

REGIONAL ECONOMIC INTEGRATION FOR GLOBAL ACCESS?—THE CASE OF ASEAN

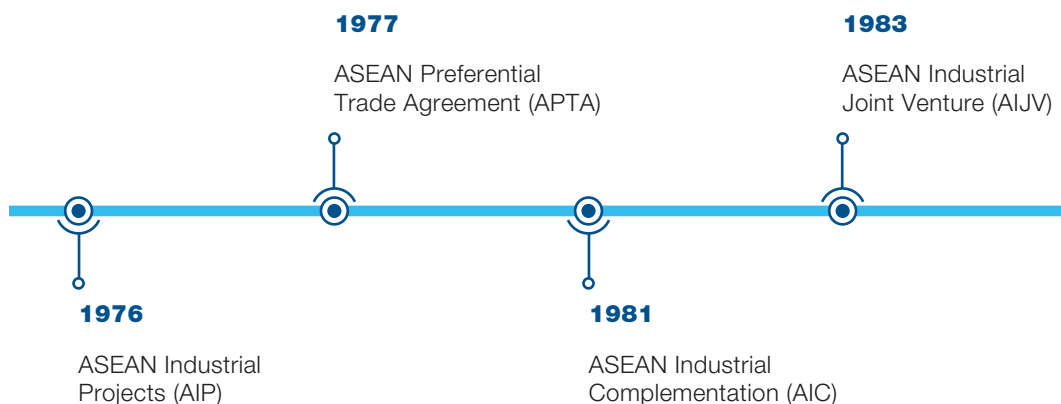
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The Association of Southeast Asian Nations (ASEAN) was launched by Singapore, Malaysia, Thailand, Indonesia, and the Philippines in 1967. The establishment of ASEAN was primarily motivated by political and security interests. Firstly, the founding member states of ASEAN—mostly former colonies—wanted to avoid that an external power appear in the region, intending to fill the power vacuum left by decolonisation. Secondly, they hoped for a more effective enforcement of their interests on the global stage through regional cooperation. Thirdly, stepping up against the spread of communism seemed more feasible in concert. As a matter of fact, these common political and security interests held the member countries of ASEAN together until the end of the Cold War. ASEAN actually started to function only in 1976, when the first ASEAN Summit of Heads of State or Government took place and member countries established the ASEAN Secretariat to coordinate their regional cooperation. Complementary to the political and security cooperation, the first

regional economic initiatives were launched in the second half of the 1970s. The earliest regional economic initiatives aimed at realising a strategy for collective import substitution industrialisation in heavy and chemical industries.

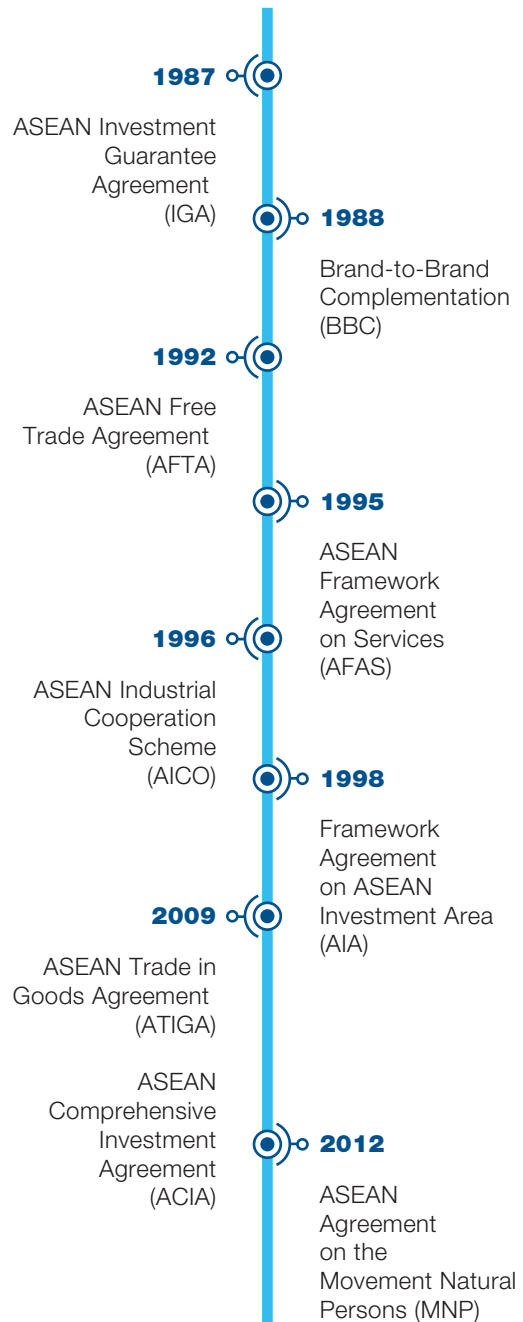
However, these early initiatives failed to deliver any significant effect. According to Yam and his colleagues, this failure can primarily be explained by the lack of supportive and efficient institutional structure, protracted bureaucratic intergovernmental negotiations, and the anticompetitive nature of the initiatives.¹ However, it is also impossible to ignore that the development of their own national economies enjoyed priority for every ASEAN member country. These originally industrial and agricultural commodity-exporting countries had carried out import substitution industrialisation policies by the 1970s, so their intraregional economic relations were not significant. Their main trading partners were extraregional, developed economies; however, foreign direct investment (FDI) was restricted at the time. Nevertheless,

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the economic development strategies of ASEAN countries started to change in the mid-1980s.² A shift from import substitution to export-oriented industrialisation took place, in which foreign direct investment was given a prominent role. This alteration in their development strategy could obviously be explained by a rapid fall in industrial and agricultural commodity prices between 1982 and 1986, a subsequent recession, and the example of those rapidly growing East Asian countries (South Korea, Taiwan, Hong Kong, Singapore) which had been carrying out export-oriented industrialisation since the 1960s. During the second half of the 1980s, ASEAN countries were carrying out significant liberalisation, deregulation, and reform. In parallel, foreign direct investment in the Southeast Asian region started to expand fast. From this point of view, the case of ASEAN was not unique, because global production chains began to evolve in the world economy, which means the evolution of production sharing between developed and developing countries. In Southeast Asia, production networks that were built with foreign direct investment by Northeast Asian (Japanese, Hong Kong, Taiwanese, South Korean), European, and American transnational corporations induced a market-led economic integration and laid the foundation for further regional economic cooperation. Due to the end of the Cold War and, consequently, the communist threat, regional economic cooperation came even more to the fore, although issues such as constraining China's rising military power and the integration of former communist bloc countries (such as Laos, Cambodia, Vietnam, and Myanmar) into ASEAN preserved the need for regional cooperation in the field of politics and security throughout the 1990s. Putting more emphasis on regional economic cooperation was imperative because the FDI-based, export-oriented industrialisation strategy of ASEAN countries faced several challenges in that decade. Firstly, other developing countries (e.g., China or India) stepped onto a similar development path, which created competition with ASEAN countries striving for FDI. Secondly, emerging regionalism (e.g., NAFTA, EU) was

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considered by ASEAN countries as a threat diverting FDI. Thirdly, due to the Asian financial crisis in 1997 and 1998, investor confidence temporarily tumbled in the region. Since the 1990s, ASEAN countries have been promoting regional economic cooperation (through regional integration agreements) to meet these aforementioned challenges.

Regional economic agreements listed in Infographic (on page 158) are aimed at integrating the market of goods and services and the factors of production in ASEAN countries. The general aim of regional integration is to abolish cross-border barriers between countries, to create a bigger market, to achieve economies of scale, and to subsequently realise gains through an increase in income. Despite this obvious motivation, state-led regional integration started to evolve slowly and clumsily in Southeast

Asia. Firstly, ASEAN countries, being on the same level of development, had weak intraregional economic relations at the end of the 1980s, and, due to their export-oriented industrialisation strategy, each of them strengthened its economic relations with extraregional developed countries while they were often competing with each other. Therefore, they were afraid of market liberalisation, which thus began to unfold more slowly. Secondly, ASEAN expanded with the accession of four low-income countries from Indochina (Cambodia, Laos, Myanmar, Vietnam, or the CLMV countries), which also joined the regional agreements. However, because of their underdeveloped status and in order to protect their domestic market, the CLMV countries were given preferential treatment, which decelerated and prolonged the regional integration process.

Chart 1: Intra-extra ASEAN trade, 2013–2018

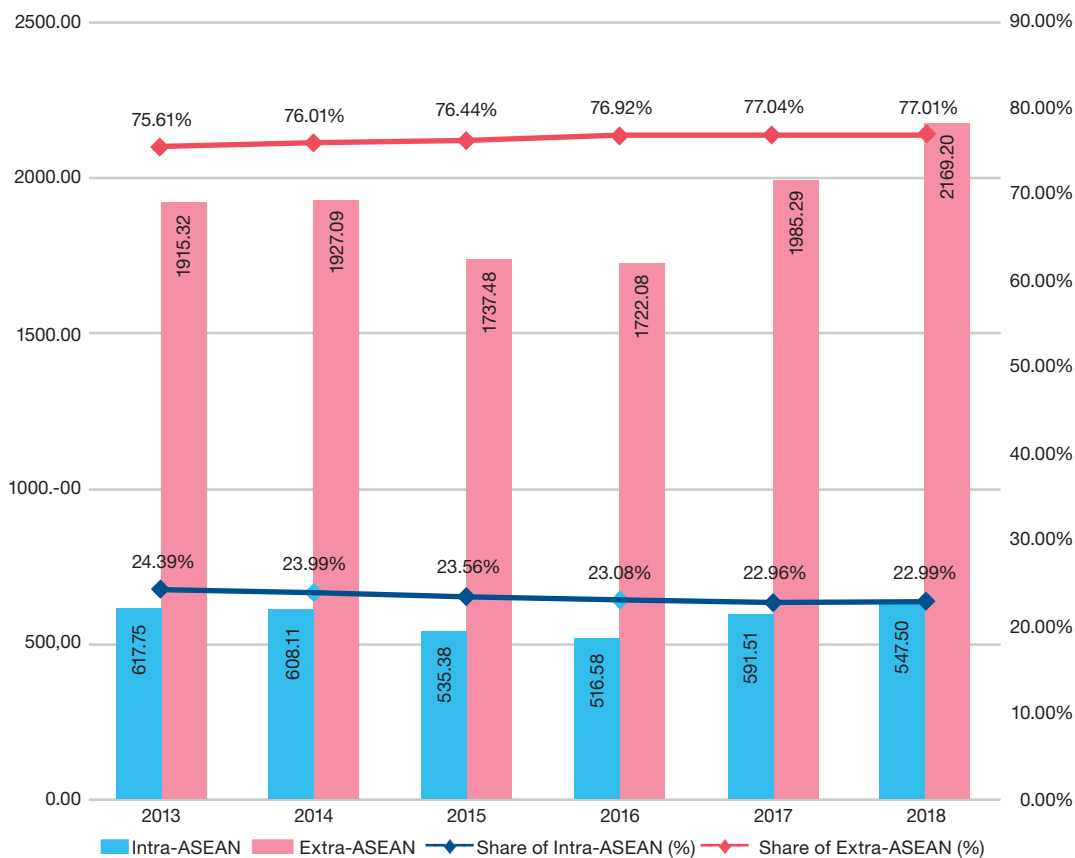


Table 1: Top ten sources of foreign direct investment inflows in ASEAN, 2013–2015						
	Value (in billion USD)			Share to total inflows (%)		
	2013	2014	2015	2013	2014	2015
ASEAN	19.562	22.134	22.232	15.7	17.0	18.4
European Union	24.511	24.989	20.127	19.6	19.2	16.7
Japan	24.750	15.705	17.559	19.8	12.1	14.5
United States	7.157	14.748	13.646	5.7	11.3	11.3
China	6.426	6.990	8.256	5.1	5.4	6.8
South Korea	4.303	5.750	5.710	3.4	4.4	4.7
Australia	2.587	6.281	5.246	2.1	4.8	4.3
Hong Kong	5.251	9.813	4.542	4.2	7.5	3.8
Taiwan (province of China)	1.381	3.253	2.807	1.1	2.5	2.3
New Zealand	0.335	0.550	2.241	0.3	0.4	1.9
Total top ten sources	96.267	110.217	102.370	77.1	84.8	84.7
Others	28.597	19.777	18.448	22.9	15.2	15.3
Total FDI inflow to ASEAN	124.864	129.995	120.818	100.0	100.0	100.0

In the case of ASEAN, the main goal of state-led regional integration is to increase foreign direct investment in the region. In the 1990s, to address the above-mentioned challenges stemming from attracting FDI to the region, ASEAN countries wanted to strengthen their national FDI-based and export-oriented development strategy on a regional level through regional economic agreements. Although state-led regional integration started to advance slowly, this process evidently accelerated during the Asian financial crisis in 1997 and 1998 and the subsequent years. At the time of the global financial crisis between 2007 and 2009, new integration agreements were also made. In sum, we can state that regional economic agreements since the end of the 1980s have aimed to establish a single market and a production base in Southeast Asia, which makes the region more attractive for foreign investors and, at the same time, promotes the more efficient operation of regional production networks.

ASEAN Economic Community (AEC), created in 2015, is based on these agreements. The idea of the AEC first appeared in the declaration

of ASEAN Vision 2020 in Kuala Lumpur in 1997, when ASEAN Heads of State or Government envisaged an “ASEAN Economic Region in which there is a free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities.”³ 1997, the year of launching ASEAN Vision 2020, was significant from two aspects. Firstly, ASEAN celebrated the 30th anniversary of its establishment, so it was high time to determine new goals for the future. Secondly, dealing with the impacts of the Asian financial crisis in 1997 and 1998 also required regional economic cooperation on a higher level. It was only in 2003 when ASEAN Heads of State or Government actually decided on the creation of the ASEAN Economic Community by 2020. However, in 2007, they changed the target year to 2015 and adopted the *ASEAN Economic Community Blueprint for 2008–2015*.⁴ Nevertheless, it is worth emphasising that the creation of the AEC is a decades-long integration process underpinned by several regional economic agreements and is still continuing long after the target year of 2015.

In other words, the target year of 2015 rather marks an intermediate stage of development.

Creating a single market and a production base is the most important pillar of the AEC. However, the Southeast Asian single market does not comply with the criteria of a single market: there is no free flow of goods, services, capital, and labour; physical borders and customs control have remained in place; the extent of the abolition of fiscal and technical barriers is also doubtful. Therefore, ASEAN countries do not have either a common market or a customs union. AEC can rather be considered as an expanded version of a free trade area. Despite all that, we can still talk about ambitious integration endeavours in the case of ASEAN.

Besides the pillar of a single market and production base, ASEAN Economic Community has three other pillars which are aimed at enhancing the role of ASEAN as an FDI host region:

- (1) *Competitive economic region*: this pillar elaborates common guidelines in competition policy, in consumer protection, in intellectual property rights, in the avoidance of double taxation, in the development of intraregional infrastructure, etc.
- (2) *Equitable economic development*: this pillar contains actions to support the economic catch-up of the poorest member countries which joined ASEAN in the 1990s.
- (3) *ASEAN's integration into the global economy*: due to the export- and FDI-based development strategy, most of the ASEAN economies are outward oriented and have stronger economic relations with extraregional partners.⁵

To develop these extraregional relations, ASEAN has concluded several free trade agreements and comprehensive economic partnerships (e.g., with Japan, China, South Korea, India, Australia, and New Zealand). This pillar also “covers adopting a coherent approach toward external economic relations and boosting participation in global supply/production networks.”⁶ Regional production networks in Southeast Asia are not limited to

the region. They also cover East Asia and go even further beyond. From this point of view, we have to highlight the recent conclusion of the so-called Regional Comprehensive Economic Partnership (RCEP) which contains ASEAN Plus Five member countries (Japan, South Korea, India, Australia, and New Zealand) and can be considered as the geographical extension of the regional market and a single production base of the AEC.

In sum, the creation of the AEC reinforces the outward-looking characteristics of the ASEAN region, and even intraregional integration endeavours (a single market and production base) are primarily aimed at deepening the embeddedness of Southeast Asia into the global economy through global production networks.

ENDNOTES

- 1 Tan Kong Yam–Toh Mun Heng–Linda Low: ASEAN and Pacific Economic Co-operation. *ASEAN Economic Bulletin*. 1992/March. 309–332.
- 2 Singapore was an exception because it launched its own FDI-based and export-oriented industrialisation strategy in the 1960s.
- 3 ASEAN Vision 2020. *Association of Southeast Asian Nations*. 15 December 1997. <<https://bit.ly/2Zoa1xq>>
- 4 *ASEAN Economic Community Blueprint*. The ASEAN Secretariat, Jakarta, 2008.
- 5 80% of the FDI inflows into ASEAN are from extraregional countries, and the share of extraregional trade in total trade of ASEAN is 75%.
- 6 *ASEAN 2030. Toward a Borderless Economic Community*. Asian Development Bank Institute, Tokyo, 2014.