

## A Regional Outlook for ASEAN Business

Address by Rodolfo C. Severino,  
Secretary-General of the Association  
of Southeast Asian Nations  
at the Luncheon Hosted by the  
ASEAN Business Forum

Singapore, 22 July 1999

I am deeply grateful to the ASEAN Business Forum for inviting me to join you at this luncheon on the occasion of the meeting of ABF's Board of Governors. I thank in particular Mrs. Jannie Tay, your president-our president, as I am proud to serve as honorary advisor to ABF and my good friend, Ambassador Rongpet Sucharitkul, for conveying the invitation to me.

Ambassador Rongpet and I served together in Kuala Lumpur in the Early 1990s. Not very many years have gone by since then, but it seems so long ago, things have changed so much.

In those days, ASEAN had only six members. It was still divided from other states in Southeast Asia by the Cambodian conflict, which was moving slowly to a political settlement. The large flows of Indochinese refugees troubled relations across the region.

But the economies of ASEAN members were growing at a fast clip. Their businessmen were brimming with confidence as if there were no limits to rapid growth. Fund managers around the world were falling all over themselves to invest in and lend money to ASEAN countries. New skyscrapers were rising every day, transforming the skyline of every ASEAN capital. Massive tracts of land were being leveled and turned to make way for shiny new housing developments and golf courses. Factories were sprouting on erstwhile rice fields. Thousands of cars were pouring on to city streets, creating traffic jams of legendary proportions. Young people, cellular phones to their ears and their eyes on stock prices, were fired up with confidence in their own bright future.

Today, ASEAN has ten members, with all countries of Southeast Asia in its regional embrace. The ASEAN bond has brought a new stability to the region, brightening the prospects for enduring peace. It has engendered a new confidence that disputes will be settled amicably and peacefully and that all of Southeast Asia will at last be working for common purposes.

However, ASEAN has also been shaken to its core by a massive financial and economic upheaval, not entirely of its own making. Rapid growth turned to economic regression. Asset values, hitherto skyrock-

---

eting, plummeted to unprecedented depths. Incomes, hitherto soaring, precipitously dropped. Millions were plunged into relative poverty, many more millions into absolute poverty. Factories closed down. Construction stopped. Sources of financing - domestic or foreign - dried up. Entire financial systems were ravaged. The old ways of doing business were called into question. The very foundations of the so-called "Asian miracle" were undermined.

I need not go on. You know much better than I do the lurid details and the severe impact of the so-called "Asian financial crisis."

Today, signs of economic recovery are brightening the regional scene. Growth has gone positive. Exports are rising. Inflation is under control. Interest rates are down. Stocks are up. Currencies seem to have stabilized.

At the same time, an understandable caution has crept into economic projections and into investment and lending decisions. There seems to be a feeling that economic growth may be slower this time, at least at first. The old self-assurance arising from easy money and the efficacy of short cuts seems to have gone. But there is also a feeling that growth this time may be based on sounder foundations and may thus be of a more enduring quality. The old ways of doing business may no longer work as well as before. New ones may work better.

### **New and Firmer Foundations**

This subdued confidence and cautious optimism apparently rest on the perception that, while the financial upheaval has indeed shaken the economic structures and business culture of Southeast Asia to their core, this same development has brought about responses that may lay new and, hopefully, firmer foundations for Southeast Asia's economies.

These responses have taken place at the national and regional levels. The national responses consist of reforms in the economic structures and financial systems. These reforms are generally in the direction of wider openness, increased competition, greater transparency, higher professionalism in management, a greater degree of objectivity in financial and business decisions, the primacy of law and rules, and reduced possibilities for undue intervention by the state. I will not go into these in detail. Again, you know about them more than I do. All I will say on them is that ultimately — and obviously — the success of the national reforms will depend on their persistent, steady and consistent implementation. They will depend on the perception of actual and potential business partners and other economic actors with regard to the seriousness with which they are pursued.

Equally important is the regional response. One thing that the financial crisis has brought home to Southeast Asia's policy-makers and business leaders, as nothing else could, is the transformation that the global economy has undergone. Leaps in information, transportation and communications technology have made artificial national barriers to trade and capital flows not only less and less effective but, in fact, more and more counterproductive and even destructive. It has become clear that, if individual economies are to thrive or even survive in an increasingly and unavoidably competitive world, they have to coordinate, cooperate and integrate as regions. This means states have to cooperate regionally, economies have to integrate regionally, and the business community has to operate regionally.

### **The ASEAN Direction**

This is one of the most important lessons imparted to ASEAN and to the rest of the world by the financial crisis. And it is precisely the direction that ASEAN has set for itself, for its governments and for its business enterprises.

---

First, in order to help ensure that the financial crisis does not happen again, ASEAN has set up an economic surveillance process, based in the ASEAN Secretariat and supported primarily by the Asian Development Bank. In this process, finance ministers and central bank governors and their officials exchange information and insights on macroeconomic developments and economic measures being undertaken in one another's country. In this way, they are alerted to any impending problems, and they can encourage one another to persist in reforms.

Of top importance in ASEAN's response to the challenges of the financial upheaval and of globalization has been its decision not only to persist in regional economic integration but to accelerate it. Contrary to the instant predictions of so-called experts, ASEAN's leaders not only reiterated their commitment to the ASEAN Free Trade Area; they decided to advance its completion.

When the then-six ASEAN members first agreed upon it in 1992, they scheduled the ASEAN Free Trade Area for completion in 2008. A few years later, they advanced it to 2003. Late last year, in the aftermath of the financial crisis, and to the surprise of many, ASEAN's leaders moved it forward by one year. This means that, by the beginning of 2002, the products of the six original signatories of the AFTA treaty under AFTA coverage will be subject to tariffs of only 0–5 percent. The newer ASEAN members are given a little more time, having entered into the treaty some what later than the others.

However, the ASEAN leaders, at their summit in Hanoi last December, Also decided that, by the beginning of 2000, ninety percent of AFTA products, representing ninety percent of all intra-ASEAN trade, would be in the 0-5 percent tariff category. Moreover, each original signatory pledged to put 85 percent of its AFTA products in that category. This means that, in a little more than five months from now, AFTA will have been substantially completed, creating a market of half a billion people with a combined gross domestic product of US\$700 billion.

### **Freer and Easier Trade**

Meanwhile, under the ASEAN Industrial Cooperation scheme, or AICO, products of cooperative production processes between companies operating in two or more ASEAN countries receive full AFTA treatment immediately. As of the 19th of July, sixty-two applications have been received, thirty have been approved, and nine are being processed. The companies involved have names like Matsushita, Denso, Toyota, Honda, Volvo, Sony, Nestle, Isuzu, Mitsubishi, Hitachi, Nissan, and Ford.

Not only are tariffs going down. AFTA is now turning its attention to removing quantitative restrictions and other non-tariff barriers to trade. These barriers include technical and physical obstacles as well as policy measures. ASEAN is making trade easier and smoother by the standardization of customs procedures, the harmonization of product standards, the conclusion of mutual recognition arrangements, and similar measures.

As with trade in goods, so will it be for trade in services. ASEAN is now laying the conceptual framework and negotiating parameters for negotiations on trade in services, such as transportation, construction, financial services, business services, telecommunications and tourism.

Barriers to investments are also being brought down. Under the ASEAN Investment Area, for instance, ASEAN countries are committed to opening their manufacturing sectors to ASEAN investors and extending national treatment to such investments. Exclusions are to be phased out by 2003.

The rapid opening of ASEAN economies to one another, the creation of an integrated regional market, has given rise to anxiety in a few industrial sectors and enterprises in ASEAN, mostly those that have been artificially protected from competition for a long time. They fear injury from massive competition from the products of neighboring countries. The bogey of "cheap imports" is being raised.

However, regional competition works both ways. An enterprise in one ASEAN country is gradually subjected to competition from the products of other ASEAN countries, but at the same time its own

---

products can now more freely compete in the other ASEAN countries. Looked at in this way, regional integration becomes less a threat than an enormous opportunity. There is a massive market of half a billion people with a combined GDP of US\$700 billion out there.

### **Making Good in a Larger Market**

A bigger market intensifies competition. It brings about greater economies of scale. It improves efficiency. It lowers costs in terms both of production inputs and of services. An integrated market on a regional scale opens up larger opportunities for countries and industries in it, opportunities to sell their products and acquire capital goods and raw materials at less cost, for the benefit of all.

Because of these advantages, ASEAN greatly brightens its chances of attracting investments into the region. An ASEAN location provides investors with platforms for the production of goods and services to be marketed in the entire region.

Other regions have a similar idea, exploiting the advantages of regional integration, competing with ASEAN countries for investment funds. There is the European Union, the most advanced example of regional economic integration. There is the European Free Trade Association of non-EU members. There are the North American Free Trade Area and the Closer Economic Relations between Australia and New Zealand. Among the developing regions, there are Mercosur in South America and the Common Market for Eastern and Southern Africa that is emerging. The South Asia Association for Regional Cooperation and the South Pacific Forum are planning to start their own regional free-trade arrangement by 2001.

In this light, a retreat into protectionism as a response to the crisis and in the face of globalization does not make much sense. Protectionism is a dead-end street. It restricts choices and increases costs for consumers — that is, all of us — as well as for companies. It will only make the country that resorts to it fall farther and farther behind its neighbors.

There may be specific cases of a genuine threat of real injury to an enterprise, and not just a fear of competition from cheaper and better products. In such cases, ASEAN economic agreements - and, for that matter, WTO — provide legitimate remedies, such as bilateral negotiations on the case at hand, WTO and AFTA dispute-settlement mechanisms, and anti-dumping measures.

### **The Global Competition**

Opening up at this stage to regional competition in AFTA helps ASEAN enterprises prepare for the inevitable and fast-approaching competition on a global scale.

To be competitive, on a regional or global scale, ASEAN enterprises need a regional outlook. Their marketing programs must encompass the whole region and not just a narrow protected market. Internally, management has to be more professional. With the support of governments, the skills of management and of the work force have to be upgraded to levels required by the industries of today and of the future. Again with government support, physical and institutional infrastructure has to be greatly improved - transportation, telecommunications, financial services - which in themselves would benefit from competition. Needless to say, government decision-making and government services have to be more efficient and transparent and honest.

As we have seen, regional economic integration has been a necessary response to the financial crisis, a condition for the lasting recovery of the regional economy, and a pillar for the competitiveness of the region's enterprises. If that is so, then ASEAN's private sector has a vital interest in the steady progress of such integration. Its support is critical for the efforts of ASEAN's governments to move regional economic integration forward.

---

Regional economic integration requires the regionalization also of ASEAN business. ASEAN enterprises have to strengthen their networks across the region. If markets are becoming regional, business linkages have to be regional, too. The ASEAN Business Forum is a fine example of such networks and linkages. But ASEAN enterprises cannot stop at the formation of broad business communities like the ASEAN Chamber of Commerce and Industry and the ABF. ASEAN sectoral industry clubs have been active in motor vehicles, cosmetics, chemicals, pharmaceuticals, and others. They have effectively interacted with individual ASEAN governments, with ASEAN committees and with the ASEAN Secretariat. ABF can help develop such sectoral groups as well as strengthen the ASEAN business community as a whole. The ASEAN Secretariat stands ready to support such efforts.

### **The Private Sector in the New Members**

Neither can business networking stop at the borders of the older ASEAN members. If the huge market that is ASEAN Ten is to be exploited to full advantage, the horizons of ASEAN business must expand to embrace the newer ASEAN members as well as the old. This means strengthening the private sector in the newer members. The world of globalization and regionalization and its unforgiving requirement for competitiveness demand that the private sector play the primary role on the economic stage. It has become clear, even before the financial crisis, that, generally speaking, state enterprises, or private enterprises unduly reliant on direct political patronage, cannot hope to be competitive in the region or in the world. Economies that are driven primarily by such enterprises cannot hope to catch up with the rest of the region, let alone with the rest of the world.

A responsibility that the ASEAN Business Forum can take upon itself, I suggest, is to help develop the private sector in all ASEAN members. A strengthened and effective private sector in all ten countries of Southeast Asia is essential for the regionalization of business that the coming century requires and for the effectiveness of regional economic integration. The fulfilment of this responsibility is in the vital interest of ASEAN's businesses, the ASEAN member-countries, and the people of Southeast Asia.

SOURCE: ASEAN Secretariat <<http://www.aseansec.org>>