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**FACING THE INEVITABLE:
AFTA, THE DIGITAL CHALLENGES
AND THE ASEAN BRAND PERSPECTIVE***

In the contemporary world, an international actor can efficiently undertake its trade initiatives in case it has already created a success story in the “pre-digital” era. Arguably, this involves two main components – the down-top vector exemplified by the well-developed physical, institutional and people-to-people connectivity and the top-down vector presented by a strong institutional framework with the specific focus on the trade exchanges. However, as new times set new tasks, at present the third component – the digital support of both the trade turnover and the institutions – has become obligatory.

From this perspective, to trace the experience of the Association of Southeast Asian Nations (ASEAN) is a timely and relevant exercise. While the association succeeded in developing its economic projects exemplified, among others, by the ASEAN Free Trade Area (AFTA), so far it has failed to digitalize its brainchild. As a logical aftereffect, the association can lose its hard-won achievements as the driver of Southeast Asian trade exchanges.

Starting from an assessment of AFTA as a multilateral project, the author proceeds with a discussion of aftereffects of the on-going digitalization for AFTA and ASEAN to finally turn to offering a non-trivial solution that stems from the marketing perspective. The conclusion summarizes the foregoing analysis.

AFTA as ASEAN’s Success Story

In the late 1980s – early 1990s, the association was striving to increase its credentials as an influential Asia-Pacific actor. The results obtained during the Cold War were dubious. On the one hand, the aftereffect of the Cambodian issue made the association an established political and security actor in Southeast Asia while on the other, the setbacks of cooperation through the 1970s and the 1980s were noticeable. Logically, for ASEAN the economic pillar of cooperation between its member

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states rose to prominence. The on-going development of economic growth zones as areas of the down-top cooperation incentivized Southeast Asian countries to expand this experience, or at least its components, from the local to the pan-Southeast Asian level. The establishment of APEC, NAFTA and the EU demanded an appropriate response from the association. But most importantly, as the function of the rapid economic growth the ASEAN-5 strengthened and diversified their economies, which could enable them to succeed in developing multilateral cooperation.

The factors described above incentivized the association to establish ASEAN Free Trade Area (AFTA). Its strategic objective was to raise the competitiveness of ASEAN member states and the association as an international actor by means of eliminating tariff and non-tariff barriers in the intra-ASEAN trade.

The road to AFTA started in January 1993. Initially, the project was scheduled to be finalized by 2008. But later on, these plans were revised. In 1994, the deadline was changed for 2003 while in 1998, the association set a new goal: AFTA, based upon the tariff corridor 0-5% for all ASEAN countries was to be finalized by 2002, while by 2010 and 2015 respectively, ASEAN-6 (Singapore, Malaysia, Indonesia, Thailand, the Philippines and Brunei) and ASEAN-4 (Cambodia, Vietnam, Laos and Myanmar) were to completely eliminate tariffs in their intra-ASEAN trade.

The declared goal was supposed to be achieved by means of the *Common Effective Preferential Tariff - CEPT*). It meant reducing tariffs in the intra-ASEAN trade, mainly in industrial goods, to 0-5%. The trading items covered by the CEPT were grouped in four categories: the Inclusion List, the Temporary Exclusion List, the Sensitive List and the General Exception List¹.

Most of the intra-ASEAN traded goods were covered by the Inclusion List. The Temporary Exclusion List was presented by goods temporarily excluded from the liberalization, but which were to be added to the Inclusion list later. The Sensitive List embraced mostly agricultural products while the General Exception list consisted of goods with art, historic and archeological value.

Further upgrading AFTA and elaborating on its main directions, in 2010 the association issued the ASEAN Trade in Goods Agreement (ATIGA) which, in comparison with AFTA, was supplemented by provisions on technical trade barriers, sanitary and phytosanitary norms, as well as the Temporary Modification and Suspension of Concessions

specifying what the parties are and are not to do in extreme circumstances².

The reduction of non-tariff barriers gained momentum after the establishment of the Single Window System between the ASEAN-6 states in 1998. This system means the synchronization of national Single Window Systems of the contracting parties in order to facilitate their customs clearance procedures. In 2015, Protocol on the Legal Framework to Implement the ASEAN Single Window was signed. According to its provisions, ASEAN companies performing in Southeast Asian markets are to receive identification numbers, which allows them to access to the customs database, monitor the actual cargo location etc.³

Among the weak points of this system, of note is a low level of coordination between the relevant agencies, as well as of the harmonization of technical procedures. For example, the production of *Crimson-Logic*, the Singaporean e-government operator, has little in common with the Malaysian company of a similar profile *Dagang Net*⁴.

As a separate line of the intra-ASEAN economic activity, the trade in services is of paramount significance for the ASEAN countries as the tertiary sector accounts from 40% to 70% of their GDP. The first agreement on intra-ASEAN trade in services was signed in December 1995 with the purpose to raise the competitiveness of the ASEAN states and strengthen the intra-ASEAN integration. Among the agreement packages, business and professional services, construction, distribution, telecommunications, tourism and maritime transport can be mentioned. Also, transport and financial services are under the on-going liberalization.

In November 2012, ASEAN Economic Ministers signed the Agreement on the Movement of Natural Persons. In this document, the terms of intra-ASEAN person-power movements, mainly business trips, were specified⁵.

As a supplement to AFTA, ATIGA and other intra-ASEAN trade initiatives, in September 2017 the association adopted AEC 2025 Trade Facilitation Strategic Action Plan. In this document, ASEAN outlined a set of measures aimed at decreasing the trade transaction costs, the two-fold increase in intra-ASEAN trade between 2017 and 2025, as well as improving ASEAN's positions in the global economic rankings⁶.

Overall, the association has successfully performed the task which it set in 1992. As for the goods traded in ATIGA, as of 2016 the ASEAN-6 countries eliminated their tariffs on 99,20% of trading items

while Vietnam, Laos, Cambodia and Myanmar on 90,90% respectively. The ASEAN average was 96,01%⁷.

From the trade perspective, the assessment that ASEAN's key project, the ASEAN Economic Community, rests on a strong foundation seems to be well-substantiated. It still remains unclear to what extent ASEAN plans to further develop the ASEAN Economic Community on AFTA as one of its pillars (the share of intra-ASEAN trade in 2007-2016 tended to decline while further intra-ASEAN trade exchanges increasingly depend upon upgrading infrastructure and institutions, as well as building up people-to-people contacts, in Southeast Asia and beyond. Nevertheless, the reputational aftereffect of AFTA is positive.

At the same time, as the forthcoming Fourth Industrial Revolution gains momentum, the association can lose its hard-won achievements including AFTA. The reason stems from AFTA's weak digital support coupled with ASEAN's functional and institutional deficiencies.

The Challenges of the Digitalization: Implications for ASEAN and AFTA

As discussed earlier, the specificity of economic regionalism in Southeast Asia is its down-top evolution. Initially, small-scale, local enclaves of trade and industrial exchanges, in which connections between companies, banks and government regulatory agencies were built up, were established. Later on, as these grass-root level ties solidified, the cooperation was institutionalized. This factor convincingly explains why ASEAN's initiatives of economic regionalism misfired in 1970s and the 1980s: the intra-ASEAN economic exchanges did not gain sufficient "critical mass" at the grass-root level while formal directive procedures could not supplant them. In contrast, AFTA, ATIGA and other formats of cooperation succeeded after these contacts had been developed to the extent which made possible their institutionalization.

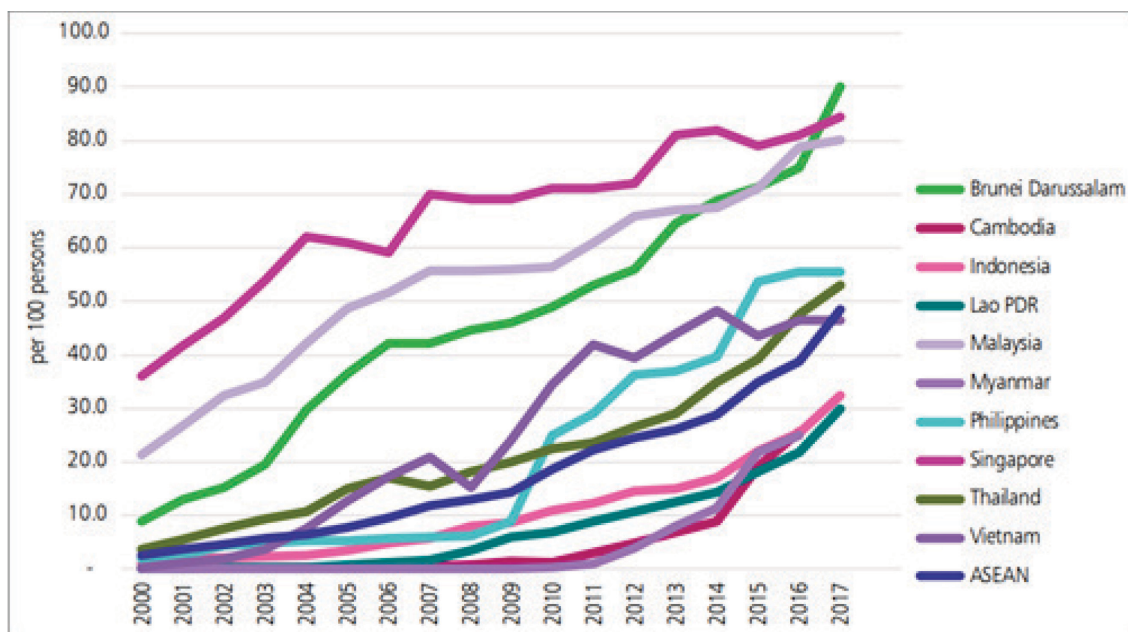
At present, the association has to bring its projects, including AFTA, into the accordance with emerging digital landscape. Assessing this task, the following points are worthy of note.

First, elaborating on the term "integrated digital economy" as the cornerstone of the ASEAN ICT Masterplan 2020⁸, the association clearly understands: the realization of these initiatives will inevitably take much time. In the present circumstances, time is the luxury ASEAN can hardly afford.

Second, the ASEAN member states encounter the problem of digital inequality. Primarily, this stems from gaps between the levels of in-

frastructure development in Southeast Asia. According to the ASEAN Secretariat data, in 2017 the level of internet penetration varies significantly, as exemplified by Graph 1.

Graph 1. Number of internet user per 100 persons, ASEAN Member States, 2000-2017⁹.



The banking services penetration is low too: in 2017 in the USA 100 people owned 177 credit cards while in Thailand and Vietnam this accounted for 29 and 5 credit cards respectively¹⁰.

Third, neither individual ASEAN states nor ASEAN as an international body appear ready to respond to China's assertive policy in the digital sphere. The interest displayed by Chinese IT companies to Southeast Asian on-line retailers are worthy of note. Specifically, Tencent and JD.com invested more than 200 billion dollars in Go-Jek while Tencent and Didi Chuxing invested in Southeast Asian car sharing industry, including Grab and Go-Jek. Alibaba's intention to acquire Tokopedia is another example. But most importantly, in March 2018 Alibaba invested two billion dollars in the on-line retailer Lazada Group (in addition to one billion invested in 2017) increasing its share to 83%¹¹. Lazada Group is a widely-recognized brand in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. This was followed by negotiations between Lazada and Thailand's customs about the establishment of a digitally-advanced logistics hub in perspective integrated in the logistics infrastructure of Cambodia, Laos, Myanmar and Vietnam¹².

With respect to China's policy, of particular significance is the digital part of the Belt and Road Initiative, e.g. the Digital Silk Road.

The Chinese companies Huawei and ZTE to lay fiber cables through Southeast Asia. Huawei Marine implements about twenty such projects, mainly in Indonesia and the Philippines¹³. As the possibility to use the ICT infrastructure for intelligence-gathering purposes is real from the technical perspective, this leads to a logical conclusion: the PRC intentionally consolidates resources to establish its own security system with the cyber component as its central pillar. For ASEAN, this is all the more important since China elaborates on integrating China-ASEAN Free Trade Area (CAFTA) and the Belt and Road Initiative (BRI) with the activities of its IT companies.

The growing need to coordinate, or at least synchronize, measures to regulate the digital dimension of trade exchanges incentivizes the association to establish institutions appropriate to cope with this task. They are supposed to perform the analytical and the predictive activity, define the degree of readiness of the ASEAN member states to implement the necessary measures at the national level, as well as coordinate the prospective plans of Southeast Asian flagship companies.

As long as the association explores possibilities to resolve the afore-discussed tasks, the challenges it has to deal with are really painstaking. Among them: the specification of terms “goods” and “services” along with the on-going virtualization of traded products, the revision of fiscal and social policy, as well as labor relations as the number of the self-employed increases, the legal aspects of personal data collection and procession. The existing ASEAN’s initiatives, including ASEAN Framework for Personal Data Protection, ASEAN Cyber Capacity Programme, ASEAN Coordinating Committee on Electronic Commerce, among others, do not appear to respond to the whole spectrum of tasks the association has to address.

The factors presented above suggest that the ASEAN’s limited resources to provide AFTA with digital support will result not only in a decrease of AFTA’s efficiency, but also in provoking anti-ASEAN criticism for inefficient coordination of the Asia-Pacific multilateral dialogue platforms with a negative multiplier aftereffect. In order to respond to this double challenge, the association has to take non-trivial measures.

The Marketing Solution

As the on-going digitalization gains momentum, the challenges presented above can be resolved by increasing ASEAN’s digital visibility with the aim to improve the extra-regional investors’ confidence. The

establishment of the pan-ASEAN brand line is an appropriate instrument to perform this task.

The ASEAN countries are relative newcomers in the brand-building as the majority of brands developed by Southeast Asian companies have not achieved international recognition. With the main focus upon manufacturing and increasing productivity, the image outcomes have long been regarded as a secondary priority. The more so since big countries like Indonesia focus on exploring their huge domestic markets, which diminishes the need to expand abroad. In some Southeast Asian countries, strategically important sectors like shipping, air transport services, media and some others have long been protected from international competition. As a result, in the priorities of many Southeast Asian companies the motivation to build strong brands is weak.

Nevertheless, Southeast Asia has examples of brand-building success stories. Arguably, they can be summarized in three broad groups.

The first group consists of traditional Southeast Asian brands. These brands relate to products that have been known in Southeast Asia for decades and some even for centuries. A good example is the Tiger Balm, pain-relieving ointment. The brand became successful in the 1980s when it started to promote its products at international sporting events (prior to this, only small amounts had been sold as the ointment had been associated mainly with elderly and ailing people). The brand developed wide product lines like medicated plasters, muscle rubs etc. for professional sportsmen and fitness enthusiasts. Systematically upgrading its activity and expanding the customer reach, at present the brand is marketed in almost 100 countries¹⁴.

The second group can be described as “New Asia” brands. With the internal focus – “come to us” – they emerged mostly in the hospitality sector considering that Southeast Asia is a popular tourist destination. Presented by indigenous luxury hotels, the brands emphasize their Asian uniqueness and the kind of experience that customers cannot gain in other parts of the world.

The third group can be presented as “the East-West Synergy”. In contrast with the previous one, this group has the external focus – “we come to you”. The brightest representative of this brand line is the company Singapore Airlines. In the early 1970s, the company realized the need to meaningfully differentiate from the European and the American competitors as it could not rely upon a huge domestic market and needed the international recognition. As a result, the company identified the highest quality of service as its key competitive advantage. Substantiated

by the full range of front-end and back-end services, the company rightfully occupies the highest positions in international rankings of the airline industry¹⁵.

Another contextual factor of the brand-building is a strong emphasis placed by the Southeast Asian companies to develop the global visibility of their brands. The fact that Southeast Asian consumers prefer internationally recognized brands over local ones further underscores this necessity. Non-Southeast Asian brands have a long history and are associated with high living standards. Additionally, the coping mentality of Southeast Asians producers, which implies a sort of inferiority to the Western products and, by implication, the Western companies, also plays a role.

Realizing the growing need to increase their digital visibility as part of building the truly global brands, Southeast Asian companies have to respond to serious challenges. Among them, expensive broadband Internet in some ASEAN countries, lingering fears about on-line insecurity and limited e-payment options are the key. In this light, the possibility to explore the intra-ASEAN market as the first step to going global becomes problematic.

Starting to develop the ASEAN brand line as an instrument to digitally promote ASEAN as a business-friendly area, Southeast Asian business leaders will have to consider the specificity of the moment. The customer loyalty is shifting from brands to solutions, among which the digital supply chain matters the most. Its task and simultaneously mission is to seamlessly connect suppliers, producers and customers in order to make the quality of products as transparent as possible.

As part of this system, the traceability of food products is a special case in point. For instance, the seafood journey can be monitored from the fisherman's boat to the restaurant menu. A stronger audit of the industrial and the commercial sectors will result in higher standards of quality. For logistics companies, the advantages are also clear as the management of warehouses and the cargo shipment can be upgraded. But most importantly, this system will function to the consumer's best advantage as, by means of the digital analytics, businesses will improve understanding of their consumers' preferences and upgrade their product portfolio. Direct links between producers and consumers will be established with the aftereffect of bypassing retailers and reducing the product price.

The practical mechanisms to translate these measures into reality are manifold. The Southeast Asian companies may establish partnerships

with on-line retailers as the latter have a ready customer database and already cover small cities and rural areas. Another timely step relates to establishing partnerships between manufactures, retailers and e-payment platforms. Lastly, manufacturing companies may partner with logistics providers so as to improve the efficiency of the delivery chain.

In sum, the establishment of the ASEAN brand line will be the best evidence that Southeast Asia has become a unified investor-friendly economic area with a strong digital component in cooperation between the ASEAN member states. The logical aftereffect will include the upgrade of AFTA adopting it to the realities of the digitalizing world.

Conclusion

By all assessments, AFTA can be rightfully regarded as ASEAN's success story. Apart from its completion, this initiative is a pivotal component of the ASEAN Economic Community which is currently the only workable format of economic regionalism in the Asia-Pacific region.

At the same time, the on-going digitalization incentivizes ASEAN to substantially revise its prospective plans. Among other directions, this relates to the digital upgrade of AFTA as its stagnation or even failure will devalue the significance of the ASEAN-centric projects of economic regionalism.

In the course of its history, ASEAN repeatedly demonstrated that it is able to resolve non-trivial tasks in unfavorable circumstances. Suffice it to mention the Cambodian success and the establishment of the cooperative security system in the Asia-Pacific region as just few examples. In the new circumstances, ASEAN has to resolve another task which is no less demanding and painstaking, as well as time and effort consuming, than the association dealt with before. The skills and experience obtained from its previous success stories will of great help to the association to cope with the challenges of the digitalizing world.

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