

Doing business in ASEAN and why it's not the EU

2017 will be a year of anniversaries! It is the 60th anniversary of the founding of the European Economic Community (later the European Union), the 50th anniversary of the establishment of the 10-nation *Association of South-East Asian Nations (ASEAN)* as a regional bloc, and the 40th anniversary of formal EU-ASEAN relations. Oh and it also marks the 70th anniversary of the commencement of operations by the IMF and the 100th anniversary of the Russian Revolution but I won't delve further into those two anniversaries!



Top to bottom: The signing of the Treaty of Rome in March 1957; the signing of the Bangkok Declaration in August 1967.

ASEAN is often compared to the EU, an observation which, on the surface, makes a certain amount of sense. These trading blocs are arguably the two most closely integrated regional organisations in the world, and both emerged amidst regional conflict and insecurity. Despite these apparent similarities however, beneath the surface these two organisations possess very different characteristics, requiring businesses to carefully calibrate their approaches to each market.

Over these past few decades, both the EU and ASEAN have grown closer economically. Today companies from the EU make it ASEAN's largest foreign investor and its second largest trading partner. Two EU FTAs have been negotiated and concluded pending signing, with Singapore and Vietnam, and negotiations with Indonesia, Malaysia and the Philippines are ongoing.

These deepening commercial ties are spurred on by ASEAN's huge market and enormous growth potential. ASEAN has a population of over 620 million and a collective GDP of over \$2.6 trillion. While the global economy has been sluggish, in 2015 ASEAN's annual GDP growth rate was 4.7%, well above the global growth rate of 3.1%. By comparison, the EU's combined GDP grew by only 1.9% in 2015. ASEAN is already the world's seventh largest economy, around the size of France – but by 2050, it is projected to be fourth on that list, overtaking Japan. It is already therefore, one of the largest economic blocs in the developing world and its importance in the global economy will likely only grow in the coming decades as economic, military and political might shifts from 'the West' to the Asia-Pacific region. As Christine Lagarde, MD of the IMF said recently, "...Asia and ASEAN have the potential to continue to be a key engine for global growth"

ASEAN is clearly a major opportunity for European companies seeking markets with long-term growth trajectories. However, multinationals believing that they can simply copy and paste their EU playbook and apply it to ASEAN, need to reconsider.

For instance, there is no equivalent of *Brussels* for ASEAN, a 'central clearing house' where the private sector and other interest groups can make their voices heard. Many EU-watchers who either deride the alleged powers of the EU or fear the excessive influence of the business lobby may see this aspect as a positive. ASEAN's closest counterpart to the European Commission is the ASEAN Secretariat based in Jakarta, but it has no right to initiate legislation and serves a different function. Instead, influence

and decision-making is decentralized and diffused across the member states and relies on an intergovernmental approach. While businesses operating in the EU would be naïve to think influencing at the national level was not also the path to success, the lack of centralisation and institutions at ASEAN level make this difference much starker.

As a consequence, it is imperative for companies operating in South East Asia to be present, engaged and informed at the national as well as regional level. Companies can and should take a pan-ASEAN approach to their corporate strategy, but must be prepared to tailor this strategy appropriately to each local market and seek local advice. BDO is one of the very few global professional services and advisory providers to have a presence in all ten ASEAN countries, with a dedicated regional senior partner and structure to service clients. This has allowed us to provide locally relevant services and advice for clients, while also giving us an on-the-ground expertise and perspective of how regional integration is impacting foreign and domestic businesses.

Another key differentiator is that, unlike the EU institutions, ASEAN does not have the authority to create legally binding legislation. Contrary to what some observers might argue, this is considered a feature, not a bug, and an important driver of ASEAN's success to date. However, the 'ASEAN minus X' formula, which allows less economically developed ASEAN members to opt in to agreements when they are ready, does, admittedly, make for slow progress. It also allows ASEAN countries with more mature economies to integrate more closely and quickly with one another without imposing requirements on countries that do not feel economically prepared for them. A lesson for the European Union in some respects perhaps!

The ASEAN member states are now pushing forward with a new phase of economic integration, with the launch of the ASEAN Economic Community (AEC) in 2015. This does not, by any means, mean that ASEAN is now a single market where goods can be traded freely throughout the region. Visions of an EU-style borderless area are a long way off. However, important progress has been made and work is continuing. On the capital markets front for instance, the ASEAN Disclosure Standards Scheme was implemented in April 2013 to facilitate multi-jurisdictional offerings of equity and plain debt securities in ASEAN, in compliance with a single set of disclosure standards for prospectuses. ASEAN has eliminated nearly all intra-regional import duties, and harmonised technical requirements for electronics, cosmetics and medicinal products, with several more arrangements in the works. Speedier implementation and expansion of existing mutual recognition arrangements for certain professions including accountants, will be one early benefit. I recently interviewed the BDO Asia-Pacific Regional CEO, Stephen Darley for a [podcast](#) and he remarked that BDO member firms across the region already act in a more cohesive manner than would have been the case without the advent of the AEC.

As ASEAN turns the page in 2017 towards the next 50 years of its history, and work begins in earnest on the AEC Blueprint 2025, now is the time for businesses to align with ASEAN governments' priorities, feed into regional policy discussions and negotiations, and work with national governments to advocate for trade facilitation and liberalisation. Commercial engagement locally, coupled with a regional strategy, is critical now more than ever to successfully doing business in this region given the current backdrop of growing scepticism around globalisation and free trade in the West.