

Enhancing Competitiveness through Regional Integration

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It is an honour to be with you today at this “High-Level London School of Economics and Political Science (LSE) ASEAN Integration Workshop,” and to share my views on regional economic integration amid the crisis. Before I begin, let me take this opportunity to thank LSE IDEAS (Centre for International Affairs, Diplomacy and Grand Strategy) for organising this workshop, and for giving high importance to ASEAN economic integration.

Since the ASEAN Charter came into force in December 2008, our efforts toward community building have never been the same again. The Charter has strengthened our resolve to put our act together toward deeper integration and to bring into reality the goals of a single market and free movement of goods and labour, and freer flow of capital. Along with that are the real benefits to be had from the internal and intra-regional aspects of our integration – that is, greater efficiency in consumption, and more competition and improved scale of economies in production.

Yet, the events over the past year – the global financial crisis and synchronised global downturn – have also reminded us how the current conditions can pose serious challenge to global integration. Some evidence suggests that since the start of the crisis, tariffs have increased in several countries around the world, while financial protectionism has also started to emerge in some countries. At a regional level, there is a perception that these risks might increase as well, thus undermining the drivers of integration that are behind our region in recent years. This is the reason why the ASEAN Leaders at their meeting in February in Hua Hin have reaffirmed their commitment to ASEAN economic integration and community building as part of our response to the crisis.

Taking this challenging context as a starting point let me emphasise at the outset that regional integration can be an important strategy to help the region overcome the crisis.

One important lesson of the current crisis and that of the Asian crisis ten years ago is that any recovery can be achieved quickly through strategies that harness synergies within the region. I see those synergies in terms of shifting our demand away from exports to advanced countries in favour of intra-regional trade. Evidence suggests how intra-regional trade has facilitated the quick recovery of the region during that time. In fact, Asia is becoming more important as a recipient region for ASEAN+3 exports from 34% in 1987 to 50% in 2007. The share of exports of ASEAN economies from China, Japan and Korea also increased over the years, from 7.8% in 1987 to 13% in 2007.

I always see economic integration as a way of boosting competitiveness within ASEAN, especially now that we are being challenged by the crisis. Integration will not only increase the efficiency of production and consumption, but will also expand the economies of scale and accelerate investments in physical capital, technology, and people – key elements that we need to get our economies out of the doldrums.

In the case of ASEAN, some large strides have also been made over the years to preserve our competitive advantage, since the ASEAN Free Trade Agreement in 1992 and the adoption of ASEAN Economic Community Blueprint in 2007. In addition to liberalisation of trade in goods, trade in services and investment have been further liberalised. For example, our current commitments to services liberalisation are now based on increasing removal of restrictions on cross-border trade and greater purchases of services from abroad. A comprehensive investment agreement is also now in place, with benefits extended to foreign-owned but ASEAN-based investors, not to mention the creation of a more liberal and facilitative environment in the region for doing business and investing capital.

To ensure that ASEAN builds the “right market”, product and regulatory standards, financing systems, logistics and transport facilitation, and a wide range of business procedures have been constantly improved. The establishment of ASEAN Single Window, which increases the efficiency of customs procedures and promotion of trade facilitation in the region, is already being tested in a number of countries. Significant improvements in standards to harmonise them with the region’s trade partners are being implemented as well, such as the ASEAN Guideline on Good Regulatory Practice. In the area of finance, efforts are underway to liberalise financial services and capital account and develop capital markets in order to ensure that financial flows remain supportive of increased trade flows under a single market.

Engagement with other countries is also a key element of ASEAN’s competitive strength. Recognising that the integrated production network and market that

ASEAN develops will need to be closely linked to the region’s trading markets, the region has engaged actively with other countries through the free trade agreements. By leveraging on other countries’ strengths and open markets, ASEAN believes that such productive engagement will lead to a strong competitive position for ASEAN economies. For example, new regional agreements with China (on investment) and India (on goods) will soon to be signed, indicating ASEAN’s continued strategy of maximizing its presence in other markets in the world.

Let me now focus on what I think are the key challenges going forward as the region continues to navigate the financial storms. As I mentioned at the outset, the economic and financial turmoil engulfing the world today marks the first crisis of the current era of globalization. To be sure, the crisis will reshape the global economy and the economic forces at play – and it is for this reason that ASEAN should stand ready to remain competitive amid these challenges.

So what exactly should ASEAN and the individual countries do?

First, it is critical that ASEAN continues to adhere to trade integration. Actions that can make the crisis and the contagion worse should be avoided, including any barriers that support protectionism such as tariffs and subsidies. In this regard, ASEAN Member States must remain committed to implement rescue and support measures that are acceptable and which will not directly or indirectly undermine trade and financial flows in the region.

Thus, enlarging the US\$400 billion intra-trade in ASEAN must be further pursued through comprehensive trade facilitation measures, including access to much needed trade financing in the region. ASEAN economies with their burgeoning middle class must begin to see each other as end-markets rather than only primarily as links in the global supply chains. It’s about time that a strong middle class is created to enable the region to strengthen domestic demand that is crucial to sustaining ASEAN’s economic

growth and increasing the region's resilience against external shocks.

Second, given the importance of stimulus programmes to stimulate recovery in the region, it is important that those programmes be designed in such a way that they support integration rather than undermine it. Stimulus packages by themselves are not just mere increasing spending but need to be targeted at increasing competitiveness of ASEAN economies. This crisis represents an opportunity to boost efficiency and competitiveness when the will to do so is at its highest. For example, ASEAN must focus on infrastructure financing in the region as a way forward to boost domestic spending which is critical to gradual recovery. The region's huge infrastructure needs and growing consumer market of US\$330 billion offer ample investment opportunities for ASEAN capital. In fact, three weeks ago in Pattaya, the World Bank and ASEAN have announced their partnership that will increase infrastructure financing in the region starting this year.

Finally, given the global nature of the crisis, what ASEAN needs is a collective response to ensure that the impact of the crisis in the region will be broadly contained and adjustments are well coordinated to facilitate gradual recovery.

Perhaps of particular relevance to preserving the region's integration efforts is the avoidance of exchange rate policies that trigger external instability. For example, "beggar-thy-neighbour" exchange rate policies must be avoided. Beyond the crisis and once the global financial stability is restored, it is possible that ASEAN countries will begin to attract large capital inflows once again. In this regard, greater exchange rate flexibility must continuously be encouraged to avoid distortions in trade and capital flows that are critical in our market integration. This is in addition to other financial measures currently being discussed such as the Multilateral Chiang Mai Initiative (CMIM) to restore financial stability in ASEAN.

With these remarks, let me thank you again for your attention and I wish your Workshop a great success. ■