The Regional Economy: Looking Forward by Looking Back

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THE REGIONAL ECONOMY
Looking Forward by Looking Back

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The year 2007 was a year of anniversaries for Southeast Asia. The two most significant were the fortieth anniversary of the founding of the Association of Southeast Asian Nations (ASEAN) and, more fretfully, the tenth anniversary of the Asian (not Southeast Asian) financial crisis. What these two anniversaries tell us about the future of Southeast Asia's economy(ies) will serve as the basis for this chapter.

The economic issues raised by the Asian financial crisis and, counter-intuitively, by the development of ASEAN are both important to understanding where Southeast Asia stands today economically and what are some of the major challenges facing the region and its national economies in 2008 and beyond. Both continue to shape the direction of intra-regional integration, Southeast Asia's place in the larger East Asian economy and finally its place in the global economy.

Southeast Asia at the beginning of 2008 is a more integrated and insulated economic region still facing major national barriers to further integration. Southeast Asian economies' relations with the two huge Northeast Asian economies are also in a period of significant change. Some Southeast Asian economies face the threat of being decoupled from China and Japan as East Asian production chains, the basis of modern Southeast Asia's integration into the global economy, are being reordered. Finally, Southeast Asia's position in the global economy is an increasingly uncertain one. Maritime Southeast Asia has lost its "halo" as the first set of emerging markets to open up to foreign direct investment in export-oriented manufacturing. This means it is harder for Southeast Asian economies to remain attractive to foreign direct investment (FDI), and especially investment that helps push them up the value added ladder and away from cheaper competitors.

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At first glance, the tone of this article may seem misplaced. The year 2007 was a good year economically for Southeast Asia (with Thailand and Myanmar as partial exceptions) and projections for 2008 look quite strong too. The Philippines, despite continued political instability, did particularly well in 2007 (see Table 1).

This disjuncture largely comes from the fact that Southeast Asia has been a strong performing economic region for the last three decades at least, and so a more challenging environment does not automatically deliver slow (just slower) growth and certainly not recession. It also comes from the challenge facing maritime Southeast Asian economies of finding their way out of their middle-income stage to truly emerge as advanced markets. So far, only Singapore has managed this.

Southeast Asia's national economies are blessed with some powerful advantages from remittance flows in the Philippines to significant potential and actualized resource rents in Malaysia and Indonesia, to English language ability in the Philippines, Singapore, and Malaysia. Ironically, some of the greatest challenges to Southeast Asia's place in global manufacturing such as the rise of China, the better performance of other emerging market regions, and more speculatively climate change and the ageing of the rich world strengthen these advantages by helping to drive up raw resource prices and opportunities for labour migration.[1]

TABLE 1
Real GDP growth
(Year-on-year percentage change)

	2005	*2006*	*2007 (proj)*	*2008 (proj)*
Singapore	6.6	7.9	7.5	5.8
Malaysia	5.0	5.9	5.8	5.6
Thailand	4.5	5.0	4.0	4.5
Philippines	4.9	5.4	6.3	5.8
Indonesia	5.7	5.5	6.2	6.1
Vietnam	8.4	8.2	8.3	8.2
China*	10.4	11.1	11.5	10.0
India*	9.0	9.7	8.9	8.4

Note: * Provided for comparison purposes.
Source: IMF, *Regional Economic Outlook: Asia and Pacific*, October 2007.

ASEAN at Middle Age

Focussing on ASEAN in a chapter on the regional economy may strike many, especially economists, as odd. Yet, two of the most important elements of ASEAN's post-Cold War development — ASEAN's shift to focussing on economic integration and its expansion to include the poorer mainland Southeast Asian countries — together mean that ASEAN is increasingly relevant for its members' economies. It is so for how they exchange with each other and how individual ASEAN countries interact with the larger Northeast Asian economies and the world as a whole.

ASEAN's approach to economic diplomacy shares the same hallmarks as its earlier Cold War diplomacy. It has five mutually supporting aims that make very familiar reading for ASEAN historians: (1) strengthen relations among member countries through ASEAN-level agreements and cooperation; (2) use these to foster the idea of a Southeast Asian region to external powers and to ASEAN's own members; (3) use the fruits of closer member cooperation (like the proposed ASEAN single market) to enhance the position of each member in East Asia and globally; (4) use ASEAN as a means to manage, and hopefully control, relations with external powers; and (5) address the challenge from a globally engaged China.

Just as the aims are the same, so are some of the significant structural and institutional constraints facing ASEAN economic diplomacy, both in its inward-looking regional integration focus and its external engagement/management one. The two main structural limits are the fact that the major Southeast Asian economies (except Singapore) are not well integrated with each other and rely heavily on extra-regional export and import markets and extra-regional investment. Maritime Southeast Asia's, and now Vietnam's, embrace of FDI-driven export manufacturing to successfully move from being poor to being middle income, of course, deepens these extra-regional linkages and their associated vulnerabilities. The second limit is one of scale as even if Southeast Asian countries can join together in a single market (as they have promised to do by 2015), this single market will still be relatively small. In 2006, the combined ASEAN GDP, in market exchange rate terms, was only slightly larger than South Korea's, and smaller than Brazil's. The two main institutional limits are the weakness of ASEAN as a regional body, especially when it comes to negotiating with external powers, and the disconnect, or at least long lag time, between agreements made by members of ASEAN and their fulsome implementation.

ASEAN Economic Integration

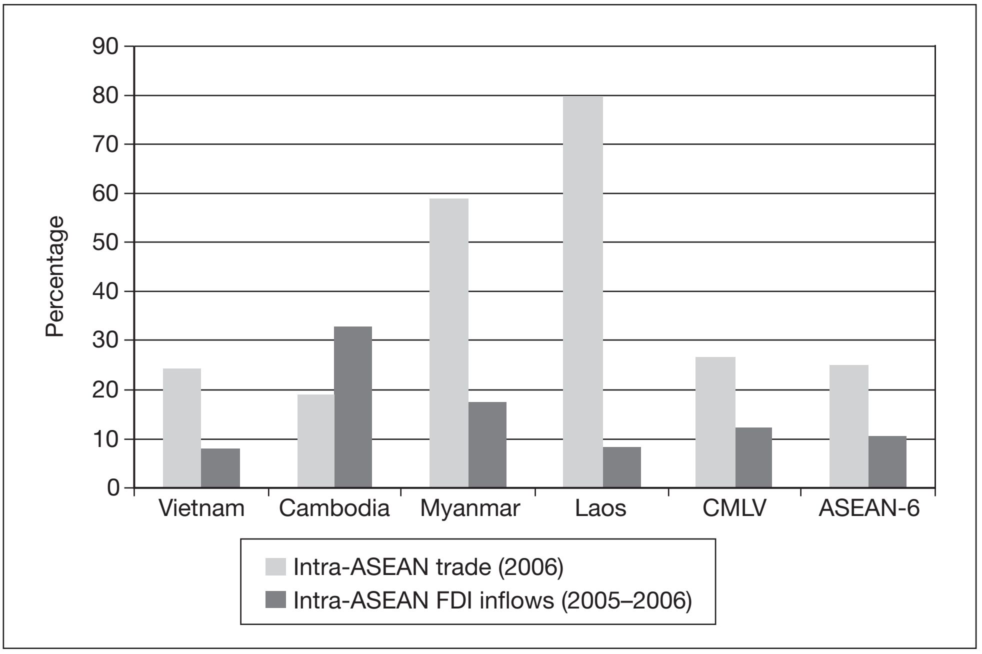
With regard to ASEAN's traditional diplomatic role, the expansion to include all ten Southeast Asian countries has come at a high cost. The inclusion of Myanmar has undercut ASEAN globally, and problems with Myanmar often dominate the discussion and coverage of ASEAN as we saw with the 2007 summit in Singapore.[2] Yet, on the economic diplomacy side, the expansion of ASEAN to include the complementary economies of Cambodia, Laos, Myanmar, and Vietnam makes the region bounded by ASEAN membership a more natural economic one where the incentives for and returns from intra-regional liberalization are greater. Laos, Myanmar, and Vietnam trade more heavily with other ASEAN economies than the regional average (if one subtracts Singapore's re-exports). Likewise, Cambodia, Laos, and Myanmar also receive a higher share of their total FDI from other ASEAN sources than the regional average.

The fact that Vietnam receives relatively little of its recorded FDI from other ASEAN sources and trades much less with ASEAN than either Laos or Myanmar is a strong indication of how successful its adoption of the FDI, export-oriented manufacturing model has been. Vietnam's economy increasingly looks like and competes with the major maritime Southeast Asian ones (see Figure 1).

The well-established criticism of the ASEAN Free Trade Area (AFTA) agreement that it is an agreement between competing economies and a free-trade port is accurate when applied to the ASEAN-6 (Singapore, Brunei Darussalam, Malaysia, Thailand, the Philippines, and Indonesia). It is less so when one looks at the ASEAN-10, especially if Laos and Myanmar lower tariffs on all non-excluded items to 0 to 5 per cent by the end of 2008 as they have committed to under AFTA. Cambodia, mainland Southeast Asia's best performer in 2006 and 2007, has until 2010 to do this.

The gradual inclusion of the new ASEAN members into AFTA is boosting the utilization of the agreement. According to research by Japan External Trade Organization (JETRO), the usage of AFTA's rules of origin provisions is increasing, particularly for exports to Vietnam. In 2006, 42.4 per cent of Thai and Malaysia exports going to Vietnam took advantage of these provisions. For Thai and Malaysia exports to ASEAN as a whole, the comparative rate was only 23.5 per cent. This, however, was a substantial increase from 2002, when the total usage by these two exporters was only 13.7 per cent.[3] As AFTA comes on line, its tariff reductions are starting to have effect and this will grow, as we have seen with Vietnam, when the new more protective transitional economies of ASEAN adjust their tariff schedules in line with their AFTA commitments.

FIGURE 1
The New ASEANs Economic Integration



Note: * The ASEAN-6 trade figure is inflated as it includes re-exports from Singapore.
Source: Drawn from the ASEAN statistics <http://www.aseansecorg/13100.htm>.

In the last fifteen years, ASEAN has played an important indirect and direct role in helping the poorer economies of its new members (with Myanmar as the exception) shift to a more sustainable and higher growth trajectory that has also helped these economies deliver some impressive poverty alleviation figures. AFTA is a direct means to these laudable aims, while AFTA is also a good precursor for these countries' entry and full participation in the World Trade Organization. Vietnam's recent economic success and its simultaneous joining of ASEAN and AFTA is good proof of this.

While the inclusion of the new members has raised concerns in the ASEAN Secretariat and beyond about national-level inequality in the ASEAN region, the inclusion of these members within ASEAN is an important tool in reducing this inequality and the human suffering associated with it. As the new members continue to lower tariffs through AFTA and unilaterally, their integration with their ASEAN neighbours should deepen, especially if ASEAN can achieve its goal of having a regionwide open skies agreement by the end of 2008 and if ASEAN's attempts to free up services ever gets off the drawing board.

ASEAN in East Asia

Southeast Asia's few, overtaxed trade negotiators are becoming very familiar with ASEAN both through AFTA and the grander plans for an ASEAN Economic Community and because ASEAN is increasingly serving as the hub for East Asian regionalism.[4] As with ASEAN itself, the new East Asian regional bodies, both the ASEAN+3 process and the nascent East Asia Summit are also looking towards trade diplomacy to strengthen their institutional relevance. While 2008 looks like it will be a year of slow progress on ASEAN economic integration, it could well be a watershed year for East Asian regionalism and ASEAN's central role in it. ASEAN economic regionalism excludes the major trading partners of most ASEAN members. East Asian regionalism through the offices of ASEAN includes both China and Japan.

The last decade has been a very active and a very strange one for East Asian regional diplomacy. After there never having been an East Asian regional body despite East Asia's central and growing role in the world and its sense of being under-represented in global discussions, we now have two competing regional bodies and two competing views of East Asian integration. In 1997, the ASEAN+3 process was born out of the flames of the Asian financial crisis, bringing together the members of ASEAN with China, Japan, and South Korea. In 2005, the East Asia Summit, which also includes Australia, New Zealand, and India, was formed. Both of these East Asian bodies have their leaders' summits after the ASEAN annual summit in the same ASEAN host city.[5]

The reason for why suddenly there are two overlapping East Asian regional bodies and why they both let the ASEAN tail wag the East Asian dog is the same reason for the historic lack of East Asian regional bodies (and the continued lack of a Northeast Asian one). China and Japan do not trust each other and will not accept the other as the paramount regional power, while Southeast Asian countries individually and as a group do not fully trust either northern giant. China's rising power and new interest in regional engagement, has triggered the change from no regionalism to competing regionalisms. China favours the smaller ASEAN+3 process and Japan favours the larger East Asia Summit, with both accepting that each organization is less threatening with ASEAN in the proverbial driving seat.

For Southeast Asian economies, this situation has three important consequences. First, ASEAN countries can attempt to guide these larger East Asian groupings in ways that bolster ASEAN's efforts at economic integration. Reflecting this desire, many in ASEAN prefer to refer to the East Asia Summit as ASEAN+6.[6] Within the ASEAN+3 process, this idea may soon bear economic fruit. There is an ongoing attempt, supported by the Asian Development Bank, to multilateralize the Chiang Mai Initiative bilateral swap agreements between East Asian central banks and to develop a pool of foreign exchange reserves to help deal with future regional financial crises. If this daughter of the Asian Monetary Fund idea were to eventualize, Southeast Asian countries, given their openness to trade and financial flows and their relative smallness, would be the biggest beneficiaries, especially if it was headquartered in a Southeast Asian capital.

Second, Japan and China are pushing competing feasibility studies for free trade areas with China supporting the ASEAN+3 study and Japan's Ministry of Economy, Trade and Industry (METI) behind the "Comprehensive Economic Partnership in East Asia" idea that covers the members of the East Asia Summit. Either of these proposals would offer the ASEAN members significant potential market access gains and, according to METI modelling, ASEAN countries would benefit the most of all participants in either deal. Reflecting trade theory, all national economies would benefit more from the wider trade deal METI prefers than the narrower ASEAN+3 one.[7]

The fact that these two proposals for East Asian trade deals are manifestations of Japan-China rivalry explains the speed behind the launching of their feasibility studies. This rivalry and the consequent wooing of ASEAN should help ASEAN, if it works together, have a significant say in the negotiation of each of these proposals if either advances beyond the feasibility study stage. However, ASEAN's very limited institutional resources means that it will be unable to take full advantage of this competitive opening to really help guide relations with China and Japan in ways that best suit ASEAN and its members. Of course, if both studies are completed, ASEAN as a group, or more likely individual member states, will have to choose which one they prefer.

The third and likely the most important of the economic benefits stemming from ASEAN's central role in East Asian regionalism is that it has led China, Japan, and South Korea to strike trade deals with ASEAN collectively and, in the case of Japan and South Korea, with individual ASEAN economies as well. China has had a partial and evolving FTA with ASEAN as a whole since 2003, with a services component agreed to in 2007. South Korea and ASEAN signed a trade agreement in June 2006 with a services component added in 2007.[8] South Korea also has a trade deal with Singapore. Japan signed a framework agreement on trade with ASEAN in May 2007, backing up its bilateral trade deals with Singapore, the Philippines, Indonesia, and Malaysia.

Other non-East Asian countries have also opted to engage with ASEAN in free trade agreement (FTA) talks, partially in response to East Asia's emerging regionalism. These include India, the European Union, and Australia and New Zealand.

Alas, ASEAN's institutional weaknesses though have significantly slowed down the progress of trade talks with ASEAN as a whole, while the differences of interest between the different ASEAN members has meant that much of the real negotiations in deals with ASEAN have been between the non-ASEAN powers and individual ASEAN states. This lack of regional coherence has meant that bilateral deals between individual ASEAN members and external powers have been more comprehensive. More worrying for East Asian trade integration, the cross-cutting trade deals that already exist in the region contain very different approaches to rules of origin making them very difficult to "bolt together" into a larger ASEAN+3 or East Asia Summit trade deal.[9]

The China Factor

As with the formation of ASEAN in 1967, China and its potential impact on Southeast Asia is a major factor behind the push for ASEAN integration and ASEAN's keen interest in leading East Asian regionalism efforts. China's post-Mao opening up to the world economy and its own adoption of an FDI, export-oriented manufacturing model is fundamentally changing the nature of the East Asian economy and challenging (maritime) Southeast Asia's role in it.

In response, through ASEAN, Southeast Asia's major economies have adopted a "congagement strategy" towards China. On the constraint side, ASEAN economic integration and the push for a single Southeast Asian market is an attempt to constrain China's attractiveness by addressing its massive scale advantage over individual ASEAN economies. China is more than seven times larger in market exchange rate terms than ASEAN's largest economy, Indonesia, and is growing significantly faster. Indonesia accounts for more than a third of ASEAN's total gross regional product. A single unified ASEAN market would also make it a very good candidate for China+1 investment strategies. ASEAN's new focus on East Asian economic diplomacy is the engagement part of this strategy, particularly as China is a new and booming export and investment market for Southeast Asian economies, just as it is for everyone else. In 2006, the small city-state of Singapore was the sixth largest source of FDI inflows into China.[10]

Recent developments in China's trade and investment patterns reconfirm these Southeast Asian concerns. Looking at Japanese FDI, the main driver of maritime Southeast Asia's growth model after the 1985 Plaza Accords, the region as a whole does seem to be losing out. The year 2002 was the first year that total Japanese FDI inflows to China surpassed those to Southeast Asia as a whole, with the nadir being reached in 2003 as China attracted more than ten times the amount of Japanese FDI. In 2006, China and Southeast Asia attracted roughly the same amount as Japanese firms shifted away from catching up in China to diversifying their production base beyond China through a China+1 strategy.[11]

Looking more carefully at China's trade and investment portfolio, Southeast Asian economies run the risk of being decoupled from China as the global production chains, particularly in the electrical and electronics sector, become increasingly concentrated in China. Until recently, East Asian production chains have responded to the opening up of China by shifting end assembly function there while keeping the production of parts and intermediate goods widely spread. Hence, Chinese imports and exports grew at similar rates in this sector, and Southeast Asian export portfolios to China were biased towards components for this sector. This appears to be changing as China's exports in this sector are growing quicker than imports, and Malaysia for one, the Southeast Asian economy most tied to this sector, is seeing its electronics exports slow down significantly.

The slow pace of ASEAN integration also means that Japanese firms' shift to a China+1 strategy is not towards ASEAN as a whole but towards individual ASEAN countries. Thailand is still doing well attracting Japanese manufacturing investment while the Philippines in particular is experiencing noticeable declines. The China factor is a major driving force behind ASEAN's economic diplomacy while also exposing its limits and the region's underlying vulnerability to the decisions made in head offices far away.

The Crisis Legacy

The economies and political systems of the countries directly affected by the 1997–98 Asian financial crisis are still feeling the effects a decade on. Politically, one can see this in the ongoing political troubles in Thailand and the rise of Thaksin's economic populism, in Malaysia's increasingly tense communal relations, and in Indonesia's decentralization and democratic consolidation. Economically, the crisis has helped Southeast Asia become a slower growing, less confident, more insulated, and more integrated regional economy. The crisis and its political fallout though has also created new problems for regional integration. Given the depth and shock of the crisis for those countries affected, these changes are likely to be long-lasting and may well still be present at the twentieth anniversary.

Insulated and Integrated

The crisis itself highlighted Southeast Asian economies' external vulnerabilities and how some of these had been exacerbated by the hothouse growth of the early 1990s. At the top of the list here were large current account deficits and overvalued and overmanaged exchange rates practically pegged to the dollar. The domestic reflection of this was very high levels of foreign and local investment often funded by questionable bank loans.

Today, the regional picture is quite different. It is a much more defensive one focussed on moderating external vulnerabilities even at the cost of slower growth. The lesson from the Asian financial crisis seems to have been not to adopt an Anglo-American approach of freely floating exchange rates, current account deficits, and minimal foreign exchange reserves, but rather continued foreign exchange management with greater foreign exchange reserves and current account surpluses.

All the countries in maritime Southeast Asia now run strong current account surpluses, while investment figures are well down for those hit by the crisis in 1997. Malaysia again stands out here as it had the highest investment growth levels in the run up to the crisis but since then has seen the sharpest fall-off before Thailand's 2006 political meltdown. At the same time, foreign exchange reserves are larger and growing rapidly (see Table 2). In another reversal, Malaysia, Thailand, and Indonesia continue to run noticeable budget deficits indicating that public spending is still in an expansionary mode and taking up some of the slack left by constrained private investment.

TABLE 2
Measures of Insulation

	Current account balance, 2005 (% of GDP)	*Current account balance, 2007 (% of GDP)**	*Foreign exchange reserves, 2005 (US$ billion)*	*Foreign exchange reserves, 2007 (US$ billion)#*
Singapore	24.5	27.0	116	148
Malaysia	14.6	14.4	70	111
Thailand	–4.5	3.7	52	74
Philippines	2.0	3.8	18	30
Indonesia	0.1	1.6	35	51

Notes: * Projected end-of-year figures.
Figures from July–September 2007.
Source: IMF, *Regional Economic Outlook: Asia and Pacific*, October 2007.

Maritime Southeast Asia's large and growing current account surpluses are being translated into growing pools of foreign exchange reserves as these countries, just like China, continue to run "dirty float" exchange rate regimes tied to the declining American dollar. The year 2007 saw Southeast Asian central banks intervene more frequently to stop the appreciation of their currencies, even when this went against some of these central banks' purported inflation-targeting regimes. Concerns about export competitiveness still weigh heavily in exchange rate policies of regional governments a decade on from the crisis. Those who expected the crisis to trigger a shift to freely floating exchange rates have been proven wrong.

The Asian financial crisis also opened up the affected countries' services sector to much greater FDI at the same time that Singapore's and Malaysia's largest firms, most state-owned or controlled, were seeking investments beyond their maturing domestic markets. Hence, since the crisis, intra-ASEAN investment, particularly in services, has grown appreciably, and from 2002–2006, ASEAN economies were the third largest source of FDI into the ASEAN economies after the European Union and Japan.[12] Unlike Japanese and European investment, a higher share of intra-ASEAN investment is for mergers and acquisitions, indicating a deeper level of cross-border integration. Intra-ASEAN investment is also the quickest growing source of inflows into the ASEAN region. Malaysian banks and investment corporations now have footholds in Indonesia and the Philippines and a growing presence in Singapore. Singaporean ones are also now truly regional players.

While the Asian financial crisis helped open up Southeast Asian economies, particularly their long cossetted banking sectors, to foreign ownership, the nature of this opening and the shock of the crisis also exacerbated the economic nationalist tendencies. The Singapore state-owned investment company Temasek has borne the brunt of this regionally disintegrating force. In Thailand, Temasek's purchase of the Thaksin family's Shin Corporation featured heavily in the 2006 coup to overthrow Prime Minister Thaksin Shinawatra and the subsequent tightening of foreign investment rules. In the same year, Temasek's investments in Indonesia's booming telecommunications market also came under attack in Indonesia. In November 2007, Temasek was found guilty of illegal cross-shareholdings in relation to Singapore Telecom's controlling share in Tekomsel and ST Telemedia's controlling share in Indosat.

The tribulations of Temasek in Thailand echo the Malaysian state authorities' blocking of its attempt to buy Time Engineering in 2000. Temasek's problems with Indonesian authorities echo other foreign services firms' difficulties in

Indonesia including Canada's Manulife whose joint venture operations were ruled bankrupt in 2002 in a ruling that perplexed the foreign business community. Foreign resource firms are also finding it difficult to invest further or even maintain their present status in Indonesia despite the global resources boom. Foreign investment in many parts of Southeast Asia outside of export manufacturing is still quite difficult, while Singapore state-owned investors face the added difficulties of regional antipathy towards Singapore and fears of Singaporean domination.

At the same time that Southeast Asian economies, especially those hit directly by the crisis, are more open to foreign investment, the political and economic legacies of the crisis has made them more inward-looking. Ironically, at the same time that ASEAN is trying to build an ASEAN Community and act as the hub for East Asian regional efforts — 2008 is the year for raising public awareness of the ASEAN Economic Community among member populations — the domestic political and economic challenges facing Southeast Asian countries are leaving little time or resources for regional integration.[13] For Indonesia, the main tasks are consolidating its radical decentralization and democratization, while for Thailand it is to save the economy and political system from its present paralysis. While the economic dynamics in Southeast Asia are pointing towards greater integration, the political ones seem to be pointing the other way.

Halo Lost

The most important and widespread outcome of the crisis that still shapes Southeast Asia's global engagement is that it seems to have knocked the halo off the tiger economies of Southeast Asia. In the two decades prior to the crisis, the economies of maritime Southeast Asia attracted a disproportionately large share of FDI to emerging markets and to East Asia. Singapore, Malaysia, and Thailand in particular were very attractive sites for manufacturing export platforms and were seen as the countries most likely to follow in the footsteps of their larger, richer northern neighbours. Yet, the rise of China post-Mao, the opening up of Eastern Europe, Latin American's recovery from the lost decade, and Vietnam's transition from a centralized state-run economy were already putting pressure on maritime Southeast Asia's privileged position.

The crisis reaffirmed these problems and undercut previously held assumptions about maritime Southeast Asia. Crudely put, the crisis knocked the halo off maritime Southeast Asia and firmly placed it on China and to a lesser extent on Vietnam and India.

The halo effect is when global companies feel great, often shareholder-driven, pressure to have a presence in that particular market and consequently the holder of the halo attracts much more investment than its underlying "fundamentals" suggest it should. According to UNCTAD statistics, in 1996, Southeast Asia accounted for 7.3 per cent of global FDI inflows and 17.53 per cent of East Asian ones. By 2002 (the last year these statistics are available), these figures had dropped to 2.24 per cent and 10.43 per cent respectively. Looking at total stock, rather than the more volatile inflows, the picture is similar. In 1996, Southeast Asia accounted for 7.65 per cent of the global stock of FDI and 19.71 per cent of East Asia's. By 2002, this had fallen to 2.87 per cent and 13.09 per cent respectively.[14] For Southeast Asian economies to continue to attract foreign investment and maintain their growth model, now they need to improve their investment climates and provide both macroeconomic stability (largely achieved) and more microeconomic reform.

Looking at the individual countries and their rankings in terms of the ease of doing business, Southeast Asia fared better with Singapore ranked first out of 178 countries, Thailand 15th, and Malaysia 24th, all above China's ranking of 83rd and India's at 120th. Indonesia, the Philippines, Cambodia, and Laos all ranked lower than China and India at 123rd, 133rd, 145th, and 164th respectively. Brunei Darussalam and Myanmar were not surveyed, while Vietnam split China and India at 91st. The fact that China, Vietnam, and particularly India did quite badly in the survey and yet have seen FDI pick up substantially in the last decade shows that they are each benefitting from a halo effect, one that for China and India is definitely brightened by the size and growth of their domestic markets.[15]

Conclusions

Anniversaries are the perfect opportunity for reflection with an eye to a better future. In the case of Southeast Asia, these two anniversaries suggest that the future will feature a tougher East Asian and global environment, particularly for the still central electronics sector. Southeast Asia's continuing external vulnerabilities will have to be watched carefully. Yet, the region is becoming more insulated, integrated and complementary. Hopefully in 2008 and beyond, economic nationalism and regional empathies will not scupper this and ASEAN can continue to facilitate this movement while helping Southeast Asian economies integrate better with East Asia and the world. For ASEAN to accomplish this though, it needs to be strengthened significantly and its member states need to give the regional organization more latitude.

Notes

1 For example, the links between climate change and energy security have seen an upsurge in interest in alternate fuel sources. Indonesia, Malaysia, Brunei, Myanmar, and Vietnam all have significant LNG reserves. Malaysia and Indonesia in particular are also major palm oil producers, while Thailand is a global sugar power. The Philippines is also benefiting from the ageing of rich countries as this is increasing the demand for nurses, a major labour export. Finally, the Philippines and Malaysia have leveraged their colonial legacy of the English language to become regional and global nodes, just as India has, in the expanding global back-office processing chains.

2 Barry Desker, head of the S. Rajaratnam School of International Studies, even called for Myanmar to be suspended from ASEAN, while Myanmar did not host ASEAN in 2006 despite it being Myanmar's term. Barry Desker, "ASEAN: Time to Suspend Myanmar" (RSIS Commentaries Singapore: RSIS, 4 October 2007).

3 Statistics taken from the JETRO White Paper on International Trade and Foreign Direct Investment (Tokyo: JETRO 2007). These statistics exclude Singapore given its historic lack of tariffs on goods except alcohol.

4 For more information about the idea of an ASEAN Economic Community, see Denis Hew, ed., *Brick by Brick: The Building of the ASEAN Economic Community* (Singapore: Institute of Southeast Asian Studies, 2007). For a more critical treatment of the idea of an ASEAN Economic Community and ASEAN's economic diplomacy as a whole, see John Ravenhill, "Fighting Irrelevance: An Economic Community 'with ASEAN Characteristics'", Working Paper 2007/3, Department of International Relations, RSPAS, Australian National University (Canberra: Australian National University, 2007).

5 It is worth noting here that the Chinese Premier attends both the ASEAN+3 and East Asia Summit meetings, while the Chinese President, China's most senior political leader, attends APEC.

6 More irksomely for ASEAN boosters is the fact that Chinese sources routinely refer to the ASEAN+3 process as the 10+3 process.

7 See Masahiro Kawai and Ganeshan Wignaraja, "ASEAN+3 or ASEAN+6: Which Way Forward?", ADBI Discussion Paper no. 77 (Tokyo: Asian Development Bank Institute, September 2007).

8 As with the U.S.-Korea FTA, South Korea's protection of its uncompetitive rice market proved a sticking point with Thailand, the world's top rice exporter, deferring its participation in the Korea-ASEAN FTA.

9 See Kawai and Wignaraja for more details on these rules of origin problems.

10 <http://www.moe.gov.sg/speeches/2007/sp20070618.htm>.

11 These statistics were taken from various JETRO tables.

12 Figures taken from Table 27, ASEAN statistical website <http://www.aseansec.org/Stat/Table27.pdf>.

[13] This observation comes from a month of fieldwork in Singapore, Jakarta, Kuala Lumpur and Bangkok looking at East Asian and Southeast Asian regional integration. Few, apart from those directly involved in the process, were very interested in these processes and were much more deeply concerned and involved in the headline domestic issues.

[14] The UNCTAD figures were taken from the Asian Development Bank's Asian Regional Integration Centre's statistical website <http://aric.adb.org/indicator.php>.

[15] *Doing Business 2008: Comparing Regulation in 178 Countries* (Washington, D.C.: World Bank, 2007).