

Keynote Address
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Distinguished Guests

Ladies and Gentlemen

Good Afternoon!

On the outset, I would like to thank Asia House for this opportunity to share with all of you the progress we have made in our regional economic integration, the opportunities arising from our integration process and some thoughts on how ASEAN and United Kingdom economic relations could be further enhanced.

Despite adopting different approaches toward economic integration, both ASEAN and EU see this as key drivers of economic growth and development in our respective regions. Through deeper regional economic cooperation and integration, we hope to support sustainable economic growth, share prosperity, and narrow development gaps, which would contribute to promoting regional stability and security.

Regional economic cooperation and integration can also help us better address challenges brought about by global economic shocks and uncertainties. As such, we have much to learn from each other's experience with respect to regional economic cooperation and integration. In particular, ASEAN demonstrates how consensus, patient confidence-building, and an incremental, gradual and flexible approach to deeper levels of cooperation and integration can bring together such a divergent group of member countries under the ASEAN Economic Community (AEC).

ASEAN has made some concrete results in integrating its markets....

AEC is the end-goal of regional economic integration in ASEAN. Various initiatives had been implemented to realize the AEC by 2015, and significant strides have been made. As of end-March 2013, around 78 percent of measures under the AEC Blueprint have been implemented, with significant results across the four pillars. Just to cite some examples of these gains:

- (a) Trade costs in ASEAN been reduced significantly over the years, by more than 15 percent on average within ASEAN and by about 8 percent with the rest of the world, improvement in trade facilitation is still crucial;
- (b) Average intra-ASEAN preferential tariffs have been reduced to almost zero (0.6 percent) in ASEAN-6 countries (ASEAN5 plus Brunei) from 4.1 percent in 2000. Although tariff elimination is slower in CLMV (average of 2.4 percent from 7.3 percent in 2000), the share of tariff lines at zero percent

preferential duty has significantly increased to 67.6 percent in 2012 from less than 50 percent a year ago;

- (c) Trade intensity and complementarity has also increased. Evidence suggests higher degree of trade openness of ASEAN countries as well as rising trend of intra-ASEAN trade intensity. Modest and positive trade convergence has also become more evident. Evidence also suggests high trade complementarity in the region, thus reinforcing the potential of increased trade integration in ASEAN;
- (d) Most recently, ASEAN has fully enforced the ASEAN Comprehensive Investment Agreement (ACIA). The landmark ASEAN Agreement on Movement of Natural Persons (MNP) has been signed. The pilot implementation of the ASEAN Single Window is well underway; while a work program was also developed to address non-tariff barriers (NTBs), including elimination of non-tariff measures (NTMs). In financial integration, capital markets have been deepened to support the AEC, with initiatives such as the ASEAN Linkages and renewed focus on ASEAN banking integration; and
- (e) Meanwhile, the Regional Comprehensive Economic Partnership (RCEP) has begun negotiating last May 2013. RCEP represents ASEAN's very bold and ambitious agenda to significantly deepen economic integration and

cooperation, initially with our six FTA Partners (i.e., China, Japan, South Korea, India, Australia and New Zealand).

... but achieving market integration is still very challenging

One critical challenge is the timely and committed implementation of AEC initiatives. Despite progress in a number of areas, many AEC measures are still pending as of end-March 2013. These include measures on trade facilitation (customs modernization and standard and conformance), and ratification of transport agreements. Critical actions are still needed to address the timely ratification of the signed ASEAN Agreements/ Protocols; alignment of regional initiatives to domestic laws and regulations; and overcoming domestic constraints to implement regional and country-specific commitments.

Another challenge is address beyond-the-border measures. Good progress has been made in abolishing tariffs in the region. The subsequent steps – particularly beyond-the-border measures after goods, services, labor, and capital have crossed the border – which have far greater impact on integration of markets, need to be effectively addressed. These include the elimination of non-tariff barriers (NTBs), strengthening of trade facilitation measures, and harmonization of standards, laws and regulations across nations and different markets.

As AEC is market-driven process, it is also imperative that the private sector is kept well informed and consulted on AEC initiatives to ensure that this is not only aligned to the market needs but more importantly it is implemented well on the ground.

Opportunities in ASEAN

Having said this, it is worth noting that ASEAN is the faster growing sub-region in Asia (ADB 2013). Its outlook in 2013 remains broadly positive despite continuing external risks including weak external demand, rising food and energy prices and growing global imbalances. ASEAN is projected to sustain its growth between 5.3 percent and 6 percent in 2013 from 5.7 percent in 2012 and 4.8 in 2011. Strong domestic demand will continue to underpin ASEAN's economic growth this year.

While the current global uncertainty will cause the regional growth to be modest, economic activities in the region will remain robust. Growth will be supported by significant monetary and fiscal stimulus in the pipeline, in addition to country-specific measures (e.g., enhancing private investment) to stimulate domestic demand (AIMO 2013).

Foreign Direct Investment (or FDI) inflows to developing economies was estimated to have declined by around 4 percent in 2012 to around US\$ 703 billion from US\$ 735 billion in 2011. Overall FDI inflows to developing Asia fell more by around 7 percent, from US\$ 436.2 billion in 2011 to US\$ 406.8 billion in 2012. But one sub-region that bucked this trend was ASEAN, which saw an increase of FDI inflows by around 2 percent from US\$ 109 billion to US\$ 111.3 billion. While inflows to Malaysia and Brunei Darussalam declined, inflows to the rest of the sub-region were fairly resilient (UNCTAD World Investment Report 2013).

Recent surveys of businesses indicate that ASEAN is increasingly being seen as a distinct, potentially high-growth region, and more and more companies are buying into the vision of an ASEAN Economic Community by 2015. Accenture (2011) conducted a survey of 407 organizations operating in Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam.

The organizations surveyed comprised global MNCs with headquarters outside of Southeast Asia; Southeast Asian businesses with a regional presence and offices in one or more Southeast Asian markets outside their home country; and domestic Southeast Asian businesses with no offices outside their home country but with expansion aspirations in the region.

Strong economic growth prospects and a large consumer market are the key factors influencing large domestic and global businesses to Southeast Asia. Other factors also come into play including favorable business environment (e.g., low cost of doing business; productive and skilled workforce) and regional integration initiatives (e.g., favorable intra-ASEAN trade policies, offer a platform to build up regional scale before expanding globally).

Another survey was undertaken by the Economist Corporate Network (2013), involving 147 big companies from a wide variety of sectors operating in the ASEAN region. The result also indicated that rapid economic growth, the rise of a vibrant middle class, and deepening economic integration are fuelling investment opportunities in ASEAN.

In particular, companies surveyed indicated that ASEAN integration efforts are beginning to impact on their business and strategy in Southeast Asia. Around

23% of respondents described ASEAN integration policies as being extremely important in driving their strategy, while a further 60% believed them to be somewhat important. The survey results also showed that companies are benefitting from the agreements that ASEAN has managed to implement.

For example, when asked if they use the ASEAN Trade in Goods Agreement (ATIGA) or other FTAs between ASEAN and her trading partners to minimize customs duties in their supply chain, 26% of the manufacturing companies in the survey said they did so “very frequently”, while a further 42% used it “frequently”. Companies also reported that they are increasingly able to manufacture goods from one location and ship those goods across the region without running into significant barriers and constraints.

Customs harmonization and the ASEAN Single Window are also considered as very important ASEAN economic integration initiatives. The survey showed that 67% of respondents believe customs procedures are either already highly uniform across the region, or have good prospects for becoming more uniform.

Finally, the survey results indicate that while ASEAN continues to implement the remaining initiatives in the lead-up to AEC 2015, individual companies and people are also driving economic integration. Companies are already pursuing regional strategies, and are not waiting for ASEAN to create a perfect market before doing so. Investment flows across ASEAN borders are also picking up.

Intra-ASEAN investment increased to US\$19.8 billion in 2012, rising by about 14 percent from the previous year. Share of intra-ASEAN FDI inflows has been on an uptrend, reaching almost 19 percent of the total in 2012. And people are

moving across the region in ever greater numbers. The volume of intra-ASEAN international travelers—tourists, investors, and migrant workers—has more than doubled from 16 million in 2000 to 37 million in 2011.

Overall, given the remaining challenges of doing business in the region, ASEAN is undoubtedly one of the few bright spots in the current global economic landscape and businesses are responding to the opportunities in the region.

Enhancing ASEAN-UK Economic Relations

Trade between ASEAN and the EU continued to expand despite global economic slowdown, although at a slower rate in 2012. Total trade between the two regions amounted to US\$ 242.6 billion and grew by 3.3% in 2012, which is slower than the 12.6% growth registered in 2011. ASEAN's exports to EU actually declined by around 1.3%, although ASEAN's imports from EU increase by almost 9% in 2012. In 2012, the EU was ASEAN's third largest trading partner, while ASEAN is the fifth largest trading partner of the EU.

In 2012, the total trade between ASEAN and the United Kingdom amounts to US\$ 31.8 billion. It is also worth noting that United Kingdom's share in total ASEAN exports to EU increased from around 9% in 2000 to 14% in 2012; its share in ASEAN imports from EU also increased from 7% in 2000 to 12% in 2012. This indicates that United Kingdom is becoming more important trading partner for ASEAN in the context of EU.

Top ASEAN exports to United Kingdom in 2012 were (1) organic chemicals (17%); (2) nuclear reactors, boilers, machinery and mechanical appliances and

parts (14%); and (3) electric machinery, equipment and parts, and sound and television equipment (14%). Other exports with around 4-5% share were: edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates; footwear, gaiters and the like and parts; vehicles (not railway, tramway, rolling stock) parts and accessories; and apparel articles and accessories.

Top ASEAN imports from United Kingdom in 2012 were: (1) nuclear reactors, boilers, machinery and mechanical appliances and parts (28%); and (2) electric machinery, equipment and parts, and sound and television equipment (11%). Other imports with around 5-7% share were: beverages, spirits and vinegar; iron and steel; vehicles (not railway, tramway, rolling stock) parts and accessories; optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments/apparatus parts & accessories; and aircraft, spacecraft and parts.

In contrast to trade flows, investment flows were weaker in 2012. From US\$ 28.4 billion in 2011, FDI inflows from EU to ASEAN fell to US\$ 23.5 billion, or a decline of around 17%. The decline in FDI inflows from the United Kingdom to ASEAN was more pronounced at 47%, from US\$ 10.4 billion to US\$ 5.5 billion. This trend is in line with the overall decline in FDI outflows from EU of 37% in 2013.

Given the still weak state of the EU economy, the recovery of FDI flows in 2013, if it occurs at all, is likely to be modest (UNCTAD World Investment Report 2013). While the OECD Economic Outlook (May 2013) estimated GDP growth in the Euro Area to be -0.5%, -0.6% and 1.1% in 2012, 2013, and 2014,

respectively, United Kingdom's economy is projected to perform better with growth rates of 0.3%, 0.8% and 1.5%, respectively.

That said, EU as a group (EU-27) continued to be the top source of FDI inflows to ASEAN in 2012, accounting for 22% of total FDI inflows to ASEAN, with the United Kingdom accounting for 24% of total EU FDI inflows to ASEAN. Looking at individual country sources outside of ASEAN, the United Kingdom was ASEAN's 4th top source of extra-ASEAN FDI inflows in 2012, after Japan, US and Netherlands. United Kingdom had a share of 5% in total FDI inflows to ASEAN in 2012. UK had a share of 5% in total FDI inflows to ASEAN in 2012.

In terms of destination, both the EU and United Kingdom have primarily been investing in Singapore – Singapore accounted for over 80% and 60% of FDI inflows from EU and United Kingdom in 2012, respectively. EU also invested in Thailand (9%), Malaysia (7%), Viet Nam (2%), and Philippines and Cambodia (0.5% share each). In the previous year, FDI from EU also flowed into Indonesia.

The next FDI destinations for United Kingdom were Indonesia and Thailand, with shares of 17% and 14% in 2012, respectively. Completing the list were Malaysia (5% share), Cambodia (2% share), and Philippines and Viet Nam (less than 1% share each). Sector-wise, around two-thirds of EU FDI inflows to ASEAN in 2012 went into services, including wholesale and retail trade and financial services. The rest primarily went into manufacturing. In contrast, Japan and the US primarily invested in manufacturing.

Clearly there is room to further promote trade and investment between ASEAN and the EU, including between ASEAN and the United Kingdom. Given the modest prospects for its domestic economy and the continued weak demand outlook in Europe, businesses in the United Kingdom would do well to shift to high-performing developing markets such as ASEAN.

Important initiatives are already in place with this in mind. The most recent is the adoption of the ASEAN-EU Trade and Investment Work Programme for 2013-2014 by the 12th AEM-EU Trade Commissioner Consultations held in March 2013 in Ha Noi, Viet Nam. The Programme aims to improve two-way trade relations and investment as well as support broader integration within ASEAN as well as between ASEAN and the EU. The 3rd ASEAN-EU Business Summit was also held at the sidelines of this consultation.

The EU has also extended assistance to ASEAN's regional integration efforts through various capacity building programs, including: EU-ASEAN Enhancing ASEAN FTA Negotiating Capacity Programme to enhance the participation of ASEAN Member States particularly in FTA negotiations; following the ASEAN-EU Program for Regional Integration Support (APRIS), which undertook cooperative programs in intellectual property rights, FTA negotiation, air transport integration, migration and border management, and statistical capacity, the new program called the ASEAN Regional Integration Support from the EU (ARISE) was recently established to further strengthen cooperation between the EU and ASEAN in various areas of regional economic integration; ASEAN-EU Migration and Border Management Programme (2009-2011); ASEAN-EU Statistical Capacity Building Programme (2009-2012); ASEAN Project

on the Protection of Intellectual Property Rights (2010-2012); and ASEAN Air Transport Integration Project (2011-2013).

The challenge is how to jump start FTA negotiations between ASEAN and EU. During the above consultation, the EU Trade Commissioner reiterated that the EU would pursue bilateral FTA negotiations with individual ASEAN Member States as building blocks towards the regional FTA. To date, the EU-Singapore FTA has been finalised but has not yet entered into force. The EU has recently launched negotiations with Thailand (6 March 2013) and is in the midst of negotiating bilateral FTAs with Malaysia (launched in May 2010) and Viet Nam (launched in June 2012).

On the other hand, EU would consider resuming negotiations of an ASEAN-EU Free Trade Agreement upon realisation of the ASEAN Economic Community by the end of 2015. But the momentum may already be lost by then, especially with RCEP coming in. Now is the time for EU to step up its economic engagement of the region, as businesses take advantage of opportunities presented by the increasing market-driven integration of ASEAN.

In this context, United Kingdom's establishment of a UK-ASEAN Business Council (UKABC) in November 2011 to capitalize on the region's growth potential was most opportune. UKABC views ASEAN as providing opportunities for UK businesses, and aims to increase trade with ASEAN by targeting key businesses and decision makers from ASEAN and connecting them with UK businesses.

United Kingdom's Department of Business, Innovation and Skills also launched a new service called 'Headstart', which provides practical support to UK businesses seeking to export to high-growth markets in Southeast Asia. Britain also appointed a UK official ambassador to the region in June 2012, as well as undertook various country-specific UK diplomatic initiatives in ASEAN. The UK has also been working to promote greater EU engagement in ASEAN. All these are indicative of UK's expressed policy of scaling up its engagement with ASEAN.

The continuing economic fragility of EU has further demonstrated existing and growing linkages between EU and ASEAN: on the one hand, EU needs to tap into new growth markets including ASEAN; on the other hand, ASEAN has seen significant impact of weakened European demand on its economies. Thus, ASEAN and EU need a post-crisis strategy toward a more effective bilateral and global cooperation that recognizes the changing global landscape.

Overall, there is a sense that ASEAN-EU economic engagement is still below potential. In particular, there is value for ASEAN to deepen its engagement with the EU in concrete areas where the latter's strengths would help ASEAN to build on its integration and cohesion. For instance, the need for rapid urbanisation and connectivity in the region underscores the need to invest more in better infrastructure, develop human capital, manage natural resources and ensure environmental sustainability as well as strengthen governance and institutional effectiveness.

The recent ASEAN-EU Civil Aviation Collaboration is a good example of EU moving beyond providing technical assistance to build capacity in ASEAN and

into more concrete cooperation to support ASEAN integration. In particular, the proposed ASEAN-EU comprehensive air transport agreement would benefit both ASEAN and EU in enhancing trade, investment, movement of people and tourism.

The EU has been a firm supporter of ASEAN economic integration, which is an integral part of maximizing ASEAN's economic potential. Building on this long-standing partnership can only make both sides stronger.

Thank you.