

## **Domestic Actors, Market Reform and Economic Community Building**

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Founded in 1967, ASEAN is considered the most successful regional organization outside of Europe. Though criticized for its lukewarm achievements, ambitious objectives and “all talk, no action” stance, the association, from its humble beginnings as a promoter of regional stability, has moved slowly but surely towards greater economic cooperation. Since the early 1990s, ASEAN has become bolder and more ambitious in outlook and vision. To fast-track market integration, its member states have agreed to further eliminate import duties through the Common Effective Preferential Tariff (CEPT). Indeed, total ASEAN intra-trade products have increased since 1993 but extra-regional trade still far outweighs intra-regional trade. In 2003, the Bali Concord II stipulated the formation of the ASEAN Community resting on three “pillars”—ASEAN Security Community (ASC), ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community (ASCC)—by 2020, while the drafting of an ASEAN Charter was first enunciated during the 38th ASEAN Ministerial Meeting in Vientiane in July 2005.

The ASEAN Community is a manifestation of renewed interest in economic integration. Of the three pillars, the ASEAN Economic Community (AEC) focuses specifically on the interests of the business community. The AEC envisions the development of a single ASEAN market as well as the economic integration and enhanced competitiveness of the member states.<sup>1</sup> These goals, nonetheless, necessitate the involvement of the business sector in the process of economic community building. Apropos, this chapter will examine the mind shift of the business sector that has prompted ASEAN to push vigorously for greater economic integration in the region. The Philippine case is cited to underscore this point.

Recent developments in ASEAN are attributed to macro factors, particularly

dramatic changes in the international economy. John Ravenhill noted that ASEAN member states are more committed and cooperative this time because of the structural incentives and changes dictated by a globalized economy.<sup>2</sup> I argue that, while macro factors are essential, the realization of the ASEAN vision depends on domestic processes. These latter elements are significant because ASEAN customarily leaves the implementation of any integration scheme to individual member states. Global economic changes are irrelevant if they do not induce a *positive response from the business sector*, without which the government will have difficulty in complying with the ASEAN plan of economic integration, regarded as market-driven and based on the principle of open regionalism. Ponciano Intal acknowledged the policy changes in the domestic front that led to the evolution of ASEAN to what it is today. He averred,

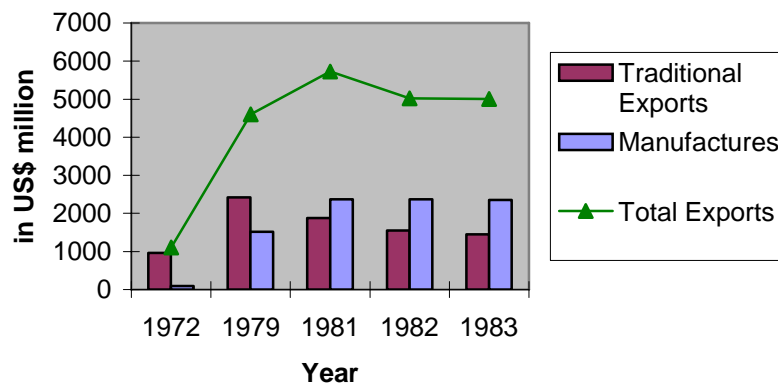
The domestic policy environment in the ASEAN member economies has changed significantly since the late 1980s. As a result, the ASEAN has correspondingly evolved. Being the largest economy in the ASEAN, Indonesia's dramatic shift in trade and industrial policy—from an inward-looking industrial protectionism in the 1970s to an increasingly outward-oriented economy in the late 1980s—paved the way for the resurgence of ASEAN economic cooperation initiatives by the turn of the 1990s. Besides Indonesia, the Philippines also started to reform its economy in earnest, beginning in 1986, towards greater export orientation and more stable macroeconomy.<sup>3</sup>

### **From Inward to Outward Orientation: The Expansion of the Philippine Export Sector**

Fidel V. Ramos was the newly elected President of the Philippines when the Common Effective Preferential Tariff came out in 1992. The country was then consolidating the gains of the political and economic reforms implemented by the Aquino Administration. Limited market liberalization, however, was introduced during the final years of the Marcos dictatorship. The dominantly agricultural Philippine economy had become a maelstrom — turbulent and unsound. In the 1950s, an inward-oriented and protectionist economic strategy was instituted. Because protectionism favours producers over

consumers, the development of the manufacturing sector was painfully slow. It was only in the late 1970s and 1980s, when the prices of Philippine agricultural products plummeted in the international market, that many agrarian barons shifted to manufacturing and other sectors of the economy.<sup>4</sup>

Figure 1: Agriculture vs. manufactures exports, 1972–1983



Sources: Data for 1972 and 1979 were taken from Philippine Development Indicators, NEDA, 1980. Data for 1981–1983 were taken from the Central Bank of the Philippines’ online database (Trinidad, 2006:42).

Between 1979 and 1981, the values of manufactured goods exported by the Philippines to the world gradually exceeded those of traditional and agricultural exports (see Figure 1). Since 1985, the total production of the Philippine industrial sector has consistently surpassed that of the agricultural sector (see Table 1). Increased production in the manufacturing and industrial sectors also gave rise to a new type of business whose interests were distinct from the agrarian concerns of the traditional elite. Moreover, these new capitalists espoused different policy preferences, and shaped an economic orientation which could be inward or outward-looking, depending on their market base. The export share of the local manufacturing sector in 2003 was 91.8%.<sup>5</sup>

Table 1: Philippine GDP by industrial origin in percentage, 1985–2006

Sector/Year	1985	1990	1995	2000	2003	2006
Agriculture, fishery and forestry	24.6	21.9	21.6	15.1	14.6	14.2
Industry sector	35.1	34.5	32.1	31.6	31.9	32.1
Service sector	40.4	43.6	46.3	53.2	53.4	53.7
GDP	100	100	100	100	100	100

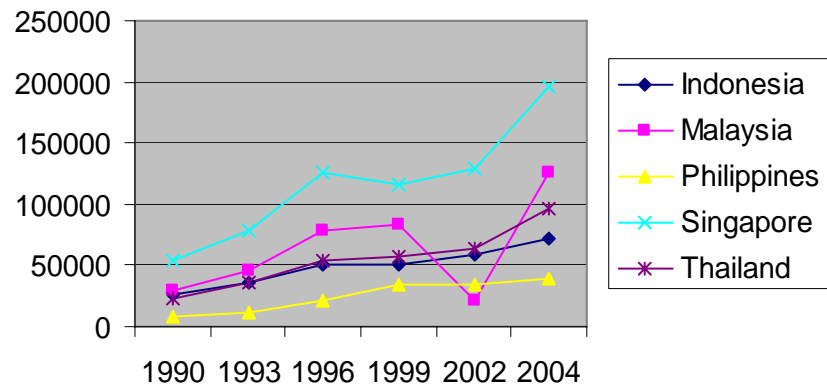
Sources: Compiled from National Economic and Development Authority (NEDA) online database 2007.

### **Expansion of the Export Sector and the ASEAN Vision of Integration**

Since the CEPT creates rent favouring manufactured goods, the export orientation of the manufacturing sector of the participating state must be high to maximize the benefits from the scheme. Apparently, member states with the highest export targets are deeply committed to greater integration. By the 1990s, the Philippines' export performance had improved, as evidenced by the value of exports in Figure 2. Likewise, the other original ASEAN members also experienced dramatic increases in the values of their exports during the period under review. The figures also explain why Singapore and Malaysia have been the most tacit advocates of free trade in the region. The two countries—at 102.8% for Malaysia and 205.3% for Singapore—have the highest ratio of exports to GDP among the member states. The manufacturing sector in Malaysia also employed 32.4% of the country's total workforce, compared to Singapore's 24.9% in 2001.<sup>6</sup> Meanwhile, the employment share of the manufacturing sector in the Philippines was only 15.6% while that of Indonesia was 17.5% during the same year.

In the 1980s and early 1990s, most investments in the region were export-oriented and labour-intensive.<sup>7</sup> This trend exponentially increased the export orientation of the host states. Furthermore, the ASEAN6 was looped into the flying geese strategy of Japan, which initially set the momentum for market integration.<sup>8</sup> The domestic condition since the 1990s was, thus, ripe for ASEAN to pursue its economic integration vigorously.

Figure 2: Export orientation of ASEAN5 (Export in millions of US dollars)



Source: Bangko Sentral ng Pilipinas (BSP)/ NEDA 2007

Altogether, an export-oriented economy, the growing ratio of industrial production to the country's GDP and the new policy preferences of the business elite in the manufacturing sector who favour trade and FDI liberalization created a favourable condition for the adoption of market reforms. The Philippines reached this threshold between the 1980s and the 1990s. Thus, when the idea of accelerated ASEAN economic integration cropped up, the Philippines was, more or less, ready to embrace a more open and liberal regional policy. Former President Fidel Ramos assumed the difficult task of continuing the liberal momentum that began in the late 1980s. Coincidentally, he focused on economic reforms that were encapsulated in the Medium-Term Philippine Development Plan (MTPDP) or "Philippines 2000", his flagship programme of government. His reforms were aimed at restoring political stability; implementing economic reforms to level the playing field and democratizing the economy to make it more competitive; infrastructure and energy development; environmental protection and preservation; and modernizing the bureaucracy.

### **Domestic Actors and the Pursuit of Market Reform in the Philippines**

To ensure that the Congress would support the executive agenda, President Ramos partnered then House Speaker Jose De Venecia, who formed the Rainbow Coalition in both Houses of Congress. This political coalition enacted at least 229 structural laws based on the policy recommendations of the Ramos Administration. Of these, 79 were

economic reforms, 85 were social reforms while the remaining were political, electoral, defence and administrative reforms.<sup>9</sup> To avert an impasse between the executive and the legislative branches, which usually beset policy- and law-making processes in the past, the Presidential Legislative Liaison Office (PLLO) was set up “to promote Presidential initiatives and act as conduit between the Office of the President and individual members of Congress, non-government and other cooperative interest groups supportive of the President”. The PLLO addressed coordination problems between the president and the members of the legislature common to a presidential system that observes the principle of separation of powers. The Rainbow Coalition and the PLLO galvanized executive-legislative collaboration, which saw the passage of important socioeconomic legislations in the 1990s.

Liberalization-related and export-promoting legislations enacted during the Ramos Administration included, among others, the Export Development Act (RA 7844), Amendment to the Omnibus Investment Code (RA 7888), Amendment of RA 7042, which further liberalized foreign investments, and an act liberalizing the entry of foreign banks in the Philippines (RA7721). These laws boosted the country’s receptivity to greater economic integration in Southeast Asia. In August 1994, President Ramos issued Executive Order (E.O.) No. 193, creating the World Trade Organization (WTO) Advisory and the ASEAN Free Trade (AFTA) Advisory Commissions. These bodies were tasked to “prepare and implement a plan of action to be adopted by government and the private sector to comply with the Philippine commitments to the Uruguay Round and the ASEAN Free Trade Agreements”.

The now-merged WTO-AFTA Advisory Council is also mandated to enhance collaboration and build consensus among the various sectors that may be affected, to conduct an information campaign and to coordinate with the various government and private agencies regarding the country’s compliance with the WTO and AFTA. The Philippine Chamber of Commerce and Industry (PCCI) sits in the council as a representative of the business sector to ensure that its interests are heard in policy formulation and implementation. Hence, the Philippines’ active participation in ASEAN Economic Forums is proof of the newly formed consensus between the public and the private sectors. The country has either introduced or vigorously supported important

initiatives for greater economic cooperation in ASEAN since the 1990s. One such initiative is a scheme that would allow the use of ASEAN currencies for intra-ASEAN trade, which could eventually make the region less dependent on the US dollar.<sup>10</sup> Unfortunately, the economic gains of the early 1990s suffered a temporary setback when the Asian financial crisis hit in 1997.

The Arroyo administration has continued the liberal economic agenda. But due to the persistent issues of her administration's legitimacy and her being an "accidental" president following Estrada's extra-constitutional ousting, President Arroyo still suffers from "social control" deficit, which has somehow obstructed her government's economic agenda. The political bickering between the opposition and the administration did not subside after she was elected president in 2004. Instead, it worsened because of alleged electoral fraud. Wary of street politics and people power, President Arroyo has vowed to transform the Philippines into a "strong republic". In the area of economic reform, her administration emphasizes good governance and upholds the rule of law to improve the influx of investments, particularly by reducing the cost of business, safeguarding consumer welfare, rationalizing incentive structure and honouring international commitments.<sup>11</sup>

President Arroyo also uses market reform and its corresponding economic gains as an important strategy to reduce poverty and to ensure her political survival. As a result, she survived the worst attempt yet to forcibly oust her from office in February 2006. The political squabbles and intrigues have not affected the government's market reform or its commitment to the ASEAN Free Trade Area because of the strengthening consensus between politicians in general and the business sector.

## **Conclusion**

The importance of domestic factors and their role in ASEAN's economic integration cannot be overemphasized or discounted. To begin with, the consensus-based decision making and the absence of supranational institutions in the organization leave the implementation of economic integration schemes to member states. This makes economic community-building a very slow and arduous process, and dependent on each member's commitment and inputs, which are determined by domestic conditions. While external

factors like globalization provide the impetus to ASEAN's vision of integration, the business community must respond favourably to liberalization to successfully implement it. The new local elites in the export-manufacturing sector can provide aggregate support to the government in pursuing liberal reforms required for economic integration. The key to the growth of the export sector is foreign investment.

In the case of the Philippines, the government was compelled to relax its investment policies following the capital and debt crises in the 1970s and the 1980s. This subsequently led to the inflow of foreign investments, which resulted in the expansion of the export sector of the economy. Another unintended outcome was the emergence of a new breed of economic elite in the export-manufacturing sector with new policy preferences that favour market reform and greater economic integration of the region. To accelerate economic integration, the leaders of each member state must consider shifting from consensus-based to rule-based decision making. This will harmonize efforts to community-building and enable eager members to move forward, even without those that are not yet fully committed to or ready for a closer economic integration.

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<sup>1</sup> ASEAN, Declaration of ASEAN Concord II, Bali, 7 October 2003.

<sup>2</sup> John Ravenhill, "Economic Cooperation in Southeast Asia: Changing Incentives", *Asian Survey* 35, no. 9 (September 1995), pp. 850–866.

<sup>3</sup> Ponciano Intal, Jr., "ASEAN and the Challenge of Closer Economic Integration", in Ma. Lourdes Aranal-Sereno and Joseph Santiago (eds.), *The ASEAN: Thirty Years and Beyond* (Quezon City: Institute of International Legal Studies and U.P. Law Center, 1997), p. 32.

<sup>4</sup> Dennis D. Trinidad, "Understanding Policy Shift: Class Interest, Exogenous Pressure and Policy Reforms in the Philippines", *Philippine Political Science Journal* 27, no. 50 (October 2006), pp. 31–60.

<sup>5</sup> *ASEAN Statistical Yearbook* 2005, p. 317.

<sup>6</sup> *Ibid.*

<sup>7</sup> Mike Mochizuki, "Japan as an Asia-Pacific Power", in Robert S. Ross *et al.* (eds.), *East Asia in Transition: Toward a New Regional Order* (New York: M.E. Sharpe 1998), p. 129.

<sup>8</sup> Ponciano Intal, Jr. "ASEAN and the Challenge of Closer Economic Integration", in Ma. Lourdes Aranal-Sereno and Joseph Santiago (eds.), *The ASEAN: Thirty Years and Beyond* (Quezon City: Institute of International Legal Studies and U.P. Law Center, 1997).

<sup>9</sup> Romulo B. Lumauig, "Executive-Legislative Relations", *The Ramos Presidency and Administration: Record and Legacy (1992–1998) President Fidel V. Ramos* (Quezon City: U.P. Press, 1998), p. 65.

<sup>10</sup> Domingo Siazon, "Foreign Affairs", *The Ramos Presidency and Administration: Record and Legacy (1992–1998) President Fidel V. Ramos* (Quezon City: U.P. Press, 1998), p. 222.

<sup>11</sup> Epictetus E. Patalinghug, "Trade and Industry", *Alternative Views and Assessments of the Macapagal-Arroyo Presidency and Administration: Record and Legacy 2001–2004*, Third U.P. Public Lectures on the Philippine Presidency and Administration Vol. 2 (Quezon City: The University of the Philippines Press, 2004), p. 487.