



**KEYNOTE ADDRESS BY H.E. S. PUSHPANATHAN, DEPUTY SECRETARY-GENERAL OF ASEAN FOR
ASEAN ECONOMIC COMMUNITY AT THE WORKSHOP ON PROSPECTS OF ECONOMIC
RELATIONS BETWEEN SOUTHEAST ASIA AND LATIN AMERICA: SOME POLICY OPTIONS
INCLUDING SMALL AND MEDIUM ENTERPRISES,
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“ENHANCING ASEAN-LATIN AMERICA ECONOMIC CONNECTIVITY”

Honourable Dr. Filemon Uriarte, Executive Director of ASEAN Foundation,
Honourable Mr. Kaname Okada, Chief Coordinator, Southeast Asia Initiative, Inter-American
Development Bank
Excellencies
Distinguished Participants
Ladies and Gentlemen,

Good morning and welcome to the ASEAN Secretariat. Let me first convey my congratulations to the ASEAN Foundation and the Inter-American Development Bank for co-organising this important and timely workshop. Let me also convey the best wishes of H.E. Dr. Surin Pitsuwan, Secretary-General ASEAN for the success of this workshop and his regrets for not being able to join all of you due to pressing ASEAN commitments. Nevertheless, it is a pleasure and honour for me, on behalf of the Secretary-General, to address this important gathering on the prospects for Southeast Asia-Latin America economic relations.

At the outset allow me to tackle the burning question that may be in your mind, “Why foster trade and economic engagement between ASEAN and Latin America given the distance and logistical challenges, which may not make economic sense?” If we look back into the last two decades, economic opening and liberalisation, globalisation, and transformative changes in the

trade and economic outlook of countries have led to the realisation of closer integration, cooperation and interdependency fuelled by advancement in information communication technology and advanced high technology. The developing regions such as ASEAN and Latin America had benefitted from these developments, which has enabled the creation of effective supply chains fostering business linkages involving both large multinational companies and small and medium enterprises (SMEs).

In this context, traditional economic powers are being challenged by emerging economies competing for greater market access across the globe for trade and FDI flows. Besides, governments in emerging economies continue to implement important structural and regulatory reforms to bring about efficiency and competitiveness thereby bring emerging economies closer by promoting economic engagement. The current crisis is showing that Asia and Latin America can be two bright sparks for the economic recovery of the world from the current global financial and economic crisis.

As such, economic engagement should no longer be impeded by geographical distance but must be promoted on the basis of mutually beneficial economic growth through closer engagement. Certainly, ASEAN needs to have a presence in Latin America and vice-versa. Three of the fastest developing countries – commonly known as the BRICs, are in East Asia and Latin America, i.e. India and China in Asia, and Brazil in Latin America. These countries together with Indonesia and Australia and other developed and developing nations are members of the G-20, which is set to become a key forum for the world economy. In addition, despite the financial and economic crisis, there are no indications that economic integration in the two regions is about to slow down. Moreover, even the huge distance separating the North and South American countries despite being in the same continent has not deterred nor prevented NAFTA (North America Free Trade Area) and Latin American countries' plan to establish the Free Trade Area of the Americas (FTAA).

Drawing on this, the emerging economies of ASEAN and Latin America may also want to embark on regional cooperation initiatives. Let me provide a quick overview on regional cooperation initiatives in and between the two regions.

ASEAN, on the one hand, is consolidating its bilateral FTAs in the region and is considering widening its trade and economic integration to East Asia in the longer-term through the East Asia Free Trade Area (EAFTA) and the Comprehensive Economic Partnership in East Asia (CEPEA). The former is between ASEAN and its Plus Three Partners of China, Japan and South Korea and the latter is between ASEAN, its Plus Three Partners and Australia, India and New Zealand. Beyond East Asia and deepening ties with its Dialogue Partners, ASEAN is also looking at forging trade and economic ties with the Gulf Cooperation Council and MERCOSUR.

It is well known that outside North America and Europe, economic integration and regionalisation have not been as pronounced as it is in Latin America, where regional groupings are mostly Customs Union. CARICOM, MERCOSUR, and CACU indicate the advancement of regional integration in Latin America. The Forum for East Asia-Latin America Cooperation (FEALAC) also reflects the keen interest of both regions to strengthen engagement in the political, economic and academic areas.

Latin America, based on trade, investment and business activities cross-flows, is considered relatively less known to ASEAN. This could be mainly attributed to the geographical distance and the lack of strong historical linkages. Besides, there appears to be insufficient concerted efforts to bring closer the two regions. Perhaps, the only Latin American countries where there is a good level of familiarity to ASEAN would be Mexico, Chile and Peru, which are APEC member economies together with seven economies from ASEAN. As for regional groupings, ASEAN has only been engaged with MERCOSUR although countries in East Asia and Latin America have formed FEALAC, which is an association of 33 countries from Latin America and

East Asia including all the ten ASEAN Member States and two of the ASEAN's bilateral FTA partners.

There are, therefore, significant unexplored opportunities for synergies between the two regions. MERCOSUR consisting of the most developed countries in Latin America and high consumption economies could provide ample opportunities for ASEAN and serve as a gateway for ASEAN to access Latin American countries. It could act as a catalyst for ASEAN in forging closer engagement with other regional groupings in Latin America.

Having said that, let us examine the trade flows between the two regions to see if we can draw some indications of opportunities for further engagement. Based on ASEAN import-export statistics, total trade between ASEAN and Latin America countries were at US\$ 18.37 billion and US\$24.07 billion in 2006 and 2007, respectively, showing an increase of 33.10 per cent, which was slightly more than double that of ASEAN's global trade growth. The total trade represented only 1.3 per cent and 1.5 per cent of ASEAN's global trade respectively for the two years. In 2007, only five of the ten ASEAN Member States had some meaningful trade values with Latin American countries. The ASEAN Member States included Singapore, Thailand, Malaysia, Indonesia and Philippines with Singapore recording a total trade of US\$6.58 billion and Philippines a two-way trade of US\$0.35billion.

I believe that this is an indication that there is untapped potential for greater trade and investment cross-flows between these two regions provided necessary steps are taken to bridge the lack of connectivity.

PROSPECTS OF ECONOMIC CONNECTIVITY

ASEAN-MERCOSUR

ASEAN has taken the initial step to engage countries in the Latin American region vis-à-vis MERCOSUR, through a ministerial level meeting as recent as in August 2008. The next stage is the plan to engage both sides at the Senior Officials' level to prepare a Region-to-Region Roadmap/Action Plan in mutually beneficial areas of cooperation, which is already in the pipeline.

ASEAN and MERCOSUR can initially focus on information exchange and sharing of experiences on regional economic integration and trade agreements, trade and investment promotion and facilitation, and promotion of cooperation between the two regions' business communities and economic research institutions. SMEs from both the regions should get fully engaged in the process to tap business opportunities and benefit from closer integration of the two regions. I urge the SMEs to play this important role, which in my view, is seen as inadequate currently. We should not confine our trade and business cooperation ties to only facilitate the interest of MNCs but expand it to SMEs.

The first sector that could provide for immediate benefit would be in the area of promoting tourism between the two regions. This "low hanging fruit" can be plucked even before closer engagement takes root between the two regions. With the rapid integration of ASEAN and regional connectivity, ASEAN could be a place to do business and an attractive tourist destination for Latin Americans. It could also be a hub for travels to our East Asian neighbours.

Taking a step back and looking from the theoretical basis supporting regional integration between ASEAN and Latin America, both the regions seem to meet almost all the criteria for

enhanced trade engagement, including an FTA. They have high pre-FTA barriers; similar trade policies toward other non-member countries; number of countries as parties to their FTAs; and similar level of development. The exception, however, is geographical distance as cost reductions are enhanced by low transport costs.

POTENTIAL CHALLENGES – ECONOMIC RELATIONS

As in any initiative, there will be challenges that need to be worked out between both the sides to forge enhanced economic linkages. I foresee, as a first step, ASEAN and MECOSUR may have to deal with other challenges, besides distance. Many of the goods exported to ASEAN are products that are either produced in the region or are potentially supplied elsewhere where ASEAN has equal access to (e.g. fertilizers, sugar, cereals). While several products exported by ASEAN face high tariff rates in MERCOSUR (e.g. footwear, animal and vegetable fats), and these being sensitive sectors, both sides would need to exert all efforts to provide better market access to each other to strengthen trade and economic engagements towards a possible FTA of the future.

I also see another challenge due to differences in tariff regime in Latin America and ASEAN. Latin America follow a Customs Union path which has common external tariffs that the members impose on non-members whereas ASEAN on the other hand is not a customs union and individual member countries have different external tariffs with FTA partners. The stance could take the path of 11 parties where each ASEAN Member State would separately negotiate lists of products for tariff concessions and the Latin American grouping in return offer one common list of products, which could provide a way out. Despite the fact that an FTA results in free trade between the two regions, liberalisation impacts will vary considerably depending on initial or base tariff rates to begin with from both sides. ASEAN will also need to internally agree on the scale of goods and services to propose into an FTA before arriving at a regional

stance. Having delved into regional cooperation initiatives in and between the two regions let me now move on to SME connectivity between the two regions.

SMALL AND MEDIUM ENTERPRISES

Fundamental changes in industrial organisation and business development models across the world since the late 1980s and rapid progress in communications and transportation technologies, production and services have been decentralised and dispersed to smaller, more flexible and more specialised enterprises across economies. All these developments have opened up great opportunities in value creation and in subcontracting activities and services for SMEs. These enterprises have thus become even more important as the backbone of most economies in the world.

The recent global economic crisis has resulted in deterioration of economic development in most regions, especially in those export orientated countries or regions. The global economic crisis has caused the demand for labour in formal economy to fall, increased unemployment, and contributed to the expansion of the informal economy. Trade finance and the availability of financial support is another aspect that is very crucial especially to SMEs in the context of the credit crunch and due steps should be taken to ensure availability of funds for the SMEs to see through this difficult times.

SMEs in ASEAN, account for more than 96% of the total number of enterprises, while the contribution of SMEs to GDP is only around 30-53%. This reflects substantial productivity gaps between SMEs and large enterprises, and boosting the productivity of SMEs is essential in increasing overall productivity of ASEAN and strengthening the backbone of the ASEAN Community.

Looking at SMEs in ASEAN from my perspective, the sustainability of SMEs impinges on the ability of the SMEs to continually innovate and move in tandem with the changing architecture of global trading community. Thus, encouragement and promotion of competitive and innovative SMEs is necessary in contributing to not only greater economic growth and social development but more importantly for all inclusive and broad-based integration of the region.

In this context, ASEAN is helping the SMEs with various programs and measures to bridge this gap between the SMEs and large enterprises, and to enable SMEs to benefit from the regional integration. These programs and measures are designed to improve the institutional support system, facilitate access to financing, upgrade technological skills, enhance market access, promote greater usage of ICT and increase awareness of product branding, product and process innovation, and protection of intellectual property rights.

I believe the situation is similar in the Latin American region too where SMEs as the backbone of the region are facing the global financial crisis and competing in a more open market. Exchanging views and sharing of best practices in policies towards SMEs, and development and management of SMEs could certainly be beneficial for policy makers in ASEAN and Latin America.

As SMEs in ASEAN, and in most parts of Asia, make up a substantial base among all domestic firms, they employ an overwhelming proportion of around 75-90 per cent of the non-agriculture domestic workforce. Two points, however, need to be highlighted. First, output and direct exports from the SME sector is disproportionately low, estimated in the range of 20-30 per cent of gross sales value or manufacturing value added, and 10-20 per cent of total export earnings in ASEAN. Second, indirect exports from SMEs are much higher although there are few reliable estimates of such exports.

Notwithstanding this, many regional SMEs have the potential to be inventive technologically and competitive internationally. At the ASEAN front, ASEAN Member States have collaborated actively to foster SME development and internationalisation. The AEC Blueprint and roadmap has outlined ASEAN to become a single market and production base by 2015. Another aspect of the SME development is the accelerated integration of 12 priority sectors in ASEAN. SMEs have a major, both direct and indirect, presence in these sectors.

ASEAN in its outlook and the ASEAN Economic Community in its planned approach are outward looking, and the regional SMEs are expected to become a meaningful, reliable and competitive player in the global and regional supply chains vis-a-vis promoting cross-border networks and alliances in sourcing, production, marketing and distribution which has also been high on ASEAN policy agenda.

Moving on to SME contacts and networking between ASEAN SMEs and their counterparts in Latin America, this has been limited so far. The absence of such close knitted cooperation thus presents great scope for mutual exchange of information and insights on SME development and internationalisation, and on best and replicable practices in fostering and sustaining SME competitiveness and trans-border linkages. The ASEAN Secretariat remains willing, and ready to facilitate such exchanges and development efforts for the collective benefits of SMEs in ASEAN and Latin America. During the deliberations at the workshop, this could be one of the topics that can be explored.

SMEs need knowledge, technology, and skills that are essential for supplying quality products and services to be part and parcel of SMEs' delivery package. Nevertheless in order for this to be realised, capacity building will have to be an important element to it. This is another area that this workshop can assist in identifying and scoping areas for technical assistance and joint capacity building programmes.

The SMEs would also need, as I see it, is assistance in the promotion of their products. By nature of their fragmentation in production, promotion of their products has greater importance for the SMEs. The large trans-nationals companies do not require promotion plans since they have their own mechanisms of fragmentation and development. These promotional activities should include the interests of the SME sector in the new generation of free trade agreements, facilitation in their participation in international tenders, and effective access to innovative sources of financing and technology and channels of training. This is an area the workshop can also deliberate as a policy option for joint promotions by SMEs from the two regions.

CONCLUSION

At the end of the day all efforts from all quarters will totally depend on the ability of the private sector seeing some business opportunities and taking the bold step forward to venture into new territories beyond one's own boundaries, both psychological and physical. I hope the workshop will prod the private sector to take up the challenge to break their mental block of "distance" between ASEAN and Latin American countries and take the lead in forging economic relations of the two regions, ASEAN and Latin America. I hope the Inter-American Development Bank could assist and support this effort.

I also hope participants will take this opportunity to deliberate in greater detail what policy options are available, what policies are needed to be put in place so that cooperation between SMEs from both the regions are attractive and beneficial. Most importantly, the workshop would need to look at clear outcomes and a strategy for fostering economic relations, including SME engagement.

Enhanced economic connectivity between the two regions will mean more business opportunities, wider choice of goods and services for consumers in both regions and more two-way investment flows. The crisis has shown emerging countries in ASEAN, Asia and Latin America will benefit from closer engagement as demand picks-up when recovery commences and gains momentum. It is time that both sides take the step forward to prepare for the next boom of the global economy led by the emerging and developing economies in ASEAN, Asia and Latin America.

I wish all participants a fruitful engagement and pleasant stay in Jakarta.

Thank you.
