A Study on the Implication for ASEAN Market Entry of Korean Corporations

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Abstract

Background/Objectives: ASEAN is largely different the economy between member of nations, income level and foreign opening extent in many aspects. Accordingly, each country need differentiated strategies of advancing for the stage of development and development gap. The purpose of this paper is to promote Korean trade expansion, When Korean companies invest in the region of Southeast Asia, those provide the strategy of advancing.

Methods/Statistical Analysis: After the agreement of the Korea-ASEAN FTA, those want to draw the implication about the region of ASEAN, which is including the countries of CLMV to look for as the investment environment of major countries because of the increasing Korea important.

Findings: Companies targeting low income families need to not only procure a structure based on low prime costs by considering the purchasing power of the poor with low income but also develop new pricing policy capable of responding to unpredictable cash flow. And they also need to have the capability to procure scale economies in the shortest time possible if they are in possession of product quality that the poor wants and finds necessary.
Improvements/Applications: It has been continuously suggested the multi-dimensional regional cooperation of ASEAN in the economic integration through the FTA. In the future, if the growth of economy is the invigoration of FTA and nations of CLMV in the ASEAN. And now, the initiative of ASEAN will expect to be more strengthened in East Asian organization for economy with focused on the ASEAN. After the agreement of the ASEAN FTA, Those want to draw the implication about the region of ASEAN, Which is including the countries of CLMV to look for as the investment environment of major countries because of the increasing Korean importance.

Key Words: ASEAN, CLMV, DAC, FTA, MEGA FTA, ODA.

1 Introduction

ASEAN, which stands for the Association of South-East Asian Nations, was founded in 1967 as 5 nations of Singapore, Malaysia, Indonesia, Thailand and the Philippines found it necessary to work together in order to respond to the changing international order as well as to mitigate conflicts amongst themselves. And in January of 1984, Brunei became the 6th member of ASEAN following their independence from England, and Vietnam joined ASEAN as the first socialist state in July, 1995, followed by Laos and Myanmar in July, 1997; finally, an addition of Cambodia in April of 1999 made ASEAN grow into a 10-member international association. The main purpose of ASEAN when it was first founded was political cooperation; however, ASEAN realized the needs of economic cooperation within the region when the Indochina region was communized in the mid 1970s. Consequently, they held the first summit conference in Bali in 1976 to announce the Bali Declaration, which led to the commencement of full-out efforts in economic cooperation of ASEAN[1].

Subsequently, being an international association representing Southeast Asia with a wide-ranging cooperative system through the whole society as well as in economy and culture, ASEAN currently leads the economic cooperation in the forms of ASEAN+1
or ASEAN+3 with Korea, China and Japan and lately in the form of AEC (ASEAN Economic Community) in the East Asian region. As multi-dimensional regional cooperative structure led by ASEAN has been stressed for the economic integration through FTA’s, and when assuming that vitalization of FTA’s within the ASEAN region and economic growths of the CLMV nations (Cambodia, Laos, Myanmar and Vietnam) continue, the leadership of ASEAN within the economic cooperative structure in the East Asian region is bound to be further strengthened, and its significance in the world economic is also destined to elevate.

As evidenced above, the reason why we need to have a whole new perspective into ASEAN lies in the remarkable economic growths of these nations, which has led all advanced nations of the world to make efforts to reorganize the international order in economy and finance centered on ASEAN region. But there are still substantial discrepancies amongst the member nations of ASEAN in various aspects, including economic scale, income level and their openness to the world. Hence, entry strategies need to be individually developed under the consideration of corporate management climate based on the growth phase of each nation and their development disparities.

Consequently, this study aims to assist trade expansion of Korea with ASEAN by investigating corporate investment climate of major nations and examining subsequent implications since the significance of Korea to the ASEAN region keeps increasing.

2 CLMV, Emerging Markets Since BRIC’s

The subject of this study, “Emerging Markets Since BRIC’s,” is hereby to indicate 10 member nations of ASEAN, of which markets offer enormous potential for a consumer market based on their large population and continuing growth of the middle class, continue accomplishing industrialization through rapidly growing manufacturing industry powered by high quality labor force like Vietnam, and are armed with rich natural resources like Indonesia or strengths being geographically close to gigantic markets like Vietnam.

One of the obvious trends is continuous creation of new termi-
nologies to describe the nations in the ASEAN region. To name a few, there are CLMV (Cambodia, Laos, Myanmar and Vietnam), some of MAVINS (Mexico, Australia, Vietnam, Indonesia, Nigeria and South Africa), some of Next 11 (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Republic of Korea, Turkey and Vietnam), some and VISTA (Vietnam, Indonesia, South Africa, Turkey and Argentina) and VIP (Vietnam, Indonesia and Philippines); and this proves that the entire world is paying close attention to the nations in the ASEAN region.

A number of studies have been and are being conducted upon many up-and-coming countries that the world is watching closely; however, because the significance of the ASEAN market to the world economy continues elevating as ASEAN is located right in the middle of whirlpool of economic bloc that is being reshuffled focusing on the U.S. and China, the term, emerging market, in this study will be limited to major countries that belong to ASEAN out of all emerging countries around the world.

The ASEAN nations did experience difficulties as they went through financial crisis in the late 1990s. But since they faced such experience earlier than late, they were able to accumulate experiences enabling themselves to overcome crisis situations. Since the crisis, their foreign exchange reserves were greatly increased, which led to improvement of their solvency as financial structures have been reinforced, and systematic risks were significantly lowered through the Chiang Mai Initiative. Moreover, enhancement of intra mutual aid system through conclusion of currency swap agreement with the ASEAN+3 nations (Korea, China and Japan) provided an opportunity to procure a safety net to overcome financial crisis. While the national debt ratio is relatively stable compared to previous years, the ratio of national debt to GDP is also quite lower than that of major advanced nations as the ratios of Indonesia and Thailand are 24.8% and 47.8% respectively.
Since the global financial crisis originated from the U.S. in 2008, the world economy has been under continuous recession due to growing uncertainties and cumulated unfavorable factors. Although some ASEAN nations such as Thailand and Malaysia reported negative growth rates in 2009, ASEAN has been garnering world-wide attention as a key emerging economic bloc in Asia after they have maintained 5% or more of stable growth rate since 2010[2] as seen in Figure 1[3].

3 Corporate Investment Climate of ASEAN Market

3.1 Changes in Growth Potential

From “Emerging Markets Since BRIC’s” limited by this study, Indonesia has steadily shown an average of 5% annual growth rate; however, the country reported consecutive trade deficits in recent years (between 2012 and 2014) due to the slowdown of economic growth by China, the biggest trade partner, along with falling exchange rate caused by the U.S. FEDs tapering of quantitative easing monetary policy. Despite these trade deficits, however, the country is highly regarded for its strong recovery potential based on consistent foreign investments in addition to solid domestic market powered by transportation communication, financial real estate
and construction businesses. Moreover, with approximately 120 million economically active populations out of 230 million national populations, the country is deemed to carry significantly sizeable demographic dividend since the young generation takes up substantial portion of the economically active population. Considering the fact that national growth rate is closely related to demographic dividend, it is possible to forecast stable and consistent growth potential for the future of the country.

From these emerging countries, Vietnam is, as of 2014, the biggest trade partner with Korea as ranked the Korea’s 6th biggest partner for exports and 24th for imports, resulting in a trade surplus for Korea.

Unlike Indonesia (9th export partner and 20th import partner for Korea as of 2014) that is heavily affected by the price fluctuation of raw materials, exports of products from manufacturing industry account for the biggest part of Vietnamese national trade; and since the country is included in the region under the Trans-Pacific Strategic Economic Partnership (TPP) aimed to enter into force in mid 2015 in addition to plenty of foreign investments into its manufacturing industry, Vietnam is categorized as a nation with very high sustainable growth potential. As a matter of fact, Vietnamese economic growth rate was tentatively estimated at 6.28% in the first half of 2015, which can be dubbed as quite a phenomenal growth rate especially when the prolonged world-wide recession is taken into consideration.

With Islam is the state religion in Malaysia, the nation’s commercial supremacy has been dominated by overseas Chinese consisting 22% of the national population, and those Chinese descendants are closely related to overseas Chinese economy throughout the Southeast Asian region. In other words, developing close relationship with overseas Chinese in Malaysia is an instrumental factor for international businesses which simply cannot be ignored as far as entry into Malaysian as well as the Southeast Asian market is concerned[4].
3.2 Conclusion and Expansion of Mega FTA

3.2.1 RECP

RCEP, which stands for the Regional Comprehensive Economic Partnership, commonly called “RCEP”, is a multilateral free trade agreement for the purpose of intra free trade practices amongst 16 nations, including 10 member nations of ASEAN, Korea, China, Japan, India and New Zealand. Under the consideration of overall economic situations of each nation, RCEP is established based on basic concepts of step-by-step progressive open policies. Heads of 16 nations declared the commencement of discussion on November 20, 2012, and they aim to complete the negotiation by the end of 2015. Once negotiation in the RCEP is concluded, a brand new gigantic economic sphere armed with 3.4 billion populations and nominal GDP of 18 trillion and 764 billion dollars is destined to emerge, which eclipses the European Union (17 trillion 510 billion USD).

The country leading the RCEP is none other than China determined to strengthen its influence within the region. At the beginning, the RCEP was first proposed by Japan attempting to contain China out of concern for possibility of building a China-led bloc in the Asian region. China, on the other hand, chose the RCEP for its bridgehead to expand its influence throughout East Asia and bluntly pushes the RCEP forward in order to hold the U.S.-led TPP in check.

3.2.2 FTAAP

FTAAP, acronym of Free Trade Agreement of the Asia Pacific, is relatively unknown compared to TPP and RCEP but gradually gaining recognitions in recent years. FTAAP is not a newly developed concept but first mentioned at the Bogor Declaration adopted in 1994 during early years of APEC with a goal to accomplish advancements through mutual opening and free trade among member countries. According to the report at the time, advanced nations and developing nations agreed to decide on the time table by 2010 and 2020 respectively, and they presented a plan to officially launch the FTAAP through a relevant report prepared at the ABAC (APEC Business Advisory Council) in 2004; however, the plan was
never adopted. Afterward, although the U.S. expressed some interests during the Bush administration, most member countries failed to form a consensus, but since 2008, the FTAAP regained momentum following the APEC meeting of ministers.

Today, a number of discussions are concurrently in progress in the Asia Pacific region, but the FTAAP can be deemed as the final destination of the APEC meeting; and through this meeting, it can also serve as a means to hold all 21 member countries (as of 2013) of the APEC together. APEC memberships are comprised of the world’s powerhouses except European nations, including Korea, China, Japan, the U.S., Canada and Australia, in addition to Russia, New Zealand, Taiwan, Hong Kong, Papua New Guinea, Malaysia, Indonesia, Thailand, the Philippines, Singapore, Brunei, Vietnam (from Asia-Oceania), Mexico, Chile and Peru (from the American Continent). The fact that these nations come together to bring a single economic bloc signifies that the largest economic territory in history is to be born; and aside from whether to support or oppose the FTAAP, it is inevitable that it is bound to deliver a significant impact on Korean as well as global economies. That is, FTAAP implies a complete FTA amongst APEC participants.

4 Implications

4.1 Response to Changing Trade Environment

4.1.1 Aggressive Response to Mega FTA

Propelled by the FTA policies of the Korean government, FTA networks are being further expanded through execution of FTA’s with multiple nations or regions. It made Korea the only country in the world which has successfully built an FTA network interlinking the world’s 3 major economic blocs: Asia, Europe and the U.S. Thanks to the accomplishments above, Korea is now the country with the 3rd largest economic territory in the world, which translates into the fact that Korea now has procured a consumer market consisting of 41% of the entire global population[5].

Whereas Korea entered into a comprehensive Korea-ASEAN FTA with 10 ASEAN nations, Japan concluded bilateral comprehensive economic partnership agreements with individual ASEAN
member nations before executing a Japan-ASEAN FTA. From 10 member nations, Japan entered into bilateral FTA’s with 7 countries excluding Myanmar, Cambodia and Laos. On the other hand, Korea concluded individual FTA’s only with 3 nations of Singapore, Vietnam and Indonesia. In order to maximize FTA effects and to further strengthen trade relationship in the ASEAN region, individual FTA’s need to be completed with other remaining countries as well.

China, which emerged as up-and-coming powerhouse since the mid 2000s, and the U.S., a long-time superpower, are now commonly called “G2” as they routinely exert the most powerful influences throughout the world. But as China began expanding its influence by engaging in security cooperation with Russia through joint military drills, a whole new power struggle between the two is now unfolding. These economic blocs were originally proposed by relatively small countries; however, this so-called G2, the U.S. and China, has altered these blocs to be led by themselves under the pretext that they are to expand their own trade territories.

4.1.2 Active Participation in AIIB

The Korean government needs to support Korean businesses for making investments into the ASEAN region by actively engaging in discussions related to the AIIB (Asia Infra Investment Bank). The AIIB was proposed by Chinese President Xi Jinping during his first Southeast Asian tour since taking office in October, 2013. During the speech given to Indonesian Parliament, President Xi said, “China intends to provide supports to infrastructure development in developing nations in the region including the ASEAN by building the Asian infrastructure investment bank”. He meant to make contributions to sustainable growth and social development in Asia by providing financial support to development of infrastructure in Asian developing countries through establishment of a new multilateral development bank. However, the reason why the AIIB is attracting special attention is because the AIIB is deemed to be a means for China to elevate its influence throughout the world by standing up against existing development organizations, such as the World Bank (WB) or Asian Development Bank mainly led by the U.S. and Japan.
The plan is to launch the AIIB with an initial capital of $50 billion, most of which were assumed by China, and to increase the total capital of AIIB to $100 billion through investments from other nations. At the time of incorporation in October of 2014, a total of 21 countries participated, including China, India, Pakistan, Mongolia, Sri Lanka, Uzbekistan, Kazakhstan, Nepal, Bangladesh, Oman, Kuwait, Qatar and 9 ASEAN nations except Indonesia (Philippines, Vietnam, Brunei, Cambodia, Laos, Malaysia, Singapore, Myanmar and Thailand). Subsequently, Indonesia declared its decision to participate on October 25, 2014 followed by Maldives on December 31; and by February of 2015, New Zealand, Tajikistan, Saudi Arabia and Jordan also declared their participation. In addition, after China along with existing inaugural members announced that any country signing an MOU expressing its intention to participate in the AIIB by March, 2015 would be recognized as an inaugural member and when England became the first members from the G7 nations on March 12, the number of countries declaring their participation suddenly soared as declarations came from France, Germany, Italy, Luxemburg, Switzerland, Austria, Korea, Turkey, Russia, Australia, Netherlands, Brazil, Denmark, Georgia, Taiwan, Egypt, Finland, Sweden, Iran and the Arab Emirates. Korea once postponed its decision after a long contemplation over its position caught between the U.S. and China but came to a decision to participate on March 26, 2015; however, as of December, 2015, the U.S. and Japan has yet to make a move.

When Korea, whose equity has been insignificant within existing international financial organizations, joins the AIIB, it could present a good opportunity for Korea to elevate its global status. Moreover, while demands for infrastructure investments within the Asian region amount to $730 billion annually by the year 2020 according to the ADB, Korea’s participation in the AIIB is bound to pave the way for Korea’s entries into large-scale infrastructure construction markets. And by further solidifying the relationship with China, the biggest trade partner, it is anticipated to procure support from China, such as establishment of the yuan clearing bank in Korea.
4.2 Perspectives to Development Discrepancies
by Each Nation

4.2.1 Efforts to Mitigate Development Gaps

Developmental gaps, representing discrepancies in the levels of economic and social developments between nations, are not a newly discovered issue at all. But as the globalization and the level of regional integration have been accelerated, development gaps amongst nations are now viewed as a critical obstacle to integration. Development gaps mean that the levels of developments between nations as well as regions or within a nation are different[6]. Unless development gaps between nations are mitigated, economic integration effects within a region are bound to be uneventful, and imbalanced distribution of income is likely to further complicate social instability. And these could incur negative factors to sustainable economic growth and attraction of investments. Therefore, it needs to ensure balanced economic growth within the regional alliance by making extra efforts to mitigate development gaps amongst the ASEAN nations.

ASEAN appears to be very well aware of the development gaps among the nations as its major barrier to economic integration. Singapore, Malaysia and Philippines have long been conducting cooperative programs to help developing countries; and based on their experiences, they are currently implementing a program called IAI (Initiative for ASEAN Integration). At the same time, countries outside the ASEAN and international organizations are providing cooperative programs and financial supports in addition to the efforts made from within. Through these efforts, human development index of ASEAN-4 (Laos, Myanmar, Vietnam and Cambodia) has been gradually improved, but their economic growths have failed to show meaningful progresses from previous years during the same time span.

Economic gaps are clearly apparent between ASEAN-6, frontrunners of ASEAN, and ASEAN-4, late-bloomers, and these gaps are recognized as a pivotal obstacle to overcome in order to form a future economic community. To be more specific, average GDP of ASEAN-6 was approximately $25,000 (USD) in 2012 whereas that of ASEAN-4 was in the neighborhood of $2,600, about one-tenth of ASEAN-6. Aside from income disparities between the groups,
income disparities among individual countries were also evident. Looking into the gaps of GDPs by nations in 2012, GDP of Singapore from the ASEAN-6 was about $63,000 USD, and that of Myanmar from the ASEAN-4 was approximately $1,400, which translates into the difference of 45 times between the two nations[7].

Subsequently, the ASEAN began investing efforts to narrow the development gaps within ASEAN through technical supports and development aids to the ASEAN-4 in order to expedite the integration of ASEAN. After Bali Concord II was adopted in October, 2003, programs such as AISP (ASEAN Integrated System of Preferences) and IAI have been employed.

4.2.2 Expansion of Official Development Assistance (ODA)

Latecomers like Myanmar and Laos that very recently abandoned communism and initiated economic opening are now making massive investments into national infrastructure, such as communication, electric power and water supply and drainage. Thus, when entering into these regions, it needs to make approaches in terms of “investments” through ODA[8].

ODA is being operated by the Korea International Cooperation Agency (KOICA). Founded in April, 1991 as a government funded body, the KOICA oversees grant aid programs at government level, and its purpose is to enhance friendly relations and mutual exchanges with developing countries as well as to improve international development cooperation by assisting socioeconomic developments of those nations. In order to achieve these goals, the agency is implementing a number of projects in diverse shapes, including training program through invitation to Korea, dispatch of volunteers to overseas, international emergency disaster relief, humanitarian assistance programs, public-private partnership projects and assistance programs through international organizations[9].

| Table 1: Yearly ODA from Korea (Net ODA, Unit: US Dollar) |
|---|---|---|---|---|---|---|---|---|---|
| Amount | 278.8 | 423.3 | 455.3 | 802.3 | 1,173.8 | 1,324.6 | 1,597.5 | 1,755.3 | 1,851 |

Unit: in million USD.
The volume of ODA provided Korea topped $1.85 billion USD last year, 5.4% increase from the previous year of 2013 as seen in Table 1[10]. This placed Korea at the 16th highest from 28 member nations of DAC, the identical rank with the previous year. Notably, Korea’s ODA increase rate during the past 5 years was 17.8%, which was the highest amongst DAC members (average increase rate was 2.3%).

However, the ratio of ODA to Gross National Income (GNI), an indicator of ODA level compared to economic scale, was 0.13%, which was below the average of DAC (0.29%). For the past 5 years, ODA increase rate of Korea was the highest amongst member nations of DAC under the OECD. According to preliminary statistics on ODA of DAC members in 2014 announced by the OECD in Paris, France on the 8th of this month, the Ministry of Foreign Affairs reported that the volume of aid provided by Korea was $1.85 billion USD increased by 5.4% from $1.76 billion in 2013.

The amount above corresponded to the 16th highest among 28 member nations of DAC, which placed Korea at the identical rank from the previous year. And the ratio of ODA to Gross National Income (GNI), an indicator of ODA level compared to economic scale, was 0.13%, the same as the previous year.

As the volume of ODA elevates and supports to the ASEAN region increases, implementation of programs effective to improve profitability of projects attained as well as helpful for entry into ASEAN markets by Korean companies is being called stemming from the efforts made through ODA’s. Most of all, ODA resources need to be focused on construction of infrastructure for daily lives, such as transportation, communication, energy and water treatment, which is significantly insufficient in the CLMV region (Cambodia, Laos, Myanmar and Vietnam), training programs to foster skilled manpower and ITC technical workforce as well as knowledge share project to pass down Korean development experiences. Since Korean government and businesses clearly possess comparative dominance over those nations in these fields, potentials for Korean relevant companies to expand into those markets are also deemed highly likely.

Accordingly, Korea needs to establish systematic implementation strategies by developing ODA projects which accommodate development gaps of the ASEAN nations and which Korea has com-
parative advantages over in order to ensure actual acquisition of future projects. Moreover, regarding Korea’s relatively small volume of ODA and its ratio of ODA to GNI, the scale of assistances provided by Korea can be viewed as remaining at the minimal level when compared to other member nations of the OECD although the volume of ODA from Korea continues increasing in recent years. Korea pledged to increase its ODA to 0.25% of GNI by 2015. Because Korea is still ranked at the 17th volume-wise from 24 members of DAC, effectiveness of the aids is being highly regarded along with its increasing amount, and relevant studies are being widely performed. And after being asked by advanced nations, not to mention by developing countries as well, to pass down Korea’s experiences in economic developments, Korea is currently working rigorously on Knowledge Sharing Programs (KSP)[11].

4.2.3 BoP Strategy & Utilization of Appropriate Technology

Matters which must be considered by Korean companies in order to invest into ASEAN markets are “BoP (Bottom of Pyramid) Business” targeting the poor strata. BoP, shortened form of ‘Bottom of Pyramid’, indicates the poorest people. The BoP population living on less than $3,000 a year accounts for over 70% of the entire global population, and the size of its consumer market reaches $5 trillion USD, which suggests unlimited potential of the market and implies that BoP businesses can be an effective tool to pioneer those emerging markets. A root of BoP idea traces back to a journal published in 1958 by Peter Drucker. At his journal published in Journal of Marketing, he stressed, “Marketing activities targeting the poor in developing countries are the best way to improve not only national economic growth of the nation concerned but also corporate earnings”. And after Professor C.K. Prahalad came up with a term, BoP, numerous global companies began setting their eyes on the poor strata as the source of the new growth engine.

A scholar who further developed the above was Professor Michael Porter at Harvard Graduate School of Business, the most respected guru in the field of strategy management who only focused on presenting competitive strategies and growth strategies, but he is now playing a critical role after joining these movements recently. Porter
asserted that the conventional term, Corporate Social Responsibility (CSR), must be redefined under the new concept of Creating Shared Value (CSV).

Resolving various social issues, such as poverty, environment and safety, does not necessarily mean that it would only increase corporate spending. By using new technology, operational measures and strategies during the course of problem-solving, innovation is bound to be discovered; and through these innovations, productivity and brand value of businesses is destined to improve, which leads to possibilities for the market to expand in the mid-to-long term[12].

In the western advanced nations including England, the concept of appropriate technology to resolve environment problems and poverty issues in developing countries was once highly touted during 1960s through 1970s, but it was forced to endure stagnation after running into a wall applying it to developing countries between 1980s and 1990s; however, after potential for development cooperation and advancements through technical innovations was recognized at the beginning of the 21st century, the concept is now being evolved toward new directions[13].

4.3 Conquest of Disparities in Business Environments of Each Country

The most fundamental analysis on business environments is well reflected on the report of “Ease of Doing Business” by the World Bank. According to this report based on investigations conducted by the World Bank in a total of 185 countries, Singapore was ranked No.1. Excluding Singapore, a city state, business environments in Malaysia were found the most favorable from all ASEAN nations, where the fields of loans and investor protection were especially highly regarded. While Thailand, ranked 18th, received positive reviews on construction permits, electric power and investor protections, other ASEAN countries generally belonged to the bottom half of the group. 19th ranked Vietnam collected relatively favorable reviews on construction permits, asset registrations, loans and contractual fulfillment but obtained unfavorable evaluations on electric power, investor protections, payment of taxes and debt settlements.
Indonesia, ranked 128th, was found favorable in the fields of investor protections and trades, but its new business establishments, electric power, contractual fulfillment and debt settlements were ranked quite low; and the Philippines found itself low on new business establishments, and debt settlements.

Free economic environment can be as important as business conveniences when it comes to corporate activities in emerging regions. Every year, the Heritage Foundation of the U.S. and Wall Street Journal announce “Index of Economic Freedom” which evaluates how freely and comfortably environments for businesses to perform their economic activities are being offered in each country. From 185 countries investigated, the 2013 report revealed that most ASEAN countries except Singapore, Malaysia and Thailand were placed at the lower half of the ranks concerning economic freedom. Especially, Indonesia and Vietnam, both of which were lately deemed as promising prospects, were ranked at 108th and 140th respectively. Although Indonesia earned relatively high scores in the fields of finance and government spending but found itself quite unfavorable on intellectual property rights, corruption and investments. Similar to Indonesia, Vietnam received good scores on finance, government spending and trades but failed miserably in the fields of intellectual property rights, corruption and investments. Myanmar, lately garnering quite an attention for recent open-door policy, was ranked the lowest on economic freedom among ASEAN nations, but they earned relatively good reviews on finances and government spending.

In addition to business environments, competitiveness by nations/fields or characteristics by nations can be also important factors to consider before making entries with investments. The World Economic Forum annually publishes the “Global Competitiveness Report” on the ranking of national competitiveness after indexing competitiveness of 144 nations by major fields. According to this report, Singapore from the ASEAN displayed formidable national competitiveness by grabbing the No.2 spot in the world, followed by Malaysia (25th), Thailand (38th), Philippines (50th) and Vietnam (75th). Concerning competitiveness by nations/fields, Malaysia demonstrated high competitiveness in most areas, but its market size and macroeconomics were found relatively inefficient. Indonesia was deemed favorable in the fields of macroeco-
nomic, health/elementary education and market size while its labor market efficiency was found relatively unfavorable. Vietnam scored poorly on most fields; however, its labor market efficiency, health/elementary education and market size were found relatively favorable.

Until today, utilization of low labor costs has been traditionally the most critical factor for Korean investments into the ASEAN region. As of November, 2015, based on comparison of average labor wage, Myanmar reportedly demands one-fifth of China and one-third of Vietnam. And in recent years, investments targeting local domestic markets tend to rise due to improving purchasing power from economic growth of major Southeast Asian countries; however, there is no doubt that low labor costs are still the most powerful factor for investments.

Since minimum wage significantly soared in major Southeast Asian countries lately, concerns for increased production costs were seriously raised by manufacturers stationed locally in the region. In 2013, minimum wages were hiked by 44% in Jakarta region of Indonesia, around 35% in Thailand and 17% in Vietnam from the previous year, and Malaysia adopted the legal minimum wage system since 2013 for the first time in the region. Aftermath of minimum wage increase appears to gradually spread around over time, and it is expected to consequently boost burdens on Korean companies that made investments into the region. Thus, diverse preemptive measures seem to be required, including relocation to regions with low labor costs, step-by-step reorganization of human resources and improvement of productivity through procurement of skilled manpower and automation. However, companies considering expansion into the Southeast Asian region also need to pay close attention to trends of labor wages in addition to comprehensive analyses on business convenience, economic freedom and national competitiveness rather than merely focusing on markets with low labor costs.

5 Conclusion

Although ASEAN has long been viewed as bases for circuitous production or markets to purchase raw materials, local investments targeting domestic markets are slowly rising because of increas-
ing purchasing power propelled by continuous and rapid economic growth since the mid 1990s. Hence, from the perspective of corporate management/investments, the way of understanding Southeast Asia needs to be changed because the region constantly maintains its high growth rate based on its domestic market armed with over 600 million populations and rich natural resources as well as a robust middle class.

It is quite difficult to arrive at favorable reviews on business environments in most ASEAN nations other than Singapore, Malaysia and Thailand. Despite the above, major ASEAN countries keep demonstrating stable economic growth, and it is also an undeniable fact that those nations are featured with remarkable growth potential to be a key emerging region of the Asian Continent. Major ASEAN nations are gradually improving their reputations on numerous fields, such as business convenience, economic freedom and national competitiveness, and many other fields including infrastructure, systems and labor force migration are also expected to improve due to continuous reformation/opening and establishment of AEC in 2015.

Furthermore, it is essential to closely watch all negotiations and executions of many mega FTA’s currently in progress yet and pursued by the ASEAN nations. And a number of bilateral FTA’s already concluded with numerous ASEAN countries need to be fulfilled and performed as they should be. Vietnam has already entered into a bilateral FTA with Korea, but Korea may have to face difficulties when competing against other nations to expand into the markets in the region after Vietnam joined the TPP.

In order to develop a successful business model targeting the poor in the ASEAN region, it must start by properly understanding the characteristics of BoP markets. Low profitability could be what needs to be considered to develop a successful business model overcoming barriers of BoP market. For businesses targeting low income class and the poor to independently survive, they just have to be able to generate profits from the businesses of their own. Since most people in the low income bracket do not enjoy the luxury of job security for mostly being day laborers, their incomes are minimal and unstable with low level of savings, and they practically have no other means to generate additional income.

Accordingly, companies targeting low income families need to
not only procure a structure based on low prime costs by considering the purchasing power of the poor with low income but also develop new pricing policy capable of responding to unpredictable cash flow. And they also need to have the capability to procure scale economies in the shortest time possible if they are in possession of product quality that the poor wants and finds necessary.

Because price or margin of the services and goods targeting the poor cannot be determined at the market, scales need to be procured in order to generate sustainable profits. Humane values that are sustainably humanistic and noble for an extended period of time and which are easily acceptable to the poor have to be realized.

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