



ASEAN Economic Integration: A Competing Narrative

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In the 1950 Akira Kurosawa movie *Rashomon*, the same event—the death of a samurai—is recounted in different ways by the widow, a bandit, a woodcutter, and even the ghost of the samurai. The viewer has to sort out which of these conflicting narratives is the truth.

The Association of Southeast Asian Nations or ASEAN, a grouping which includes the 10 countries of Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, celebrated its 50th anniversary this year. At numerous celebratory events, leaders from both within and outside the region sang the praises of the regional association. The **typical narrative** offered in their speeches was that much of the success of the region was due to regional integration among its members, and that this integration was in turn the result of conscious direction and policy decisions by visionary and committed leaders. But is this narrative really the right one?

There is no question that the region has experienced a great deal of success. Its GDP per capita has grown from 122 USD in 1967 to over 4,000 USD in 2016¹. Life expectancy of its population rose from 56 years to 71 years over the same period². Educational attainment and literacy have improved markedly, and poverty has declined sharply. These achievements by ASEAN are all the more impressive given that some of its members were in armed conflict as recently as 40 years ago.

But it is less clear that the region's economic success was fundamentally the result of efforts to integrate the region by its policy makers. I do not doubt that ASEAN policy makers have been active and that their efforts have been of some help. There are no shortage of ASEAN regional meetings and working groups at many levels on all manner of topics every year, meetings which generate many interesting photo opportunities given the ASEAN penchant for having participants dress up in the host countries' national attire. But progress on actually implementing integration lags.

This note offers a **competing narrative** to the typical one offered in the usual celebratory speeches. There are three parts to this competing narrative. First, actual integration within the region is still not all that high. Second, the

¹ ASEAN Secretariat, "ASEAN 50 Years Progress", URL: www.aseanstats.org. (accessed on 9 Dec 2017)

² Ibid.



regional integration that has occurred has been due more to market forces and bilateral efforts rather than strong direction from policy makers at the multilateral level. Third, this lack of strong direction from the top is because—despite all the rhetoric—there is still limited appetite for real integration across the region, which is probably a good thing. Each part is discussed below.

Actual regional integration within ASEAN isn't as high as one would think

Boosters for regional integration point to such figures as the rapid increase in intra-ASEAN trade and investment, which rose from \$123 billion to \$544 billion for trade and from \$5 billion to \$24 billion for net inflows of foreign direct investment (FDI) between 1995-2016³. But such figures overstate the degree of regional integration. While ASEAN countries have traded and invested more with each other, they have also traded and invested more with the world. For example, intra-ASEAN trade as a share of its total trade has actually declined slightly over the past ten years⁴. Furthermore, a good chunk of the intra-ASEAN flows really reflects global rather than regional linkages. For example, Singapore alone accounted nearly a quarter of total intra-ASEAN trade and over two-thirds of intra-ASEAN FDI, but much are re-exports, and global investment flows intermediated through Singapore. This underscores an important point that we will be coming back to again: much of ASEAN's success is due to its success in integrating not so much with the region but with the world, with global supply chains and global investment flows. Japan and China are not part of ASEAN, but they are central to the ASEAN story.

Despite the formal establishment of the ASEAN Economic Community (AEC) in 2015—with its stated goal of establishing a single market and production base within the region—actual integration lags. A true, single market and production base requires the free movement of goods, investment, and workers. Even with goods, where by far the most progress in integration has been made, many obstacles to a single market remain. To its credit, ASEAN has implemented the ASEAN FTA which has eliminated 96% of all tariffs in ASEAN as of 2016⁵ as well as signed FTAs with six other countries (Australia, New Zealand, China, India, Japan and South Korea). However, non-tariff barriers remain an issue, and progress on trade and customs administration remains limited. There is no semblance of an ASEAN customs union, and

³ ASEAN Secretariat, Celebrating ASEAN: 50 years of evolution and progress, Jakarta, ASEAN Secretariat, July 2017.

⁴Foreign Direct Investment and Trade in Goods Online Database. URL: <https://data.aseanstat.org>. (accessed 10 Dec 2017)

⁵Joint Media Statement of the 48th ASEAN Economic Ministers' (AEM) Meeting, 3 Aug 2016, Vientiane, Lao PDR.



member countries charge wildly different tariffs on goods from third countries. There has also been little to no progress in adopting the common product regulatory and safety standards needed for a truly integrated market across the region.

Actual integration the result of market forces rather than policy direction

In the AEC blueprint, the only thing that has been implemented regarding the movement of labor are mutual recognition agreements (MRAs) for eight professions: engineering, nursing, architecture, surveying, medical practitioners, dental practitioners, accountancy, and tourism professionals. From the standpoint of the AEC, we are a very long way from a single market and production base when it comes to labor.

But people respond more to market forces than ASEAN policy frameworks. Thailand, for example, is estimated to have nearly 4 million foreign workers⁶, which represents over 10% of its entire domestic labor force. Most are from neighbouring Lao PDR, Cambodia, and Myanmar. Few among them are likely to be the engineers, doctors, and other professionals recognized under the AEC MRAs.

Interestingly, many instances where integration has proceeded rapidly have occurred on a bilateral rather than multilateral ASEAN basis. For example, there are many huge bilateral energy export-import arrangements, whereas none of the major energy initiatives under the multilateral ASEAN framework have been implemented (e.g., Trans-ASEAN Gas Pipeline; ASEAN Power Grid).

Taken together, the above suggests that integration in ASEAN has tended to evolve more organically—as part of the global supply chain, in response to market forces, and bilaterally where needed—than bureaucratically or by design. As we shall see, this is a good thing.

Limited real appetite for deep integration among policy leaders

Part of the reason implementation of integration has lagged is because the appetite for further integration remains limited and is not widely shared throughout the region. Many see themselves as competitors and worry that some will gain unduly from integration at their expense. The weak commitment to deeper integration manifests itself in the absence of instruments to implement integration. ASEAN has no agency with supranational authority. There is no equivalent of a European Commissioner

⁶ Testaverde, Mauro, et al. 2017. *Migrating to Opportunity: Overcoming Barriers to Labor Mobility in Southeast Asia*. Washington, DC: World Bank.



for Competition, European Court of Justice, or European Central Bank. All that exists is an ASEAN Secretariat in Jakarta with only around 300 staff, far fewer than the 32,000 at the European Commission in Brussels⁷.

But this is a good thing. Pursuing too much integration too rapidly in a context such as ASEAN where the members and their interests are too divergent, the political commitment is too low, and the implementation capacity even lower is a recipe for disaster. In the Eurozone, much has been made of the large differences between Northern European countries like Germany and Southern ones like Greece. But GDP per capita in Germany is only about 2 times that of Greece (measured at market exchange rates). By contrast, GDP per capita in Singapore is 42 times that Cambodia⁸.

Why does this matter: What next for ASEAN?

So perhaps the traditional narrative typically offered by regional leaders for ASEAN's success isn't that accurate. But so long as what has been done—whether by design or good fortune—has delivered good results, why does it matter? Are we being too critical or pedantic? I don't think so for one simple reason: *narratives matter*. Narratives matter because they identify and engender the proper course of action.

If the correct narrative is that ASEAN's prosperity was largely the result of successful regional integration, then the proper policy solution is even more regional integration and a greater commitment to developing ASEAN-specific institutions. But if the correct narrative is that ASEAN's prosperity was due largely to its integration with the global economy, and its adoption of market-friendly policies, then the proper policy solution is greater integration not just within but also beyond the region.

It should be fairly obvious that I am clearly in favor of the latter narrative and course of action. The former narrative is not just less accurate, it is also less exciting. Boosters for ASEAN integration will invariably cite that it comprises ten countries with over 600 million people⁹ (“even more than the European Union!”). What they typically fail to mention is that the GDP of all 10 ASEAN

⁷ Chalermphanupap, Termsak “No Brexit Repeat in ASEAN”. The Diplomat. URL: <https://thediplomat.com/2016/06/no-brexit-repeat-in-asean/> (accessed 10 Dec 2017)

⁸ World Development Indicators. URL: <http://data.worldbank.org/data-catalog/world-development-indicators>. Author's calculation.

⁹ Ibid.



countries (at market exchange rates) added together is equal to about that of only the United Kingdom.

What next then for ASEAN? At least three things suggest themselves.

First, ASEAN and its members should make a renewed commitment to global institutions such as the WTO and to global public goods such as global trade and climate change. This would be in their own best interests: trade liberalization pursued through the multilateral WTO process would be much more liberal than those pursued through such regional arrangements as the Trans-Pacific Partnership or TPP, which comes loaded with all manner of non-trade related conditions. I would also argue that ASEAN even has a moral obligation to support the globalization which was central to much of the region's prosperity, especially now when such support is so sorely needed. ASEAN's success makes it a good "poster child" for the benefits of globalization and integrating with the global economy.

Second, ASEAN needs to make continued progress on its own ongoing integration to truly realize its vision of a single market and production base. This will require tackling difficult "behind the border" issues such as harmonization and common standards. As noted above, however, integration efforts have to be well grounded in market realities and not overly ambitious. To take full advantage of the opportunities offered by the global economy, it is also important that such efforts are consistent with integration beyond the region, e.g., with broader groupings (e.g., the Regional Comprehensive Economic Partnership or RCEP which also includes China and Japan) and additional FTAs (e.g., ASEAN-EU), in the spirit of the "open regionalism" professed by ASEAN policy makers.

Third, ASEAN needs to make further progress on economic freedom. Liberal, market-friendly policies are an essential part of any complete narrative of ASEAN economic success. While ASEAN has traditionally done well along such dimensions of economic freedom as sound money and freedom to trade, it now needs to make far greater progress in more difficult areas such as regulations, and legal and property rights¹⁰.

Generating support for globalization, legal and property rights, and other elements of the economic freedom agenda will not be easy. At a minimum, the case for these policies have to be conveyed in a way that resonates. Otherwise, they will lose out to other narratives and policies. Some narratives

¹⁰ James Gwartney, Robert Lawson, and Joshua Hall (2017). Economic Freedom of the World: 2017 Annual Report. Fraser Institute. URL: <https://www.fraserinstitute.org/studies/economic-freedom>.



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are compelling for their simplicity (“You don’t have a job because of illegal immigrants”), but as any viewer of *Rashomon* can attest, this doesn’t necessarily make them true.

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