

The Challenge of Globalization, Business Interests and Economic Integration in ASEAN

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Ever since the early 1990s, the members of ASEAN have deepened regional economic integration. In 1992, they launched an initiative to create an ASEAN Free Trade Area (AFTA) by 2008. Since then, they have accelerated the schedule of trade liberalization for AFTA and expanded the scope of market integration, targeting investment areas, services sectors and procedures for goods movements. With AFTA virtually in place, ASEAN members have decided to create a common market with a free flow of goods, services and capital, by putting forward the idea of the ASEAN Economic Community (AEC).

In the process of economic integration, ASEAN members have to take into account the influence of globalization. While globalization implies the growth of money markets and financial transactions, as well as the transnational restructuring of production on a global scale, it takes place in parallel with regionalization because of the lower transaction costs associated with geographic proximity.¹ In Southeast Asia, globalization has been permeated in the form of growing competitive challenges from neighbouring countries. As a result, ASEAN members have been forced to adopt effective measures to meet such challenges.

This chapter examines ASEAN’s attempts to develop economic integration initiatives with due attention to the incorporation of business interests. It analyses how ASEAN members have sought to strengthen linkages with local business circles, and articulates problems that the public and private actors have been confronted with in promoting the economic integration process.

ASEAN’s Attempts to Promote Economic Integration

In the new millennium, trade liberalization and market integration have become critical policy agenda for major parts of the world. Southeast Asia is no exception. At the Ninth Summit at Bali in October 2003, ASEAN leaders agreed to establish the AEC.² The objective of the AEC is to set up a single market and production base with a free flow of goods, services, investment, capital and skilled labour. ASEAN members took a step to materialize the AEC in the following year. In November 2004, ASEAN leaders launched the Vientiane Action Programme (VAP) at the Tenth Summit. The VAP is the second mid-term (2005–2010) plan, succeeding the Hanoi Plan of Action, which ended in 2004. The programme contains clearer goals and strategies for realizing the AEC: the completion of integration in the eleven priority sectors before 2010,³ and the elimination of tariffs for products—by 2010 for the old ASEAN members and by 2015 for the new ASEAN members. The VAP also prepares for a monitoring and evaluation system, which is based on a scorecard that comprises both a consolidated assessment mechanism at the macro level and a quantitative rating mechanism at the project level.

Why did ASEAN members launch new programmes for market integration in the new millennium? The integration programmes were reactions to challenges posed by globalization. As Charles Oman correctly points out, the regional processes can be seen as a reaction to phenomenon and problems caused by globalization.⁴ ASEAN members had to react to changes in their surrounding environments, in particular, their relations with China and India. ASEAN's economic position vis-à-vis China has been gradually declining after the mid 1990s. China has been the primary recipient of foreign direct investment (FDI) among developing countries since 1992. FDI into ASEAN increased from US\$15 billion in 2002 to US\$19 billion in 2003, but the 2003 figure was still less than 40% of China's corresponding figure of US\$54 billion.⁵ There was a perception that China's rapidly growing economy would divert FDI inflows away from ASEAN towards China. Furthermore, China's economic presence has gradually undermined the relative position of products from Southeast Asia in the third markets. For instance, while exports from China to the US market grew by 144% between 1997 and 2003, those from ASEAN-4 increased by only 20% in the same period.⁶

In addition to China, another neighbouring country has emerged as a serious rival to ASEAN. India has raised its presence in the world economy by developing global outsourcing linkages in the information technology (IT) sector. Major IT enterprises such as General Electric, Microsoft, Intel and Cisco have expanded

investment into the country. India's pool of English-speaking human resources for computer software is expected to raise the economic potential of the country.

Confronted with growing challenges from China and India, some ASEAN leaders became more anxious about the relative decline of Southeast Asia as a growth pole in Asia. This concern was revealed in their desire for the acceleration of internal market integration. At the ASEAN Economic Ministers (AEMs) meeting in September 2003, the ministers agreed on the 2020 timeframe for the AEC completion, accepting some countries' reservations about opening the market too hastily.⁷ However, some leaders were apprehensive about this timeframe. Thai Prime Minister Thaksin Shinawatra and Singaporean Prime Minister Goh Chok Tong felt that 2020 might be too late, hoping to see an earlier completion date. At the 2003 Bali Summit, Thaksin argued that the AEC should be formed by 2012 to prevent such a goal from becoming obsolete. He feared that if ASEAN's integration moved slower than that date, outside forces would undermine the internal integration process, as ASEAN would have forged FTAs with China by 2010, with India by 2011, and with Japan by 2012.⁸

While China's looming economic expansion has posed a serious challenge to ASEAN members, the growing Chinese market has also provided ASEAN firms with opportunities for business expansion. In order to change China's economic growth from threat to opportunity, ASEAN members would need to improve the competitiveness of local industries and firms. Importantly, the AEC contains measures for trade facilitation—in addition to trade liberalization—such as faster customs clearance and the harmonization of product standards and technical regulations. These measures are valuable in realizing the economies of scale through reduced transaction costs. ASEAN leaders expect that local firms with larger economies of scale will develop into multinational enterprises that retain the capability to advance into the Chinese market to compete.

Business Interests and Economic Integration

In order to improve the competitiveness of local firms and industries, ASEAN and its members have striven to tighten their relationship with existing business associations in Southeast Asia. This was the case with the ASEAN Chamber of Commerce and Industry (ASEAN-CCI), the representative business association in Southeast Asia.⁹ The ASEAN-CCI was involved in the development of AFTA by delivering business

preferences for the tariff reduction schedule and dispute settlement mechanisms. In the late 1990s, ASEAN and its members tried to strengthen linkages with the CCI further. In 1996, the ASEAN Secretary-General offered a space for the secretariat office of the CCI within the ASEAN building in Jakarta. Moreover, ASEAN and its members pursued institutional linkages between the ASEAN-CCI and other ASEAN bodies. The Senior Economic Officials Meeting (SEOM) agreed that representatives of the ASEAN-CCI be invited to all meetings of SEOM and the Working Group on Industrial Cooperation. It was also approved that the ASEAN-CCI would be invited to an AEM meeting whenever necessary.¹⁰ These measures were taken to enhance the CCI's role in creating a more cohesive business community in Southeast Asia and to promote harmonization between the CCI's policy preferences and ASEAN's policy.

A more decisive initiative emerged in the new millennium. At the Seventh ASEAN Summit in November 2001, an initiative to establish the ASEAN Business Advisory Council (ASEAN-BAC) was approved and its inaugural meeting was organized in April 2003. The council, whose 30 members were nominated by their representative governments, was expected to provide ASEAN leaders with requests and opinions from the private sector concerning ASEAN's economic integration and industrial competitiveness. ASEAN and its members have established privileged institutional linkages with the ASEAN-BAC. While ASEAN members appointed a minister for trade or commerce as the main point of contact to communicate with the council members, these members were also invited to an annual meeting of ASEAN leaders and AEMs.

By taking advantage of its close ties with ASEAN, the ASEAN-BAC has undertaken activities such as the holding of the ASEAN Business and Investment Summit (ABIS) and the management of the ASEAN Pioneer Project Scheme (APPS). The ABIS, organized annually since 2003 in conjunction with the ASEAN Summit, has provided business leaders from ASEAN and non-ASEAN countries with opportunities to identify issues and problems in market integration in Southeast Asia. The APPS, a "fast track" mechanism to expedite project approvals in custom clearances and technical regulations, was formed to help indigenous ASEAN companies grow into ASEAN conglomerates.

Thus, ASEAN and its member governments have advanced government-led initiatives to strengthen linkages with the local business community, through which they

have sought to reflect business interests in ASEAN's integration policies. Such initiatives, being ultimately aimed to raise the local firms' competitive edge in the rapidly globalizing business world, have been their response to the challenge of globalization.

Problems in Incorporating Business Interests in Economic Integration

While ASEAN and its members seek to strengthen linkages with the local business circles, the degree to which business interests are incorporated into ASEAN's policymaking needs scrutiny. The two business associations—the ASEAN-CCI and the ASEAN-BAC—have organizational weaknesses in becoming a substantial force for ASEAN's market integration and industrial competitiveness. The chairmen of the associations have been rotated by country in alphabetical order. This system, which follows the rotational style of the ASEAN chairmanship, gives due respect to sovereign equality and aims to forge close links with ASEAN activities. However, the frequent change in chairmanship has impeded the associations from formulating decisive policy initiatives under strong leadership. In particular, their weak leadership becomes apparent when the less developed countries assume chairmanship.¹¹ In a sense, the business associations follow the “ASEAN Way”. The ASEAN-BAC and the ASEAN-CCI have ingrained the central procedural norms of sovereign equality and consensual decision making in their operations. The adherence to these norms has made the operations of these associations inflexible and rigid, preventing them from demonstrating the practical and substantial representation of business interests in the process of market integration.

The ASEAN-BAC has a mission to deliver business interests to ASEAN's top leaders. However, it has essential weaknesses in terms of composition. The council comprises 30 members — three business leaders from each country — whom ASEAN leaders personally nominate on the basis of advice from their senior economic officials and chambers of commerce.¹² The regional economic integration is a process which involves a shift in policy orientation, from a narrow national base to a broader regional one. The organization has intrinsic limitations in going beyond national interests or national orientation. In addition, more than half of its members represent the interest of small and medium enterprises (SMEs). Given that most firms in Southeast Asia are SMEs, policymakers need to give due consideration to their interests. However, the

high representation of SMEs has made differentiation from the ASEAN-CCI ambiguous, and allowed the council to adopt generalized “lowest-common denominator” positions. This is largely because large firms and SMEs tend to develop different perspectives on industrial and trade policies.

The ASEAN-BAC’s weaknesses become apparent when compared to business representation in the economic integration process in Europe. In the process towards forming the Single European Market in the late 1980s and early 1990s, a business association called the European Round Table of Industrialists (ERT) had significant influence.¹³ The ERT, created in 1983 by chief executive officers (CEOs) of major European firms, acted as an agenda setter and pressure group. As a purely private and independent association, the ERT had complete freedom to set political highlights according to its preferences, and to express and deliver its opinions to the policymakers. The association, which was dissatisfied with the inability of its member governments to take positive action in promoting a unified European market, provided the agenda and policy alternatives for this objective.

The ERT’s influential role in the process towards forming the Single European Market illustrates the importance of an independent business group in economic integration in Southeast Asia. Such a group is expected to play at least three important functions. First, it may function as a critical agenda setter for the integration programme, and as a group that puts pressure on governments to promote the integration process. Second, it may be a vital ally of the ASEAN Secretariat in advancing integration programmes by facilitating coordination with member governments. Third, the existence of an independent business association should enable local firms to learn skills in interest aggregation and interest representation from other business groups composed of non-local firms. For instance, the US-ASEAN Business Council has played an active role in representing the interests of US firms in ASEAN’s economic integration.¹⁴ Local firms in Southeast Asia can get expertise from the activities of US firms and their association.

Conclusions

As a reaction to the challenges of globalization, ASEAN members have exhibited great interest in incorporating business interests into their economic integration process, and adopted concrete measures. While seeking to strengthen linkages with the existing

ASEAN-CCI, they have commissioned various talks to the newly established ASEAN-BAC. Although these government-initiated policies have contributed to stronger linkages between ASEAN and the local business community, the latter's substantial input in the integration process remains weak due to their limitations as independent business associations in terms of member composition and administrative procedure. The challenge of globalization is dynamic, and both private and public actors need flexibility and decisiveness. In addition to strong linkages between them, the transformation of organizational style and administrative management is crucial for substantiating business representation in ASEAN's economic integration efforts.

¹ Samuel S. Kim, "Regionalization and Regionalism in East Asia" *Journal of East Asian Studies* 4, no. 1 (2004), p. 43.

² The AEC is one of three pillars that make up the ASEAN Community as declared by the ASEAN leaders in the Bali Concord II. The concord was an accord agreed at the ninth summit in October 2003. The other two pillars are the ASEAN Security Community and the ASEAN Socio-Cultural Community. The Bali Concord II was the new ASEAN vision, 27 years after the first Bali Concord was signed by the then ASEAN-5.

³ The eleven priority sectors are as follows: automotives, wood-based products, rubber-based products, textiles and apparels, agro-based products, fisheries, electronics, air travel, tourism, e-ASEAN, and healthcare.

⁴ Charles Oman, *Globalisation and Regionalisation: The Challenge for Developing Countries* (Paris: OECD, 1994).

⁵ UNCTAD, *World Investment Report 2004: The Shift towards Services* (Geneva: United Nations Conference on Trade and Investment, 2004), p. 50.

⁶ Yasuo Onishi, "Shinka suru Chugoku ASEAN keizai kankei" (Deepening economic relations between China and ASEAN) in Yasuo Onishi (ed.) *Chugoku ASEAN Keizai Kankei no Shin Tenkai* (New development in economic relations between China and ASEAN) (Chiba: Ajia Keizai Kenkyujo, 2006), p. 11.

⁷ *The Nation*, 8 October 2003.

⁸ *Far Eastern Economic Review*, 23 October 2003, p. 16.

⁹ ASEAN-CCI was founded in April 1972 by the national chambers of commerce and industry in the five founding members accepting a suggestion from the ASEAN Foreign Ministers. ASEAN-CCI, *ASEAN-CCI Handbook '81* (Bangkok: ASEAN-CCI, 1981), p. 9.

¹⁰ "Private sector participation", available at <<http://www.aseansec.org/10058.htm>>(accessed 31 July 2007).

¹¹ This problem was revealed in the management of ASEAN-CCI. ASEAN-CCI held a council meeting only seven times in seven years in 1997–2004. An equal number of council meetings was held in two years in 2004–2006. The dormant activities in 1997–2004 were influenced by weak leadership from the presidency countries as well as by the Asian financial crisis. The revitalization of the chamber's activities in 2004–2006 was heavily dependent on the assertive leadership of the Singapore Business Federation, which assumed the presidency during this period.

¹² "The private sector in ASEAN's Integration and Competitiveness Initiative: the ASEAN Business Advisory Council", available at <<http://www.aseansec.org/14818.htm>>(accessed 31 July 2007).

¹³ For details of the influence of the ERT on the European integration process, see Maria Green Cowles, "Setting the Agenda for a New Europe: The ERT and EC 1992", *Journal of Common Market Studies* 33, no. 4 (1995), pp. 501–526.

¹⁴ The US-ASEAN Business Council has influenced ASEAN's integration policy by providing information and technical guidance that would facilitate the economic integration process.