

**AsiaViews**  
**Regional Insights, Global Outreach**

**Columns & Commentaries**

**Priority integration sectors: performance and challenges**  
**AsiaViews, Edition: 33/III/Aug/2006**

A historical decision: In October 2003, Asean leaders resolved in Bali to transform the region into an Asean Economic Community (AEC) by 2020. Last Tuesday, Aug 22, the Economic Ministers of the Association of Southeast Asian Nations recommended that the target year be brought forward to 2015. The decision to establish the AEC will be remembered as a historical milestone comparable to the formation of Asean 39 years ago (on Aug 8, 1967). But the imperatives for greater cohesion and complementation in the region were as pressing then as now. Likewise, the challenges to community-building are as complex and daunting.

Pressing imperatives for action: Asean has felt more heat from external competition, especially from China and other emerging economies. A compounding factor is rapid technological progress. Higher productivity thresholds are now an imperative for all producers, competitors and workers alike. Improved performance can be seen in cheaper, better, safer, more reliable goods and services.

Deeper integration will bring substantial gains, estimated to cut up to one-fifth from the production costs of consumer goods in the region. Thus, the AEC will empower Asean to remain a dynamic player in the global economy.

Integration of strategic sectors: Paving the way for AEC formation is the accelerated integration of 11 priority sectors in Asean (logistics was added as the 12th sector in 2006). The integration process started from August 2005 with completion scheduled at end-2010.

Nine are largely goods sectors: e-ASEAN (ICT equipment), electronics, textiles and clothing (T&C), agro-processing, rubber-based, automotive, health care, fisheries, and wood-based. The first four are dominant sectors. On average, those nine sectors provided 73% (US\$310 billion or 11,659 billion baht) of annual merchandise exports in Asean-8 during 2000-2004 (there are inadequate data for Lao PDR and Vietnam). They also generated a trade surplus of almost US\$72 billion (2,709 billion baht) in 2000 and over US\$74 billion (2,785 billion baht) in 2004.

Major surplus earners: Singapore and Malaysia were the source of about 58% (US\$181 billion or 6,809 billion baht) of priority-goods exported annually in the same period. Another 21% came from Indonesia and the Philippines.

Notably, Thailand's relative share went up from just under 17% to over 19% between 2000 and 2004. Other Asean-8 economies are comparatively minor traders of priority goods.

The trade surplus of priority goods reached US\$21 billion or 792 billion baht in Thailand, and around US\$18 billion (678 billion baht) each in Indonesia and Malaysia during 2004. Singapore's surplus was US\$15 billion (566 billion baht) while that of the Philippines, at about US\$3 billion (113 billion baht), was a large drop from the surplus in 2000.

Global players: Asean has always traded much more with non-Asean countries. Generally, these take in 77% of priority goods exports and supply 78% of the input for those exports annually.

The region has become a major global player in ICT equipment and electronics parts in just over a decade. These products accounted generally for 72% (US\$263 billion or 9,898 billion baht) of exported priority goods from Asean-8 in 2004.

That shows the regional producers' great prowess in manufacturing. But a challenge is to add more domestic value and to remain competitive in the massive ICT equipment sector especially.

Most regional suppliers are mired in standard technologies with high import content. In addition, many electronics manufacturers have moved to lower-cost countries, including the newer Asean members and China.

Moreover, the region lags far behind in technological inventions and innovations in product and process. Cutting-edge creativity has long been Asean's Achilles heel, and this can adversely affect its role as a competitive and dependable supplier.

Taiwan and South Korea are Asean's major economic partners. Within just two decades, they have become the world's fourth and fifth most inventive economies respectively, in terms of US invention patent grants.

Needs for improved productivity: T&C account for some 7% of all priority goods exports, with several countries (including Thailand) being among the top 10 global players. This sector is also a major source of domestic employment and export earnings in the four newer Asean members.

However, the market share of Asean's largest T&C exporters (Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam) in the US and the EU was falling slightly between 2000 and 2005. That of China, in contrast, doubled in the US and went up by over one-half in the EU. Quota-free global trade from 2006 means stronger competition, including from China and India. This will add more pressing problems in enhancing competitiveness and in quality and design upgrades by many regional suppliers.

Agro-processed goods have done well, recently overtaking T&C with US\$33 billion (1,243 billion baht) in export earnings in 2004 (9% of priority goods exports). There are good prospects for higher export gains by Asean in this sector.

However, about 88% of natural rubber output is exported as industrial raw materials, mostly for the tire industries outside the region. The potential is there for high-value, further processing in Asean. Currently, Thailand produces some 43% of regional rubber output, with another 48% coming from Indonesia plus Malaysia.

Win-win complementation: Surely, the scope for deeper integration is significant in Asean. The many requirements to facilitate such integration have been identified for implementation the coming years. Meanwhile, ongoing improvements are also needed on the supply side.

All those are an indicator of the challenges facing all regional stakeholders in their AEC building efforts.

But as surely, deeper integration will lead to more opportunities for enhanced collective productivity and dynamism, particularly in the strategic export sectors in Asean.

\*The writer is head of Studies Unit, Bureau for Economic Integration and Finance, Asean Secretariat, Jakarta, Indonesia. The views expressed in this article do not necessarily reflect those of the Asean Secretariat.

By Thitipha Wattanapruttipaisan\*

Bangkok Post, Opinion and Analysis, pp 12, Tuesday 29 August 2006