Title: How Swedish companies operating in Southeast Asia overcome trade obstacles

Authors: Annika Stengard
         Karl Hagström

Supervisor: Akmal Hyder

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Executive summary

As the globalization continues to intensify, companies around the world are increasingly looking for business opportunities outside the borders of their home country. In order to be successful and take advantage of low cost opportunities offered in other countries the need for free trade agreements is something all companies should be lobbying for.

The majority of the Southeast Asian countries are considered underdeveloped and compared to most European countries they are far behind when it comes to political as well as economical developments. Besides, European and Asian countries have very diverse historical backgrounds and peoples’ behaviors differ a lot causing culture clashes and non-tariff barriers to trade to arise.

With the purpose of studying how Swedish companies operating in Southeast Asia can overcome trade obstacles and what impact an EU-ASEAN FTA may have when doing business in the region, the authors have carried out in-depth interviews with five Swedish companies based in Singapore. The thesis covers the different issues Swedish companies face when trading with counterparties in the region and answers the below stated research questions:

- Which are the main obstacles for Swedish companies to trade within Southeast Asia?

- How can Swedish companies operating in Southeast Asia overcome these obstacles to trade from a management perspective?

- What impact can the current EU-ASEAN FTA have on Swedish companies’ potential to succeed in doing business in Southeast Asia?

The interviews have been put in perspective with the help of theories within obstacles to trade, cultural diversity, economic integration, and FTAs and the main conclusion from the thesis is that all interviewed companies face at least some barriers to trade when operating in the region. Most companies said to have little or no exposure to the tariffs laid out in the region. Only those companies trading frequently with Europe, China, and India regarded tariffs as a somewhat critical obstacle. However, all companies stressed the non-tariff barriers as more severe, especially bureaucracy and time-consuming trade procedures with excessive regulations and administrative practices. Corruption and certain cultural differences were other major obstacles to trade.
There are several ways to overcome existing obstacles to trade through management practices. One way is to educate and inform the workers about the cultural differences and the specific business procedures in the countries. Managers should also try to make use of the local employees that possess valuable knowledge about the market.

A deeper economic integration through EU and ASEAN will eliminate tariffs among the member countries and harmonize business procedures and regulations. With this free trade liberalization, non-tariff barriers to trade will also be reduced as countries and cultures become more unified. The majority of the interviewed companies said they believe they would have little or no use of a potential EU-ASEAN FTA. As the companies are all based in Singapore, which is considered a very liberal and business-friendly country, this could be the reason not seeing the actual benefits of collaboration. Nevertheless, all companies agreed the benefits of a potential collaboration to be more than just lower tariffs and pointed to increased integration between people and greater knowledge and understanding between the countries.
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1 Background

In today’s society the importance of seeking new markets opportunities and extending the business geographically has increased significantly due to intensified competition and globalization. It is more evident than ever before that if companies want to grow they need to think outside the current borders. As the competitive advantages in producing products and services are constantly shifting between capital intensive countries and labor intensive countries the need to engage in trade agreements is constant and growing.

Dating back a decade ago the world has seen a tremendous growth in the number of bilateral and Free Trade Agreements (FTAs). The Western world have for some time been active in promoting trade between countries with the creation of such collaborations as North American Free Trade Agreement (NAFTA) and even more so the European Union (EU) as the most evident examples of its importance. This growth in the number of bilateral and FTAs is today highly apparent in Southeast Asia. This region has seen a trend of increasing number of bilateral trade agreements between individual countries but more importantly an increasing number of plurilateral agreements are currently being discussed. The Southeast Asia region is a sub region of Asia and consists of Cambodia, Laos, Myanmar, Thailand, Vietnam, Indonesia, Malaysia, the Philippines, and Singapore.

The Association of Southeast Asian Nations (ASEAN), comprising the ten countries Brunei, Cambodia, Indonesia, Laos, Malaysia, Burma/Myanmar, the Philippines, Singapore, Thailand and Vietnam, has embarked on its road towards an ASEAN Free Trade Area (AFTA) to be concluded by 2015. Simultaneously, EU and ASEAN are currently planning for negotiations to be launched later this year on a FTA, and talks are ongoing on the specific design and membership (Lindberg, 2006). This FTA is expected to lead to increase trade flows between the regions, and would serve as a complement to the multilateral negotiations taking place within the World Trade Organization (WTO). While the value of trade has increased dramatically over the last decades, both tariffs and non-tariff barriers to trade still remain significant and restrict or even thwart trade flows across borders. It is crucial to identify the present barriers in the relations between the regions, and to make an EU-ASEAN FTA useful as well as understandable to the business sector.

The problem of today is that companies face multiple obstacles when trying to engage in cross border trade. Many countries employ protectionist policies, which is public policies
that restrict international trade. Common restriction policies are; embargoes, quotas, tariffs and other restrictions to protect domestic producers from foreign competition (O’Sullivan & Sheffrin, 2003). In addition, there are several non monetary issues with trade across countries such as cultural differences, laws, and regulations (Hofstede & Hofstede, 2007).

The authors have decided to focus on the issues companies operating in the manufacturing industry face when engaged in cross border trade with focus on Southeast Asia. More specifically, the authors will identify the main obstacles to trade within the ASEAN region as well as between the EU and the ASEAN regions and how these may be overcome from a management perspective.

2 Problem

It is important for companies to engage in business abroad in order to stay competitive. Even though the decision to start trading with foreign countries may seem rational and unavoidable for many companies there are obstacles that could and will affect the business outcome. It is important to have a thorough understanding of all impacts the international trade will have on the business and its performances.

- Which are the main obstacles for Swedish companies to trade within Southeast Asia?

- How can Swedish companies operating in Southeast Asia overcome these obstacles to trade from a management perspective?

- What impact can the current EU-ASEAN FTA have on Swedish companies’ potential to succeed in doing business in Southeast Asia?

3 Purpose

The purpose of the thesis is to study how Swedish companies operating in Southeast Asia can overcome trade obstacles and what impact an EU-ASEAN FTA may have in doing business in the region.
4 Delimitation

The authors have chosen to only study Swedish companies operating in the Southeast Asia region. The results may have been different if interviews with companies from other countries have been carried out as well. In addition, the companies interviewed are all operating in the manufacturing industry and have relatively the same turnover. All companies have been present in the region for more than five years. The result may have varied if the interviews included companies from other industries as well as smaller sized companies seeking to start up in the region. Smaller companies may experience obstacles not seen by larger companies or obstacles that already present companies have learnt how to deal with.

5 Method

5.1 Research approach

The two different method-reasonings used in scientific research are called the deductive and inductive approaches. The deductive approach can be seen as a top-bottom approach as it starts with coming up with a theory and narrowing it down to a hypotheses which is then tested. A collection of observations is used to address the hypotheses. In addition, the deductive reasoning will tolerate quantitative data to be measured and this data can be used to draw generalizations if the sample size is large enough (Saunders, Lewis & Thornhill, 2006). Quantitative data is characterized by the use of measurement through mathematic and statistic (Cooper & Schindler, 1998).

Inductive reasoning on the other hand works in the opposite way. The inductive approach is a bottom-top approach where data which is analyzed is collected and used as a source for developing a theory. When using the inductive method approach the research starts with known observations as a base for formulating hypotheses which is then used to come up with a theory. Compared to the deductive approach the inductive reasoning will allow for a deeper understanding of the problem. Besides, the inductive approach often includes qualitative data which requires a smaller data sample compared to the deductive reasoning quantitative data gathering. It is important to choose between the deductive and inductive approach as the first one aims at describing what is happening and the second one aims at understanding why something is happening (Saunders et al., 2006).
The thesis will take an inductive approach. Data will be collected, analyzed and used to understand which trade obstacles Swedish companies face operating in Southeast Asia and how these obstacles can be overcome. Through the use of relevant data provided by the interviewed companies, the authors can achieve a deeper understanding of the underlying issues when doing business in the region. General assumptions can be made explaining why trade obstacles occur and how an FTA will affect the current trade flows. In addition, the inductive approach is appropriate when using a small sample size for examination which generates qualitative data. The inductive approach also allows the thesis to be open to change during the process which in this case is seen as an advantage.

5.1.1 Research purpose

The purpose of the research could be exploratory, explanatory, and descriptive (Saunders et al., 2006). None of these three have to be used exclusively in research but can be overlapping – there are not always a clear boundary between them (Hussey & Hussey, 1997). Exploratory research is used on areas that have not yet been explored in previous research and strive to generate hypotheses for further research. Explanatory studies analyze causes and relationships and attempt to identify patterns related to the subject studied. In descriptive research a subject is described and documented. One may concentrate on observing the physical setting, the key participants and their activities (Saunders et al., 2006).

The purpose of the thesis is to study how Swedish companies operating in Southeast Asia can overcome trade obstacles and what impact an EU-ASEAN FTA may have in doing business in the region. All three research purposes are used in some way in the study. It is exploratory since the authors try to find a better understanding for how Swedish companies operate in the region and how their operations can be improved. This research has also generated in several questions that are suitable for further research. However, the research purpose is also descriptive due to the fact that the authors will describe both existing theory and the empirical data collected. Finally the research purpose can also be recognized to be explanatory because the authors will draw some conclusions regarding causes and patterns by answering the research questions. Nevertheless, the research purpose is primarily descriptive and somewhat exploratory.
5.1.2 Primary and secondary data

Primary data refers to the collection of data that is unique to the specific research and that has never been used by others before. There are different ways to collect primary data and some of the more common ones are through interviews, questionnaires, and case-studies (Saunders et al., 2006).

Secondary data is the term used for data that has already been collected for a specific purpose and then is used again during other circumstances for other reasons. This type of data is primarily used when the researchers do not have enough time and data is needed quickly. In such a situation the secondary data is seen to be of higher quality than the primary data. A common disadvantage when using secondary data is that the data could be unsuitable for the specific purpose. The choice of approach lies to ground for how the researcher will collect and analyze the data and should be decided dependent on the nature of the research topic (Saunders et al., 2006).

To be able to gain a deep understanding of the problem and its underlying variables the thesis will make use of primary data in conjunction with secondary data. The primary data will be collected through interviews with selected companies. The secondary data will consist of articles, books, thesis, and course literature from libraries. The literature will mainly cover fields such as organization, management, and strategy. In addition to these printed media the use of various internet sources will be used in searching for relevant information. Previously released reports regarding FTAs and its nature together with reports focusing on Swedish establishments in Southeast Asia will also be considered when structuring and outlining the thesis. In addition, these reports will prove valuable by following the discussion and progress within this field.

The gathering of secondary data will help to analyze and interpret the primary data collected through the interviews via relevant theories. This data will function as the basis for the theoretical framework and its theories and models will enable the analysis of the primary data to result in a conclusion of the stated problems.

5.1.3 Quantitative and qualitative method

There are two approaches when collecting primary data; quantitative and qualitative. It is important when conducting a research to be aware of the two different methods’ advantages and limitations (Bryman & Bell, 2003). The most evident difference between these
two approaches is the data they use for analysis. The quantitative approach focuses on numbers and frequencies in order to analyze, whilst the qualitative approach uses words (Denscombe, 2007).

The quantitative method provides information by collecting data and transforming it into number and statistical tools. This will yield a broad knowledge about the research topic and thus allow for some generalization to be carried out on the results. This approach is sometimes criticized for not giving the researchers a deep knowledge (Patel & Davidson, 2003).

The qualitative method uses the collection of data to describe rather than to draw statistical analysis. This approach will yield a more in-depth understanding through the transformation of the information collected into written words (Hussey & Hussey, 1997).

The quantitative method is more suitable for analysis while the qualitative method is better suited for description (Denscombe, 2007).

This thesis uses the qualitative approach in collecting the primary data. The information generated in the thesis is more describing and gives a deeper understanding of the problem through the use of the qualitative approach. Information is gathered through a rather small number of interviews making it possible to keep the interviews open for adjustments if additional queries should arise. The use of a qualitative approach enables the use of a small sample size as the focus point is to understand the individual subject rather than draw generalizations (Saunders et al., 2006).

5.2 Interview method

The thesis will use in-depth interviews for the collection of primary data. This enables the authors to gain more detailed information and the ability to revise the questions and add questions during the interviews. The aim is to understand how the companies evaluate the obstacles to trade they face in the Southeast Asia region and how they are affected by free trade agreements. The number of interviews is limited due to insufficient time to spend on the research.

The different types of research interviews can be divided into four categories. These are structured interviews, semi-structured interviews, unstructured interviews, and focus groups. The unstructured interview is characterized by the openness and flexibility and allows the interviewer to adapt the format completely as the interview proceeds. The semi-
structured interview includes more control over the format but will still allow for open-ended questions and some revision to be done during the interview. The structured interviews are very rigid and entail tight control and little flexibility during the interview. The focus group format is a method including more than one person at a time and the questions are discussed between the participating people rather than answered to one by one (Denscombe, 2007).

This thesis will use semi-structured interviews and be in the one-to-one format. The different interviews will comprise of mainly the same questions and there will probably be some amendments to the interviews depending on the type of company and what kind of products and services they offer to the market. The interviews will try to recognize the different problems the companies are experiencing when trading and making investments in the Southeast Asia region. The interview will look at a very wide range of obstacles to trade e.g. tariffs and non tariff barriers, rules and regulations, market access, standards, corruption, cultural differences, and competition.

5.2.1 Choice of interview objects

The interviews will be conducted with representatives from the Swedish business community in Singapore. The companies that will be interviewed are relatively large and the majority has been active in Singapore and in the Southeast Asia region for more than five years. Most of the chosen companies are operating in a similar industry and have somewhat the same turnover in order to get a comparable and adequate result. The reason for selecting companies within the manufacturing industry is that they constitute the major part of the Swedish business activity in Singapore. Compared to other Swedish industries, many of which are merely sales representative offices, the interviewed companies are all active in cross-border trade. The interviews will be conducted at the companies own premises and the representatives from the interviewed companies hold titles of either Director or Vice President. The participating companies wish to remain anonymous in the thesis due to the sensitive subject of trade flows and barriers. The companies expressed their concern of being publicly exposed while talking about the obstacles they face and what they do to avoid them. However, the authors believe the answers will be more reliable and descriptive if all representatives would remain anonymous. This will encourage the representatives to provide more trustworthy and detailed answers and in addition ensure their company does not disclose any information that could hurt their brand and competitiveness in the region. The
The effective time of the interviews was between 45 min and one hour where a few of the representatives wished to offer a quick tour of the premises to begin with.

The interviews mainly served to identify the main obstacles the respondents face in trading goods in the Southeast Asia region. Due to the relatively short time in which the thesis research was conducted the authors had to limit the number of interviews to be able to collect as valuable information as possible.

The authors have chosen to organize the collected data with respect to the different topics. The gathered data will be consolidated and presented as one under each subject. This enables the readers to get a better overview of the different topics as the data can easier be put in perspective to the various topics. Since all respondents represent Swedish companies operating in the manufacturing industry the collected data can to some extent be used to describe the findings as universal and applicable to other companies matching the respondents’ companies’ profiles, thus making generalizations potentially acceptable.

5.3 Reliability and validity

When establishing the quality standards of a case study research four commonly used tests are suggested. These tests are construct validity, internal validity, external validity, and reliability (Yin, 1994).

5.3.1 Construct validity

Construct validity is when establishing correct operational measures for the concepts being studied. There are three ways to increase construct validity; to use multiple sources of evidence, establish a chain of evidence, and to have key informants review the draft case study report (Yin, 1994). In the research, the authors have used documents and interviews as sources of evidence. A total of five interviews were conducted within the case study for data collection which has increased the construct validity. Efforts were made to find the most suitable and knowledgeable respondents for the interviews and the persons chosen had relevant knowledge and experience in doing business in Southeast Asia. The interviewees were contacted in advance about the matters that were going to be discussed to assure that they qualified for the interviews. The interviews were conducted in Swedish and then translated into English, which includes the risk of translating errors. However, if the authors would have conducted the interviews in English the respondents could more easily
have misunderstood the questions. In an attempt to correct possible misunderstandings the data presentation was sent to the respondents at each company for approval before analysing it. After receiving the respondents’ comments some minor corrections were made.

To establish a chain of evidence the authors have throughout the study made references to all the sources from which evidence was collected. The draft report has also been draft reviewed by the supervisor as well as by the respondents from the companies.

5.3.2 Internal validity

Internal validity is when establishing causal relationships between two variables (Yin, 1994). Internal validity is used for explanatory studies only and not for descriptive or explorative studies. Hence, this is not relevant for the report since it is a descriptive single case study in which the authors will not do pattern matching or explanation building between two subjects.

5.3.3 External validity

External validity is when establishing the domain to which a study's findings can be generalized. Theories must then be tested through replication of the findings in similar surroundings and come up with the same result (Yin, 1994). In view of the fact that we gathered our empirical data from five companies with different background operating in different industries with different business procedures, it is most unlikely that the authors would have got the exact same information if five other companies would have been asked the same questions. Therefore, replication testing is not an appropriate tool in this research and have not been used.

5.3.4 Reliability

Reliability refers to stability and consistency of the results derived from the research. That is when the following researcher can repeat the exact same procedure and research and arrive at the same findings and conclusions over again. Hence, reliability is concerned with consistency, accuracy, and predictability of specific research findings (Yin, 1994).

Throughout the report the authors have tried to explained the procedures of the research in a consistent and unbiased way. The authors have further organized the report in a way so that any reader can retrieve any desired material or sources of information. Moreover,
there is a risk that personal biases might have been present in the interview. Therefore the
results can to some extent be questioned due to the influence from the respondents as well
as the authors own attitudes and experiences. There is also a possibility that over the years
the objectives and business procedures might be changed or improved which means that
the results of future studies with the same nature as this research might take another turn.

6 Theoretical framework

In this chapter the authors bring up specific theories that describe and explain the different aspects within
this field of study. The theories will help the authors to analyze and interpret the empirical findings gathered
from the interviews.

6.1 Obstacles to trade

Obstacles to trade are in its essence the aim to limit the import of goods and services to
other countries and at the same time keep the level of export constant or increasing thus
not letting the market forces control the international trade. In theory, free trade and com-
parative advantages should be the driving forces of international trade. As with many theo-
ries they are not fully adhered to in practice as every country protects its domestic produc-
ers to some extent (Tucker, 2005).

6.1.1 Tariffs and quotas

A tariff is a tax placed on imported goods and is the most common obstacle to trade. They
are used to limit the volume of imports through the increase of import prices and to gener-
ate an income to the country imposing the tariff. Each country has separate tariff regula-
tions with various intended purposes (Tucker, 2005). The main types of tariffs are revenue,
protective, and prohibited. A revenue tariff is usually implemented to increase the govern-
ment funds and offer some protection to local producers. The main reason behind protec-
tive tariffs is yet to protect the domestic industries from foreign competition. A prohibited
tariff is when the tax is so high that it keeps the product from being imported. Prohibited
tariffs are used to raise the price of imported goods as a protective measure against the
competition from foreign markets (O'Sullivan & Sheffrin, 2003).
The most outright and extreme obstacle to trade is to impose a ban on certain goods and services. Although this is not very common in today’s society countries do use bans to restrict certain goods such as narcotics to enter the country. Similarly to bans are embargos which is often of a more political nature and bans imports from specific countries not based on the specific product but on the country that produces the product (Tucker, 2005).

Although tariffs are not the only means to use when trying to restrict imports most of the methods used are in fact regulations and measures imposed by the central authorities. Import quota is such a restriction. A quota on imports is known as a limit on the quantity of a good that may be imported in a given time period. This allows the country to restrict the volume of imports on a specific good without adjusting the price of the import (O’Sullivan & Sheffrin, 2003).

6.1.2 Non-tariff barriers to trade

Countries seeking to restrict import without imposing tariffs or other economic measures such as quotas may utilize means known as non-tariff barriers. Theory refers to these as administrative regulations that will limit the use of foreign goods and services in favor of domestically produced goods. Governments may use publicity campaigns to convince the civil servants to buy domestically produced goods. In addition, they may deliberately delay imports at the border or even indicate standards in the trade contracts that are known to domestic producers but unfamiliar to foreign producers. All of the efforts that governments undertake to make it harder for exporters to export to their country without the use of economic restrictions fall under non-tariff barriers (Begg, Fischer & Dornbusch, 2001).

The non-tariff barriers that complicate and sometimes even hinder companies from establishing in foreign countries are today the most common obstacles to trade. Jörgensen (2003) who has analyzed the 17 most substantial obstacles to trade within the EU, mentions that specific licenses and getting approval from different foreign authorities are two factors commonly used to restrict import. Additionally, there are administrative costs and various inspections of the goods at the border that will cause a delay in the transport of the good. All of this serves to defer imports to the country (Jörgensen, 2003).
Governments may also regulate that all products sold within the country must include substances or parts that are produced domestically. This applies to foreign companies that produce goods made of foreign material. Controlling and regulating the ability to transfer money and other financial assets across borders are in some countries also used in order to be able to affect interest rates and practice monetary policy (Hollensen, 2001).

Hollensen (2001) further describes the use of price controlling certain products. By doing so the government makes sure the price of a particular product will stay at the current level without being affected by the markets supply and demand. This type of regulation is mainly used on products such as pharmaceuticals, gasoline, and to some extent food.

Another obstacle to trade is expropriation that is evident in some countries. Expropriation refers to the situation where the landlord or the owner of premises is forced to give up the ownership of the premises to the expropriator, often the government or the local authorities. Expropriation is mainly used when the government wants to regulate densely built up areas or land used for national security (Hollensen, 2001). Therefore, expropriation is very much serving as an obstacle to trade.

Political risk is also something that acts as an obstacle to trade. The political risk a country is seen to have may be the result of certain actions taken by the government but it could also be outside the government’s control. Political risk is evident in all nations across the globe but to what extent varies significantly from country to country and region to region. Developed and underdeveloped countries often have a different view on business and economic issues and political differences sometimes imply different methods of doing business. In some regions corruption is part of the business climate and bribes are commonly used when doing business (Hollensen, 2001). Corruption is today turning into the greatest obstacle to trade in many countries argues Johnson (1998).

In addition to the above, non-natural means to reduce imports factors such as geographical location and cultural differences are also part of the broad definition of obstacles to trade (Lundberg, 1976). Countries with different cultures and languages will see a natural limitation to trade with one another (Hollensen, 2001).
6.1.3 Reasons behind obstacles to trade

The reason behind obstacles to trade is diverse. Jörgensen (2003) claims that some authorities and governments simply are not convinced by the advantages of free trade laid out to them.

Moreover, a tariff imposed on a specific good will in fact help that particular industry. This may lead to certain groups in the society organizing political pressure to ensure their domestic industry is kept intact and to certify their livelihood (Begg et al., 2001). Actually, free trade could cause some workers their jobs and it is far more appealing to the domestic producers of a particular good to lobby for a tariff or non-tariff barrier than it is for the consumers that will face increased prices (Tucker, 2005).

Besides, countries may want to protect an infant industry from foreign competition before it has been matured and stabilized. Security related industries are often protected by embargoes or tariffs to ensure that the country is not dependent on foreign countries when it comes to goods used for protecting the country (Begg et al., 2001).

To be able to understand which difficulties Swedish companies face when operating in the Southeast Asia region, it is of great importance to learn about and identify which obstacles that are present in the area and comprehend their effect on companies and trade flows. Both monetary and non-monetary obstacles to trade are recognized and interpreted, as well as the reasons behind these obstacles.

6.2 Cultural diversity

Culture is not something people are born with or that is inherited from previous generations. Instead, culture is more like a phenomenon which is shared amongst people within the same region and environment. It is the peoples’ set of values that contributes to the biggest cultural difference amongst countries (Hofstede & Hofstede, 2007).

The set of values is differing significantly from country to country and it is this difference that often causes problems when two cultures collide. The problems are often based on prejudice as well as lack of knowledge about the other culture. There are mainly three different ways to deal with the collision of cultures. Firstly, the cultures may keep their independence and distance from one another and ignore contact but still coexist with each oth-
er. Secondly, a culture may be dominant over the other and thirdly a completely new culture may emerge as a mixture of the two different cultures (Schein, 1999).

The world is split up in different countries equivalent to political entities to which people belong. This system of countries is very much evident in Africa where the borders are drawn based on the old colonial heritage instead of borders that follows the cultural differences amongst the people. Hence, it is not fully correct to let countries equal a specific culture but instead let societies within the country make up the collective culture. Yet there are many countries in today’s society that have grown to be strong unified entities built up by smaller integrated groups. These countries often have a strong historical background and share the same language, defense, political system, and various market factors that will make its internal ties even stronger (Hofstede & Hofstede, 2007).

Time and distance have long been considered the main obstacles when doing business with other countries. In today’s society with the increasing globalization and improving technology there are other factors that are more important to consider when doing business with countries across the globe. People with different cultural backgrounds interpret information in different ways and they have contradictory set of values and act differently in various situations (Mitchell, 2000).

At first a different culture may seem foreign and out of the ordinary and often hard to understand. By dividing the culture in several components and look at how each component relates to the culture as a whole it is easier to see patterns and logic in peoples’ behaviors. Mitchell (2000) states that the three most important parts to study within a culture are:

**Attitude**

Attitudes towards different matters have a very large impact on the overall culture a society holds. Certain cultures may have an attitude towards individualism and others towards collectivism. Attitudes towards how companies should be run may also be based on the culture from which the company originates from as some business leaders focus on making profit and other on building long term relationships. Additionally, some cultures appreciate a young and ambitious labor force whilst other cultures may value maturity as a sign of knowledge.
Language

The different languages are an obvious part of a society’s culture but languages do not only comprise of the verbal communication but also the body language, gestures, and facial expressions. When a negotiation between two counterparties is held through a translator it is the non-verbal communication that is the most important and the one that will have the largest impact on the parties perception of one another. It is vital to know about the non-verbal communication projected by the counterparty in order to no forgo certain signals that may prove critical of the conversations outcome.

Religion

Religion is something that is more fundamental in some cultures than in others. In countries where religion has a large impact on the culture it automatically influence the way of doing business. Some actions taken by such a country may seem irrational and sometimes even offending to people without a strong religious belief. In business it is therefore crucial to have some knowledge about the counterparties’ religion and how this may affect the way they are doing business.

The above mentioned parts of a culture are the most fundamental ones, yet other parts also have a large impact on the culture. Things such as tradition, customs, humor, and education are all components of a culture that, if studied and understood, will reduce potential misunderstandings (Mitchell, 2000).

6.2.1 Levels of culture

For companies doing business overseas it is crucial to not only know your own company’s customs but in addition compare these with the honoring country’s customs of behavior. This applies, in particular, to companies which operate in countries where the home culture is that of a complete different nature. In order to understand different people’s behaviors it is imperative to look at the different levels of culture and how these affect the individuals in different scenarios. The different levels are national culture, business culture, organizational culture, and individual behavior. The country’s national culture is directly impacting the business culture in the country. In turn, the business culture will have an apparent influence over each and every company within that country. All of these levels will ultimately affect the individual’s behavior (Hollensen 2001).
National culture
The national culture provides a general outline and structure of the different cultures’ principals and key components. Some of the parts that comprise the national culture are e.g. religion, laws, and language. Everything within the national culture will in the end have an impact on the business culture in the country (Hollensen, 2001).

Business culture
All companies are divided into different industries that have its own specific culture. The companies within each industry are all familiar with the rules applied to their specific industry. Studies of different business cultures across the globe have shown that the ways of doing business is often very similar within the specific industry regardless of where in the world the companies operate (Hollensen, 2001).

Organizational culture
Even if the organizational culture is very much impacted by the business culture there are often many subcultures within the organization, also known as departments. The subcultures are derived from the peoples’ values, behaviors, and the roles they have within the organization. Examples of subcultures in an organization can be the marketing department, finance department, and sales department (Hollensen, 2001).

Individual behavior
The individual behavior is ultimately impact by all of the above mentioned levels. The actions and decisions made by the individual can be directly correlated to the environment in
which the individual is operating. Cultural behavior is not something that people are born with but instead it is the result of the individuals’ close contact with its family, friends, and the society in whole. Additionally, this implies that culture is not a static phenomenon but a process that is constantly evolving due to the fact that the increasing globalization will always make people interact with different cultures (Hollensen 2001).

6.2.2 High context vs. low context

The reasoning behind the high-and low context countries was originally developed by Edward T. Hall in the 1960s. The below figure shows how countries are divided based on their ways of communicating both verbally as well as non-verbally. The countries which fall close to one another on the scale from High to Low are believed to use similar ways of communicating. The further away the countries are from one another on the scale the harder it will be to communicate and misunderstandings will be unavoidable.

![High context vs. low context](image)

Figure 2 - High and low context

**High context cultures**

High context cultures are cultures that use implicit communication in the form of facial expressions, gestures, tone of voice, and even complete silence. When people from high context cultures communicate with people from low context cultures the communication may be quite ambiguous as the implicit way of expressing something is not always easily projected. It is often very difficult to explain to uninitiated people the substance of the implicit
communication as it cannot be translated into words. In a meeting for example the sur-
rounding environment is often as important as what is actually discussed during the meet-
ing and people focus more on who is talking rather than what he/she is talking about. In high
context cultures it is essential to establish a personal relationship with the people you are
about to do business with before you start negotiating (Mitchell 2002).

Low context cultures

Low context cultures are cultures that use explicit communication. In these cultures the
communication is straight forward and there is a great variance in the different behaviors
amongst its people. The communication in low context cultures is very detailed and precise
as the people take for granted that their counterparties often do not share the same knowl-
edge about the specific subject. People in low context cultures are constantly trying to mi-
nimize the implicit communication and mitigate the risk of misunderstandings. In low con-
text cultures the focus is put on what is said rather than who is saying it and the verbal com-
munication is more important than the non-verbal (Mitchell 2002).

One not so obvious and apparent obstacle when doing business in foreign countries is the
culture differences between the involved parties. It is critical to business managers to un-
derstand the culture diversity when operating in new environments. Hence, identifying, ex-
amining, and understanding the existing culture in the specific country is vital for compa-
nies to be successful. The above theories on culture will help the authors of the thesis to
identify and understand the specific business culture in Singapore and in the region.

6.3 Economic integration theory

Economic integration is often seen as a way to increase welfare in the participating coun-
tries. When obstacles to trade are taken out it will lead to increased trade and therefore in-
creased welfare. In addition to the more obvious economic advantages are the political
benefits. Countries that are participating in an economic integration will have a stronger tie
to one another and the risk of armed conflicts among them is less than if they would have
been by their own (Kettunen, 2004).

The negative effects of economic integration are the fact that it may increase the gap be-
tween the non-participating countries and trade with these countries may decrease. Eco-
nomic integration also makes it possible for the participating countries to shift the produc-
tion of goods to low-wage countries which in turn will cause some domestic industries to lose jobs (Hollensen, 2001).

The classical integration theory shows how economic integration can be in many different forms. It lies on the foundation of the customs union theory. The classical integration examines the fact that more and more advanced phases of economic integration are created (Lindberg, 2006). Figure 3 below, initiated by Balassa (1961), shows the different stages and its specific features:

<table>
<thead>
<tr>
<th>Preferential trade area</th>
<th>Free Trade Area</th>
<th>Common Market</th>
<th>Economic Monetary Union</th>
<th>Total Economic Integration</th>
<th>Political Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selective Tariff reductions</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No internal tariffs or quotas</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common external tariffs; supranational authority in trade policy</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Free flow of goods, services, capital and labor</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Some degree of harmonization of economic and monetary policies</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Unification of economic policies; general supranational authority</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Unification of policies, political institutions</td>
<td></td>
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</tr>
</tbody>
</table>

**Figure 3 - Stages of economic integration**

**Preferential trade area**

This stage implies less obstacles to trade for certain goods among the participating countries than trading with countries outside the union. This is the weakest form of economic integration and one example is APC which stands for Africa, Caribbean, and Pacific.

**Free trade area**

In a free trade area the participating countries trade with one another without any obstacles to trade. The member countries may wish to maintain all obstacles to trade when trading with countries outside the agreement and they may also keep their sovereign trade policy intact. One example of this type of agreement is ASEAN.
Customs union
Like a free trade area this stage will provide participating countries with free trade among each other. Additionally, the customs union will work towards a harmonization of trade policies to countries outside the agreement through e.g. common external tariffs. This stage also implies that the participating countries are not able to maintain complete power over their trade policy but instead let a supranational authority make the decisions regarding trade policy issues. An example of this is EU.

Common market
Very much like a customs union a common market allows free trade among the participating countries and strives towards a unified trade policy among the rest of the world. However, this stage also allows capital, labor, and services to move freely. This would imply that capital, labor, and services would be utilized where it is most productive. The Southern Cone Common Market (MERCOSUR) of Argentina, Brazil, Paraguay and Uruguay is an example of a common market.

Economic monetary union
This is the most advanced form of true economic integration as this stage will allow common monetary and fiscal policies among the participating countries. The member countries will also have the same currency and the sovereign state will have to accept the fact that a supranational authority will have power over all participating countries. The largest economic monetary union today is the Eurozone which consist of all the EU member countries that have adopted the Euro.

Total economic integration
This stage takes it one step further than the economic monetary union as it includes common social, monetary, and fiscal policies for all participating countries. In this stage there is a supranational authority that makes decisions which the member countries are obligated to follow. One example of total economic integration is the states of the United States.

Political union
This is the most advanced stage of economic integration. In this stage the economic and fiscal policies are the same but additionally the supranational authority also controls the
politics and member countries share a common parliament. Examples include the United Arab Emirates and the United Kingdom.

Economic integration is an important aspect to consider when trying identifying barriers of trade between markets. Depending on which level economies are integrated, the way of doing business will be effected and take different forms. To consider the different levels of economic integration and identify which level of integration EU and ASEAN are taking, will increase the understanding of how the Swedish business community can operate in the region today and in the future.

6.4 FTAs and free trade areas

There has been a trend in recent years for countries to negotiate and reduce its trade barriers against other countries. Free trade is the flow of goods between countries without restrictions or extra taxes (Tucker, 2005).

Countries trade with each other to acquire resources that they lack, to specialize in production of goods they are relatively more efficient in producing, and because specialization permits countries to enjoy economies of large-scale production (Beng & Chew, 1998). Consequently, trade must be beneficial for all involved parties otherwise it would not take place. This can be explained by David Ricardo’s principle of comparative advantage in which one party has a lower relative cost of producing a certain good or service. A country has a comparative advantage in producing a good if the opportunity cost (the cost of an alternative that must be forgone in order to pursue a certain action) of producing that good in terms of other goods is lower in that country than it is in other countries (Krugman & Obstfeld, 2006).

In accordance with the above principle, by utilizing free trade countries can achieve the ultimate economic efficiency and overall productivity gains. To take advantage of these economic benefits, it has been an increasing development of FTAs in almost every part of the world. That is specific trade agreements between two countries which consist of policies that have adopted different degrees of harmonization or coordination. FTAs help strengthen business climates by eliminating or reducing obstacles to trade and improving intellectual property regulations, opening government procurement opportunities, easing invest-
ment rules etc. FTAs can therefore help companies to enter and compete more easily in the
global marketplace (Sampson & Woolcock, 2003).

In addition, Sampson and Woolcock (2003) refer to abolition of trade barriers between
countries which appear in larger contexts among several countries. The most common
ones are customs unions, free trade areas, common markets, monetary and economic un-
ions. Today, free trade areas are the most frequent form of integration in the world. There
are three fundamental characteristics of a free trade area:

- Elimination of tariffs among the member countries
- Allowance for each member country to set up its own external tariff
- Utilization of comparable rules within the free trade area

6.4.1 EU-ASEAN

In 1977, informal relations between The European Economic Community (EEC) and
ASEAN were formalized which made the ASEAN-EEC ministerial Meeting a year later
possible. In 1980, a cooperation agreement between the member countries of EU and
ASEAN community was also signed (ASEAN Secretariat, 2007). Since then, cooperation
between the two regions has both widened and intensified over a large range of areas. In
2004, the Trans-Regional EU-ASEAN Trade Initiative (TREATI) was launched, which
took a significant step in terms of economic collaboration. The objective was to expand
trade and investment flows between the two regions through trade facilitation, market ac-
cess, and investment (Delegation of the European Commission, 2007).

In March 2007 EU-ASEAN Ministerial Meeting was held in Germany, celebrating the 30th
anniversary of the relationship. During this meeting future directions for cooperation’s be-
tween EU-ASEAN were developed (EU-ASEAN Ministerial meeting, 2007).

6.4.1.1 EU-ASEAN FTA negotiations in the pipeline

In November 2006, the Council of EU approved the proposal made by the European
Commission to start free trade negotiations with ASEAN. The proposal comprised agree-
ments on liberalization of trade in goods, e.g. reducing import tariffs, and liberalization of
services, investment liberalizations, simplification of regulations and rules regarding public
procurement, competition policy, standards, and sanitary standards, as well as protection of
intellectual property rights (IPR) and transparency in legislation procedures. In addition, non-tariff barriers were presented as a priority in the proposal. Consequently, the agreement was broad and the highest possible level of liberalization is expected in the very near future (Lindberg, 2006).

However, before the negotiations can be launched there are certain issues that need to be addressed and resolved. One major issue is that the countries within EU are more open than ASEAN countries, which requires the latter to make certain adjustments to correspond to the agreement. Besides, the differences between the ASEAN countries are substantial, both in terms of economic development, political systems, and judicial systems. These differences render it difficult for some countries to adjust and to take further steps towards deeper economic integration. A major issue is therefore whether negotiations should be done with ASEAN as a region or individually with the more developed members. Thus, the design of the agreement remains to be decided upon. The objective is to launch the FTA negotiations sometime late this year or beginning of 2008, and to conclude them within two years (Lindberg, 2006).

The authors have chosen to bring up theories about FTAs and free trade areas in order to increase their own and the readers’ knowledge about these two essential and contemporary concepts. It is important to understand what an FTA and free trade are and emphasize their significance for trade flows in the world. The information about EU-ASEAN is provided to give a background to the existing relationship between the regions and as well to give an update on where the FTA negotiations currently are.

### 7 Empirical findings

The following chapter presents the data collected from the interviews. The authors have carried out five interviews with Swedish companies operating in Southeast Asia. The chapter begins with a brief cover of the Swedish business community present in Singapore. Following this introduction the authors present the findings from the company interviews that later will be interpreted and analyzed in the succeeding chapter. The interview questions can be found in the appendix.
7.1 The Swedish business society in Singapore

The Swedish business society in Singapore has grown significantly the past 20 years. Today almost 180 Swedish companies operate in Singapore varying from small one man shops to medium and large companies with about 500 employees. The majority of the Swedish companies that have chosen to start up their business in Singapore have started with a representative office more similar to a promotional centre. The representative office has then grown into a Pte (Private Limited Company) often as a subsidiary to the mother company in Sweden. Some of the Swedish companies have chosen to immediately set up a private company limited by shares. The Swedish companies represented in Singapore often cover the whole Southeast Asia region and sometimes even the Asia Pacific markets.

The reasons for the Swedish companies choosing Singapore as the preferred location in the Southeast Asia region are clear. Most companies emphasize the superb infrastructure, the liberal business climate, and the geographical location of Singapore in the region as very important factors in their decision to be in Singapore. The Singapore laws are also favorable when it comes to set up a business in the country. Hence, the administrative and bureaucracy difficulties that may have been present in other countries will add to Singapore’s advantages. The negative sides of operating in Singapore are the high living and property costs compared to other more underdeveloped countries in the region. The unregulated residential market has caused the rentals of property to reach unreasonable levels. Even though Singapore remains one of the most preferred locations for companies who wish to establish their presence in the region the threat of other ASEAN countries increasingly removing the obstacles to trade may cause Singapore to fall behind.

7.2 Summary of company interviews

Below follows the result from the interviews carried out. Although most of the companies interviewed operate in similar industries they do face different kind of obstacles as their specific product range differs. As the companies expressed their desire to stay anonymous in the report the companies will be referred to as Company A, B, C, D and E respectively. The result from the interviews is consolidated and each main topic is summarized and presented separately below.
7.2.1 Obstacles to trade

7.2.1.1 Tariffs and quotas

Tariffs are used in Southeast Asia on external parties with the aim of protecting the domestic industries. Even though the tariff rates are reduced when trading within the Southeast Asia region the companies still suffer from tariffs applied to their goods from trading with Europe and to some extent also from trading with countries in Southeast Asia. All interviewed companies except Company A brought up the problem with tariffs as most common when dealing with Europe and China, as well as India.

The tariffs the companies face are not very high and are not considered a big issue as they usually are in the range of 5-10 per cent. Some products do not have any tariffs applied to them when trading within the Southeast Asia region because the goods are not produced by any domestic producers. The companies trading regularly with Europe expressed their concern about the high tariff rates and said it acted as a major obstacle to trade. Company C and E which are trading frequently with Indonesia also said they experienced the tariffs there to be a big problem. The high import tariff was the decisive factor for Company C to not establish their operations in Indonesia instead of Singapore. The Malaysian market was also one country that Company C and B mentioned with regards to tariffs. The Malaysian government is active in protecting their domestic industries with the help of excessive tariff rates. As an example Company C mentioned the 40 per cent tariff applied to a specific vehicle used in the construction equipment segment. All companies mentioned that Singapore was by far the most liberate country in the Southeast Asia region with regards to tariffs and it was one of the decisive factors to establish their operations there.

None of the five companies said they had experienced bans or quotas as significant barriers to trade.

7.2.1.2 Non-tariff barriers to trade

All companies indicated that the non-tariff barriers are evident in the Southeast Asia region. The respondents said the non-tariff barriers often took the form of excessive paperwork that was time-consuming and costly, delays of goods and overall bureaucracy. Most of the companies indicated that the non-tariff barriers are the biggest concern when doing business in the region as opposed to the tariffs.
The rules and regulations that countries use vary significantly from country to country and industry to industry. Company A, C and D mentioned the problem with countries setting their own rules making product classifications different in one country compared to another country. This means a product exported from one country where it is categorized in one way to another country which categorize it in another way may result in a higher tariff. Company C and D also mentioned the rules and regulations that make it hard for companies to freely move their products within the region even after the export from Europe. All companies emphasized the importance of a standardization of the rules and regulations relating to their products as the current regional differences meant increased costs and were very time consuming. None of the companies mentioned Singapore as a country they experienced problems of difficult rules and regulations in. Instead they believed the regulations set up in Singapore to be normal and more like standard procedures.

The level of bureaucracy in the region is high according to all companies except Company E. Company E referred to the bureaucracy as not being as severe as in many of the more developed countries as long as you learn how to play by the particular countries’ rules. This is mostly evident when it comes to fill out forms and the amount of paperwork that is required by the companies. Even though this was not seen as something that differed significantly from the way the procedures work in Europe all of the companies still mentioned the structure of the forms to fill out as quite disorienting. Singapore was seen by all companies as very easy to set up operations in not only compared to countries in the Southeast Asia region but also compared to the European countries. This was not the case with the neighboring countries though according to the respondents. The general thought was that most countries in the Southeast Asia region required excessive paperwork and many administrative practices were in place when investing in those countries. Additionally, Company B, C and E pointed to the various requirements put on foreign companies wanting to invest in the region as a big concern. It could either be that your operation must be owned by a permanent resident or that the country you are investing in requires you to own a local trading company. All respondents also brought up the rules regarding the employment of foreign workers in countries other than Singapore. They said the hassle with visas and work permits for both European workers coming to the region as well as Southeast Asian workers transferring to neighboring countries cause problems. Not only did the companies consider it very time consuming but in some cases the companies’ applications for certain people did get rejected and they were required to employ locals instead.
Another important factor that Company A, B and C pointed out was the lack of valid rules regarding competition between companies. Their companies had encountered several situations where the local businesses had been given favorable treatment by governments as well as other companies in the country. All of the respondents said they had in one or more cases experienced corruption. This is often evident in the form of bribes and in some countries nepotism is widely spread. Company C and D also mentioned how people in certain countries prefer domestically produced products instead of products produced by foreign companies. This could sometimes be the result from government pro-actively influencing the inhabitants to buy locally but most often they said it was due to the relation and familiarity the locals felt with domestic products. The fact that the countries in the region all have their own currency was also considered an obstacle to trade by all companies.

Another obstacle noted by Company B, C and E was the issue with the underdeveloped infrastructure in many of the countries in the region. It could be everything from bad roads and transport systems to the lack of telecommunication networks and electricity. This have a large impact for the companies whose personnel travel a lot since airports and local airlines are not trustworthy and have irregular time schedules making it hard to plan ahead. As company C put it “the airport we fly to in Sumatra is considered very dangerous to land on so only one domestic airline allows their planes to land there”. The representative from Company C also pointed out the lack of security measures and the fact that there were no asphalt roads at all leading to his clients. The representative said he did not trust the transportation system whatsoever and if it was not for the fact that he had to visit his clients he would never consider the risk of going there.

Neither of the companies said they actively took any actions to reduce the obstacles to trade that they currently face. It was a general consensus that these barriers were not something they had any influence over and which had to be taken care of through political actions. Instead the representatives from Company B, D and E said the one thing they do is to learn by practice and experiences and try to adapt to the local way of doing things.

### 7.2.2 Cultural diversity

All companies expressed their concern over the large cultural differences that are evident between the Asian and Scandinavian cultures. The differences impact the way they do business in general but even more so all the aspects surrounding and related to actual busi-
ness negotiations. The language barrier was something that all companies mentioned as a disadvantage. Even though Singapore has English as their first language and business people from other neighboring countries speak fluent English the different dialects and pronunciations are sometimes very confusing. Company C mentioned that when staff from their Swedish headquarters is visiting they usually have to step in and translate during meetings and business negotiations due to the complex dialect Singaporeans use, also called Singlish.

In addition to the more obvious language barrier all companies noted the non-verbal communication as something they were not used to. Company A and D said the body language and gestures were something they really had to take note of and respect. All the companies also mentioned the fact that corporate titles and positions within the company play a significant role when doing business in Southeast Asia. In most cases, the company representatives were greeted by a senior executive as the host wanted to show them respect and that they took the meeting very seriously.

The representatives from Company A, C, D and E also expressed the religious differences they face when doing business in the region, especially with Indonesia, as something that could affect the outcome of business negotiations. Planning ahead and be aware of the do’s and don’ts is crucial they said. Simple things as knowing when the different religious holidays take place and what food and drinks to order during a business lunch is key and could even be the decisive factor when it comes to closing a deal. All companies believed the way these countries treat their religion is very different from the praxis in Sweden. As the representative from Company B put it “in Sweden there is often a clear line between business and religion but here the religion often comes in first hand and is always an integral part of the business”.

There was a general consensus amongst the companies that the level of education and the style of learning were differing a lot from the Swedish educational system. All companies underlined the extreme difficulty in finding the right personnel for their open positions. They all said that the majority of the local professionals and graduates they interview were all very academically savvy but in almost all cases seemed to lack the ability to think outside the box. This became an even bigger issue for the companies looking for sales personnel. The representative for Company E said the educational system is too much focused on students learning what the textbook says and not to think critically or analytically. This was
by all companies seen as something that was derived from the way the political system works in the country. The representative for Company C mentioned how most graduates he had interviewed were very polished and almost afraid of talking to a superior. The local graduates are trained to not talk against a person more senior than themselves and hierarchy is something that should be and is very well preserved. As a result the way of communication is generally one way from top to bottom. Hence, companies had problems transferring the mentality of everyone working together and being able to come up with suggestions to problem solving.

Another thing mentioned during the interviews was the common customs that the different cultures have. This takes the form from how to hand over your business card in a professional and polite manner without being disrespectful to how to make sure the deal goes through. The representative for Company C mentioned the difference of how a gift might be perceived in Sweden compared to Asia. In Sweden it could be viewed as a bribe and something negative and even in severe cases lead to a legal penalty. In Southeast Asia it is very much the opposite and the representative mentioned that he always brought plenty of presents to all of his customers whenever they met. The representatives for Company C and E mentioned the inconvenience of how to deal with bribes during business talks. Both companies pointed to Indonesia and said that bribes were very much a part of the general consensus when doing business there. This was something they felt they were very unsure about how to handle but ultimately had to cope with in order to get things moving in their direction. The bribes could be anything from a phone call asking to transfer money to even amending the final quotation to include an unofficial cash mark-up. The representative for Company C talked about an incident in Indonesia where his counterparty reached under the table during negotiations and expected to be handed a fair amount of cash. This was something the companies had learnt to expect after the years they had been doing business there. They also said it was a complete necessity to obey the set of rules illustrated in order to not miss out on the deal. After all, they said, if they will not tolerate it someone else will and it was more a matter of fitting in and adapting to their business culture that anything else.

7.2.3 Views on FTAs and free trade areas

All companies are in agreement that FTAs or free trade areas are beneficial to their businesses. Since all interviewed companies have some level of production in the region they
feel that the advantageous tariff rates under FTAs and free trade areas are important. In order to reap the benefits from the advantageous tariff rates the local contents in the produced product must be at least 40 per cent. The representative for Company D said they have used the lower tariff rate for several consecutive years when doing business in Vietnam, Philippine, and Indonesia and it had granted them a reduced tariff rate with 50 per cent.

The general consensus though was that the companies thought the FTAs and free trade areas to be valuable but far from crucial when it comes to do business in the region. The companies said to have learnt how to bypass hinders they experience when not operating under any FTA. However, the companies mentioned that the FTA could indeed lead to more than just tariff reduction and hopefully also impact the overall business climate and harmonize the non-tariff barriers they face such as the cultural differences.

The companies not only pointed to the valuable tariff reduction rate received on goods with minimum local content as an advantage within the ASEAN structure but also to AICO (Asian Industrial Cooperation Scheme). This scheme encourage companies to establish joint manufacturing between companies operating in Southeast Asia and provides a tariff rate of 0-5 per cent for the companies involved.

When asked about the EU-ASEAN FTA they all said it would be beneficial in terms of increased collaboration and trade and indicated that the link between them and its Swedish mother company as well as other counterparties in Europe would be greatly enhanced. The representatives for Company A, B and E expected to receive more attention from the mother company in Sweden and that their branch in Singapore would be considered more important in the overall global strategic perspective.

Three companies mentioned that the countries in the region have different business procedures depending on the level of liberalization in the country. They said some countries are easier to do business with than others and Singapore was mentioned as one of the easiest.
8 Analysis

8.1 Obstacles to trade

Acknowledged from the research, the most obvious obstacle to trade for Swedish companies operating in the Southeast Asia region is tariffs implemented on imported products and services. Tariffs are set up by governments throughout the region and vary significantly from country to country and type of products and services. The tariffs used in the region can be recognized as either revenue and/or protective tariffs referring to O’Sullivan & Sheffrin (2003). The governments in especially developing countries wish to increase their funds through higher taxes and at the same time protect their domestic industries from foreign competition. This is not an ultimate way to build up a country and make companies profitable. The major negative side effects are higher prices for the consumers and a reduction in the total number of goods/services produced, hence regulations limit world trade. Besides, there may also be retaliatory tariffs by the country’s trading partners. Thus, a tariff does not only bring higher costs to the involved companies but also great losses to a nation’s economy.

Tariffs and other trade regulations are decisive factors for companies when establishing operations in foreign countries. However, many of the interviewed companies did not consider tariffs as a major issue to their business since the tariff rate is relatively low in the region. In this discussion it is important to keep in mind that this might only be the case for larger companies that can afford higher costs in form of tariffs. Presumably this is not the situation for all companies especially not smaller newly started businesses that might not have major financial resources.

Evidently, by implementing FTAs between countries tariffs and other obstacles to trade will be reduced or completely removed. The interviewed companies’ approach towards free trade can clearly be related to Beng & Chews’ (1998) reasoning about free trade and increased efficiency in production. Politicians and other decision makers need to understand that free trade will have a positive economic effect on all participating countries, not least on its own country. FTAs will increase companies’ incentives of doing business with each other across borders and consequently, this will yield increased business opportunities in all participating countries and eventually be beneficial to the entire world economy.
As Jörgensen (2003) pointed out, the non-tariff barriers are today the most common obstacle to trade. This can clearly be observed in the research as the interviewed companies frequently face restrictions and regulations implemented by the governments as well as major administrative issues. It is by no coincidence that many of the countries are strictly regulated when it comes to doing business, particularly international business. The majority of the countries is poor and has an underdeveloped industry and business infrastructure. In order to protect their domestic industry from foreign competition, the governments are usually highly involved in the business climate and prefer controlling it. This can be problematic if the government officials are either corrupt or act in their own interests instead of the interest of the people and the country. Besides, controlling market forces does not generally yield the most efficient outcome compared to when market forces can rule freely. Hence, government policies have a major impact on the business climate in the country.

Therefore it is crucial for countries to see the bigger picture. Open up the market and promote free trade will be beneficial to all parties involved. The general interest in investing money and doing business with the country will increase, which will open up to more business opportunities. This will eventually yield more money to the government and the country itself. But for business opportunities to actually take place, a well developed business infrastructure is required. Everything from roads and airports to a reliable law system with intellectual property rights etc, need to be build up. Today many countries in the region have focused solely on the business itself and not on the surroundings which are a decisive factor when companies choose where to establish new businesses.

Another major concern that the interviewed companies expressed was the political risk in the countries and in the region. Corruption and bribes are evidently more common in the region compared to Sweden. Today corruption is an obvious and integrated part in almost all business deals, also referred to Hollensen (2001). The Swedish companies have learnt how to cope with these illegal procedures and to accept to pay the extra money. Apparently, the companies still find it profitable to carry out business in the region. However, corruption is always risky and could lead to worse scenarios in the long run, even legal precautions. Not at least, this can bring extremely bad publicity to the companies if this information gets into the wrong hands.
8.2 Cultural diversity

During the interviews the authors noticed that the culture differences were seen by the companies as a larger barrier to trade than what they had expected from the beginning before setting up businesses in the region. According to Schein (1999) there are three different ways to deal with the collision of cultures. Referring to the information gained from the interviews, one way is more apparent than the others. This is when one culture is dominant over the other, which can be recognized throughout all interviews. The Swedish culture is negligible in the Southeast Asia region, thus Swedish business managers should strive to become accustomed to and adjust to the dominant culture to overcome cultural differences. The third way Schein (1999) mentions is when a completely new culture emerge as a mixture of two different cultures. However, this has not been recognized in the research but this is typically the thing that is going to happen in the future if countries keep on doing business with each other.

As Mitchell (2000) mentions there are three pivotal areas to look at when trying to understand the different cultures and two of them are more apparent than the third with regards to the interviewed companies. Operating in the Southeast Asia region the language barrier is evident and complex. The companies stressed the fact that even though the English language is widely spread in the region the different dialects often lead to misunderstandings. Although the different dialects and pronunciations could be difficult it is ultimately the companies themselves that need to adapt and be aware of these differences. Moreover the miscommunication exists due to both parties lack of ability to understand one another. It could easily be the case where the Swedish dialect is not seen as problematic from the Swedish companies’ point of view but will most likely be as big, if not a greater part of the problem.

The religion was also something that the interviewed companies found challenging. For a Swedish company operating in Southeast Asia the religious differences are something that should be carefully considered and taken into account. Apparently the companies experienced religion as a major problem when doing business with most Southeast Asia countries. This may be a result of not enough knowledge nor understanding of the major impact religion has on business procedures in certain countries. Because of this, religion is treated as a problem more than anything else. In these cases, managers should prepare themselves and their personnel by collecting information about the religion and the typical behaviors
and manners that are incorporated. By increasing the knowledge and familiarity with the specific religion, it will become easier to accept and understand why certain procedures are taking place, especially when doing business. As Mitchell (2000) mentions the most important thing is to have as much knowledge about the counterparties’ religion as possible. It is important to know why these religions play such a big part. Only then can the person not exercising the specific religion obtain a complete understanding for the actions. The interviewed companies did to some extent know about the effects the different religions had on their way of doing business. Hence, to learn about the background and history of the people unfamiliar to you will yield a comfort and trust with the counterparty, which in essence will deliver better outcomes of the businesses.

The third part Mitchell (2000) talks about is the subject of attitudes. Even though not as apparent as the other two, language and religion, the attitude differences act as probably the largest obstacle to trade and main reason to disagreement. The attitudes differ significantly between the Swedish companies and their counterparties within Southeast Asia. For example, the majority of the companies mentioned the fact that the workforce in Singapore, and in other countries as well, behave very differently from what they are used to in Sweden. In Sweden the professionals and graduates are used to, and trained to take own actions and to be proactive in a culture that is moving away from classical hierarchy. Almost the opposite applies in Southeast Asia where the companies face people taught not to question people in more senior positions than themselves and that always need to be handed tasks in order to perform. For the companies to overcome this problem when striving to recruit the right people they need to focus on internal training and trying to shape the person in respect to the corporate culture instead of finding the perfect match in an interview process. It is absolutely crucial that the companies start looking beyond the persons abilities at the early stage and instead try to sell the corporate culture as an alternative to changing the personality. Even here the companies must understand and respect the way the society and its people are functioning. The companies should put in place internal courses focusing on critical thinking and team spirit as well as the corporate vision. The companies must also see beyond the problem of the way the local people are functioning and instead use this as an asset. The local professionals know the markets and will behave accordingly. They have a competitive advantage to overcome the attitude barriers that Swedish professionals face and this is something the companies must utilize and also strive to attract rather than prevent.
When looking at Hollensen’s (2001) way of dividing the culture into different levels it becomes clearer to why people behave and act the way they do. Often it is only the national culture that people think of when trying to describe the differences amongst people. For the Swedish companies experiencing issues with the culture clash knowing that all different levels of culture are ultimately derived through one another will provide a much clearer picture. Since the national culture and as well the business culture are directly correlated to how the individuals act, it is crucial to understand the individual behaviors in the specific country that you are operating in. From the research, it is obvious that the individual behaviors play a fundamental part when doing business with the Southeast Asia countries. Almost all business deals are incorporated with peoples’ values and behaviors, and as well religious practices. Therefore, when operating in the Southeast Asia region the authors claim that the individual behaviors have an even stronger impact on the business culture than in Sweden. Naturally, the Swedish national culture and the business culture are still influenced by the individual behaviors but not to the same extent as in Southeast Asia. Western business men are generally more focused on the actual business deal instead of who are exercising it and how. Additionally, Hollensen (2001) notes that the individual culture is constantly evolving and ever changing. It is therefore crucial for the companies to know that they have the ability to change and to shape in order to receive the results that they wish for. Due to increased trade flows between countries, cultures are becoming more mixed up and assorted. Consequently, cultures will not stay independent of each other and as precise as many cultures are today but instead merge together and new blended cultures will emerge.

As one can see in Edward T. Hall’s (1960s) figure about low and high context countries the Scandinavian countries are considered very low context as opposed all the countries in the Southeast Asia region. This becomes very clear when looking at the different aspects of communication that takes place in Southeast Asia. For example, the implicit communication is much more widely used in the Southeast Asia countries than in Sweden. However, the language difference is not as obvious as many of the countries in the region have English as their mother tongue, but body language and non verbal communication is more of an issue. As some companies mentioned, the correct way of communicating with locals is not always to have a two way communication. Instead letting one person tell the other what to do and vice versa is often a more effective way than have a equal decision making process. For instance, for Singaporeans complete silence and small gestures bear great
meaning. In order for the companies to take advantage of the high context way of communicating they need to know that relationships are often the key to success. Sometimes small things such as having a person from the regional management team join in on a meeting will yield sufficient admiration to the start of the relationship.

Mitchell (2000) talks about the surrounding environment as an important factor in high context cultures. Foreign companies operating in the Southeast Asia region need to understand that everything from where their premises is located to what titles they have on their business cards could have a deep impact on their future business. Thus, the authors advise the Swedish companies to put more effort into building relationships with their counterparties before they start negotiating deals. As this could easily be seen as making a fuss or sometimes even bribery in Sweden it is common practice in the Southeast Asian countries. Having trust for one another and to get to know each other is the key for successful business in the region and taking time to do so is often low prioritized by Swedish companies.

8.3 Economic integration and FTAs

Referring to the theory Stages of Economic Integration initiated by Balassa (1961), economic integration can take the form of many different stages. From the information gained from the research EU can be identified as the third stage of economic integration; a customs union, with selective tariff reductions, no internal tariffs or quotas, and as well common external tariffs. However, ASEAN is identified as a lower stage of economic integration; a free trade area, with only some selective tariff reductions and internal quotas. Obviously the two regions are not on the same level in their progress towards free trade across borders which can cause serious difficulties in the negotiation processes. The countries within the two regions are diverse and have in many cases conflicting views and interests. This insight is something that needs to be carefully considered when discussing the form and structure of the agreement between EU and ASEAN. Before signing any agreements, the counterparties should try to reach the same level of economic integration as it will be easier to formulate an agreement that both counterparties are satisfied with.

Acknowledged from the information gained from the interviews the more advanced phases of economic integration, the easier it is to carry out profitable businesses. That is primarily because of the reduction of trade barriers and political harmonization. Therefore, EU and ASEAN’s collaboration will strive towards becoming as integrated economically as possi-
ble. However, rationally thinking the union will probably not reach the most advanced stage of economic integration; a political union characterized by a total unification of political policies and institutions. The countries in the regions are too divergent. The authors’ point of view is that the EU-ASEAN collaboration will not develop into something more than a customs union because of the dissimilarities between the regions. Hypothetically, if the EU-ASEAN union would become even more integrated, reaching the fourth stage of economic integration; a common market, with free flow of goods, services, capital, and labor, the developed countries may face the risk of a massive immigration of labor force from the highly populated countries, such as China.

Even if all interviewed companies believed that economic integration has a great impact on companies’ potential to succeed in doing business, the general interest in the planned EU-ASEAN FTA was mild. Only those companies that were facing high tariffs in specific countries were more eager to see a successful launch of the FTA in the near future. This viewpoint may have been colored by the companies’ location in the extremely liberal Singapore. However, the companies are still facing major trade barriers when operating in the region, outside Singapore. As a business manager, it is important to understand the benefits with an EU-ASEAN FTA, not only in terms of tariff reductions but also a reduction of non-tariff barriers. A FTA will most probably lead to business efficiency and overall productivity gains for all counterparties involved. A successful launch of an EU-ASEAN collaboration would bring the two continents closer together and the non tariff barriers would as such begin to decline. Companies would not only benefit from a reduction or complete removal of tariffs but also the cultural differences would start to diminish as is already seen amongst the member countries within EU. The authors believe it is imperative for the interviewed companies to see beyond the more obvious and concrete advantages of an EU-ASEAN collaboration. As understood by the interviews the companies are not very familiar with the negotiations and a more in-depth knowledge and understanding of the surrounding benefits that it would bring would make the companies more optimistically oriented in the specific matter. Moreover, the companies’ view of not being in immediate need of a collaboration between EU and ASEAN and failing to see all of the benefits could come to prove a miscalculation. It is the authors’ beliefs that an unsuccessful launch of the collaboration could in the extreme case hurt the Southeast Asia region as a business hub and in the long term future, companies may come to see other more advantageous opportunities with other low cost regions. Failing to establish the alliance, a launch of a trade col-
laboration between the EU and for example South America or Africa could make companies shift their attention elsewhere hurting not only the companies in the Southeast Asia region but the business climate as a whole. It is true that Asia is growing and evident that the region may very well become the center of business and commerce in the long term future. But failing to see the competition from other regions and to be in the forefront of promoting free trade and its business climate may cause a shift in competitive advantage for the Southeast Asia region. After all the companies operating in the region are there for one reason and one reason only, and that is because the region offers advantageous cost benefits in terms of labor and trade barriers compared to the rest of the world. Failing to maintain these advantages and even more so extend and improve them may very well prove disastrous in the long term as the capitalistic minds of the profit driven companies will surely follow the opportunities set out to them no matter where in the world they might be.

9 Conclusion

This thesis has sought to give an insight into which impacts international trade can have on Swedish businesses and their performances. To be able to fulfill the purpose of the thesis and answer the problems stated, the authors have listen to the views of representatives of the Swedish business community in Singapore operating in the Southeast Asia region. Research on the various processes towards a deeper economic integration between EU and ASEAN has also been done in order to learn how the formal trade liberalization within the region is currently taking form and what impact the free trade agreement will have on Swedish companies operating in the region.

The majority of the interviewed companies face a large number of obstacles when doing business in the Southeast Asia region. Tariffs were occasionally mentioned as moderate barriers to trade since the tariff rate was considered to be relatively low. However, in some cases tariffs were regarded as major barriers to trade, hence they were considered to be decisive factors when establishing operations in the region. Besides, the common experience among the interviewed companies was that non-tariff barriers to trade played a significant role when doing business in the region. Bureaucracy and tedious trade procedures with excessive regulations, and administrative practices were referred to as time-consuming and costly. Underdeveloped infrastructure and lack of standardization were two other issues
that the interviewed companies had to deal with. Other problems were corruption and lack of valid rules regarding competition between companies. Moreover, during the interviews the authors realized that the cultural differences between the involved parties are considered to be a major issue when Swedish companies are doing business in the Southeast Asia region. The most obvious cultural barriers are language, including non-verbal communication, and religious differences, as well as dissimilar customs and business behaviors.

There are several of ways the Swedish companies can overcome the existing obstacles to trade through management practices. Trade obstacles such as a high level of bureaucracy and complicated administrative procedures are obviously difficult to deal with from a business standpoint. However, by hiring people from the local business community that are familiar with the complex business procedures, managers can obtain a better understanding of the situation and the issues will be easier to handle. Concerning the problem with corruption and bribes, managers need to be clear about and inform all workers how to handle such situations. It seems, however, that companies in most cases have learnt how to deal with issues like these. Furthermore, managers should also be aware of that education and humility are two key factors to success when dealing with cultural differences in business contexts. In order to be successful, managers need to inform their employees about the cultural differences and how to adjust to the dominant culture. Here as well, one good way is to make use of the local employees that usually possess valuable knowledge about the market and the business procedures in that specific culture.

Given that most Swedish companies face several obstacles to trade when operation in the Southeast Asia region, establishing an EU-ASEAN FTA could only be beneficial to the Swedish business community. A deeper economic integration through EU and ASEAN will for instance eliminate tariffs among the member countries and harmonize business procedures and regulations. With this free trade liberalization, non-tariff barriers to trade will also be reduced as countries and cultures become more unified. However, the awareness among the interviewed companies about the implications of FTAs and how these can be utilized varied significantly. The majority of the companies could not really see how they could benefit from an EU-ASEAN FTA, except for those today facing high tariffs in specific countries and sectors.

Considering the limited number of interviews, the observations stated should not be over interpreted and only be taken as indications of the state of business climate in the region.
To be able to draw some major conclusions, the authors would have to conduct a much larger number of interviews. In addition, the outcome of the interviews varied as it was also a matter of interviewing the right person who is familiar with these issues.

9.1 Proposals for future research

Ultimately, this research has raised many new questions for future research. For instance, how will EU-ASEAN form the new agreement? How can EU-ASEAN overcome and reduce the fundamental dissimilarities that are present between the countries? How can EU and ASEAN representatives form an agreement that is appropriate to all countries? How can the representatives increase awareness among companies about business opportunities of a future EU-ASEAN FTA? Other interesting aspects would be to find out how the result would differ studying companies operating in other industries as well as looking at companies’ sizes and turnovers and see if there are any patterns connected to these variables.
Reference list


Appendix

Interview questions and discussions

- Introduction
- Describe your company and your main products and/or services
- Describe your own role in the company as well as your tasks and responsibilities
- How long has your company been operating in Singapore and within the Southeast Asia region?
- Which countries are/have you been operating in?
- Which trade relations are most important to your company?
  - Within the Southeast Asia region?
  - Within Europe?
- Which are your company’s problems when trading with goods and services?
- Describe the main obstacles for your company to trade within Southeast Asia
- Do you experience tariffs and/or quotas to be a barrier to trade?
- Do you experience any non-tariff barriers to trade such as:
  - Administrative regulations?
  - Technical rules?
  - Customs and cultural differences?
- Do you experience any of the mentioned obstacles to be more evident when trading within the region?
- What actions does your company take to overcome the mentioned obstacles?
- Have you followed the current EU-ASEAN negotiations?
- Has your company been effected by the trade liberalizations within the region?
- Do trade liberalizations influence your decision where to carry out business?