAN will reach its goal of realising an AEC by 2015, a comparatively small proportion of firms (14 percent) think that the likelihood is high or very high. The rest feel that the likelihood is medium to not likely (Figure 12(b)). Relatively fewer Singapore-based firms (7 percent) rate the likelihood as high or very high compared with Thailand-based firms (17 percent).

Figure 12: ASEAN’s Progress in Moving Towards the AEC



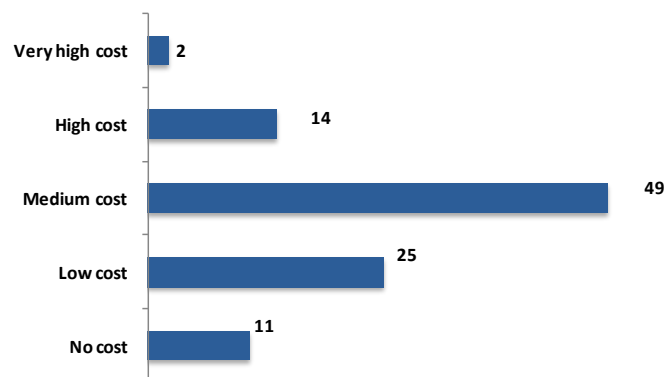
Source: Author’s calculations based on survey data.

Cost to business from failure to form an AEC

On the likely cost to their business if ASEAN were to fail to form the AEC by 2015, 65 percent of respondents expect that this outcome would impose at least medium cost to their business, while 11 percent indicate that this will impose no cost (Figure 13). On a scale of 1 (no cost) to 5 (very high cost), the mean cost rating is 2.7.

Figure 13: Cost to Organization if ASEAN were to Fail to Form the AEC by 2015

(% of Respondents)



Source: Author’s calculations based on survey data.

Overall assessment and policy recommendations

The ASEAN-BAC Survey has collated responses from a diverse mix of businesses across various ASEAN countries (particularly Thailand and Singapore), firm size categories and nationalities of ownership.

Some differences are observed in the responses of small firms, more of which are wholly locally-owned, and large firms, which tend to have some degree of foreign ownership, with respect to aspects such as ASEAN's attractiveness as an investment destination and utilization of preferential provisions.

There is also some difference in responses between the subsamples of Thailand-based and Singapore-based companies. In general, Thailand-based respondents give higher satisfaction ratings on areas of AEC implementation, regard AEC implementation to be important to their investment decisions, and are more positive on the progress in AEC implementation. This is likely to reflect the way in which Thailand-based responses are obtained, namely at an ASEAN conference, where it might be expected that participants would consider ASEAN to be important to their businesses or be more positive in their assessments, compared with Singapore-based respondents who are randomly sampled. It is noted that there is agreement in the responses across the two country subsamples in key areas such as ASEAN's investment attractiveness, relative ordering of satisfaction with areas of AEC Blueprint implementation and the likely cost to business if AEC is not achieved by 2015. Where responses are similar across the two subsamples, this may be reflective of broader business sentiments across ASEAN on the issues concerned.

Responses to a few questions from the ASEAN-BAC survey have been compared with available results from other surveys and they have been found to be mostly consistent. Key findings from the survey are further confirmed with assessments from ASEAN-BAC members. This provides validation of the quality of responses and results from the survey.

The key findings are summarised below:

- Businesses in general have a positive view of the attractiveness of the ASEAN region for trade and investment, especially of its potential as a market. There is indication that small firms in particular find ASEAN countries to be attractive investment destinations compared with large firms, which tend to find China more attractive.
- There is evidence of the importance of the implementation of the AEC Blueprint to businesses' decisions to trade and invest in ASEAN, and the potentially significant cost to businesses if ASEAN were to fail to form the AEC by 2015. The majority assessment is that AEC implementation is behind or very far behind schedule, and that the likelihood of an AEC by 2015 is medium to not likely.
- With respect to different areas of AEC Blueprint implementation, respondents express above-average satisfaction across all policy areas although there are differences in the degree of satisfaction. Businesses overall are most satisfied with the implementation of measures related to investment protection, efforts to establish transparent and predictable

investment rules, and the elimination of tariffs. They are least satisfied with the dissemination of information on AEC initiatives, consultation with businesses on AEC initiatives and the removal of restrictions on services trade for priority sectors. A few other areas have also received low satisfaction ratings from businesses in particular firm size categories and country subsamples. These are harmonization of standards, technical regulations and conformity assessment procedures (Thailand subsample) and rules of origin (small and medium-sized firms in both Thailand and Singapore subsamples).

- The aspect receiving the lowest satisfaction rating – inadequate dissemination of information – is also reflected in the responses to a few other questions. A substantial number of respondents are unaware of the AEC Scorecard as a mechanism for monitoring members’ implementation of AEC commitments. More than three quarters of businesses do not use preferential provisions in ASEAN economic agreements and a major constraint cited is lack of information.

Arising from these findings, the ASEAN-BAC would like to put forth the following policy recommendations to ASEAN:

- 1) It is crucial for ASEAN members to ensure full and timely implementation of commitments in the AEC Blueprint, in view of the potential impact that unsatisfactory and unfulfilled AEC implementation has on businesses’ trade and investment decisions and costs.
- 2) Priority should be given to intensifying the dissemination of information among businesses as this has been identified as a major problem. Information could be disseminated at two levels: first, to raise general awareness of ASEAN among businesses and second, to communicate specific information on ASEAN policy measures that are beneficial for businesses.
- 3) Policy makers could give more attention to several other areas of AEC implementation that businesses have expressed lower satisfaction on. These are: consultation with businesses, the removal of restrictions on services trade for priority sectors, harmonization of standards, technical regulations and conformity assessment procedures and rules of origin. Implementation in some of these areas may be strengthened with respect to particular country or firm size categories.
- 4) Given that a higher share of smaller firms find ASEAN attractive as an investment destination compared with large firms and that SMEs account for 96 percent of all enterprises in ASEAN, ASEAN could substantially raise its efforts to promote SME internationalisation, in particular, the engagement of ASEAN local SMEs in intra-ASEAN trade and investment activities.

The ASEAN Business Advisory Council on its part will continue to facilitate enhanced public-private sector dialogues and actively gather feedback from the business community, to fulfil its role in contributing towards the realisation of an ASEAN Community.

Endnotes

¹ Statistics presented in this paragraph are from author's calculations based on data from World Trade Organization, the World Bank's World Development Indicators and the Economist Intelligence Unit Database.

² The database is compiled by commercial provider DP Information Network Pte Ltd.

³ The employment size thresholds used here are consistent with the definitions recommended by the European Commission (2003). The firm size classification here is based solely on the number of employees and does not take into account other possible dimensions such as threshold revenue.

⁴ Kawai and Wignaraja (2010) extended the survey to include firms in China. They find that the utilization rate of 841 East Asian firms in six countries (Japan, PRC, Singapore, Korea, Thailand and the Philippines) is 28 percent. The greatest proportion of PRC firms (45 percent) use FTA preferences, compared with between 17 and 29 percent for the other countries.

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