



**THE 2<sup>ND</sup> OECD-SOUTHEAST ASIA REGIONAL FORUM**  
**“ENHANCING COMPETITIVENESS THROUGH REGIONAL INTEGRATION”**

*Summary Conclusions*

Bangkok, Thailand, 27-28 April 2009

The Southeast Asian region is one of the most dynamic areas in the world; it is also one of the most diverse. This diversity is manifest in numerous ways, including levels of economic development, economic regimes and income levels. The region has experienced remarkable economic dynamism and it is actively engaged on an ambitious path of regional integration. Before the recent downturn, economic growth was robust and trade and investment flows soared as a result of increasing international division of labour. However, in the current climate, there is a real need for faster regional economic integration to cushion the impact of the global economic downturn.

Southeast Asia is a region of strategic importance to the OECD. Following a Ministerial mandate in 2007 to strengthen relations with the region, the Organisation is pursuing a dual track approach combining regional initiatives with country specific work, in close co-operation with regional organisations including the ASEAN and the Asian Development Bank. The OECD held the 2<sup>nd</sup> OECD-Southeast Asia Regional Forum to help achieve this goal.<sup>1</sup> OECD co-hosted the Forum with the Royal Thai Government and in co-operation with the ASEAN Secretariat. The Forum was opened by the Thai Vice Minister of Foreign Affairs Panit Vikitsreth, the ASEAN Secretary-General Surin Pitsuwan, and OECD Deputy Secretary-General Mari Amano.

The theme of the Forum was “Enhancing Competitiveness through Regional Integration”. Session I addressed economic prospects and challenges for regional integration, with a discussion of the OECD’s *Southeast Asia Economic Outlook* and a special focus on the ASEAN Economic Community. Session II discussed the impact of the global crisis on SME and entrepreneurship financing in Southeast Asian countries. Session III dealt with creating an attractive investment climate in the region using the Policy Framework for Investment. The session also addressed investment promotion agencies and international investment agreements. Session IV examined competition law and policy with a focus on the role of competition policy in structural reform and the OECD Competition Assessment Toolkit. A final session looked at future co-operation between the OECD and ASEAN.

The Forum provided an important opportunity to discuss and share views on economic and social aspects of regional integration and co-operation in Southeast Asia. Over 120 participants attended the meeting, representing 8 of the 10 ASEAN countries, 14 OECD countries and the EC, the business and trade union associations, academia and international and regional organisations, ASEAN, APEC, ADB, UNESCAP, UNCTAD, UNDP. It also served as a platform for launching a new phase of strengthened co-operation based on mutual interest between Southeast Asia and the OECD. ***At the Forum ASEAN Secretary-General Surin Pitsuwan and OECD Deputy Secretary-General Mari Amano agreed to launch the Southeast Asian Economic Outlook as a joint collaborative product.***

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<sup>1</sup> In January 2007, the OECD organised the 1<sup>st</sup> OECD-Southeast Asia Regional Forum on the “Peer Review Mechanism for Policy Reform”. The Forum was hosted by the Government of Indonesia in co-operation with the ASEAN Secretariat and the Asian Development Bank. The purpose of the meeting was to discuss OECD experiences with the peer review mechanism and to share lessons learned from multilateral and regional experiences in the region. This high-level meeting brought together policy makers and other stakeholders from OECD member countries and several Southeast Asian countries. The Forum also benefitted from contributions from ASEAN, ADB and APEC.

## **Session 1: Macroeconomic Perspectives and Challenges for Regional Integration**

- The first session addressed i) recent macroeconomic prospects including the impact of the recent global financial crisis on the region and ii) challenges for regional integration, with a discussion of the *Southeast Asia Economic Outlook* to be launched in 2010.
- This session was chaired by Ambassador Argimon-Pistre, Permanent Representative of the European Commission to the OECD. The ASEAN Secretariat, Thailand (NESDB and the Securities and Exchange Commission), Indonesia (Co-ordinating Ministry) and the OECD Development Centre contributed keynote speeches and the representatives from the European Commission and the ADB provided useful comments based on their experiences.

### ***Macroeconomic perspectives of the region***

- Southeast Asian economies are closely integrated with the global economy and have been severely affected by the current global financial crisis. Macroeconomic perspectives in the region include a large degree of uncertainty as many economies are dependent on exports of large markets such as the US and Japan. In general, economic growth in 2009 is still expected to be weak.
- Compared with the Asian Crisis in 1997-98, both Thailand and Indonesia have become more resilient to external financial shocks this time. Southeast Asian governments reacted swiftly through fiscal and other relevant measures. The Thai representative emphasised the importance of successive fiscal stimulus packages. In Indonesia, the main elements of the response include: strengthening infrastructure networks, providing stronger protection of the poor and vulnerable, tax incentives and encouraging entrepreneurship and SMEs development.

### ***Challenges for regional integration***

- Some participants expressed concerns that the current crisis might weaken or slowdown the regional integration process. However, most agreed that ASEAN regional integration will continue and should even be strengthened and accelerated. It was noted that regional integration can provide cushions against the current global crisis and increase the resilience of the economies including through stronger intra-regional trade. Enhancing regional integration is the right response to the crisis.
- The framework for this is in place: the ASEAN Charter has been ratified and the Blueprint for the ASEAN Economic Community has been adopted. In the current global context, it was suggested that it is critical for ASEAN to improve its monitoring tools, if it is to achieve the ASEAN Economic Community according to schedule. The role of the ASEAN Secretariat should be strengthened.
- With the increase of cross border financial transactions, strengthening ASEAN capital markets integration is increasingly important. The representative of the ASEAN Capital Markets Forum (ACMF) explained an implementation plan which has several concrete strategic components that were broadly supported. ADB's role to foster capital market integration was also recognised as important.
- The *Southeast Asian Economic Outlook* was welcomed in response to the need for sustaining regional growth dynamics and monitoring the integration process. Focusing on the ASEAN 10 countries with a combination of both regional initiatives and country-specific activities, the Outlook will help identify potential risks and challenges ahead in the region and monitor the progress towards an ASEAN single market and the effect of integration on growth and stability. This Outlook also intends to encourage regional policy dialogue and peer learning.

### ***The way forward: possible next steps/actions***

- OECD expertise in governance and reform offers great potential for co-operation in the present context of crisis for ASEAN countries, particularly with a view to completion of the ASEAN Economic Community.
- It is critical to ensure a more timely and effective sharing of information among Southeast Asian countries in order to identify economic challenges in the region: appropriate monitoring/risk management mechanisms/tools should be further developed. Sharing of experiences between the OECD and ASEAN including with the Economic Research Institute for ASEAN and East Asia (ERIA), both on policy issues and on the most appropriate monitoring mechanisms is important.
- The launch of the Southeast Asian Economic Outlook will provide opportunities for organizing several roundtable meetings in the region in 2009-2010 to encourage policy dialogue and peer learning. The co-operation between OECD and Southeast Asia can also be strengthened through country-specific activities on selected issues of mutual interest.
- The development of more dynamic and attractive capital markets in the region was also seen as a potentially fruitful area of co-operation.

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### **Session II: Financing SMEs and the Global Crisis**

The second session of the Forum addressed the impact of the global crisis on SME and entrepreneurship financing in Southeast Asian countries. It also examined policy responses which can soften the impact of this crisis and lay the foundations for a stronger global economy.

This session was chaired by Mrs. Salinee Wangtal, Senior Director, Bank of Thailand. Thailand (the business sector), the Philippines (Department of Trade and Industry), and the OECD Centre for Entrepreneurship, SMEs and Local Development (CFE) contributed keynote speeches. Representatives from Thailand (National Economic and Social Development Board) and Malaysia (Economic Planning Unit of the Prime Minister) provided useful comments.

The session was enriched by the findings of the recent Turin Round Table on the same theme held in Italy on 26-27 March 2009 under the auspices of the OECD Working Party on SMEs and Entrepreneurship (WPSMEE) and hosted by Intesa Sanpaolo Bank.

#### ***SME perspectives in the region***

SME and entrepreneurship issues and policies are of great relevance for ASEAN integration. Indeed it is important to recall that they account for

- 95-99.9 % of all enterprises in any economy, OECD or ASEAN,
- 40-60 % of GDP,
- 70 % of employment and,
- 25-35 % of exports.

Because of this economic importance and their contribution to social cohesion and local development, regional entities such as the European Union (EU) have found it necessary to enact common measures in terms of directives and programmes for the promotion of SMEs and entrepreneurship. Last year, in order to further level the playing field for SMEs, the EU adopted the European Small Business Act.

In working toward integration, ASEAN countries know that greater openness will put pressure on their SMEs. ASEAN countries may find useful the OECD experiences on how SMEs can benefit from trade

liberalization (i.e. internationalization) as well as how OECD countries are currently assisting their SMEs to survive the current global crisis. In terms of policy responses to the global financial crisis, it appears that the SME agencies in the ASEAN region became involved at a very late stage in the management of the crisis.

### *Similarities and differences in financing SMEs between OECD and ASEAN countries*

- *Difference:* ASEAN banks are well capitalized as they have capital adequacy ratios between 15 and 18 %; most large banks in OECD countries are rebuilding their balance sheets.
- *Difference:* ASEAN banks are making profits of over 15 % which is very helpful in times such as these; 35 % of their loan portfolio goes to SMEs and some would like to raise this to 50 %. Banks in OECD countries are not enjoying such rates of profit and there is little data available on the composition of their loan portfolios.
- *Similarity:* banks in both OECD and ASEAN countries therefore are overly cautious and hence are not lending to SMEs, or have tightened their credit terms in regard to interest rates, collateral requirements, and duration of loans.
- *Similarity:* the most common government response to end the stagnation in bank lending has been to increase their loan guarantee programmes.
- *Similarity:* banks in OECD countries are not taking up the guarantees as hoped, even though their risk is reduced to very low levels; governments have responded by creating **credit mediators** and codes of conduct, as well as undertaking monthly/quarterly monitoring of bank lending to SMEs.

In ASEAN countries, the loan guarantee programmes are more limited than in OECD countries and banks also have been slow to participate in the loan guarantee schemes. *Two reasons* were given by bank and finance officials:

- Banks must implement the programme through a large network of local branches which takes time
- Banks say they have an “appetite for lending” but cannot find good, creditworthy SMEs. So commercial banks have stopped lending to SMEs while state SME banks face a huge amount of non-performing loans (40 %)

### *Challenges for regional integration*

The discussion in Session II highlighted the lack of interface between the banks and SMEs. In the words of the Chair, a director from the Bank of Thailand, “Banks look at credit risk; SMEs look for money. There is no bridge between them”. Also while ASEAN banks are healthy, ASEAN SMEs are not as robust. Given the diversity among SMEs in terms of their size and sectors, some of them may be more vulnerable to pressures of globalization and integration. However, given the lack of timely and reliable SME data and indicators, it is difficult to assess their situation, formulate policies on a regional basis and evaluate them.

### *The way forward: possible next steps/actions*

*ASEAN countries may wish to consider the following:*

- *Create or strengthen the channels for tri-partite consultations among SMEs-Banks-Governments.* For instance the chambers of commerce, business associations or councils could be the vehicles for this consultation.

- Consider using “credit mediators” to ensure that banks which have been assisted by governments during this global crisis respond effectively to the requests from SMEs and entrepreneurs for finance. There is evidence that this mechanism is bearing positive results in OECD countries.
- Create partnerships between banks and business service providers to assist banks in identifying credit worthy SMEs—as recommended by **The OECD Brasilia Action Statement for SME and Entrepreneurship Financing**. This recommendation was highlighted during the discussions of the recent Turin Round Table.
- Consider setting up “credit bureaus” that can provide information to reduce the risks of bank lending to SMEs as some ASEAN countries have already done.
- Consider assessing the effectiveness and results of their policy responses to assist SMEs to meet the challenges of the global financial crisis. It is useful to note that as a follow up to the Turin Round Table, the OECD Working Party on SMEs and Entrepreneurship will undertake an assessment of those measures taken by OECD countries.
- Improve SME and entrepreneurship-related data on financing. This should include, for instance, improving bank reporting on the composition of their loan portfolios by size of firm. In this respect the OECD Working Party on SMEs and Entrepreneurship is considering the possibility of creating a **SCOREBOARD on SME and Entrepreneurship Financing**. This scoreboard could provide data and indicators to make a diagnosis of the situation of SMEs and entrepreneurs in terms of their access to finance, as well as the country programmes and policies in this area.
- Strengthen ASEAN and ASEAN countries’ participation in “**The OECD Bologna Process on SME and Entrepreneurship Policies**” with a view to increasing governments’ cooperation for enhancing SME competitiveness and sustainable growth in the globalized, knowledge-based economy.

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### **Session III: Creating an Attractive Investment Climate in Southeast Asia**

The session was chaired by Marinus Sikkel, Chief, Investment and Enterprise Development Section, UNESCAP. Round 1 on the Policy Framework for Investment (PFI) included presentations by Vietnam (Ministry of Planning and Investment), Japan (Permanent Delegation of Japan to OECD) and the OECD. APEC and Thailand provided comments on the PFI. Round 2 on regional investment co-operation included presentations by the ADB and Malaysia (Malaysian Industrial Development Authority) with discussants from Indonesia (Co-ordinating Ministry for Economic Affairs) and UK.

#### ***Round 1: Policy Framework for Investment***

The Vietnamese government presented its experience in attracting foreign direct investment (FDI) from the reform and opening up of the economy (*doi moi*) in 1986 and the first law on FDI in 1987 to the 2005 Investment Law, resulting in the rise of disbursed FDI in Vietnam reaching a record USD11.5 billion in 2008. Vietnam has reformed most state-owned enterprises (SOEs), and foreign investors can buy shares in them. Vietnam’s opening up has increased as a result of its WTO commitments and many areas of the investment environment have been improved as the legal framework has developed. Remaining challenges include poor infrastructure, a high proportion of unskilled labour, an incomplete and unpredictable legal system and burdensome administrative procedures in some sectors. Vietnam has a regular investment policy review mechanism that incorporates recommendations from independent international organisations, including those in the OECD PFI Review of Vietnam. For such a review to succeed requires determination on the part of government leaders, strong support by the OECD and other international organisations and a good choice of key partners.

The Japanese government has done much to enhance ODA and FDI in Vietnam, both from Japan and from the rest of the world. In 2002 Vietnam's investment climate lagged, so Japan proposed policies to increase its competitiveness. This work took place co-operatively, with Vietnam given a sense of ownership, high level engagement between Japan and Vietnam, and ODA was used as leverage to improve the investment climate. Of 125 issues identified, 85 were resolved by 2004. Now Japan's investment environment is among the best in the region. The PFI is an excellent starting tool to recognise what is needed to reform the investment climate, but solutions should not be theoretical but should be shaped by the circumstances of each country.

The Policy Framework for Investment (PFI) was developed by the 30 OECD countries and 30 other countries and territories, pooling their experience. Participants included international organisations, business, civil society and specialised OECD committees. Meetings were held in Paris and other locations. Several ASEAN members participated. The objective was to identify obstacles to investment, formulate policies to remove them, then implement and monitor policy reforms. The main principles are policy coherence, transparency, accountability and regular evaluation of the impact of policies on the investment environment. The PFI is non-binding. There is no "one size fits all" solution. Every government has its own way of doing things. The PFI is comprehensive and systematic, flexible and coherent. The PFI has been used for reviews of Egypt, Peru, Vietnam and India, for a regional dialogue in Africa, for thematic country reviews of Russia and China, and by ODA donors for capacity building. An online PFI Users' Toolkit gives background to assist countries using the PFI.

### ***Round 2: Regional investment co-operation***

The Asian Development Bank (ADB) sees regional co-operation as adding value to national policy-making, providing infrastructure, managing spill over effects and avoiding a "race to the bottom". Southeast Asia needs USD4.7 trillion in cross-border infrastructure. Although ADB doesn't have much money to lend, it promotes regional co-operation on integration by bringing together private and public sectors. By 2020 30% of ADB lending will relate to its Regional Co-operation on Integration. All countries in the region need to be full participants in this process, as the weakest link will determine success or failure.

The ASEAN Comprehensive Investment Agreement (ACIA) resulted from a 2007 review of the 1998 Framework Agreement on the ASEAN Investment Area and the 1987 ASEAN Agreement for the Promotion and Protection of Investment. The ACIA covers investment liberalisation, protection, facilitation and promotion, thus broadening and improving on previous agreements.

### ***Discussion summary***

Discussants proposed that the PFI could be improved by including coverage of challenges faced by transition economies, for example managing the macroeconomic consequences of rapid capital inflows. The PFI is a work in progress, not a rigid structure, so such suggestions may be included in a future revision. The OECD could consider seminars for policy makers from countries at different levels of development on this issue.

As the PFI is modular, countries can use it selectively to tackle specific problems – as Cambodia is doing with JICA – before considering a comprehensive study of their investment policies. They can also use other resources, such as those of UNCTAD, to complement the PFI. APEC has spent much time on trade and investment promotion and facilitation and has developed instruments which supplement the PFI.

Discussants emphasised the need for transparency, predictability and accountability of investment policies and promotion, and also the need for good data on which to base analyses of investment promotion policies. They generally agreed that while fiscal incentives have been used to compensate for deficiencies in the overall investment climate, in the long term they are no substitute for real improvements in the regulatory framework and both physical and "soft" infrastructure.

## ***Conclusions***

- There appears to be general agreement on principles of good investment policy between Southeast Asian countries and regional organisations like ASEAN, ADB, APEC and UNESCAP on the general principles of policies to promote investment, including transparency, predictability and accountability.
- Many questions voiced during the discussions indicate a lack of familiarity with the methodology of the OECD, especially its use of peer review and experience sharing, in the area of investment and related policies.
- Familiarity with the methods and instruments of the OECD could be of benefit to governments in the region seeking to learn from both good and practices of other countries.
- This familiarity could be developed by holding meetings to share experience on investment policy issues in Southeast Asia.
- The OECD's Investment Committee welcomes Southeast Asian governments and ASEAN to arrange dialogues with the Committee in Paris on areas of investment policies which they are interested in sharing experiences and ideas.

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## **Session IV: Competition Law and Policy**

The fourth session of the Forum addressed the importance of competition law and policy as a key tool in reducing poverty, and promoting productivity and economic growth.

The session was chaired by Carolyn Ervin, Director, Directorate for Financial and Enterprise Affairs, OECD. The Federal Competition Commission of Mexico, the Vietnam Competition Authority (current Deputy Chair of the ASEAN Expert Group on Competition), and the OECD Secretariat gave presentations. Representatives from the Trade Competition Committee of the Thailand Board of Trade and the Australian APEC Centre at RMIT provided comments based on their experiences.

### ***The role of competition law and policy***

It was agreed that a sound competition framework should be based on two pillars of: (i) tackling anti-competitive business practices and (ii) reviewing and addressing government actions that restrict competition. The importance of competition law and policy in times of crisis was also underlined. The current economic crisis should not be a reason to defer the introduction of competition law and policy, nor to set aside competition law enforcement. Instead, competition must be part of the solution to exiting the crisis.

The OECD's Competition Assessment Toolkit provides governments with a general framework for eliminating barriers to competition and promoting pro-competitive reforms. The Mexican representative described the major project underway in Mexico, in co-operation with the OECD, to use the Toolkit to review its laws and regulations in order to improve competition throughout the Mexican economy, with an important success already in trade liberalisation. More reforms are in the pipeline, highlighting the significance the Mexican government attaches to promoting competition as a means of improving economic growth. The representative from the Australian APEC Study Centre noted that competition policy sits squarely within the structural reform agenda in APEC, and it must be part of the on-going reform process.



## ***Challenges***

Both the Vietnamese representative and the representative of the Thailand Board of Trade emphasised that there is still work to be done to convince governments, business, and other interest groups of the importance and benefits of competition law and policy.

Discussants agreed that for competition law and policy to be credible, there must be effective enforcement of the law by agencies. Competition policy and the institutions involved require high-level political buy-in, adequate resourcing and technical expertise.

Different levels of development, distinct legal environments and varied policy approaches to competition law and policy across ASEAN members are all obstacles to the development of a regional competition framework.

## ***The way forward***

- Strengthen the role of the ASEAN Expert Group on Competition in promoting regional dialogue on competition law and policy. Increased interaction and regional dialogue between ASEAN members on the benefits of competition and can drive national policy developments.
- Further dissemination of OECD experiences, tools and best practices on competition policy and enforcement techniques to assist in the development of a “competition culture” across governments, competition authorities and other stakeholders in the region.
- Sharing of experiences between OECD and ASEAN members through: OECD participation in the ASEAN Expert Group on Competition workshops; participation of ASEAN members in the OECD’s annual Global Forum on Competition; and targeted competition capacity building programmes such as those at the OECD-Korea Policy Centre.
- The OECD’s Competition Assessment Toolkit may provide ASEAN and its members with a possible framework to promote pro-competitive reforms at the national and regional levels.

## **Session V: The Way Forward – Future co-operation between ASEAN and OECD**

The final session was organized as a panel discussion with the Thai Minister of Foreign Affairs Kasit Piromya. It was introduced by the rapporteurs for each session who summarized the conclusions of their discussions. It included summary remarks from OECD Secretary-General Mari Amano and Sovyana Putranti from the ASEAN Secretariat. Minister Kasit Piromya thanked all the participants for the great success of the Regional Forum and noted he looked forward to strengthened cooperation between the OECD and ASEAN through both regional and country specific initiatives. He noted that as a first step it is critical to improve mutual understanding and that ASEAN and the OECD should deepen their knowledge of each other’s activities, priorities and methods of work.

The OECD’s Director of the Centre for Co-operation with Non-Members, Eric Burgeat, stressed the importance of action-oriented concrete proposals for collaboration. He noted that the important new missions assigned to the ASEAN open further opportunities for strengthening our relations. At the OECD, we are fully prepared to share experience both with regard to the organisation of multilateral policy dialogue and with regard to policy development in specific areas.

The Chair of the OECD’s Informal Reflection Group on Southeast Asia, EC Ambassador Argimon-Pistre, noted that there is great potential and mutual interest for co-operation between the OECD and ASEAN. The *Southeast Asian Economic Outlook* is the first step forward in this closer collaboration. To further this

cooperation, it is important to increase dialogue, create a substantive work programme, and strengthen contacts and exchange of data.

The ASEAN expressed strong interest in developing the co-operation further with the OECD.