



ASEAN IS HEADING TOWARD AN ECONOMIC COMMUNITY



Alexander ROGOZHIN

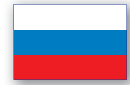
Ph.D. (Econ.), sector
Head at the Center
for Development
and Modernization,
Institute of World
Economy and
International
Relations, RAS

What definition would best reveal the nature of relationships existing today between the national economies in the ASEAN area? To our mind, it would be best to refer to regional economic cooperation between Southeast Asian countries and acknowledge its growing intensity and attractiveness for the participants.

The positive dynamics of cooperation in the area is apparent, in particular, from data on reciprocal trade over slightly less than three decades. Between 1980 and 2008, the share of ASEAN regional trade in the member countries' overall trade rose from 17.9% to 25.4%. This performance puts the Association firmly in third place among all of the world's economic associations and in first place among the associations of developing countries. MERCOSUR,* an association that follows immediately behind ASEAN, gave a significantly poorer performance at the start and end of this period (*see*: Table).

In 2000, the ASEAN countries conducted trade among themselves to the tune of \$166.8 billion, while

* MERCOSUR (Mercado Común del Sur) is a South American customs union comprising Argentina, Brazil, Paraguay, Uruguay, and Venezuela.



**The Share of Region-Wide Transactions in the ASEAN Countries' Total Trade
in Comparison with Other Regional Groups (in %)**

	1980	1990	1995	2000	2005	2006	2007	2008
ASEAN	17.9	18.8	24.0	24.7	27.2	27.2	25.2	25.4
For reference								
MERCOSUR	11.1	10.9	19.2	20.3	15.5	15.7	15.0	15.4
NAFTA	33.8	37.9	43.1	48.8	46.1	44.3	51.3	49.5
EU	62.2	67.6	67.2	67.7	67.4	67.6	67.9	67.2

COMPILED FROM: Masahiro Kawai, "Evolving Economic Architecture in East Asia," Tokyo, December 2007, p. 3; UNCTAD Handbook of Statistics 2008, New York and Geneva, 2008, p. 91 (Table 1.4); UNCTAD Handbook of Statistics 2009, New York and Geneva, 2009, p. 91 (Table 1.4).

in 2008 their reciprocal trade rose to \$458 billion, an increase of over 170%. The world economic crisis regardless, the ASEAN countries are maintaining trade among themselves at a respectable level. According to available official estimates, their trade volume was at least \$369 billion in 2009, and its share of the group's total foreign trade remained relatively high at 24%.¹

It is also significant that the ASEAN countries' own share of the influx of foreign direct investments (FDI) shows an upward trend, and quite appreciable at that. Between 1995 and 2005, their reciprocal investments topped \$12 billion (4.5% of the total FDI influx), and rose to \$28 billion between 2006 and 2008 (at an average 15.1% for the period, and over 18% in 2008). As a source of FDI for the Association's members, these countries were second to the EU 25 group only.² For some countries, though, the share of regional FDI is much higher than the ASEAN average. In 2008, for example, the share was 37.3% in Indonesia, 29.5% in Cambodia, 28.2% in Vietnam, 24.9% in Thailand, and 22% in Malaysia.³

Evidence is not hard to find that transportation, communications, and tourism have been gathering strength within ASEAN, and cross-border migration of labor has been growing faster and larger.

It is much harder to understand and appreciate *the extent to which these important developments have been caused by ASEAN as a force behind regional integration* – these processes are much more complex than economic cooperation, even if multilateral. From this perspective, ASEAN's status as it entered the 21st century gave reasons for doubts and worries rather than words of approval.

The impression was that ASEAN as a regional organization was running out of steam, and that the period preceding integration as such was far too



long. With its attention focused on political issues, mostly because of natural, historical circumstances, the Association did not as much steer its members' economic convergence as it helped convergence to lumber along as fast, or slow, as it could. The sheen of numerous summits, ministerial conferences, and joint statements on wide-ranging issues obscured its strategic prospects.

With all this put together, ASEAN's appeal in the eyes of its own members threatened to decline – right at the time when China's economic boom was literally mesmerizing its neighbors, when India was waking up to follow it, and when new integration initiatives were trumpeted in East Asia, one on the heels of another. It was only natural to expect rivalry for the role of a leader guiding integration forward.

ASEAN's leaders and the ruling elites of its member countries were confronted with the towering *problem of keeping up competitiveness in the broadest sense of the word – on the scale of individual nations, their region, and East Asia as a whole*. No doubt, realization of this challenge gave the strongest push so far to efforts to develop an Economic Community conception for ASEAN (ASEAN EC).

STRATEGIC GOAL

Creation of this community was first proclaimed the Association's principal goal back in 1997. In 2003, this goal was given detailed treatment in ASEAN's Bali Concord II declaration. Also in Bali, it was decided to have an ASEAN EC by 2020. Very soon, however, a view gained ground that the EC project had to be completed sooner. A statement on the Association's readiness to do this was made in 2005, and a formal resolution on the issue was passed at the ASEAN summit in Cebu, the Philippines, in January 2007 – the Economic Community was to be put together by 2015.⁴

Developing the ASEAN EC concept proved to be no easy matter. It took more than four years to work out a detailed plan (hereinafter the "Plan") for implementing the ASEAN EC idea. It was passed at the summit convened to celebrate the Association's forty years in December 2007. The Plan outlines both the strategic goals and tactical tasks posed by the ASEAN EC developers, as well as political tools and mechanisms to be applied in this project.⁵

Even a brief analysis of the Plan confirms the Association members' resolve to speed up finalization of an economic union by passing binding resolutions and delegating some functions previously fulfilled by national governments to the ASEAN leadership. The relevant rules will apply, in the



first place, to the Association founding members, and will only be relaxed for the less developed members (Cambodia, Laos, Myanmar, and Vietnam), and by summit decisions only.

The Plan's key passages sound traditionally cautious, based as they are on an understanding of the region's realities. For example, the introduction pledging to turn ASEAN into a free trade area does not advocate a "free" flow of capital, and instead refers to a "freer flow of capital." In the subtext, clearly, are the memories of the Asian financial crisis, triggered and spread by unregulated capital movement.

Significant undertones have been there in the section on the Community's labor resources: free movement opportunities are given to "skilled labor" only. Unskilled labor movement is actually restricted to restrain rocking of the internal labor markets, already not too stable in some cases.*

These examples are convincing evidence that ASEAN and its members make a sound evaluation of their potentialities and do not want to follow integration patterns existing in the West to their own disadvantage.

The Plan is the first document to make public ASEAN's chief, strategic goal – establishing an ASEAN Economic Community and making the Southeast Asian regional union a more dynamic and competitive organization based on the principles of an open and outward-looking market economy. Movement toward an ASEAN Economic Community in the less developed countries is to proceed at a slower speed, with reservations referring to the different integration stages.

The Plan is clear about the central role assigned (in a varying degree) to foreign trade in the economic systems of the Association's countries. Continued development of economic ties between them is demanded by the times. ASEAN is to integrate itself into the globalization process with its impact on the present situation in the region and the world.

TACTICAL TASKS

According to the Plan, the *tactical tasks* on the way to the ASEAN EC are to (a) form a single regional market for goods and services and a single "production base;"

* The definition of "skilled labor" in the Plan's second section also includes "business persons" and "talents," an addition that changes nothing of principle in the separation of labor flows into two unequal parts involved too differently in the integration process.



(b) turn the region into a single entity in terms of several basic parameters, in which the national competitiveness of individual countries is to be supplemented with the competitive advantages of the Economic Community as a whole;

(c) ensure just and equitable economic development conditions throughout the region; and

(d) create conditions for the region's full integration into the world economy.

As we see it, the nature of the tasks shows that all ASEAN members recognize *the singular importance of the globalization benchmarks* for the Association's integration efforts. The members are all concerned with making their positions on external markets stronger, and all are worried by the pressure turned on by competitors such as China and India (even though deliberating on this subject in the Association is not common). For any single country, protecting itself alone from such pressures is a delusion. Joining forces in a union for the same purpose may be a more realistic option.

By setting their *first tactical task*, the ASEAN countries certainly draw on many years of experience they had by hosting foreign companies' manufacturing units. To remind, the practice now called "outsourcing" struck roots in Southeast Asia much earlier than it did in China, at a time when no term existed for the practice.

Previously, each ASEAN country attracted foreign investors all alone, while now, the Plan says, foreign investors can be guided by regional outsourcing schemes (with a promise of extra benefit to them).

The *second tactical task* is to coordinate economic policy development in several fields. More specifically, these are measures to improve antimonopoly laws,* protect intellectual property, and modernize and develop transportation, information, and energy infrastructure.

Under the *third tactical task*, the Plan developers insist on the need to strengthen small and medium-size businesses in all ASEAN countries. The trouble is, however, that small and medium-size businesses in the Association's different countries are frequently opposed to one another. It is a big question then what ASEAN will achieve in this sense. Neither is it simple with another problem related to "equitable development"

* At present, antimonopoly laws have been passed in Indonesia, Thailand, Vietnam, and Singapore only, and antimonopoly regulators operate just in these countries. Malaysia does not have an antimonopoly law, and antimonopoly regulation is enforced by ministries and administrations each in its own industry.



conditions, in particular, higher development of countries that founded the Association and lower development of countries that joined it later on. The Plan developers' idea is clear enough – “leveling off” individual economic positions within ASEAN will make it more uniform, consolidate its general positions outside, and reduce tensions now hard to hide between the “rich” and “poor” Association partners. What if the richer members are still lacking the potential to help their poorer partners to rise to at least the average welfare level? ASEAN itself lacks the potentialities and funds (in contrast to the EC) to do this. And more, practical experience shows that “leaders” and “laggards” reach agreement much faster in Southeast Asia than partners at comparable development levels. Won't “leveling off” – if, of course, it really comes to pass – slow down rather than spur on the integration process?

Fulfillment of the *fourth tactical task* is associated with harmonization of approaches to bilateral free trade agreements made within ASEAN. The going is still tough. Too often the Association members' priorities are not reduced to a common denominator. Relations between them and their partners outside the region are too complex and diversified. Some think about a mechanism to coordinate the Southeast Asian countries' involvement in global production chains. Is this realistic? Transnational companies are the main force that forms these chains, and they are known to be guided by their own interests.

How fast and how effectively ASEAN will move toward an Economic Community will ultimately depend on how reliable its approaches are and how fine-tuned are the mechanisms applied by it. In contrast to the clarity of the strategic goal and tactical tasks, the Plan is pretty vague about that. The schedules attached to the Plan should not confuse anyone. The high-sounding declarations of intent are just as typical of ASEAN as the leisurely implementation of its plans.

RUSSIA'S INTERESTS AND OPPORTUNITIES

What does the plan to establish an ASEAN EC mean from the perspective of Russian interests? What opportunities will open up for Russia in this part of the world?

The combined ASEAN market is quite large and is showing an upward trend. It is clearly a market that cannot be ignored. At the Russian end, economic contacts with Association members – whether in trade or



investments – are maintained today mostly by private business. Private Russian companies already have good opportunities to do business in any one Southeast Asian country and the region as a whole. It is a sure guess that more opportunities will be offered after 2015. How to use them best?

Unfortunately, the Russian engineering industry has a very slender presence in the ASEAN region, even though prospects for cooperation in this field with many Southeast Asian countries look far better than, for example, with China (where competition is very high and the government jealously protects its national businesses).

Further liberalization of the regional market for goods and investments can be seized upon by Russian engineering companies to set up production networks in the ASEAN region on the pattern of those that have been successfully built and operated by Western companies for a long time. By spreading across several countries simultaneously, such networks could guarantee a more stable demand. Southeast Asia is a place where Russian outsourcing can flourish, provided there is the will, based on a proficient market research and actively supported by the Russian government.

Building up relations with small and particularly medium-size business is yet another opportunity to fortify Russian economic positions in the ASEAN region. It is not only that these business sectors are given priority in the ASEAN EC conception. Doing business with powerful Western market players may somehow pander to the pride of local small businesses and be profitable, but they hardly always feel comfortable. Russian partners that compare closer with them in weight and frequently wield significant potential may be of interest to local small businesses only because relations with them are more likely to yield both profit and a feeling of equitability.

Finally, energy security is not the last thing on the mind of ASEAN and its members. In this sense, Russia can offer what individual countries and the region as a whole want most. Cooperation can reasonably follow at least three lines. First, it is deliveries of Russian oil and gas. Second, it is Russian companies' participation in geological exploration and operation of oil, gas, and coalfields, construction of pipelines and electric power plants of any type, and development of alternative energy sources. The third line would suggest coordination of Russia's energy policy (particularly, in energy diplomacy) with ASEAN countries that have energy resources they take to world markets.

To sum up, attempts to accelerate the region's advance toward an ASEAN Economic Community is a sign to Russia to keep track of not just changes occurring in the region's economy, but also of *political decision-making* on



economic integration. It is important to sense shades in different countries' positions on these issues and also moments of consensus and differences in their views. This will help avoid missing chances to reinforce Russia's economic presence, chances that Southeast Asia is yet to offer Russia, and also to identify incipient threats to its economic interests – a possibility that cannot be ruled out either. ■

NOTES:

1. Computed from: "ASEAN Connectivity and the ASEAN Economic Community" by S. Pushpanathan, Deputy Secretary-General of ASEAN for ASEAN Economic Community. Paper presented at the 24th Asia-Pacific Roundtable, Kuala Lumpur, June 7-9, 2010 (www.aseansec.org/24806.htm); WTO, World Trade Report 2010, Geneva, 2010, p. 28.
2. Data borrowed from ASEAN Foreign Direct Investment Statistics Database as it was on March 15, 2010 (Table 27).
3. Ibid. (Table 25).
4. For more detail on the origination of this conception, see: N.P. Maletin, ASEAN: chetyre desyatiletiya razvitiya [ASEAN: Four Decades of Development], MGIMO-Universitet, Moscow, 2007, p. 215-219; Masahiro Kawai, "Evolving Economic Architecture in East Asia," Tokyo, December 2007, p. 20.
5. The ASEAN Economic Community Blueprint, Jakarta, the ASEAN Secretariat, 2008.