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RIS Discussion Papers

**The Search for Regional Architecture:
The Role of
ASEAN as Strange Attractor**

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The Search for Regional Architecture: The Role of ASEAN as Strange Attractor

Djisman S. Simanjuntak*

Abstract: There is one other important reason for arguing that a deep comprehensive ASEAN integration is indispensable under the current network of initiatives on external relations. Using ASEAN as a “strange attractor” for an East Asian integration is unlikely to bear fruits unless ASEAN is willing to set example. Even a deeply integrated ASEAN may still find it difficult to persuade the rest of East Asia on the merits of East Asian integration, given the very limited muscle of ASEAN in terms of its external trade and investments. Being a recipient rather than a donor of official development assistance ASEAN is handicapped in playing the role of champion in trade and investment liberalization. What ASEAN most realistically can do is to serve as the “hub for post offices” while major Asian countries seek to put aside differences in order to promote economic co-operation and integration. ASEAN has once missed the opportunity of playing the role of a champion of the ambitious regional integration of APEC. It should avoid committing the same mistake while endeavoring to promote an East Asian integration or even an Asia-wide integration.

Old Virtues of Pre-Crisis Development of Southeast Asia

Southeast Asia in general and the crisis economies of Indonesia, Thailand and Malaysia have paid very dearly for the mistakes that led to the sudden breakdown of the East Asian development model in late 1990s. The severe crisis put Southeast Asia in a new unfavorable initial condition at a time

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when dramatic changes are occurring in the world economy. However, the crisis is not the end of history. It neither wiped out virtues out of the hitherto impressive development model. Leaders in politics, business and civil societies are well advised not to throw the model overboard just because it is not immune to crisis. No man-made thing is built to last free of any crises. In fact, troubles are inherent in man-made things. The latter frequently revenge against their makers as documented richly by Daniel Dennett. Nevertheless, under such imperfection some virtues lay durably hidden.

One of such lessons relates to the existence of local capitalist class who serves as an important mover of the process of capital accumulation. The ingredients needed for the emergence and growth of a competitive capitalist class have been scrutinized for a long time. Many studies on the subject come to problematic conclusions like the ones that trace entrepreneurship to protestant ethics or other similar sets of fundamental beliefs. Be it as it may Southeast Asia is home to diverse groups of people, including migrants from the southern fringes of the continent, who have proved innovative and agile enough to orchestrate a successful capital accumulation for over thirty years. The spirit and determination to venture may have a lot to do with migration. Those who move to a completely new home are faced with less inhibition while earning their bread. Many analysts tend to look down to some large business groups because of their dependence on artificial rents as source of profits. They are portrayed as being inferior to the capitalist classes of developed countries. Nevertheless, they did deliver as far as economic growth is concerned.

Innovative and hard-working capitalists require a friendly environment in order to set forth a sustaining accumulation of capital. Southeast Asian capitalists find indeed friendly governments on their side. The pro-business attitude of Southeast Asian governments was once unsurpassed in the developing world. Some governments went too far when they granted extremely anti-competitive measures that were very difficult to overcome. Import of goods and services was exposed to severe restrictions. The same applied to foreign investors in some sectors. The very high protection in favor of incumbents explains partly the high concentration in Southeast Asian business.

Southeast Asian governments were not alone in the belief in high protection as ingredient of a successful incubation of local capitalists. Virtually all developing countries suffered from similar diseases. However, Southeast Asian governments were never as strongly opposed to capitalism as some countries with strong affinity toward nationalism and uncoupling from world capitalism. They also preceded many other governments in the developing world in shifting to a less protectionist policy. Proximity to South Korea, Chinese Taipei, Hong Kong SAR and Japan allows Southeast Asia to learn more quickly about the export success of the Asian newly developed economies. When the yen appreciated strongly in the wake of the Plaza Hotel Accord of 1985 pressures were created for the relocation of a wide range of processes out of Japan. Southeast Asia offers an obvious alternative location. At about the same time a freely falling oil price hit Indonesia, Malaysia and Singapore badly. In the cases of Indonesia and Malaysia the high-protection policies were deprived of their fuel: subsidies to loss-making state enterprises.

While the pro-business policy is maintained, Southeast Asian governments announced major initiatives on liberalization in the mid-1980s. Through unilateral initiatives the high-protection policies were dismantled. Restrictiveness of trade licensing, notably import licensing, was reduced greatly through substitution of less-restrictive measures for highly restrictive ones, conversion into tariff of certain measures, and even outright removal. Transparency of the tariff system was improved. Tariff rates were cut deeply. Where the rates remain high drawback system was created to insulate export against the detrimental effects of high tariff rates. Export promotion measures were adopted. They centered round the drawback system, which in some cases, implied export subsidy, and preferential export financing. The export bias was soon dismantled due to strong opposition from the United States and the European Union (EU). Nevertheless, it helped ignite enthusiasm about export among hitherto inward-looking capitalists of Southeast Asia.

A managed opening was among the contributing factors to the high-growth episode that Southeast Asia enjoyed in the ten years before the financial crisis of 1997. Needless to say, openness alone does not lead to growth. In addition to the pro-business attitude, political stability, higher

stock of human capital, industrial peace, and hard-work are of equal importance, however important openness is as window through which local traders and investors seek to acquire international best practices of business.

While advancing openness to the rest of the world Southeast Asian speed slows down with geographical coverage of the initiatives. It is highest in the case of unilateral liberalization, moderate in the case of regional liberalization and lowest in the case of multilateral liberalization or the WTO process. Up until mid-1980s Southeast Asian governments were allergic to using the word “integration” in the context of ASEAN. It was associated with loss of sovereignty. They emphasized resource-pooling measures such as the ASEAN Industrial Projects (AIPs), the ASEAN Industrial Complementation (AIC), including “brand-to-brand complementation, and the ASEAN Industrial Joint Ventures (AIJVs). “Market sharing” or reduction of barriers to intra-ASEAN trade was made ridiculous in that it was offered in areas, which were of no relevance to ASEAN trade. Bolder reduction of trade restrictions was confined to products that emanate from ASEAN projects. The discussion about ASEAN free trade area dragged on. It took ASEAN 25 years of existence to agree on AFTA. By the time AFTA was largely completed, China already catapulted itself into its current status of one of the most integrated “regions” with the enormous potentials it offers together with Hong Kong SAR and Chinese Taipei. Some other economies managed to secure unrestricted access to the world’s largest markets such as Mexico in North America through NAFTA and transition economies of East Europe by way of projected membership in the EU. When it comes to regional integration ASEAN is clearly a latecomer and a reluctant one in that category. Had ASEAN moved faster, the phenomenon of “China taking all” would have turned less hysteric and, thereby, less disadvantageous to ASEAN. Admittedly, ASEAN countries do also enjoy benefits from the high growth of China by way of the “re-spending effects”. Yet the lesson remains. In a rapidly changed environment high speed of policy changes is of the essence. ASEAN leaders do not seem to have learnt the lesson. Despite dramatic changes in the global economy ASEAN’s high-speed progression to deep integration is hardly visible, notwithstanding the adoption of new cooperation umbrellas such as the ASEAN economic community.

ASEAN integration has not been a major factor in the high-growth period of the last ten years prior to the financial crisis of 1997. Its contribution is of different kinds. ASEAN helps create a peaceful and stable environment, which investor rates very high while choosing a location. It was perceived to be the most successful among regional groupings in the developing world. Such perceived success amplified the visibility of ASEAN in the world economy.

ASEAN success in the 1970s and 1980s is partly attributable to external environment. Under the Cold War leaning to the capitalist world is a rarity in the developing world. Non-communist Southeast Asia was part of the rarity. Transnational corporations from North America, Western Europe and Japan did not have much choice when they look for relocation at post-maturity stage of in the industry life cycle. Advances in transportation and information and communication technologies (ICT) include de-massification technologies that in turn allow producers to disperse processing around the globe without worrying about costly disruption or prohibitively expensive inventories. Thanks to the advances in ICT services mechanization increased. Equipment-intensive services become increasingly tradable. The same services can be delivered to users around the globe at virtually the same conditions. Thanks to the “law of cultural selection” or the unavoidable spreading of any best practices from their points of origin to the entire world it is only a matter of time when best practices and processes arrive in Southeast Asia. However, the geography of their spreading depends in no small measure on the “gravity” of each of the alternative locations, and gravity is a function of the masses of and the distance between interacting economies. In a world of freer movement amalgamation into a larger economic grouping promises greater benefit than it does in the world of highly restricted movement, though it sounds counter intuitive, considering that benefits of regional integration are said to depend greatly and positively on the level of the preferential margin.

Post-Crisis Initial Condition and Return to High Growth

From the perspective of physical geography Southeast Asia is a mixed blessing. Being archipelagic or virtually coastal no point on its land area is located far from the sea. Wherever one leaves, the sea is nearby, though

Lao is a land-locked country. Such proximity to the sea can be advantageous, considering that most cosmopolitan centers are located in coastal areas or very close to them. Genetically speaking Southeast Asia has been a success. The region's share in world population has been on the rise, though it falls far short of those of China and India. Arguing that a rising share in world population is a sign of success may run counter to the traditional Malthusian view. Southeast Asia is also home to invaluable genetic land and sea biodiversities, attracting no less than Alfred Russell Wallace, the co-discoverer of the law of natural selection. The biodiversities offer diverse sources of livelihood for humans, including some delicacies such as bird nest, shark's fin, sea cucumber, highly valued coral fishes and clams. Yet, a rising share in world population points out to competitiveness in providing basic needs, notably staple foods, basic health services and basic social amenities. It also proves the ability of a region to live with rather than to fight against diversity. Both China and India are monuments of genetic diversity, though modern naming wrongly suggests uniformity. However, there is a fundamental difference between a mere genetic species and a man-made thing such as a commonwealth, a country, a state, or a republic or group of republics. Number of population and length of survival are good enough to indicate the competitiveness of a biological species. Measurement of the competitiveness of a republic or group thereof is much more complicated. If one denotes genetic resources with P, expected length of life with L, and utilities net of hazards that one enjoys the whole life through with U, "meaning" of life could perhaps be written as $H = f(P, L, U)$. Success of a commonwealth could then be written as $S_i = H_i / H_w$ where i stands for countries and w for the world.

Culture understood as the entirety of man-made things is critical to H. Some of its elements are destructive such as wars, terrorism, illicit drugs trafficking, child trafficking, women trafficking and piracy. Others add to H tremendously such as the discovery of fire, the discovery of disembodied memories as one finds in cave paintings, domestication of plants and animals, the discovery of the wheel, the discovery of ocean-sailing, the discovery of the Copernican solar system, Newton's laws of motion, James Watt's separate condenser, Mendel's laws of cross-breeding, Maxwell's electromagnetism, various nature's constants, Einstein's $E = mc^2$, the uncertainty principles,

the double helix, and countless of other discoveries that form the current stock of human knowledge and skills. A nation or group thereof can, therefore, be seen as "gene-culture" co-evolution. Its success depends on the shares in the "gene pool" as reflected in population and in the "memes pool" as reflected in contribution to the stock of human knowledge and skills and capabilities to make use of knowledge and skills.

Picturing current Southeast Asia as "Eden" of gene-culture co-evolution would be a sheer exaggeration. Southeast Asians were perhaps the domesticator of the taro. There is also a non-zero probability that Southeast Asians or their ancestors domesticated rice for the first time. They were also the ones who brought into commerce precious spices of nutmeg and clove and mothered, thereby, the age of commerce that spanned the entire globe. Ironically, the spices trade aided the rise of a number of wealthy houses in Europe and North America, but left hardly any granules of wealth in Southeast Asia. Long-distance sailing was perhaps discovered for the first time in Southeast Asia by the ancestors of current Aborigines of Australia and those of the Polynesians. The seas of Southeast Asia and the South Pacific offer more conducive conditions for long-distance shipping than either the Mediterranean or the Caribbean seas. Indeed, some like Stephen Oppenheimer believes that Southeast Asia was the cradle of civilization, but the remnants were buried under the South China Sea, the Java Sea and the Strait of Malacca. Be it as it may, Southeast Asian contributions to civilization are older than antique. Recent times witness hardly any outstanding contributions of Southeast Asian origin.

The counting of blessings is meaningless without a corresponding counting of possible curses and handicaps. In terms physical geography Southeast Asia has a number of disadvantageous sides, too. During interglacial periods a great deal of its land areas is inundated as it is in the current era. The reverse occurs during glacial periods when sea level can fall by as much as over 100 m in some places. The monsoon is also not a total blessing. It sometimes oscillates in an extreme way. In a life time every Southeast Asian has a chance to witness the two forms of extreme oscillation. Soil is thin and vulnerable to desertification. Physioeconomists argue implicitly that man-made thing is not going to last long in the tropics.

The equator favors diversity of smallish designs rather than massive creatures of small number. The energy needed for homeostasis in the tropics is smaller than that in temperate climates. Plenty is less compelling than it is in temperate habitats. Furthermore, the high diversity also applies to germs. The fruits of toiling can easily fall victim to epidemic diseases. This physioeconomic argument sounds racist or even fatalistic. Yet, there may be some grains of truth in it. To arrive at the same stock of wealth builders in the tropics have to work longer under the unforgiving heat and humidity. They have to pile more to enjoy the same stock of net wealth. Unfortunately, little has been done as far as empirical testing of the physioeconomics hypothesis is concerned. The field of study is also unpopular given the inability of human to steer the course of development implied in the hypothesis.

Of the pending issues facing Southeast Asians some are very mundane in nature. National borders in the region do not coincide with ethnicities, religions or ideologies. Some border disputes have been defused for a long time. Notwithstanding increased subtlety in dealing with border disputes some borders continue to pose a risk to regional peace and stability as long as they are kept in the “magic bottle” rather than resolved. Ethnically speaking no country in Southeast Asia is a uniform entity. Each is home to ethnic diversity, which differs only in degrees. Religion-wise the region is no less colorful. All the major religions have substantial followers among Southeast Asians. They pile above each other to form a syncretic mixture of really adhered teachings of religions, though some seek to follow the puritan way at all costs. Unfortunately, living with diversity has not been in the repertoire of human ingenuity. Humans sometime prefer simplification to the point that they become intolerant to variations. Living with diversity is an art that Southeast Asians are yet to master, if they are to do justice to the diversity of nature in which they live and the diversity of cultures that Southeast Asians accumulated over tens of millennia.

Indonesia of the early 21st century still grapples with symptoms of disunion. The Java-centered political power has been found excessive by different groups of people in other islands who in different points in time rebelled against the central government. Even today the northern-most

province in Sumatra and the province of Papua are home to rebellions, which include independence in their stated goal. The widely advertised religious tolerance appears to have gotten thinner. Moslems and Christians of the same ethnic groups fought sporadic bloody wars in Ambon and Central Sulawesi. Admittedly, Indonesians have made a lot of progress in respect of democratization in the post-crisis period. However, the largest member of ASEAN is faced with a non-zero probability of frightening surprises along primordial lines erupting while the country surfs the life cycle of democratization.

The Northwest fringes of Southeast Asia are also faced with a wide range of conflicts. The fifth most populous member of ASEAN, Myanmar, is in the international lime light of human rights violation. Thailand is not an arcadia either. Its central government and, perhaps also its Buddhist majority, are yet to learn how to live together as one nation with their Moslem brothers and sisters in the South. In the Northeast of Southeast Asia, the Philippines, followers of two Abrahamic religions, Christianity and Islam, still live in mutual distrust. Cambodia was a theatre of genocide only a few years ago. Throughout Southeast Asia self-proclaimed indigenous people dislike the success of Chinese Southeast Asians in business. Chinese Indonesians for instance have been repeatedly fallen victim to amok running that erupts in the wake of power struggles.

Southeast Asia of the early 21st century is, in other words, a region of multifarious transition. On top of the issues of ethnicity, religion and political pluralism some difficult issues of development loom large. By and large Southeast Asia has been a case of success of the reform wave of the last quarter of a century. Singapore has made it to the “first world” in only one generation. Malaysia is nearing the threshold of a developed economy. Thailand is catching up very closely with Malaysia. Indonesia, too, has returned to moderate growth after the devastating crisis of the 1997-1998. The Philippines who was first to industrialize among Southeast Asian countries is muddling though, aided by a large-scale export of labor services, including professional workers. Vietnam has been growing at over 6 per cent, Lao PDR at nearly 6 per cent and Cambodia at over 5 per cent a year since 2000. Little is known about the economic development of Myanmar

other than the facts that Myanmar is richly endowed with fertile soil, forestry resources, gemstones and a large share in the production of illicit drugs. Casual observation suggests that Myanmar has benefited from the Southeast Asian growth, in spite of a largely isolationist development policy. However, the distance separating Southeast Asia as a region from developed regions has remained enormous.

A large number of Southeast Asians live in subsistence. They have to struggle for a better tomorrow with an inadequate stock of human capital. Southeast Asian natural capitals have been depleted to a great extent without corresponding increases in man-made capitals: physical capital and human capital. Transplanted institutions such as popularly elected government, the judiciary and the modern firm are yet to take roots in the political universe of Southeast Asia. Pre-requisites of a modern commonwealth such as equality of citizens before the law are yet to be established. Practices of governance in politics, business and societies leave a great deal to be desired in spite of a region-wide movement in the post-crisis period to promote them. Corruption is rampant and seems to have destroyed the signaling of information in some countries. It exacerbates the problems of uncertainty and the costs involved in dealing with it. Anti-corruption program is notoriously dubious.

Needless to say, the damages that arose out of the crisis of the late-1990s take time to heal. Indonesia's per-capita GNP is yet to return to 1997 level. Capital formation as fraction of GDP plunged in the crisis economies of Indonesia, Malaysia and Thailand in contrast to an exorbitant rise in China. Southeast Asian trade suffers from a deceleration while China is enjoying a crescendo. Flows of foreign direct investments to Southeast Asia with the access to competencies and markets that are associated therewith have been diminishing while China is "flooded" with them. In fact even the stock of foreign direct investment has been diminishing in Indonesia, and the trend is yet to reverse. The capital drain is even more disturbing, if one takes into account other flows such as debt capitals. The annual average of aggregate net resource flows to Southeast Asia fell from \$ 41456 million in 1992-1996 to \$ 22306 million in 1997-2001. Total external debt of Southeast Asia overshot from \$ 371329 million in 1996 to \$ 652287 million in 1998

before it went down to \$ 558806 million in 2002 following the fall in budget deficits and rise in current account surpluses. External debt service payments rose in tandem from \$ 47753 million in 1996 to \$ 55343 million in 2002. The region is confronted, therefore, with severely tightened constraints. The outlook is not totally gloomy. After all Southeast Asians have demonstrated their capabilities to survive the onslaught of the financial crisis of 1997-1998. On a number of accounts Southeast Asia still appears as bright spot in the world of developing economies, though not as bright as China. How fast Southeast Asians can return to high growth depends, however, not solely on regional conditions. It also depends on changes in the global environment.

Seeds of Conflicts in the Second Wave of Globalization

A good understanding of the co-evolution of competition and cooperation at the global level is a *conditio sine qua non* for a winning return to a shared and sustainable high growth. The word "globalization" has been used so frequently, one may find it disgusting to be confronted with it again. However, dwelling on it is an eternal agenda for fundamental reason relating to life's evolution. Life perhaps sparked only once in only one coordinate of physical geography whence it radiated to the entire earth. Ancestors of modern humans perhaps descended from the trees to the savannah only once and in a single coordinate of physical geography. Their descendents migrated and filled the earth within a relatively short period of time. As the descendents found new habitats some replicated or even successfully, perhaps because the niches they were settling happened to be so richly endowed as to allow the use of time on capital formation, notably the production of tools and domestication of plants and animals. Large number in turn set forth a physical differentiation. The little technologies that they brought along from the *Urhome* also evolved into an increasingly complex diversity. Following variations in physical environments and technologies different ways of how humans relate to each other, to their ancestors, to the future, and to nature, including other life's forms evolved. The dispersion of humans to different coordinates of the globe and the cultural differentiation that goes along with it is the first wave of globalization. It is centrifugal in nature and, thereby, laden with little seeds of conflict. Underprivileged members of a community could opt to avoid

diametrical competition with the privileged ones and move on farther away to the four winds. The first wave ended perhaps 12 thousands years ago with the colonization of the Americas. The second wave followed millennia later. It was a wave of conquests. Larger villages took over smaller ones, allowing the conqueror to build cities and larger commonwealths, states, on cities. It culminated with the victories of European clerics, traders and mercenaries over local elites of Asia, the Americas and Africa. Unlike differentiation that was characteristic of the first wave of globalization it was confiscation of treasures and forced conversion into imported religions that serve as the distinguishing features of the second wave of globalization. The second wave is centripetal in nature. People fight their way to unusual concentrations of resources such as salt, coal, gold, nickel, silver, copper, zinc, diamond, cod, whale, nutmeg, clove, pepper and sandal wood. They race to secure a share in the world's most beautiful beaches, lakes, meanders, mountains, valleys, and strangely shaped rocks. The children of Eve from all continents compete for admission to the few top-rank learning institutions. Noble and commercially promising ideas invite ambitious entrepreneurs. Frictions, conflicts, disputes or even wars abound in the centripetal motions of the second wave of globalization.

The early part of the 21st century is a product of the second wave of globalization. It consists of over 200 nations or human groupings possessing some features of a commonwealth. The world of the early 21st century is highly asymmetric on a number of accounts. Almost one half of world's population was squeezed together in 2002 in only five countries of China, India, the United States, Indonesia and Brazil, which account for 24.6 per cent of world's surface area and 43.3 per cent of gross national income in PPP dollar. Within each nation a few mega cities shine where humans hive one on top of another. Wealth, works and income are also unevenly spread. The five largest national economies account for 48 per cent of world's gross national income in PPP dollar. Five largest exporters have a combined share of 37.4 per cent in world export of goods, and five largest sources of FDI share 56 per cent of FDI outward stock in 2001 among themselves. On the other hand, some nations suffer from extreme poverty, unable to engage in positive catching up for reasons related primarily to institutional weaknesses such as inability to enforce the laws. The average citizen of

Sierra Leone has a gross national income in PPP dollar of only 490 at disposal or 1.4 per cent of that of an average Norwegian. Humans in some nations witness culprits of atrocities unpunished. The inter-country gap may have moderated with the economic rise of China and India. However, the inter-personal imbalance is more difficult to alleviate.

Rising science and technology intensity is another distinctive feature of the early 21st century. Physical sciences have led to the rapid growth of a number of large-scale industries such as telecommunication and transportation machinery and equipment, synthetic materials, including smart materials, pharmaceutical, and nano technology. Humans of the early 21st century have had the glimpse of genetic-based farming and animal husbandry. Advances in each of the streams of science are astonishing. Their integration into the science of technology of complexity may even turn out to be more so. The Internet provides a foretaste of what may come, if computers all over the globe unite into a global brain.

Humans often time overrate their ability to keep their creation under control. However, the world of made things seems to have developed codes of evolution of its own. City planners are notoriously unable to control the expansion and decaying of a city. Builders of the pyramid could not prevent other great builders from impressing the world with different wonders. No inventor or innovator is able to arrest technology change. Love of fame and greed force artists, entrepreneurs and professionals to outperform reigning champions by delivering uniqueness, which first may look anomalous before it turns into a dominant design only to be pushed aside later by new uniqueness. Some made things revenge unexpectedly even under the best precaution. The hole in the ozone layer, Exxon Valdez, Union Carbide's Bhopal, and Chernobyl meltdown are few examples of how human-made things can end up in catastrophe.

The uncontrollability of human-made things applies to their impacts on globalization or movement of goods, services, information, capital and people as well. Accumulation over times allows technologies to overcome increasingly greater distance. Physical distances and time are said to be

compressed following the adoption of new technologies. Information and communication technologies and transportation technologies are cases in point. With them other human-made things increase tremendously in mobility, including perishable goods and a wide range of services. One can indeed argue that technology change serves as a push factor to globalization. Governments may take a defensive position against new technologies for reason related to job preservation. They may also erect high barriers against technologies originated in foreign countries to protect local producers. Such defensive measures have turned out time and time again to be unsustainable. Sooner or later they are relaxed or even removed. Similar force of globalization is also hidden in any best practices. No tyrant is able to permanently ban great musical opuses or great literary works.

If best practices of human-made things are endowed with a force to spread out to even the most distant coordinates from the respective homes of their origination, then globalization is inherent human evolution. That the fruits and costs of globalization are spread unevenly is another issue. Some symptoms of the imbalance were mentioned earlier. The world as it exists at the early part of the 21st century is a puzzling mixture of a very high concentration on the one hand and fragmentation into micro nations on the other. The mixture can be seen as the outcome of the first two waves of globalization. Being centrifugal in nature the first wave created fragments of human grouping. The centripetal second wave consolidates some of the fragments into larger groupings of which some became very big indeed. However, a great number of the first wave's fragments survive the forces of concentration of the second wave.

Reinvention of Regional Trade and Investment Liberalization

Will there ever be a third wave of globalization? The finale of evolution is yet to come. Between now and the reduction of matters into the end-dust globalization may still have to evolve through countless of stages that are unknown to contemporary humans. Some nations are very big and seem cohesive like China and the United States. Some are very big but look unstable like Indonesia, Russia and India. Some nations are small in the number of population but huge in terms of territories such as Canada. A great many appears to be too small to sustain some of the usual national

symbols such as national currency and airlines. On the other hand the world has repeatedly witness a buoyant city states such as Venice under the age of commerce and Singapore and Hong Kong in the current era. Some have underexploited their advantages such as Indonesia. If nations were like business, merger and acquisitions would have been occurring at high frequency, and so would have spin-offs.

Reconfiguration is an ongoing process in global politics. The United States got its current size partly because of take-over in the literal sense of the word. The direction of change is hard to guess. Technologies of de-massification carry the forces of deconcentration on the one hand. Those of massification release forces of agglomeration on the other hand. Constellation of nations is bound to oscillate within the band of the two forces. Evolution is indifferent to whether or the United States, Russia and Indonesia maintain their current borders or disintegrate to smaller units on the one hand, and whether or not Switzerland, Austria, Lichtenstein remain what they are or fuse into a single state. Nevertheless, one can argue in favour of smaller nations coming together in a larger nation. Gravity as we know it from Isaac Newton depends on mass. An inward-looking nation may have no interest in raising its gravity. In a world of multi-nation competition having a higher gravity is strength. It pulls in superior talents, capital, and trade in goods and services or the factors that serve as sources of distinction.

In spite of globalization nation has remained the dominant mode of how humans are grouped with one another. Its fundamental glue lies in sovereignty. Challenging the nation and sovereignty as outmoded features of human commonwealth is counterproductive, however valid. United Republic of Eve's Children is not only not realistic it is a danger to diversity, which serves as spring to cultural advances and rejuvenation. To be adopted any new mode of grouping will have to live with national sovereignty. Given such initial condition a reinvented regionalism appears to be a promising third way.

Under a regional integration member states do not dissolve. What happens is a pooling of some elements of sovereignty into a quasi-regional sovereignty. Classic examples include the sovereignty to formulate border

protection, be it tariff or non-tariff barriers. European Union is a case in point. It evolves out of modest integration into a deep one and has proven so far to be the most successful of all regional integration initiatives. Needless to say, there are other successes, but they are either too modest or are short-lived or Sisyphean in nature. Failure to pass the test of time is attributable to trivial disputes in some cases, including of course the ones that do not relate to regional integration at all.

Factors behind the current tsunami of regional integration are hard to discern. Whatever they are the fact is undisputable that governments around the globe have reinvented regional integration in a number of ways. Regional integration has become the rule rather than exception as it is implied in Article XXIV of the GATT. Even countries, which used to avoid membership in a regional grouping in favor of multilateralism and have profited handsomely from such basic policy have recently joined the bandwagon of regional integration. All the major trading countries joined or are in the process of joining regional integration. What is more, the new designs of regional integration are more daring than their predecessors. They are no longer confined to border measures, partly perhaps because such confinement would mean little in terms liberalization effects given the success of the GATT or WTO in bringing border protection measures down to triviality. Domestic measures such as investment performance requirements, elements of competition policy, elements of environmental policy and standards have entered into regional integration agreements. Obviously, governments are more willing to negotiate on domestic measures in a regional context than they are under the WTO.

ASEAN, too, has gotten more receptive to economic integration. Twenty years ago when the region was hit by a recession integration was still considered a taboo. In the 1990s leaders of the region changed their position. AFTA was agreed upon in 1992. In the following decade ASEAN experienced a number of important developments. Its membership widened to cover the whole Southeast Asia. Relations with the rest of the world were strengthened. ASEAN is linked more closely with Northeast Asia of China, Japan and South Korea. An East Asian free trade is expected to come out of the ASEAN + 3 arrangements. Beyond

East Asia India and CER have been drawn closer to ASEAN. It may only be a matter of time that similar relationship is woven between ASEAN and other major trading areas, notably the European Union, the United States and Latin America. Notwithstanding the proliferating networks of free trade negotiations between ASEAN and other parts of the world ASEAN has remained internally a shallow integration. Its boldest initiative on intra-regional liberalization is AFTA. ASEAN free trade in services is yet to be agreed upon. ASEAN is far away from being an integrated investment area. Very little has happened in ASEAN macroeconomic co-operation. On matters other than AFTA ASEAN governments have been very slow in making decisions. Yet, without such a deepening at a progressive speed ASEAN is not likely to upgrade the attractiveness of its members vis-à-vis rising growth centers, notably China and India. Even internally, the changed nature of trade has greatly reduced the relevance of regional integration unless it is comprehensive and deep at the same time.

There is one other important reason for arguing that a deep comprehensive ASEAN integration is indispensable under the current network of initiatives on external relations. Using ASEAN as a “strange attractor” for an East Asian integration is unlikely to bear fruits unless ASEAN is willing to set example. Even a deeply integrated ASEAN may still find it difficult to persuade the rest of East Asia on the merits of East Asian integration, given the very limited muscle of ASEAN in terms of its external trade and investments. Being a recipient rather than a donor of official development assistance ASEAN is handicapped in playing the role of champion in trade and investment liberalization. What ASEAN most realistically can do is to serve as the “hub for post offices” while major Asian countries seek to put aside differences in order to promote economic co-operation and integration. ASEAN has once missed the opportunity of playing the role of a champion of the ambitious regional integration of APEC. It should avoid committing the same mistake while endeavoring to promote an East Asian integration or even an Asia-wide integration.

Limitations facing ASEAN are not purely economic in nature. ASEAN politicians still root very deeply in the traditions of the nation state. They

are opposed to the pooling of sovereignty into a regional institution. People are also very quick to point out to cultural differences across national borders as barrier to regional integration and overlook, thereby, that the differences are rooted in the same “stem culture”. It may take some time before Southeast Asians realize that they rediscover the glues, which have always bound them together in a shared future.

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