



## ASEAN's Next 50 Years



**Suthad Setboonsarng**

As ASEAN celebrates its 50th year as the region's pre-eminent institution for cooperation, it is a time for reflection and evaluation. The ASEAN we see now is a result of constant assessment of areas where the benefits of ASEAN outweigh its costs, a dynamism that gives strength to and defines what ASEAN is: not the best but an appropriate regional institution. As ASEAN embarks on its next half century, its resolve will be tested to the limit as it encounters a completely different pace of changes in the regional and global environment. ASEAN has made major contributions to regional and global economic growth and political stability. In its next 50 years, ASEAN needs to be more proactive and take hold of its future. It can achieve this by assessing and allocating fairly the benefits from integration, anticipating and preparing for the changes in population and demographics, and adapting to new technologies.

In its first 2 decades, ASEAN bolstered the region with stability, trust, and confidence, thus allowing the five original members to focus on nation building. Brunei Darussalam's accession in 1984 illustrates this benefit. After the Uruguay Round of the World Trade Organization in 1986, the ASEAN Member States started to intensify their use of ASEAN as a common platform in engaging foreign partners on economic cooperation via trade liberalisation and attractive investment incentives. My first task at the ASEAN Secretariat in 1993 was to help establish the ASEAN Free Trade Area (AFTA), which was the foundation of the ASEAN Economic Community. Between 1995 and 1999, four new members joined ASEAN and became a part of this undertaking. ASEAN also grew stronger together as the member states strengthened their bonds through the Asian financial crisis. It was also in 1997 that ASEAN embarked on the journey towards Vision 2020, which culminated in the creation of the ASEAN Community in 2015.

The benefits of ASEAN cooperation are clear. On the political security front, peace and stability reign in the region. Sporadic skirmishes around border areas are peacefully resolved. The more visible benefits are the achievements in economic and social development. Most member countries have made good progress towards the Millennium Development Goals. Foreign direct investment has created jobs, transferred technical knowledge, and improved manufacturing capacities across the ASEAN countries. ASEAN has moved from a lower-income economy to a middle-income economy. From 2007 to 2015 alone, ASEAN's per capita gross domestic product grew by 80% to about US\$4,000. By 2015, all its new members (Cambodia, the Lao People's Democratic Republic, Myanmar, and Viet Nam) had graduated from low-income to lower middle-income economy status, as per the World Bank's definition.

It is important to note, however, that the much larger benefits created by ASEAN accrue outside the region instead of within it. The mechanism to manage peace and security issues for ASEAN has included all major world powers and has become the premier forum for the peace process for Asia. The ASEAN Regional Forum convenes ministers of foreign affairs from over 26 countries and representatives from regional and international organisations to discuss disputed issues. The East Asia Summit holds consultations on security, economic, and social development issues among 18 world leaders and key international organisations. High-level dialogue and multilateralism of this magnitude in Asia is only possible because of ASEAN.

The external economic benefit of ASEAN is more tangible. Corporations in non-ASEAN countries get the lion's share of economic benefits created by ASEAN. Illustrating this reality is the oft-cited trade statistic that intra-ASEAN trade accounts for only about 25% of the region's total trade. This means that 75% is trade with non-ASEAN countries. An example is when AFTA comprehensively reduced automobile tariffs for auto manufacturing. In theory, a reduction in the cost of production should result in the reduction of the consumer price. But no ASEAN country has experienced a reduction of car prices in the past 20 years. The value added accrued to ASEAN is only a portion of the net export value. The major beneficiary of AFTA was the foreign auto industry.

The challenge here is that ASEAN countries have limited information and understanding of how economic benefits and gains are distributed. The inequality in the allocation of benefits between ASEAN and non-ASEAN entities across all industries sits on top of the widening income-level gap between the rich and the poor in each ASEAN country and among ASEAN countries. If this issue is not addressed, the uneven allocation of benefits will lead to resentment from governments and the public, which can undermine the development process.

As we assess the benefits of ASEAN, we must also consider its costs. The immediate and direct costs are on senior government officers and the ASEAN Secretariat who organise meetings and work on the details of agreements. These costs are small when compared to the benefits we gain. But the growing number of meetings and the expansion of agendas have been draining the small pool of government officers, especially in small countries and the small ASEAN Secretariat. The equal allocation of costs without proper allocation of benefits is not a sustainable practice.

Since the past decade, ASEAN has assumed more roles and responsibilities as other countries and organisations institutionalise relationships with ASEAN. However, the large multilateral forum is also overstressing the ASEAN countries. Fourteen to fifteen meetings take place over 3 days during an ASEAN Summit. The number of partners, issues, and business councils that ASEAN Leaders and officers have to manage is rapidly outpacing the number of officers and budget of each member country assigned to ASEAN. The ASEAN Secretariat, the key coordinator of these important matters, remains underfunded.

As one of the professionally recruited staff under the new structure and mandate, I joined the ASEAN Secretariat as director of economic research in February 1993. We were expected to support the implementation of the new economic cooperation initiative, the Common Effective Preferential Tariff–ASEAN Free Trade Area, and the transforming of other areas of economic cooperation to ‘... strengthen their (ASEAN) economic cooperation with an outward looking attitude ...’.<sup>1</sup> I tried to look for research funding to help position ASEAN in the regional and global market. But almost all available funding was from external sources, all of which had recommendations for ASEAN. There was no funding for strategic planning and outward-looking research from the member states. Without appropriate strategic information and intelligence, ASEAN could not ‘think’ properly. The economic cooperation staff was occupied with preparing meetings, keeping records, and doing follow-up work on decisions.

We were all aware that ASEAN cooperation benefitted third parties, but only a few knew about the enormity of these benefits. When we discussed and agreed on the issue of ‘third party invoicing’,<sup>2</sup> we fully acknowledged that a portion of the benefit was accrued to a third party, but could not tell the size of the benefit for the third party. To make this information more transparent, we need to understand cross-border business models of key players in each industry. Strategic policy research can help forge a win–win solution among member countries and the private sector to benefit ASEAN as a whole.

In hindsight, I think that if decision-makers in ASEAN had been better equipped with appropriate information, the quality of decision would have massively improved, and economic and social development would have been a few times greater compared with what this region has accomplished, which, to be fair, has been quite good. But ASEAN as a group could have achieved higher growth, distributed wealth more equally, and weathered economic crises or avoided them all together.

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<sup>1</sup> First principle of the Framework Agreements on Enhancing ASEAN Economic Cooperation, 28 January 1992.

<sup>2</sup> Third party invoicing is when goods are moving from country A (exporter) to country B (importer) and the invoice to collect the payment comes from a third country, country C (ASEAN or non-ASEAN). Hence, the entity in country C collects the money from country B, pays country A, and turns a profit.

Today, ASEAN is operating in a new regional and global environment where the major source of growth is centred in Asia as developed countries are recovering slowly. The global financial system is being reshaped, tectonic shifts in population and demographics are swiftly under way, and advancement of new technologies are disrupting traditional industries. The formation of the ASEAN Community lays down a concrete foundation for closer cooperation. ASEAN has accumulated a wealth of knowledge and experience in diplomacy, negotiations, and strategic thinking in the last 50 years. ASEAN should apply its expertise and make the necessary preparations in the face of these growing challenges and opportunities.

In the new global economy, ASEAN's biggest asset is its geographical location. ASEAN sits at a critical trade junction of the global economy – at the intersection of China's 'One Belt, One Road' and India's 'Look East' policies. ASEAN will reassume its place as a global business hub of the ancient Silk Road. As history tells us, the kingdoms in Southeast Asia were created to maintain stability, offer protection, and manage economic activities passing through the region. To revive those for the 21st century, ASEAN must deliver efficient services in logistics, finance, and rule of laws. Goods and services should flow through the region seamlessly with minimum cost and maximum certainty. An ASEAN trading hub should uphold the principles of good governance, transparency, and efficiency. The private sector should take the lead as the public sector provides general direction and necessary institutions.

To thrive in this new environment, the ASEAN Member States should continue working together to avoid competing with each other and work more effectively with their external business partners. A thorough and transparent examination of the allocation of benefits should be conducted before proceeding with new arrangements. The costs associated with new initiatives should be allocated with external partners. For example, the costs and benefits of building and maintaining regional infrastructure such as roads and rail networks should be shared through new inclusive business arrangements. ASEAN and non-ASEAN governments and the private sector can undertake research and studies to create new appropriate and acceptable business models and arrangements that will allocate costs and benefits. This is the major lesson from the last 50 years of ASEAN integration.

Without appropriate information and understanding of the overall cost and benefit and how these are allocated among local and external partners, it is possible that countries become resentful. Already, overtures of protectionism, economic nationalism, and resentment are being sounded in the region because of imbalanced allocations in the past. The progression of ASEAN integration should be based on a sound, well-studied, and well-planned strategy.

A clear and imminent challenge for ASEAN is the burgeoning demographic imbalance between Northeast Asia (increase of 50 million by 2021 plus ageing) and South Asia (increase of 296 million). This will have considerable implications on agricultural production, food security, and labour migration. Urbanisation will draw down food production capacity in the rural areas, while an ageing population will need to find new sources for social security support. These issues need a concerted policy response because inward-looking solutions will only worsen the problem. The policy response will need to be based on critical studies and strong regional commitment. A non-threatening ASEAN is the ideal platform for this vital exercise.

ASEAN also has to respond to the advent of new digital and disruptive technologies. Just as e-commerce is changing how we do business, new applications and innovations are instantly changing the entire finance, transportation, and hospitality sectors. ASEAN governments have to balance the roles of enabler of innovation and guarantor of public interest and security.

Finally, ASEAN needs to take a scientific approach to develop a long-term strategic position of the region in key areas such as food, energy, finance, logistics, and communication securities; enhance the core strength of the region in location and services; and manage the exit of losing sectors. ASEAN should invest in understanding both the internal and, especially, external benefits created by integrating the region, how to allocate them, and the costs to appropriate parties. This is a prerequisite for ASEAN to chart its way forward to a more prosperous ASEAN Community for its citizens in the new global and regional landscape.

ASEAN had come a long way since I left the ASEAN Secretariat in the year 2000, but it has much more to offer. Interest in regional integration and ASEAN cooperation has declined. The next generation of leaders, diplomats,

and entrepreneurs should make ASEAN central to their policy and business focus and as a tool to address the challenges of their time. While much has changed, one truism remains: the only way we can face major global challenges and maintain long-term growth and stability is through enduring cooperation in ASEAN. The next generation of ASEAN Leaders and citizens should learn from missteps of the past and build on success.

I wish them and ASEAN a successful future.

## ABOUT THE AUTHOR

**Suthad Setboonsarng** is a Board Member of the Bank of Thailand and the Banpu PLC, a Board Trustee of the International Rice Research Institute, and a Board Member of the Cambodia Development Resource Institute.

He was chairman of the Sub-committee on International Economic Relations, National Reform Council of Thailand (2014–2015); Advisor of the National ASEAN Summit Committee, Brunei Darussalam (2013); Member of the East Asia Vision Group II (2011–2012); Thailand Trade Representative (2009–2011); Partner at PricewaterhouseCoopers (2000–2008); and first Thai Deputy Secretary-General of ASEAN (1997–2000).

Prior to that, he was Director of the AFTA Unit, ASEAN Secretariat; Associate Professor at the Asian Institute of Technology; Research Fellow at Thailand Development Research Institute; Research Fellow at East-West Resource System Institute; and Lecturer at the Faculty of Economics, Thammasat University.

He received his Bachelor of Arts degree in economics from Thammasat University, Thailand, and his Master of Arts degree in agricultural economics from the University of Hawaii. He completed his PhD in economics at the University of Hawaii under a scholarship from the East-West Center, Hawaii.