

## **Regional Economic Integration and Cultural Change**

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Address delivered by Rodolfo C. Severino - Head, ASEAN Studies Centre, Institute of Southeast Asian Studies, Singapore and former Secretary General of ASEAN - at the International Cultural Forum organised by the Bertelsmann Stiftung and the Diplomatic Academy of Viet Nam, Ha Noi, 12 November 2008

The subject of our forum today and tomorrow is rapid social change in Southeast Asia. What I will do this evening is try to relate change – social change, culture change, a change in mind-sets – to the efforts at regional economic integration in Southeast Asia. Then, I will make a couple of suggestions for how the European Union and the Association of Southeast Asian Nations can cooperate to support these efforts and the changes that they require, even as, at the highest level, European and East Asian heads of government, having met in Beijing last month, seek to deal together with the global financial turmoil.

But, first, let us go back almost 17 years. On the 28<sup>th</sup> of January 1992, the leaders of ASEAN gathered in Singapore. One of the far-reaching decisions arrived at in that meeting was to seek the integration of the regional economy. ASEAN then had six members – the original five – Indonesia, Malaysia, the Philippines, Singapore and Thailand – and Brunei Darussalam. Up to that time, ASEAN had steered clear of the notion of economic integration; the term was almost taboo in ASEAN circles.

The ASEAN countries by that time had transformed their economic orientation from being state-directed and import-substituting to being market-driven and export-led. At the same time, regional economies elsewhere in the world were coalescing. The North American Free Trade Agreement and MERCOSUR were being formed in the Western Hemisphere. Western Europe's integration in the European Union was being deepened, as the Maastricht Treaty was nearing conclusion. In Asia, the radical reforms that Deng Xiaoping had set in train were beginning to take root and bear fruit. The re-orientation of the Indian economy had begun with a view to similar results.

The ASEAN countries saw that, unless they joined their small fragmented markets into a large integrated one, they would lose out in the increasing global competition for foreign direct investments, without which they would find it difficult to develop their economies and provide jobs and a higher standard of living for their people.

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Their business costs would remain high, and the choices for their consumers would remain limited. The development of economic regionalism in other parts of the world convinced the ASEAN states that they must coalesce economically if they were to exert any influence in global economic forums.

On the basis of these considerations, the ASEAN leaders announced at their 1992 Summit meeting their first step towards regional economic integration – the agreement on the ASEAN Free Trade Area. Under this agreement, each ASEAN country would reduce their tariffs on intra-ASEAN trade to 0.5 percent. This would be done in tranches according to agreed schedules. The final deadline was subsequently advanced twice, and the outright abolition of tariffs on intra-ASEAN trade became the eventual goal. The newer members of ASEAN – Vietnam, Laos, Myanmar and Cambodia – had to negotiate the terms of their accession to the AFTA agreement before their admission into the association in 1995, 1997 and 1999. The agreement also called for the eventual removal of non-tariff barriers to intra-ASEAN trade.

The abolition of tariffs to trade among ASEAN countries – or their reduction to minimal levels – at least on paper, has been largely achieved. However, ASEAN knows that regional economic integration involves more than the cutting or elimination of tariffs. Non-tariff barriers have to be removed. At least, ASEAN has to agree upon criteria for determining which NTBs to maintain for security, health or environmental reasons. Customs procedures have to be streamlined. Product standards have to be harmonised. Transportation links have to be strengthened, so that trade can flow seamlessly throughout the region. Trade in services, which make up more and more of the ASEAN countries' economies, have to be liberalised.

ASEAN has concluded agreements and taken other steps to do all this. It has adopted a customs code of conduct. A set of ASEAN Harmonised Tariff Nomenclatures has been approved. ASEAN has agreed upon a single-window system and a post-clearance audit method for customs processing. It has adopted safety and other product standards. Mutual recognition arrangements for tests of certain products have been concluded. Transportation schemes have been laid down. Several packages of commitments for the liberalisation of trade in services have been negotiated.

However, implementation has been exceedingly slow. Some of the measures decided upon require implementing agreements. Negotiations on such agreements have been proceeding at a snail's pace. This is where social change, cultural change, and a change in mind-set come in.

To me, there are two fundamental reasons why, despite the very real progress that it has made, ASEAN has not integrated the regional economy as much as it could and should, particularly to the extent that integration makes a difference in the business decisions that traders and investors reach. These reasons are, one, the continuing need for most ASEAN societies to undertake the domestic reforms that regional

integration requires. The other is the need for the ASEAN countries to deepen further their commitment to the region, their sense of identification with the region.

Take customs. Preferential trading arrangements, which are what AFTA and other FTAs basically are, will work only if the administration of customs is honest and efficient. If it is not, the purposes of such arrangements cannot be achieved, and the preferential tariffs cannot have the intended effect.

One of the basic purposes of regional economic integration is the attraction that a large integrated market offers to investors. However, individual ASEAN countries have to compete with one another for those investments, a circumstance analogous to the competition in which the members of the European Union, the German länder, or states of the United States are constantly, even fiercely, engaged among themselves. Investments in ASEAN will go to those member-countries where the rule of law prevails, policies are clear and consistent, the competitive playing field is reasonably level, and contracts are enforced by independent judiciaries and similar institutions. (They will, of course, also go where, other things being equal, labour is abundant and wages are low.)

Trade in services, as well as goods, can be effectively liberalised only if governments are sufficiently free of the stranglehold of industry lobbies and cronyism.

Honest and efficient customs administration, the rule of law, consistent policies, level competitive fields, independent judiciaries and impartial regulators, relative freedom from lobbies and cronies – these, in many cases, require internal reforms, a change in culture and values. At the same time, reformers can use the commitments undertaken in preferential trading arrangements to argue for such internal reforms and to lock them into the domestic system.

Another area where integration and values, regionalism and domestic reforms intersect is that of competition and its twin, entrepreneurship. Regional economic integration will happen and work and bear fruit only with a culture of competition. Governments and businesses have to be convinced that competition, at least from others in the region, rather than perpetual protection, is good for both the economy and the companies themselves, as well as for consumers, and that rewards for entrepreneurship are a prerequisite to competitiveness.

Underlying all this has to be the development of a culture of compliance. ASEAN has in place most of the requisite agreements and other arrangements for the integration of the regional economy. It is working on a comprehensive investment agreement that will not only free up the flow of investments into and throughout the region but also ensure their protection. The trouble is in their implementation, in compliance with the measures agreed upon.

The new ASEAN Charter is expected to help develop a culture of compliance with ASEAN agreements. It commits members categorically to the attainment of an

ASEAN Economic Community – that is, a single market and production base. It places squarely on the shoulders of ASEAN leaders the responsibility for making unambiguous decisions, not least in the economic sphere. The ASEAN Secretary-General is explicitly charged with reporting to the leaders on members' compliance or non-compliance with ASEAN agreements.

Already, the ASEAN Economic Ministers have devised a „scorecard“ for keeping track of members' compliance with their economic commitments. The leaders themselves have adopted a „blueprint“ towards the achievement of the ASEAN Economic Community, with detailed, specific measures and clear deadlines.

I have often pointed out that the ASEAN Charter and the other devices are mere tools. The Charter will be binding upon the members, but ASEAN has no court of justice or regional commission to enforce it and other ASEAN agreements. They will certainly help, but all depend on the development of a culture of compliance within each ASEAN member.

In turn, such a culture will rest on a deepening of each member's commitment to regionalism, its sense of identity with the region as a whole, the feeling and conviction that what is good for the region is, most of the time, good for itself and for its people. Again, this requires, in varying degrees, change, cultural change, a change in mind-sets.

ASEAN members, their governments and their peoples, will, of course, have to do this for themselves. However, the European Union, as the pioneer and, in many ways, exemplar and inspiration of regional economic integration, can help. It would be in the EU's interest to do so. A large, integrated Southeast Asian market with a favourable investment climate would offer European investors an alternative site for their operations, alternative to the continent-sized economies that are currently their favoured destinations. European companies' investments would be more secure in countries with the rule of law, independent courts and regulatory bodies, predictable policies, fair competition, and regionally agreed investment guarantees. Less tangibly, ASEAN's success as an integrated market would vindicate the EU's faith in regionalism.

I have two modest proposals for how the EU can help ASEAN accomplish the domestic reforms and the change in mind-set and attitudes that regional economic integration requires. Needless to say, such help has to be extended without preaching and with due regard for the vast differences between Europe and Southeast Asia.

One way that the EU can help is to spread the word about how its newer and less-advanced members, as well as Europe as a whole, have benefited from their integration into the European Union. This could help allay the concerns of ASEAN's newer members that somehow they are not „ready“ for regional economic integration and that only the more-advanced ASEAN members would benefit from it. Some of these concerns are shared even by elements in older members, like Indonesia and the Philippines.

The other proposal is for the EU to devote a larger portion of the time, efforts and resources that it expends on development cooperation with ASEAN to the building of capacity for regional economic integration. ASEAN has a program called the Initiative for ASEAN Integration, in which the older six members cooperate with the newer four with the support of ASEAN Dialogue Partners and international institutions. One of its components is capacity building for regional economic integration. I suggest that the EU participate substantially in this component. In doing so, the EU ought to expand its participation beyond building technical capacity to embrace areas like the automation of customs procedures, regional product standardisation, competition policy, and contract law.

In the last weekend of October, the leaders of East Asia and the European Union gathered in Beijing for their biennial Asia Europe Meeting. Not surprisingly, they talked about national and international policy responses to the global financial turbulence. They are right to put this worldwide emergency at the top of their agenda. But, at the same time, we must not lapse in our attention to the long term, to the real economy, and to the continuing need for steadily improving human lives. ASEAN and the European Union should continue to cooperate in these areas even in these uncertain and frightening times.