

# The Potential Development of Trade on Services by Micro Small Medium Enterprises in ASEAN

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Keywords: MSMEs, AEC, Trade Services, Global ASEAN

Abstract: Micro, Small and Medium Enterprises (MSMEs) in ASEAN are the backbone of ASEAN economic development regarding to their share of total establishment and absorb employment. The majority type of business of MSMEs in ASEAN, however, is mainly trade of goods. The establishment of the AEC in 2015 will attract investment from foreign countries that provide MSMEs in the region with good prospects including trade on services. MSMEs however have not explored yet the chances offered by free flow of services that expected to bring enormous benefits to MSMEs in ASEAN. The increasing trade on services in this economic globalized digital era, may be construed as economically sound that tends to have efficient allocation of MSMEs resources as economic actors in the AEC scheme. This paper discusses the opportunity of MSMEs in trade on services provided by the AEC economic integration and liberalization through global value chains that would have been achieved by Global ASEAN. It explores trade on services in particular its' potential in ASEAN single market and production base. It also discusses the Priority Integration Sectors (PIS) of ASEAN as only five service sectors have been agreed in PIS. This became challenge and opportunities for MSMEs in the region.

## 1 INTRODUCTION

Services currently represent more than two thirds of World Gross Domestic Product (GDP). It covered 73 per cent in high-income countries against 54 per cent and 47 per cent respectively in middle-and low-income countries. Merchandise accounts for the majority of world trade (approximately 61 per cent), while services (approximately 20 per cent) are playing an increasingly important role in world trade. (Lester, Mercurio, and Davies, 2012).

Since 1995 ASEAN has put some interests on trade in services and it has been one of the increasingly important component of not only the economic development of ASEAN Member States (AMS), but also of equally important component of ASEAN economic policy as well. Unlike trade in goods, trade in services has been evolved and became the focus of national economic policies of AMS throughout the years and among ASEAN has made an effort to improve the competitiveness and attractiveness of the ASEAN region for the services sector. There are seven sectors that covered by

ASEAN Framework Agreement on Services (AFAS) include construction, financial services, businesses services, air transport, tourism, maritime transport, and telecommunication.

### 1.1 Trade in Services: Opportunity and Challenges of ASEAN's MSMEs

The establishment of the ASEAN Economic Community in 2015 should constitute as a turning point for MSMEs in ASEAN. One of the AEC pillars is single market and production base. It aims not only to have economic integration for intra-trade in ASEAN but also integration into the global market. This brings both challenges and opportunities for all of AMS.

MSMEs are the backbone of ASEAN Economies because their widespread presence in non-urban and poorer sub-regions as accounted of 96 per cent of existence (SAP SMED 2010-2015, SAP SMED 2016-2025, SME Policy Index 2014). In addition, MSMEs in ASEAN also contribute to greater economic growth and social development (30%-53% of GDP of AMS).

ASEAN MSMEs have opportunities of the AEC as tightness of domestic market is overcome, AMS agreed to set a lower tariffs and access to MSMEs' incentives, economies of scale, trade with perishable goods enabled, the improvement of access to sea-ports (to inter-national markets) that has attracted for foreign investments, such as Multi-National Corporations into the region (Southiseng and Bartels, 2016).

## 2 General Agreement on Trade in Services (GATS) under WTO

Trade in services can comprise of the following: business services, communication services, construction and related engineering services, distribution services, educational services, environmental services, financial services, health-related and social services, tourism and travel-

### 2.1 Trade in Services in ASEAN

AFAS has provided the official platform for ASEAN to undertake its effort to improve the openness and competitiveness of services sectors in ASEAN and was designed to integrate ASEAN trade in services with aims as the following (ASEAN Secretariat, 2014):

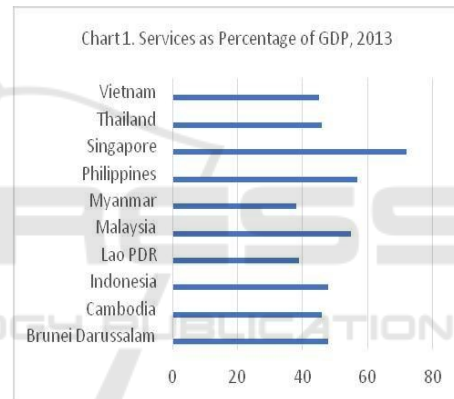
1. Enhance cooperation in services amongst AMS in order to improve the efficiency and competitiveness, diversify production capacity, and supply and distribution of services of their service suppliers within and outside ASEAN;
2. Eliminate substantially restrictions to trade in services amongst AMS;
3. Liberalize trade in services by expanding the depth and scope of liberalization beyond those undertaken by AMS under the GATS with the aim to realizing a free trade area in services.

related services, recreational, cultural and sporting services, transport services, and other services not include elsewhere. (Lisa Eifert, 2016).

The meaning of the term service is defined in Art I.3(b) GATS as follows: service' includes any service in any sector except services supplied in the exercise of governmental authority (Mitsuo Matsushita, Thomas J. Schoenbaum & Petros C. Mavroidis, 2006) International trade in services is defines by the four Modes of Supply of the General Agreement on Trade in Services (GATS). Mode 1 is cross border trade which is defined as delivery of service from the territory of one country into the territory of other country. Mode 2 is consumption abroad, means, it covers supply of a service of one country to the service consumer of any other country

or in other words consumer travels to producer and vice versa. Mode 3 is commercial presence (foreign investment) which covers services provided by a service supplier of one country in the territory of any other country in long-term. Mode 4 is presence of natural persons which covers services provided by a service supplier of one country through the presence of natural persons in the territory of any other country in temporary movement of natural persons, means, service supplies across border to provide services to a consumer. To sum up, whereas mode 1 and 2 service supplier not present within the territory of the Member, mode 3 and 4 service supplier present within the territory of the Member.

Trade in services has been continuously significant component of Gross Domestic Product (GDP) in AMS. As shown by Chart 1, as of 2013, an average AMS had generated about 45% to 55% of its GDP from services sectors, as compared to the agriculture and industrial sectors.



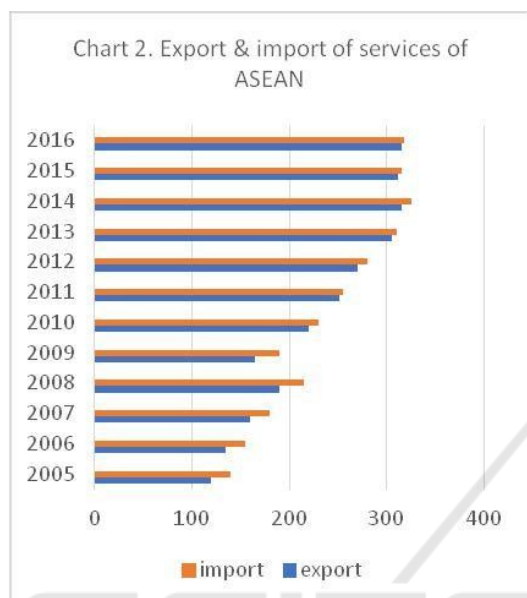
Source: Source: ASEANstats, 2015

Figure 1: Chart Service as Percentage of GDP 2013.

As shown by Chart 1, as of 2013, an average AMS had generated about 45% to 55% of its GDP from services sectors, as compared to the agriculture and industrial sectors. For example, Myanmar, the lowest economy of AMS has generated 38% of its output from the services sector, while Singapore as the highest among AMS has generated 72%. The growth of export of services seems to follow the growth of import closely with almost equal proportions in any given year (see Chart 2).

The AEC Blueprint 2025 para.5 stated that in the next decade ASEAN will also provide a new emphasis on the development and promotion of MSMEs in its economic integration efforts. ASEAN's export of services consists of several sectors as the following:(ASEAN Secretariat,

2015): Maintenance and repair; Transport; Travel; Construction; Insurance and pension services; Financial services; Intellectual property charges; Telecommunications and ICT; Other business services; Personal, cultural and recreational; Government goods and services.



Source: ASEAN Services Report, 2017

Figure 2: Chart Export&Import of Service of ASEAN

## 2.2 ASEAN Free Trade Agreements with ASEAN Dialogue Partners

It is interesting to note the statement that ‘[I]t is often stated that there are two main reasons advanced for why countries trade with each other. The first is economics and the second is peace and security.’ In this globalization era, it is undeniably that every country in the world does trade with other countries, trade in goods as well as trade in services based on two main reasons advanced namely economics and peace and security. In fact, no nation has experienced sustained economic growth by closing itself from international trade and investment.

ASEAN has established agreement on trade in services (TIS Agreement) with its’ dialogue partners, which include: the Agreement on Trade in Services of the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and the People’s Republic of China (TIS Agreement). It was signed by ASEAN Economic Ministers and Minister of Commerce of China on 17 January 2007 in Cebu, the Philippines, the Agreement on Trade in Services under the

Framework Agreement on Comprehensive Economic Cooperation among the Governments of the Member Countries of ASEAN and the Republic of Korea on 21 November 2007 in Singapore, the Agreement Establishing the ASEAN – Australia – New Zealand Free Trade Area which signed on 27 February 2009 in Cha-am, Thailand and the Agreement on Trade in Services under the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the Republic of India was signed on 13 November 2014 in Nay Pyi Taw, Myanmar.

## 3 ASEAN MSMEs and global value chains

### 3.1 MSMEs ASEAN: Strength and weaknesses

The MSMEs in ASEAN are small firms with less training, and depend more to external recruitment for raising competence and concern with financing, regulatory burdens as they poorly equipped to deal with the problem arising from regulations because limited access of information on regulation on product export, compliance procedure associated with R&D and new technology.

To enable the MSMEs ASEAN be competitive, ASEAN policy makers and the national government of ASEAN Member States have to create policy support in order to level playing field for SMEs as mentioned by Yuri Sato as the inclusive pathway (Yuri Sato, 2013).

### 3.2 Global Value Chains (GVC)

Free flow of services is an essential element in building the AEC, as envisaged to be realized in year 2020 by the ASEAN Heads of States/Governments through the Declaration of Bali Concord II. In the 11<sup>th</sup> ASEAN Summit, all AMS agreed to accelerated the liberalization of trade in services by 2015, means, ASEAN re-affirms its’ seriousness to further integrate its services sector and deepen its economic integration process. The AEC Blueprint aims to transform ASEAN into single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy.

The development of MSME ASEAN can be pushed by public-private partnership (PPP) mechanism. The AEC Blueprint 2025 stated that PPP mechanism is an important tool for decision

makers to strengthen economic and social development through the harnessing of private sector expertise, sharing of risks, and provision of additional sources of funding and enhance participation in Global Value Chains (GVC) in order to achieve a highly integrated and cohesive economy

Compare to large enterprises, MSMEs ASEAN have problem of financing since financial institution reluctance to give financial support. Beyond 2015, however, ASEAN MSMEs will form a major part of regional and global supply chains. In this context, MSMEs are important vehicle for AMS economic empowerment with some constructive supports from ASEAN policy makers, AMS governments and guided cooperation based on PPP combine with innovative strategy into action on R&D, innovative products and training, hiring skilled employee.

#### 4 CONCLUSIONS

Accounting for more than 96 per cent of enterprises in ASEAN region, MSMEs are a significant engine of economic growth in the region that all stakeholders must seek all constructive efforts in sustaining MSMEs remain competitive.

Trade in services will be another challenge for ASEAN policy makers and AMS with all of the economic and non-economic barriers in regional sphere as well as proper implementation at national level of every AMS. It is a significant economic sector that can be cultivated in the AEC competitive era.

Government of AMS through economic integration of AEC can collaborate in giving strong support to MSME ASEAN by providing programs and economic policies concerning international market expansion, integration into global supply chains and finding new customers, exhibit regulatory simplification, standardization and mutual recognition in the regional economic collaboration.

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