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Author(s)	Kaewkamol Pitakdumrongkit
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## “Going Niche” for ASEAN Economic Community

By Kaewkamol Pitakdumrongkit

### Synopsis

*ASEAN governments are having difficulty implementing the remaining 20 percent of the AEC Blueprint because of domestic constraints. However, the protectionist forces can be lessened to advance AEC by a strategy of niche production.*

### Commentary

ASEAN GOVERNMENTS have made 80% progress towards achieving the AEC Blueprint but are having difficulty implementing the remaining 20 percent. This is because doing so requires adjusting domestic conditions to align with the AEC framework. To date, governments have been slow or even reluctant to change domestic legislation to support the integration effort. Why so?

Some domestic actors which are less competitive in a free trade environment form a protectionist coalition. The group then pressures governments to employ certain barriers, such as non-tariff barriers, to protect their business sectors. Governments foregoing these barriers risk alienating key constituents and undermining regime popularity. As a result, ASEAN states have been sluggish in passing domestic laws to bring them in line with the AEC's objectives.

On one hand, it is understandable why the protectionist forces are so strong. Less competitive industries really have their backs against the wall. They know they will definitely lose out when participating in an open market. This creates an impetus for these industries to fight hard against further liberalisation. On the other hand, protectionism has been undermining the AEC process and therefore the dissenting voices must be curbed so that the integration project can progress. One way to do so is to encourage the less competitive firms to take advantage of an emerging phenomenon – ASEAN's rising middle class.

### ASEAN's Rising Middle Class

The rapidly growing middle class of ASEAN countries, largely ignored by the protectionist forces, have substantial purchasing power, and demands for specialized and quality products, leisure pursuits and vacations. ASEAN's rising middle class has opened up several niche markets for firms – focused market proportions for specific products such as organic and highly nutritional food, health products, environmental-friendly goods, tourism, entertainment and other specialized services. AEC will add to this phenomenon by expanding the size of niche markets even more.

Thus, ASEAN's rising middle class creates an opportunity for certain businesses to undertake niche production.

Specifically, firms which are or will be less competitive in the integrated ASEAN market can shift their strategies toward targeting specific market sections and creating products to satisfy particular niche demands. In short, instead of producing goods which will be outcompeted because foreign firms can do them better at lower costs, these less competitive businesses can choose to go niche.

Going niche does not always involve foregoing all existing production facilities. Main production lines can still be kept. However, certain alterations must be added to the lines so that they can produce more specialized goods for targeted market sectors. Taking rice production as an example, rice bran, a by-product of a rice milling process, is often thrown away or used as alternative feed for pigs, thereby neglecting the benefit of the oil that bran contains. Thus rice mills can keep their traditional rice production lines while adding a distilling unit to extract rice bran oil. Rice bran oil can be sold as premium cooking oil in niche markets. If further processed the oil can be used as an ingredient for natural cosmetics products.

### **Challenges of “Going Niche”**

Although the idea of niche production seems promising, it is not easy to do. Most of the time, niche markets require the creation of value-added or high-end products. Thus, one major challenge for firms pursuing niche production lies in the area of research and development (R&D). R&D requires certain level of government assistance. A “one size fits all” policy should not be applied here as each industry and firm has its own problems which require more tailored public support. Therefore, government assistance can come in various forms, such as public consultation, private-public joint research programmes, tax breaks or tax holidays for businesses undertaking R&D, and training programmes to improve workers’ skills.

The IMF has recently warned that emerging Asia is at risk of a “middle-income trap” – a situation in which economies are stuck at middle-income levels and unable to move up and join a high-income club. Hence, another challenge to ASEAN governments is that the R&D elements of niche production must be aligned with long-term developmental goals in order to help countries escape from a “middle-income trap.” Specifically, R&D should support a country’s goal of becoming an advanced, knowledge-based or creative economy like high-income countries such as Germany and South Korea.

### **Toward more Compatibility in AEC?**

If ASEAN countries encourage their less competitive sectors to pursue niche production, it can help lessen the protectionist forces. If niche production is done successfully, niche firms can shift their preferences from being against liberalisation to pro-free trade. This can help ease the hurdle of passing domestic legislation to comply with the AEC framework and speed up the regional integration process.

However, whether niche production will bring more compatibility to ASEAN economies remains to be seen. The answer largely depends on what strategy countries and firms pursue. If they choose a “Red Ocean Strategy” which involves continued competition in same niche markets and try to beat competitors, niche production will bring more conflicts and tensions. However, if the countries and businesses adopt a “Blue Ocean Strategy” by creating uncontested market space for themselves and make competition irrelevant, niche production will bring more compatibility to ASEAN economies and help achieve an integrated AEC.

*Kaewkamol Pitakdumrongkit is a Research Fellow with the Multi-lateralism Studies Centre, S. Rajaratnam School of International Studies, Nanyang Technological University.*