



ASEAN OUTLOOK:
**CHALLENGES AND PERSPECTIVES
FOR ITALY AND EUROPE IN SOUTHEAST ASIA**

EXECUTIVE SUMMARY



CENTRO STUDI
INTERNAZIONALI



Ministero degli Affari Esteri
e della Cooperazione Internazionale



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ASEAN OUTLOOK: CHALLENGES AND PERSPECTIVES FOR ITALY AND EUROPE IN SOUTHEAST ASIA



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FARNESINA

Research funded by the Italian Ministry of Foreign Affairs, ex l. 948/82, art. 2.



Methodological note

This report aims to analyse the political, economic and social implications of the Association of South Eastern Countries (ASEAN) and to present its role in the management of the regional balance.

The work is divided into three sections. The first one is dedicated to analyse the political context and the human geography of member states, in order to assess how their different political experiences and their diverse ethnic and social mosaic can influence the establishment of ASEAN as a fully-fledged political entity. The second one looks at the economic context in order to highlight the regional development trends and the sector that could be of interest for Italy regarding possible partnerships. Finally, the third one is dedicated to the analysis of the relationships established by ASEAN both with regional counterparts and with third party countries. This section, in particular, aims to outline the different dialogue forums which the Association has structured its participation in and the challenges that the Association still has to face in order to be acknowledged as a true mechanism of consultation at regional level, for the resolution of disputes and the protection of balances.

Furthermore, the report aims to provide policy recommendations to Italian and European lawmakers, in order to establish a more structured dialogue with ASEAN and, in doing so, to intensify the Italian and European presence, both political and economic, in a region as dynamic as South East Asia.

Data have been gathered and the document has been drafted during the second semester of 2015. For the elaboration of the economic section, in particular, the data for 2000-2014 have been considered, in order to paint a thorough and complete picture of the situation in the concerned period. Any more recent, but isolated data have not been considered.

In order to ensure a more agile fruition of the research, the following report is a summary of the full report, as written by Centro Studi Internazionali (Ce.S.I.) and Fondazione Economia Università di Roma Tor Vergata (FUET), under the sponsorship of the Ministero degli Affari Esteri e della Cooperazione Internazionale (MAECI).

Chapters 1 and 3 have been specifically contributed by Ce.S.I (Francesca Manenti, Asia Desk Analyst), while chapter 2 has been specifically contributed by FUET - Osservatorio ASEAN (Prof Luigi Mundula, research fellow, and Gabriele La Licata, junior fellow).



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INTRODUCTION

Officially founded on 8th August 1967, the Association of Southeast Asian Nations (ASEAN) was born out of the initiative of Thailand, Malaysia, Indonesia and Singapore, in order to foster the political and economic cooperation in the region and to create an entity capable of guaranteeing stability throughout the whole Southeast Asia. With the progressive enlargement of its membership to Brunei (1984), Vietnam (1995), Laos and Myanmar (1997) and Cambodia (1999), the ASEAN has become an inclusive and representative forum in a region which was destined, in the following decade, to grow into one of the most dynamic contexts of the world.

Because of the geopolitical and economic potential of the whole region, in fact, the governments of the area decided to develop a common mechanism of consultation, for their own internal differences and inefficiencies to be absorbed in order to favour a distributed development of the whole Southeast Asia. This project was embodied in the “Vision 2020” policy document and is built on four pillars:

1. the creation of a common economic dimension, in terms of market integration and facilitation of internal and external commercial exchanges;
2. the realization of a common context of stability and security, in order to regulate the relations between the different countries through a treaty of friendship and cooperation;
3. the development of a responsible society in terms of technological development, both urban and human;
4. the consolidation of ASEAN's international role.

It's in the early 2000, though, that we see a change of pace by the Association, due to new international challenges and the consolidation of the globalization process. As they wanted to ride the momentum of what, back then, was called the “Asian century”, ASEAN member states decided in 2003 to accomplish the objectives of the Vision 2020 policy document through the implementation of three common pillars: the ASEAN Security Council (ASC), the ASEAN Economic Community (AEC) and the ASEAN Socio-Cultural Community (ASCC). In order to strengthen, deepen and, above all, accelerate this process, in 2007 the Association, after 40 years from its inception, decided to equip itself with its first official charter. With this document the Association not only formalized the legal framework of its organization, but also institutionalized its own structure, aiming for more efficiency, through clear and definite internal bodies and procedures to achieve its own objectives, and more transparency to the eyes of international observers.



In spite of the member states willing to cooperate and coordinate in an increasingly systematic way, the road leading to a fully-fledged Community of Southeast Asia still looks difficult. The political and social heterogeneity of the region, on one side, and the difficult harmonization of national interests in the name of a common political strategy, on the other side, are two of the biggest elements liable of having a negative impact on ASEAN's political relevancy. Thus, to this day the economic dimension is still the main driving force behind the development and the international success of the Association.

It did not happen by chance, in fact, that out of the pillars established in 2003 the first to be successfully developed was the ASEAN Economic Community (AEC), in order to create a common market based on free circulation of goods, services, capitals and workforce. Despite the potential of this union, which could actually stimulate foreign investments in the area and foster commercial exchanges between member states, not implementing also an effective political integration seems destined to undermine the benefits of having an economic union. Without developing a stronger political and cultural cohesion, in fact, the benefits stemming from economic integration could be not worth the time over the long period. The current weakness of central institutions against single governments, set forth by the Association's principles of no-interference and research of consensus, might transform the recent Economic Community into a two-speed organization. Without adequate stimulus and actions from the Association, in fact, less economically developed members could not keep up with richer national markets (the so-called ASEAN-6) and the gap between the two groups of countries could very well widen. Because of this, there could be not only a weakening of ASEAN compared to big regional competitors like China and, increasingly, India, but the existence of an internal gap could pave the way for external actors to exploit the situation and hit the already weak political capability of the Association.

Thus, it looks like that in the near future the true challenge for ASEAN will be faced in the political and security field. Despite the progress made in recent decades, with many new partnerships and occasions of multilateral dialogue, like the ASEAN Plus Three (APT), the East Asia Summit (EAS), the Regional Forum (ARF) and the Defence Minister Meeting (ADMM and ADMM+), the Association is still mired in different national interests and, because of this, the adoption of common positions is difficult. The internal consultation process, then, looks more like a compromise between different interests than a way to formulate a coherent and common foreign policy, set to actually transform the Association into a real all-inclusive regional political architecture.



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In order to implement the other two pillars of the Vision 2020 strategy it will be necessary for ASEAN to face the structural challenges that inhibit its internal development and to harmonize the priorities of the different political agendas of member states, in order to become a fundamental actor for the political balance of Southeast Asia.



1. THE POLITICAL AND SOCIAL FRAMEWORK OF ASEAN

Southeast Asia is a deeply heterogeneous area, in the variety of its political systems and in its ethnical and religious composition. Located between the Indian subcontinent and the Chinese Celestial Empire, the region has absorbed influences coming from East and West and, in doing so, it has seen the formation of syncretic and uneven national bases. Due to its position between the Indian and Pacific oceans, the area has been quite crucial from a maritime point of view, as it favoured the movement of commercial and human flows. In such a varied mosaic, the birth of new national states has crystallized these differences in many different institutional systems, not only due to the heritage of the colonial period, but also due to internal balances between different ethnic and cultural groups in each country. The political structures have thus become limits within which to contain such a deep social diversity, in order to curb those independentist or irredentist forces which are active almost everywhere in the region and which pose some of the most dangerous threats, over the long run, to the stability of central authorities in the whole area.

1.1 Forms of government and political dynamics in Southeast Asia

The political scene of Southeast Asia presents a great variety of institutional forms: three constitutional monarchies (Malesia, Thailand and Cambodia), four republics (Myanmar, Indonesia, Philippines and Singapore), two socialist states (Laos and Vietnam) and one absolute monarchy (Brunei). This categorization, however, is purely formal: countries with the same political system can be actually quite different in terms of democracy or internal stability, as this, in particular, can be linked to the presence of a political dynamic between majority and opposition (in countries with a multi-party system) or to the strength of the balance between national centres of power. Furthermore, it is not possible not to consider, in fact, that this region has been one of the most instable at global level during the XX century. Even though there have not been any true civil wars after the end of the Cambodian conflict, the clashes still undergoing between groups of independentist rebels and central authorities in different national contexts still represent a pressing threat for the stability of these countries. The need to guarantee, over the long run, a certain degree of institutional stability has translated into an ever-increasing importance of the Armed Forces, especially in those countries more exposed to such kind of threats. From instrument of the government for the repression of internal insurgencies, they have soon become a real political player. Because of this, in countries such as Thailand, Myanmar and, albeit in a less evident manner, the



Philippines, the Armed Forces have become an important political variable, sometimes essential to the definition of internal balances.

In Southeast Asia the State where Armed Forces have played a prevalent role has been - without a doubt - Myanmar. Before becoming a parliamentary democracy since 2010, as the Republic of the Union of Myanmar, for almost 50 years the country has been ruled by a military junta. From 1962 onwards, military elites (known as Tatmadaw) have de facto controlled every aspect of the Country's political life, first through the Burmese Socialist Programme Party (BSPP), then through the State Peace and Development Council (SPDC) - formerly known as the State Law and Order Restoration Council (SLORC). Despite the constitutional reform in 2008, granted upon international pressures aimed at lifting the economic sanctions imposed 10 years before, and the following elections in 2010 (the first ones since 1962), the influence of the military establishment on the political life of the Country has remained pervasive. This was for two main reasons. On one hand, the new Constitution has only slightly reduced the weight of the Armed Forces, as their grip on national institutions has been actually kept. The new Constitution, in fact, assigns 25% of the parliamentary seats to members of the Armed Forces and this percentage allows them to veto any amendment to the Constitution (which require to be approved 75% of the seats). Besides this, it also grants them fundamental positions within the Government, such as in the Ministry of Defence and that of Interior. On the other hand, as the elections were boycotted by the National Development Party (NDP) and many members of the military were elected among the ranks of the winning party - the Union Solidarity and Development Party (USDP), the first civil government of the post-junta era has been once again expression of traditional elites.

In this context an important occasion for change could stem from the last general elections, held in the Country last November (2015). For the first time, victory has been assigned to the National League for Democracy (NLD), which 80% of the seats in both houses.

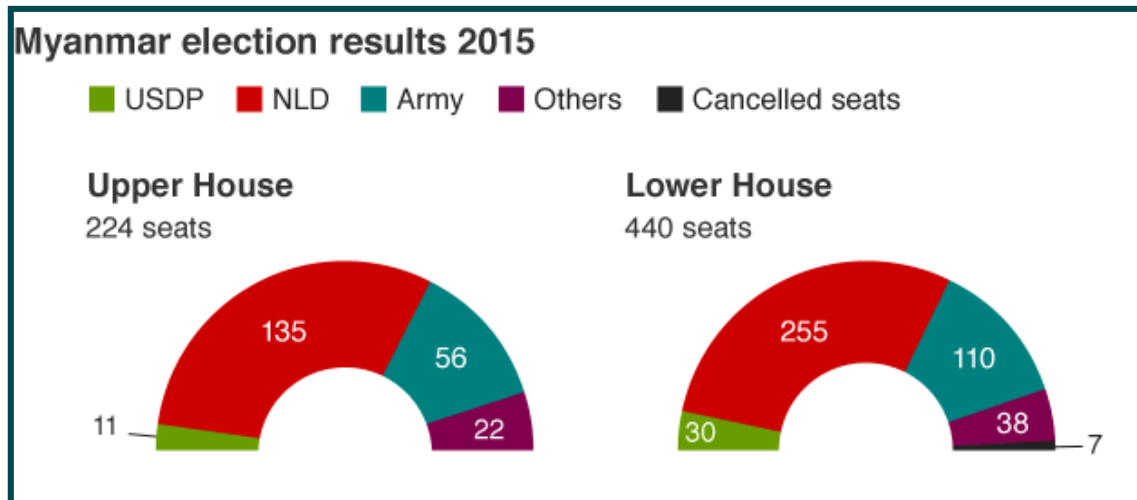


Figure 1 - Electoral results in 2015 (Source: BBC - Elaboration: Ce.S.I.)

For the first time in the history of the country, the main opposition party finds itself with the task of forming the new government and, at the same time, trying to strike the necessary balance with the military establishment. A first test bench for this relationship could be represented by the appointment of the new President, due next spring (2016). According to the Constitution, the procedure for the election of the President, which is indirect, is quite complex. The Parliament is divided into three groups (Lower House members, Upper House members and Parliament members coming from the military establishment) and each of them proposes a candidate. One of them is nominated President, as voted by the whole Parliament in joint session, and the other two Deputy Presidents. The NLD, with such a majority in both Houses, shall be able not only of nominating two of its candidates for the final choice, but could also very well manage to express the higher institutional office of the Country.

Another country where the military has always had a fundamental role is Thailand. Although, with the constitutional reform of 1997, the Country managed to equip itself with a system capable to guarantee the competition between different parties, the Constitution itself has set forth the possibility for the Army to intervene in case of strong social tensions, in order to avoid an internal crisis. The regularity with which this has happened over the years has made the Thailand Armed Forces (RTAF) not only the *deus ex machina* of national politics, but also the main protector of the Monarchy.

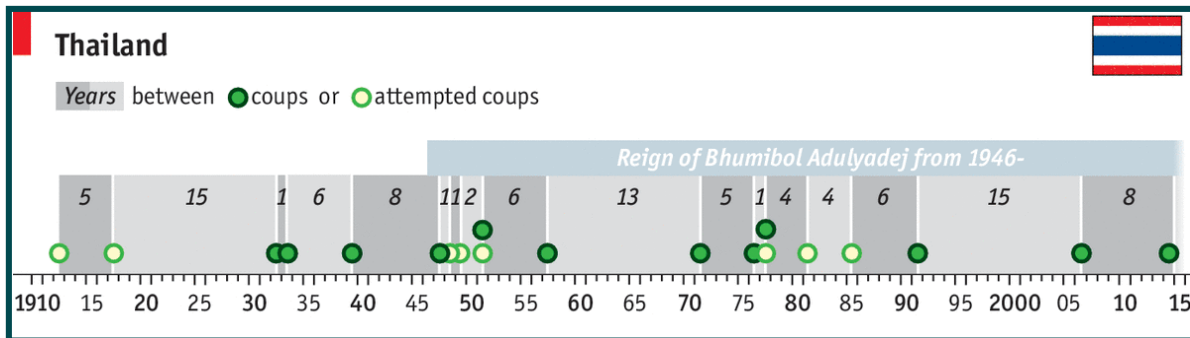


Figure 2 - Coup d'états in Thailand between 1932 and 2014 (Source: The Economist - Elaboration: Ce.S.I.)

The link between RTAF and the Royal House, in fact, is the crux of the internal institutional system, as well as the main conservative principle of the status quo. Safeguarding this synergy, in fact, has been often at the centre of military interventions against governments in charge, either to put an end to situations of social discontent, susceptible to plummet the Country into internal unrest, or to avoid the formation of alternative power structures, capable of jeopardizing traditional power balances. Thus, over time, Thailand has seen the crystallization of a dichotomy at the base of Thailand's constitutional system, between the administration of the state (represented by Royal House representatives and military oligarchies) and national politics (subject to the rules of party dynamics and subordinated to administrative hierarchies).

This synergy could prove fundamental for the next general elections, due in 2017, aimed at the formation of a new government after almost four years of transitional power. Now that King Bhumibol Adulyadej, at 80, is particularly weak, the establishment could try to manipulate the process of constitutional reform, in order to prevent a possible succession within the Royal House to weaken the link between the Army and the Crown, which has guaranteed the privileges of the Armed Forces for over 70 years.

The dependency of institutional stability from the balance between internal powers, which is particularly evident in countries such as Myanmar and Thailand, is something that characterize also other countries of the region, albeit in a different way. Whereas in the abovementioned cases, the balance of power was represented by the role of the Armed Forces, in countries such as Philippines, Indonesia, Malesia and Singapore, the discriminating factor are represented by the economic situation and by the weight of the civil society.



Among these, Philippines are a particular case in the Southeast Asia scenario. With a democratic system dating back to the 1940's, the government of Manila is the oldest example of democracy in the whole region. Based on a familistic and decentralized structure, the internal social system has always been characterized by few, but powerful families, whose fortunes date back to the Spanish colonialism, when they owned the land. These families used their wealth to build a network of relations and, through this, to achieve substantial political weight at local level. The translation of such local dynamics into national institutions led to the formation of a powerful oligarchy, with personal interests in every sector of the state apparatus.

This process has not spared the Armed Forces either. On one hand because clans managed to get the favour of police and military forces and then started using them as local militias for the protection of their own interests. On the other hand, due to the importance of the Army for the internal stability of the Country (for example against the Communist guerrilla of the Hukbalahap or the independentist movement of the MILF - Muslim National Liberation Front), the Government has been pressured to forge a privileged relationship with some officers, in order to guarantee stability to its mandate. This trend reached its highest point during the dictatorship of Marco and then became systematic clientelism after the fall of his regime. As central institutions were particularly weak due to decades of authoritarian rule, the reinstatement of a normal political dynamic has inevitably favoured a renewed competition among the powerful economic oligarchies. Although the current government, led by President Benigno Aquino III since 2010, has tried, with some degree of success, to reduce corruption and administrative inefficiencies, both problems still represents two considerable problems for the quick development of the country.

Indonesia seems to be clearly the most stable country of the whole region. Even though for the first 40 years after independence the Country has seen two authoritarian regimes (Sukarno from 1945 to 1967 and Suharto from 1967 to 1998), since 1998 the Indonesian democracy has shown stability and maturity, for the last inefficiencies to removed, such as high level of corruptions and weak social cohesion in rural areas. The Indonesian system is based on three pillars: a multiparty political system, allowing free elections and government turnover (at least potentially); a balance between central authorities and regional centres of powers, so to create a functional mechanism of checks and balances; the full realization of the national industrial potential as a way to develop the Country.

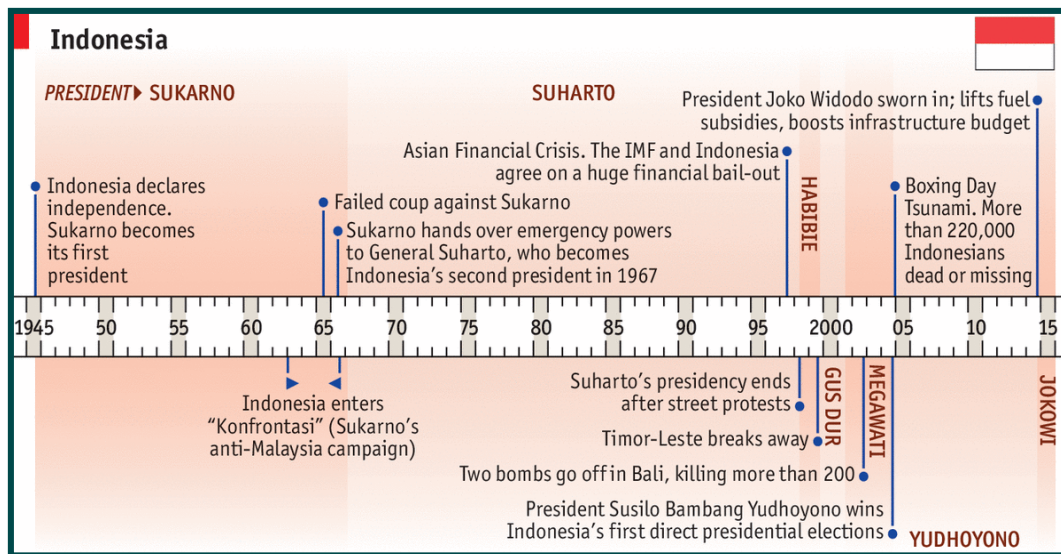


Figure 3 - Historical evolution of the Indonesian government (Source: *The Economist* - Elaboration: Ce.S.I.)

The thoughtful management of the Country's economic potential has reinforced the solidity of the Indonesian system. The stabilization of the national economy, started in the 1970's and further strengthened in the following decade due to the discovery of important offshore gas and oil reserves, allowed the government to generate widespread wealth, so to prevent social discontent to become a serious threat for internal stability. Although the 1997 crisis caused a slowdown also in Indonesia, economic reforms launched and implemented in previous years (not only exploiting natural resources, but also productive differentiation, deregulation and export-oriented incentives) have favoured the formation of a middle-class capable of leading the Country to a quick recovery.

Although the story of the Indonesian democracy can be described as a successful one, there are still some grey areas which could threaten the stability of the Country over the long run. First of all, more financial resources have led to more corruption, especially at regional level, where votes are usually exchanged for economic benefits and resources. Secondly, the country is still home to a high level of ethnic or religious violence. The conflicts between Muslims and Christians on the islands of Maluku and Sulawesi, to control resources and territories; the inter-ethnic clashes in Kalimantan; the secessionist claims by the Free Aceh Movement (GAM): these are just some examples of how ethnic and social differences in Indonesia could jeopardize the unity of the Country, against the interests of the Jakarta Government.



The institutional solidity of Indonesia is not an isolated case in the Southeast Asia scenario. A political stability, which is both noteworthy and longstanding, characterizes also the governments of Malaysia and Singapore, which have been ruled by a single dominant party since the independence from the United Kingdom: the United Malays National Organization (UMNO) in Malaysia and the People's Action Party (PAP) in Singapore. The undisputed primacy of these parties looks like the result not so much of a normal electoral affirmation, but - more than anything else - of their leaders being able to compress the political space. Thus, both countries seem governed by a slight authoritarianism, based on the undisputed primacy of a single political subject, on the cohesion of the ruling elite and on the effectiveness of the State's economic policy, more than the average of the other countries of Southeast Asia, which delivered widespread social transformation (in terms of urbanization and occupational levels).

In Malaysia the UMNO hegemony has three fundamental causes. For instance, the party lavishing favours and benefits to its supporters, so that primacy has never been linked to a particular leader, but to the political organization. Secondly, the UMNO government placed all its bets on the strengthening of the national economy, kick-starting a general increase of the population's wellbeing (with obvious returns in terms of political support and electoral approval. Through the new economic policy, in fact, the Kuala Lumpur authorities have created a series of State-controlled enterprises and businesses that allowed the State to become essential to the national economic development. Finally, the central government propped up its stability by exploiting ethnic divisions within the Country to its advantage. In a system where political allegiances have been always based on ethnic affinities more than ideological ones, the UMNO managed to create strategic allegiances, either to enlarge its constituency and to avoid the rise of protest movement due to rifts between the different communities.

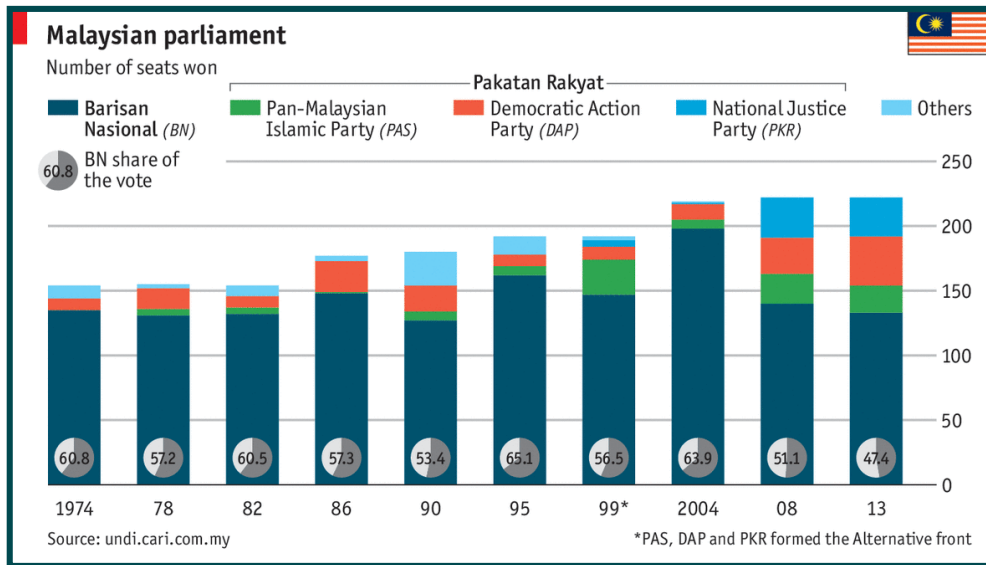


Figure 4 - Composition of Malaysian Parliament from 1974 to 2013

(Source: *The Economist* - Elaboration: Ce.S.I.)

The differences in the results obtained by the party during elections seems to be linked more to the degree of appreciation of the electorate towards the government in charge rather than questioning the political primacy of the BN. Thus, in this context, the heavy protests that have been tainting the reputation of Prime Minister Najib Razak, accused of corruption for a sum of 700 million dollars, are likely to endanger not the UNMO party, but the tenure of the government.

Many of the Malaysian system's characteristics can be found also in the case of Singapore, the city-state that, over the last 50 years, has been governed without interruption by the PAP, the party historically led by Lee Kuan Yew. Despite the authoritarian nature of the Malaysian regime, the PAP leadership has always enjoyed a robust level of popular legitimacy, primarily thanks to the extraordinary economic success of the Country. Unlike what has happened, and still happens, in other ASEAN countries, the Singapore government has been able to spread the wealth originated by economic development among a wide slice of the population. Although a substantial fusion between State and Party happened already during the first years of independence, the PAP has never used this position of force to institutionalize, as happened in other Countries of the region, a nepotistic mechanism aimed at ensuring the presence of party men in the apical positions of the Public Administration. To

the contrary, the government has adopted a purely meritocratic selection criteria, in order to create a ruling class capable of maximizing the Country's potential.

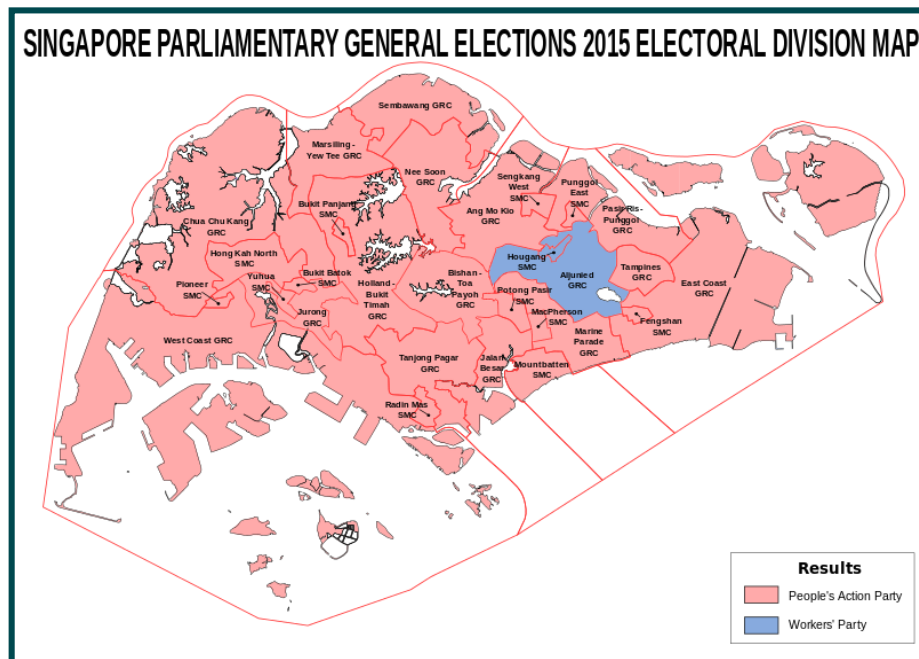


Figure 5 - Results of Singapore general elections, 2015 (Source: Wikipedia - Elaboration: Ce.S.I.)

In this context, the small dimension of this city-state have positively influenced the creation of a network of relations favourable to the PAP, allowing the ruling party to keep a tight control on every possible threat to its supremacy. This happened, first and foremost, in relation to the fragile relations between the different ethnic groups of the territory. Hailing cohabitation and social integration, the government has intervened in the management and in the regulation of social policies, in order not only to prevent internal disorders, but also to exploit, once again, ethnic or religious rifts in order to consolidate its power. Two examples of this are the creation of the Ministry for Islamic Affairs (which has enabled the government to extend its control to the Muslim community and its Madrasa educational system) and of the Group Representation Constituencies (GRCs), which have been instituted in order to ensure parliamentary representation to all ethnic groups.

While Singapore, where the Government has favoured a liberal approach, can be considered the best example of the Region in terms of economic development and modernization, where the Government has opted for a socialist approach the growth rate has been much slower or



almost non-existent. Tangible example of this trend can be seen in Vietnam, Laos and Cambodia, where the presence of Communist or Socialist authoritarian regimes, inclined towards the development of a centralized economy based on a non-industrial productive system, has allowed these Countries to experience first tepid reforms only towards the end of the 1980's. These reforms, however, have not favoured any active middle class, capable of stimulating a quicker development of the Country, but, on the contrary, have favoured the unity and the interests of the establishment. This has happened, particularly, in Laos and, mostly, in Vietnam, where the heavy hierarchical structure of state apparatuses, favoured by the fundamental role of their respective Communist parties, has transformed the benefits stemming from economic reforms into an instrument of further political support.

In Vietnam, the Communist Party being able to link its own political agenda with a strong national sentiment has favoured the long-time stability of the central government. This sentiment, although reduced over time, allowed the leadership to base its stability on a solid foundation in terms of popular support over the long period. Prying on national pride allowed the government to overcome the structural differences dividing north and south and to reunite the country under its leadership. From a political point of view the typical hierarchy of Communist countries has facilitated the establishment of a rigid structure, centred on the Political Bureau and on the Central Committee of the Vietnamese Communist Party (VCP). The restricted elite ruling the Country is the tip of a pyramid that reaches the smaller and far rural areas. Inside this system, where state institutions work in parallel with the Communist Party, but are still subject to its authority and to its policies, Armed Forces are the fourth pillar of the government's legitimacy. Although it has always enjoyed great prestige and power for its role during the war, the military establishment has never tried to become an alternative power, but rather an instrument of legitimacy for the VCP. The key presence of the Armed Forces, in fact, has allowed the state apparatus to strengthen further the already effective containment strategy of any possible form of opposition.

In this context, the lack of any meaningful and structured external opposition has evidenced that the only driver of change for the Vietnamese system can come from inside the Communist Party and, in particular, due to a generational change between the old guard of the Party and the new generation of politicians. Under new and young leaders, less tied to the traditional Communist ideology, the Vietnamese political system has been sensibly transformed in terms of transparency of the decisional process and enlargement of the political debate. Less centralized control on a series of realities linked to civil society, such as state-run cooperatives, has allowed a certain degree of autonomous private initiative, though limited. Reforms have generated a widespread improvement to living conditions of the



population, strengthening the general approval for the central government. Thus, political dynamics within the party can be simply viewed as a way to adapt to new needs coming from the outside, rather than a critical factor for the party's unity.

1.2 The ethnic-religious mapping and migration flows in the region

Southeast Asia is a big social and cultural mosaic, whose heterogeneity is the result of a deep ethnic stratification that characterized the different national contexts. In each country, in fact, the social texture is made by the stratification between the native population and the citizens of second and third generation, which represent ethnic minorities present in other States.

The indigenous population, the so-called Austro-Melanesians (originally parts of Negrito ethnicity), represent a small minority by now. In fact, the most of population comes from groups who moved from the coasts of southern China towards the Philippines, Malaysia and Indonesia.

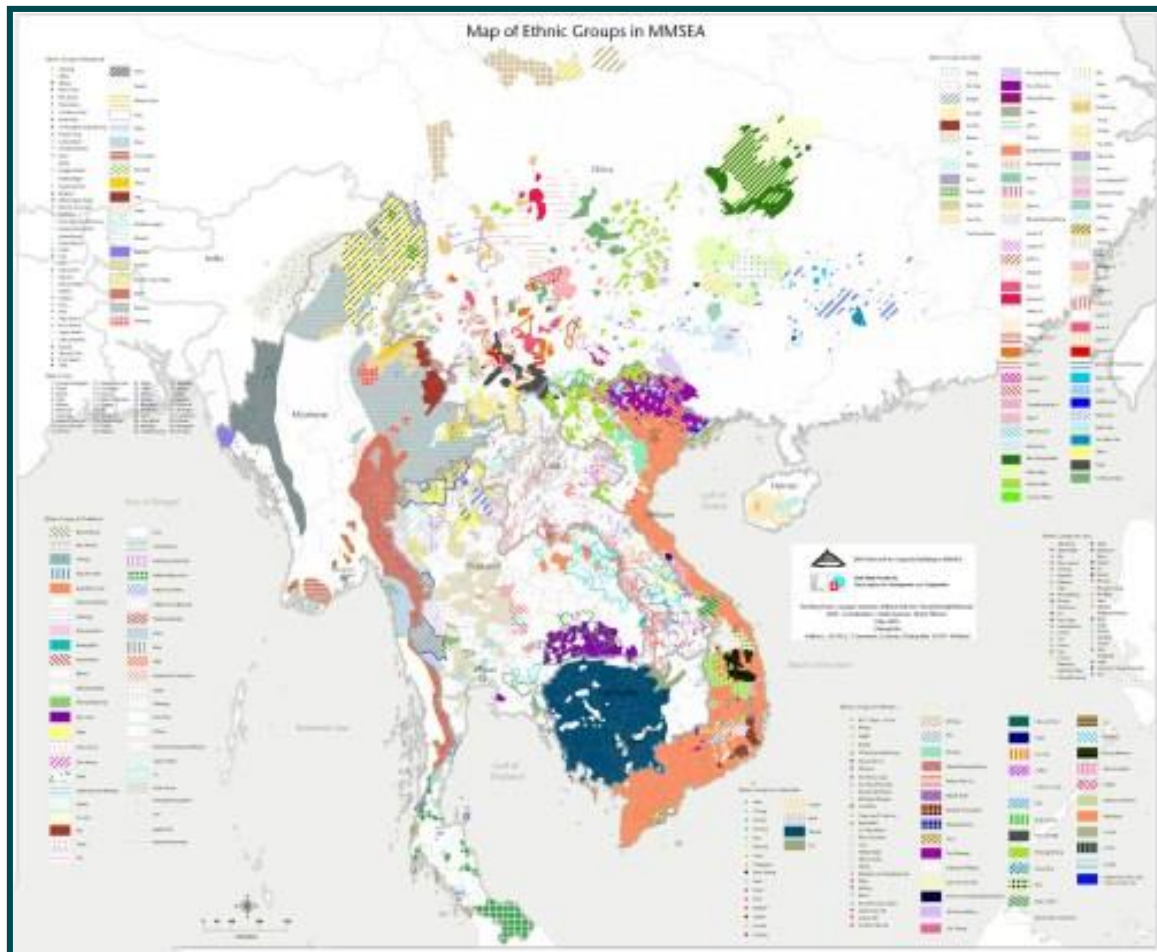


Figure 6 - Multiethnic map in Southeast Asia (Source: HugFox - Elaboration: Ce.S.I.)

In countries where central governments have always tried to adopt an authoritarian policy to bring to a controlled synthesis the differences inside their societies, this distinction sometimes is not exhaustive. On the one hand, because in Southeast Asia, that has always been a natural crossroad between Indian and Pacific Ocean, the social stratification is so deep that it is often difficult to distinguish clearly one dominant ethnic group and use it as term of comparison to define the different minorities. On the other hand, because regional governments sometimes look with concern at groups who shares the language and the culture with communities who lives in other countries: they are perceived as foreigners and as a possible instrument of influence inside the national borders.

In this region, nine countries out of ten had to build the national identity in context where the previous colonial administration had institutionalized the ethnic divisions in order to soothe possible nationalistic feelings. This legacy complicated the efforts of following governments in

trying to homogenize as much as they could the social structure, in order to prevent the division of society along ethnic lines from jeopardizing the new institutions' solidity. In countries like Indonesia, Malaysia and Myanmar, where ethnic minorities represents a big part of local population, the differences in identity and culture are still perceived as a critical factor for internal stability. In fact, ethnic fragmentation goes often along a deep religious heterogeneity. The confessional landscape in Southeast Asia includes all the main religions. The strong syncretism that characterized the context could sometimes become a serious political problem: indeed, in some countries there are whole regions whose population practice a different faith than the majoritarian belief, becoming real enclaves that sometimes don't recognize the central authority.

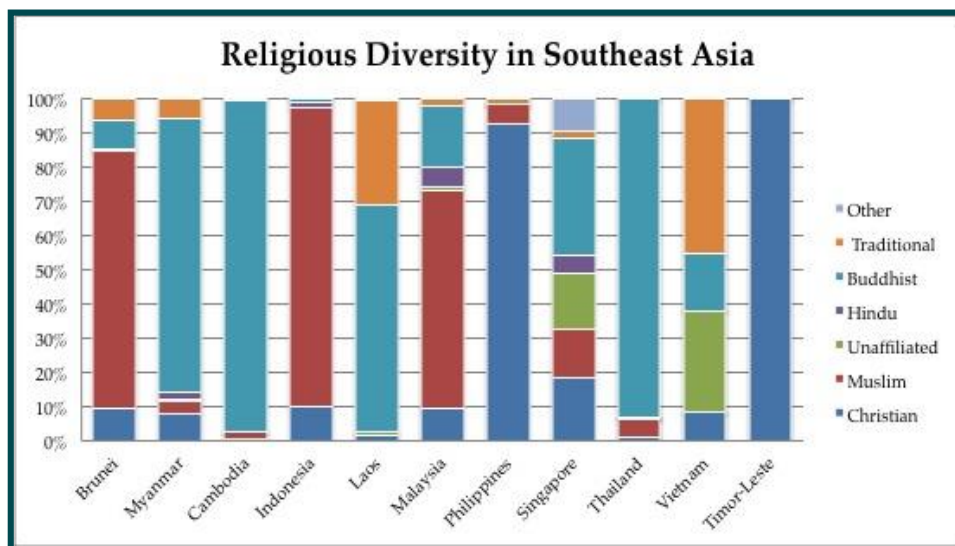


Figure 7 - Religious diversity in Southeast Asia (Source: The Interpreter - Elaboration: Ce.S.I.)

This refusal of national identity generates in these communities a desire of autonomy from a government that is not recognized, causing centrifugal forces against the control of central institutions. In this context, there are two kind of criticalities potentially created by the combination of social heterogeneity and lack of integration policies, i.e. the secessionist movements in Myanmar and the Islamist militias in the Philippines.

The importance of minorities for internal security makes the sociological factor a key variable for the evaluation of stability and sustainability of a country in the long-term. The balances not only between government and minorities but also between different groups gain a bigger and



bigger importance for the delicate management of regional alliances. In this context a fundamental impact for the future stability in this area seems to come from the huge flows of people and resources that daily cross the routes of exchanges in the region.

The progressive integration experienced by the area, in fact, augmented transnational exchanges and movements through the reduction of controls at customs and the increase of transport routes. Since the 1980's, in fact, the different speeds that characterized the economic trajectories of the countries stimulated the migration of an increasing number of people towards more developed nations, looking for a job and better life standard. The high unemployment rates, on the one hand, and better wages, on the other, triggered a sustained flow of people from Myanmar, Cambodia, Laos, Vietnam, the Philippines and Indonesia towards Brunei, Singapore and Thailand.

Economic migrations within Southeast Asia are essentially made of irregular migrants, lacking identification documents and residency permits, illegally entering destination countries through unofficial channels. These are sometimes constituted by a strong network of family and personal relations that provide migrants with information and logistic support along the whole travel, from beginning to end. The scope of the phenomenon in this region, however, has favoured the development of a sort of related supply chain, made up by recruiters, ID forgers, custom and travel agents.

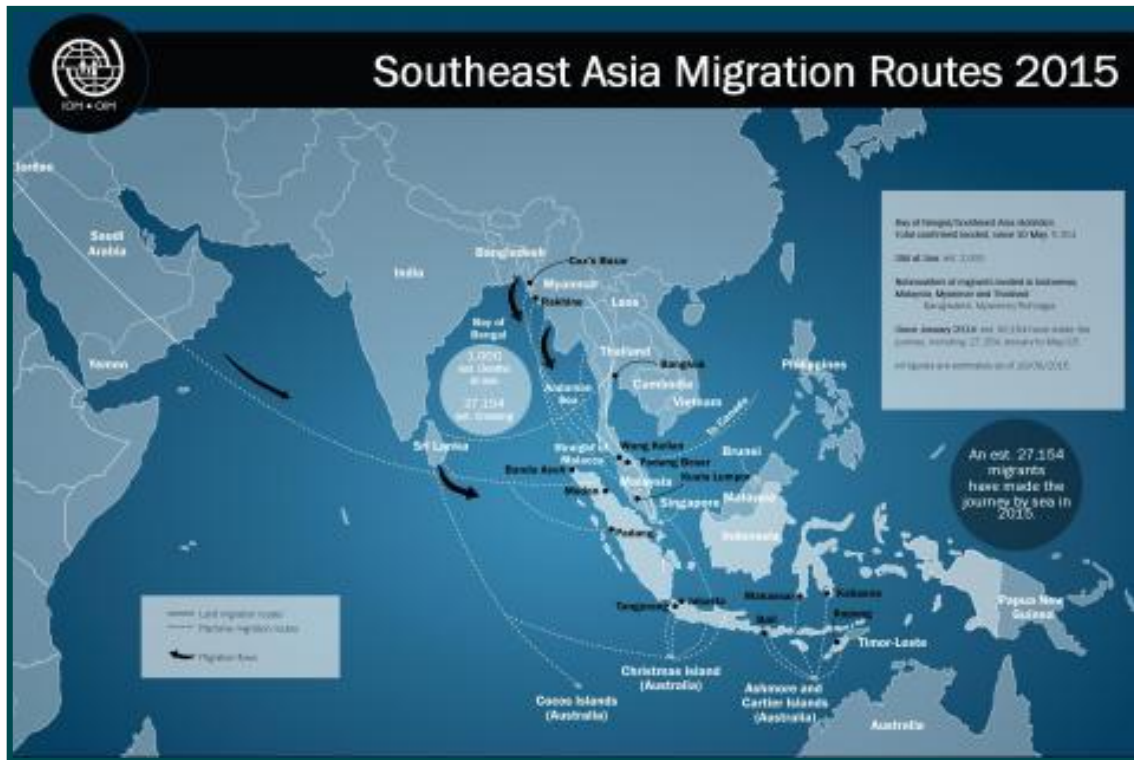


Figure 8 - Map of migration flows in Southeast Asia (Source: IOM - Elaboration: Ce.S.I.)

However, the lack of a discipline at regional level, adapt to protect and rule the exchanges, inevitably brought to an increase of irregular smugglings inside Southeast Asia, firstly the human traffic. This kind of criminal activity took advantages from the current difficulties that States still have in controlling their borders. The morphology along frontiers, on the one hand, the high rate of corruption among border-guards, on the other, impeded national authorities to limit the permeability of their borders. Human smuggling occurs along fixed routes, or inside the region or from the region towards Europe and North America. The regional smuggling routes end in three countries:

- Thailand is the destination of immigration from Mekong. The difficulties in surveilling the border with Cambodia, in fact, allow smugglers to exploit the harsh morphology of the territory to pass the frontier. There are two main routes from Cambodia to Thailand. The first one starts from the southeastern province of Prey Veng and, through Battbang and Poipet towns, arrives at Aranyaprathet, the first town beyond Thai border. The second starts from the southern provinces of Banteay Meanchey or of Kampot and arrives in Koh Kong at the frontier. Even though the flow from East is the most sizeable, Thai labor market represents a rich opportunity also for a lot of



migrants from Myanmar as well, that cross to Thailand or at Mae Sot, at the border, or at the provinces of Ranong, Tak and Kanchanaburi, to reach then the central Thai region of Samut Sakhon.

- Malaysia is the destination of irregular migrants from Indonesia and Myanmar. From Indonesia, smugglers come in Malaysian territory by sea, from Kalimantan province (part of Borneo) and, through the Malacca Strait, reach Sabh e Sarawak States. Immigration from Myanmar is made up especially by Rohingya people, which try to enter Malaysia thanks to local communities, or by migrants travelling toward Sumatra, which arrive by sea and go on toward Indonesian archipelago, in order to reach Australia.
- Singapore. Even though there are not determined routes, the most of irregular migrants try to enter Singapore clandestinely, or by Malaysian border, hidden and squashed inside transiting vehicles, or by sea, sometimes swimming toward the coast. They are economic migrants looking for better wages.

Smugglers which arrange these travels come generally from the same country in which they have their activities. For this reason they perfectly know the morphology and the viability of the routes, the easiest way to corrupt frontier officials, and they have a personal relations network as support for the organization of the travel. The prices required to migrants can be change according to the departure location and the country of destination. In fact, tariffs swing between 80 and 400 dollars respectively for transport from Cambodia and Myanmar to Thailand and between 30 and 200 dollars for migrants from Indonesia toward Malaysia.

The rooting of human smuggling highlights as the region is still affected by a lack of control by the different national security Forces to secure their borders and a lack of policies able to contain the phenomenon. However, the recent finding of several camps at Thailand-Malaysia border, used by smugglers as gathering points for migrants (especially Rohingya) waiting for the finalizing the travel details, rose international attention on the range of this activity and seems to have brought regional governments to take measures in order to prevent an humanitarian crisis that could have strong political side-effects in the area.

In this context, the need to use a regional approach for this phenomenon seems to have created an important room of maneuver for ASEAN in elaborating a plausible solution for the crisis. In fact, the efficacy that facing a delicate issue like human trafficking requires could allow the Association to test its ability and the steps done towards an improvement of its status as political body able to grant stability and balances in Southeast Asia. Some good signals have been shown at the last extraordinary meeting among Head of member States,



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gathered in Bangkok last May in order to define a common strategy for facing the humanitarian crisis and elaborating policies of prevention that could eradicate the illegal smuggling from its roots.

According to what was agreed in that occasion, ASEAN member States committed to enhance the information sharing and intelligence mechanism to increase the traceability and to dismantle the logistic network of smugglers. They agreed also to intensify the maritime search and rescue activities, to grant a first, even though temporary, reception to migrants on national soils and to implement a more accommodating migration policy. Moreover, member States expressed their interest in reinforcing the cooperation with pertinent international organizations, both to assure to immigrants assistance and health services and to allocate more funds, in order to comply with the necessities of a phenomenon that has transnational impact and implications.



2. SOUTHEAST ASIA AND ITS PRODUCTIVE NETWORK: A FOCUS ON ITS INDUSTRIAL SECTORS.

2.1 ASEAN as a global production network

Southeast Asia has been one of the protagonists of the global economy growth over the last thirty years. The strength of Southeast Asian economies lies in having placed their bets on an unprecedented development of international networks, especially for the manufacturing of machineries. In Southeast Asia it is particularly convenient to organize this kind of industry by fragmenting the manufacturing process. The coordinators of international production networks in ASEAN countries are usually multinational corporations from Japan, Korea, Taiwan, China, Hong Kong and other Southeast Asian economies and trade flows generated by this process of fragmentation are significant. For example over the years, from assembler of standardized components and performer of functionality tests, Singapore has become supervisor, designer of industrial process and performer of capital and technological intensive activities and tasks. Export of components from Southeast Asia is mainly related with electrical machineries and semiconductors.

The attractiveness of Southeast Asia as a centre of “global production sharing” has been favoured by several factors. First of all, despite the rapid growth, wages for the manufacturing sector in many countries of the area are still significantly lower than in countries of Eastern Europe. Moreover, wage differences among different Southeast Asian countries foster the fast expansion of regional product-sharing systems, improving the trans-border trade of components. Secondly, the relative cost advantage of Southeast Asian countries has been supported by a policy of support for trade and investments, as well as by improvements in transport and communication systems, which facilitated trade relations by reducing the costs associated to link services. Finally, countries like Singapore, Thailand and Malaysia offer significant agglomeration advantages thanks to factories already present on-site. As they have already started with success several production processes in the region, lot of multinational companies (especially from US) improved significantly the technology used in regional production networks and gave more responsibility to their local affiliates in global process.

If we look at how manufacturing sectors are geographically distributed in ASEAN countries, the concentration of productive activities is limited to certain areas and is especially linked to the following sectors: automotive, electric and electronic, textile and garment, food



processing sectors and other manufacture industries. Few provinces are deeply involved in the production networks of the automotive and electronics goods sectors.

Other provinces, instead, host plants for the textile, clothing and agribusiness industries, but factories are not always connected with the regional and global market. The share of the components industry of the trade in the manufacturing sector for Southeast Asia is higher than in all regions of the world (see NAFTA and EU-15). Trade of components concerns especially the transport equipment sector (SITC 7), whose share amount to 90% of combined components trade. In SITC 7 sector, components exports and imports in Southeast Asia are strongly represented by electronics and electrical industries. Semiconductors and other electronics (SITC 77) components have a share of 50% of Southeast Asian exports of components. Considering also SITC 76 and SITC 75 sectors (components of telecommunication equipment and office and automated data processing machines, respectively) the share of the components exports amounts to 90%.

The involvement of Southeast Asia in the global production network precedes China's emergence as the main economic subject of the area, but there is no doubt that, following the fast growth of China, the productive systems of Southeast Asia have managed to reposition themselves in the international division of labour.

The development of Southeast Asia has been strongly characterized by the liberalization processes that have followed the evolution of the ASEAN community. For example, one of the pillars of its common policy for the 2011-2015 period is financial integration. As indicated by the Roadmap for Monetary and Financial Integration of ASEAN (RIA-Fin), financial integration in ASEAN countries is being promoted through four initiatives: Financial Services Liberalization, Capital Account Liberalization, Capital Market Development and the Chiang Mai Initiative Multilateralization (CMIM).

Among its several objectives, the ASEAN Economic Community (AEC) aims to transform the ASEAN area in a single market and, for this reason, it aims to establish a "free flow" of goods, services, investments, assets and labour-oriented skills. Removing any kind of barriers and restrictions to trade is considered a priority intervention. The most important sectors targeted by these economic measures are air transport, e-ASEAN, healthcare and tourism. For these specific sectors, which will be analysed later on, there is cap to the amount of shares that can be possessed by ASEAN countries.

Ten intervention packages have been adopted for the services sector, in order to reach a more liberal market. However, over the last fifteen years of negotiations there have been less



achievements than expected. Negotiations, termed “ASEAN Framework Agreement on Services” (AFAS), were based on the model of “request and offer” provided by the General Agreement on Trade and Services (GATS). Once the most important sectors are defined, the agreement is not concluded until all the countries agree on the intervention packages to be implemented. However, this procedure does not prevent bilateral agreements or unilateral decisions from being implemented. The UNESCAP (2009) assesses all the agreements made under the AFAS and compares them with those signed according to the criteria proposed by the GATS. The results is the product of the GATS index and of the Sectoral Coverage Ratio (SCR) of the AFAS agreement. The countries with the highest score, indicating a high level of services liberalization, are Cambodia and Vietnam (49.08 and 30.15, respectively), while Brunei and Myanmar turn out to be the lowest scoring countries (14.70 and 14.82, respectively).

The amount of stocks possessed by ASEAN countries in companies related to sectors of priority and strategic-relevance has been gradually reduced, with the aim of increasing the process of market liberalization.

2.2 Manufacturing and Free Trade Agreements

Free Trade Agreements (FTA) represent the biggest innovation in terms of policies for trade promotion within the region of Southeast Asia, emphasizing the main contents of the General Agreement on Tariffs and Trades (GATT). In order to improve the attractiveness of the area for foreign investments and to better leverage opportunities presented by the global market, the ASEAN has signed a series of FTAs with Australia, New Zealand, China, India, Japan and South Korea. In addition to this, single ASEAN countries have also signed bilateral FTAs with many of their established trade partners. Trade channels opened by the FTAs are mostly used by companies from South Korea, Singapore and the Philippines. However, a wide debate has developed about the effects of FTAs on the economy of Southeast Asia, as some experts fear that the whole set of ASEAN FTAs may become a dangerous “Asian noodle bowl”, i.e. a series of overlapping actions weakening the legal framework and making commercial activities cumbersome. Others, instead, underscore the positive effects in terms of trade liberalization that these FTAs have already created, as they represent a first step towards multilateral agreements concerning the whole area.

According to own estimates, major FTAs such as the AFTA have brought more benefits than costs to companies in Southeast Asia. They include wider access to markets and higher



export sales, as well as preferential tariffs that facilitate the import of production inputs. A survey recently conducted on a sample of 609 companies operating in Southeast Asia (Japan, Singapore, Korea, Thailand and Philippines) confirmed that the “Asian noodle Bowl” has not weakened the economy, but has instead favoured its development . The use of preferential channels opened by FTAs has been higher than expected and only 27% of interviewed companies have declared additional costs due to different Rules of Origin (ROO). Regardless of their impact on the regional economy, the FTAs that have been stipulated include different modalities and timings for the concession of tariffs. Preferential tariffs vary according to products and FTAs and ROOs and administrative systems as well vary according to products and FTAs.

According to a 2015 study by Roland Berger, “The Digital Transformation of Industry”, the process of productive delocalization, which Southeast Asia is the most important example of, is an opportunity for developed countries, and specifically for Europe, to regain the competitiveness lost over the last decades. This will largely depend on the degree to which digitalization will be successfully exploited, in order to answer the market’s demands in a better way and more rapidly. In fact, in this context the critical factor for the success of a company is not its size, but its capability of being flexible and quick in the face of a constantly changing environment. A correct positioning, higher up in the value-production chain, is also of strategic importance, while being ready to react to how other actors move up and down along the value-production chain. Due to the digital sector bursting into the manufacturing scene, the productive system will experience new dynamics of delocalization, becoming even more diffused and intangible. As production flows “disappears”, things become data and then come back as things again, from thousands of kilometres away.

As far as the growth expectations of companies in Southeast Asia (and beyond) are concerned, JETRO conducted a survey on 3,904 Japanese affiliated companies operating in Asia and Oceania and results show a 25% reduction in trade costs within the APEC area. According to disaggregated data, in 2011 the country with highest rate of profitable companies was Indonesia (83.9%), with Hong Kong, Macao, Korea, Taiwan, Thailand, Singapore and Australia trailing behind (above 70%). On the other hand, the percentage of unprofitable companies was relatively high in Southwest Asian countries, specifically in Sri Lanka (36.7%) and in India (26.4%), while in Laos and Cambodia it was even above 50%. Regarding future expectations, 63.6% of companies expected to expand their business over the next two years (up from 62% in 2010), while only 3.2% of companies were expecting a contraction of their business, thinking of relocating their activities to another abroad or planning to cease their activity (+ 0.5% compared to 2010). In ASEAN, including China and



Korea, more than 60% of companies declared to expect an expansion of their business. In Myanmar, the proportion of companies planning to grow their activities has grown by about 25% in 2010, revealing a higher improvement among the surveyed countries. Looking at trends in the manufacturing industry, it is possible to observe that, as far as ASEAN countries are concerned, the highest percentage of growing companies pertains to the automotive industry (vehicles and motorcycles, 76.7%).

Among the problems found, more than 50% of the interviewed companies declared an increase in wages and procurement costs, as well as a growth of their competitors' market share. In addition to pressures caused by increased costs (wages and procurement), companies are also urged by the market to reduce costs (cost-wise competition). Moreover, it seems most companies have trouble with their labor force, in terms of workers' limited ability and awareness and in difficulties with finding managerial staff. More than 80% of textile, wood, electric machinery, ICT and software production companies revealed the excessive amount of wages among their main problems. In ASEAN countries specific problems include: involvement of local staff (Indonesia, Vietnam, Thailand, Philippines, Cambodia, Myanmar); high procurement costs (Singapore, Malaysia, Thailand, Philippines, Cambodia); market instability (Singapore, Indonesia, Vietnam, Philippines, Myanmar); high cost competition (Singapore, Indonesia, Vietnam, Thailand); local procurement equipment (Vietnam, Philippines, Cambodia, Myanmar); employee in manufacturing sector (Malaysia; Thailand, Myanmar); difficult cost reduction (Singapore); fiscal burdens (Indonesia); customers procedures (Vietnam); lack of power (Vietnam); recruitment of executive staff (Cambodia); quality control (Cambodia); lack of facilitation (Myanmar).

Regarding the negotiations for a FTA between EU and ASEAN, in 2007 the European Commission asked for a preliminary approval by the European Council. The Commission aims at obtaining non-discriminatory trade rules, in the form of "most favoured nation commitments", in order to grant European companies all the benefits experienced by other countries thanks to bilateral agreements signed with ASEAN countries. A more liberalized market for goods, services and investments, in fact, would benefit also the ASEAN countries. In particular, a regional FTA with the EU could reinforce current integration processes and increase the presence of ASEAN companies in the European single market, through more FDIs. Also ASEAN countries that did not sign any FDI-related bilateral treaty with single European countries want to include the issue of investments in negotiations, since a simultaneous agreement with all 28 EU countries would contribute to considerably increase the level of business confidence of their economies.



However, due to the kind of mandate conferred to the Commission by EU member States and according to internal EU regulations on investments, the Commission has the authority to negotiate with other countries the access to the internal market, but restrictions in the field of investments are the prerogative of Member States. ASEAN countries have very different rules on assets flows as well, characterized by different levels of protection. Therefore, any “WTO Plus-style” agreement would imply the immediate abolition of current measures aimed at safeguarding the internal economy. However, at national level, ASEAN countries are opening their systems to foreign investors, by reducing the requirements for FDIs in order to have a preferential treatment.

Regarding labour market, unemployment in ASEAN countries is decreasing almost everywhere, even though it is still high in Indonesia and in the Philippines. Low unemployment rate should be read in light of labour force participation rates recorded for ASEAN countries. Recorded values range between 60% and 70% and average between a 80% participation rate for males and a 50% participation rate for females. The low rate of women participating in the labour force, by the way, may lead to suppose the existence of a strong informal economy. Looking at the formal economy, the number of employees by economic sector reveals both some common features among most of the ASEAN countries and some organizational peculiarities specific to each state. In particular, in all countries, excluding Brunei and Singapore, the largest number of employees are active in agriculture, fishing and forests, with percentages varying from 20% (Malaysia) to 66% (Myanmar). Also tourism and retail have a relevant position among productive activities, with percentages ranging from 9.7% (Myanmar) and 22.2% (Singapore). The public sector absorbs an important percentage of employees only in ASEAN-5 countries, from 10.7% in Thailand to 20.7% in Singapore.

The manufacturing sector seems developed only in certain countries (Malaysia 19.2%, Vietnam 14.3%, Thailand 13.9%, Indonesia 12.1%, Singapore 17%). As far as the other sectors are concerned, the workforce of Brunei shows a strong specialization in the construction industry (50%), while Singapore has a high percentage of workers in the “Transport, Storage and Communication” sector (14.9%) and in the “Finance, Insurance, Real Estate and Business Services” sector (18.5%).

In particular, data confirms the relevancy of Singapore as an international and financial hub for the whole ASEAN area, the importance of public policies for the stability of the economic system and the level of relative underuse of the workforce as far as the growth of the manufacturing and finance sectors are concerned.



The analysis of data related to the ASEAN-5 workforce, by occupation, allows inferring substantially similar conclusions. The majority of the workforce is employed in the agricultural, manufacturing and transports sectors and, to a lesser extent, in the commerce and services sectors. Only Singapore has a percentage next to 50% of its workforce employed in professional and technical activities, in administrative, executive or managerial positions.

As far as the trade exchange is concerned, values show that ASEAN is an open economy. Total export of goods amount to 56% of GDP (1,249.6 billions of dollars) and 7% total global exports.

Singapore is the Country with the highest export/GDP ratio (more than 100%), followed by Malaysia and Vietnam, while Myanmar, Indonesia and Philippines have the lowest ratio.

Looking at the flows of trade exchange between ASEAN Countries in 2012 and 2013, sectors with the highest import/export ratio were energy (oil & gas), electronics, telecoms and aerospace.

While looking at trade movements, it is necessary to underline a significant increase of imports in the following sectors: petroleum oil and other petroleum oils (12.4% and 12.3% respectively), telecommunications equipment (13.8%), natural gas (4.4%), aircraft and association equipment (12.4%). Other sectors are characterized by constant commercial flows.

Trade movements related to exports have a similar behaviour to imports, except that of electronic components, registering an increase of 6.9%.

Looking at extra-ASEAN trade flows related to previously mentioned and analysed sectors, it has to be highlighted that China, United States and Europe are some of the major trade partners of the area, since between them and the ASEAN economies there is a strong import and export relationship in many industrial sectors.

Values of trade exchange in the electronic components sector highlight the presence of the same partners both in imports and in exports. Imports show an increase from 2012 to 2013 for all main partners, except for US, Japan and Hong Kong, whose imports have decreased respectively of 6.4%, 14.6% and 24.2%. Also the values of exports show a growing trend, except for India and Mexico, which show a decrease respectively of 26.6% and 0.9%.



Values of trade exchange in the oil sector indicate, as main import partners, the Countries of the MENA area (Middle East and North Africa). The total value of imports registers a decrease of 2.4%.

In the Telecommunications equipment sector, import numbers show that the main partners are from Asia and that, among them, China is the main player, with a quota of 56.8% in 2012 and 63.2% in 2013, out of the total value. This last one shows an increase of 5.6% from 2012 to 2013.

For the export flows, the main partners of ASEAN are Europe and the United States, with a value respectively of 45.1% (2012) and 45.7% (2013) out of the total. This last one shows an increase higher than the imports, of 20.2% from 2012 to 2013.

Commercial exchanges in the “Aircraft and Associated Equipment” sector are related only to imports. These trade flows mainly concern Europe and the US and they amount respectively to 45.9% and 44.4% in 2012 and 50.5% and 37.8% in 2013, out of the total value. It is interesting to note how the European imports quota is increased by 18.4%, while the American imports quota is decreased by 8.4%. The analysis of this sector highlights the ASEAN’s dependency towards Europe and the US, with reference to the defence and security activities of their countries.

The values of trade exchanges in the “Other petroleum oils” sector show import and export activities that are more fragmented than other analysed sectors. In fact, total value of reported data concerns 65.7% in 2012 and 72.3% in 2013 of the total value of imports, while concerning the 76.8% in 2012 and 76.7% in 2013 of the total value of exports, unlike the other sectors where the total values amount to almost 100% of imports and exports.

In the “Processors and components, magnets and optical readers” sector, commercial exchanges are only export-related, highlighting a positive commercial balance for this kind of products. The main partners are Europe, United States and China, whose quota represents 63.7% (in 2012) and 60.3% (in 2013) out of the total exports. A particularly significant value is the decrease by 30%, between 2012 and 2013, of the export towards China.

As far as the Foreign Direct Investments (FDI) are concerned, those realized at global level in 2013 amount to 1.7 trillion dollars and they registered an increase of 10.5% from the previous year, while FDI flows in developed countries have returned to grow in 2013 by 11%, after a decrease by 22% in 2012. In developing countries, FDI realized in 2012 have been of 734 billions of dollars, about 42% of those realized at global level. More than half of total FDI at



global level are concentrated in Brazil, India and China. The East Asia area, where the ASEAN countries are included, is characterized by a strong attractiveness for investments.

Inflows of FDI from the rest of the world show a similar trend, albeit less pronounced. The result is that, while in 2003 these flows amounted to almost 100% of inbound FDI, nowadays they amount to 85% of total inbound FDI (ACIF 2010).

The EU27 and Japan are the major commercial partners of ASEAN from the point of view of inbound FDI. In particular, the share of FDIs coming from the EU27 and from Japan (19.1% and 15.1% in 2009, respectively), despite the slight decrease after 2007, exceeds, by a consistent margin, the share of intra-ASEAN FDIs (13.1% in 2009). Also the share of FDIs coming from USA and China (7.6% and 3.8% in 2009, respectively) is consistent, growing until 2007, and then shrinking after the global crisis of 2007-2010.

FDIs entering the ASEAN area are prevalently directed towards ASEAN-6 countries, but the share of FDIs directed towards the CLMV area is constantly growing and in 2009 amounted to 22.9% of the total, compared to 7.1% registered in 2000 (ACIF, 2010).

The increase of trade and intra-ASEAN and extra-ASEAN investment flows confirm the relevance of the integration processes activated in the area and the synergy between these processes and the contemporary extension of commercial relations with other neighbouring regions (China, India and Japan in particular).

However, compared to the trends in global economy, the rapid expansion of the ASEAN economy in the international commerce has not been supported so far by an equal degree of increased financial integration. We know that a potential benefit stemming from financial integration is that of ensuring involved countries against macro-economic shocks, but this form of “risk sharing” is not widespread among countries of the ASEAN area.

Taking into consideration a longer period of time (1996-2002), values (expressed in millions of dollars) show both the intra-ASEAN FDIs and those realized by foreign countries.

2.3 Italian presence in the ASEAN market

Even though the ASEAN region is still a marginal market for Italy, the values of Italian imports from ASEAN has almost doubled during the last decade. ASEAN countries originating the majority of imports (almost one third of the total) are Indonesia, Thailand, Vietnam, Malaysia



and, on a smaller scale, Philippines and Singapore. Imports from other ASEAN countries are modest.

Instead, the flow of exports from Italy to ASEAN countries has remained almost steady. Italian exports are mainly directed towards (in decreasing order) Singapore, Thailand, Malaysia, Indonesia, Vietnam and the Philippines. Nearly irrelevant are those towards the rest of ASEAN.

Data available about ASEAN businesses participated by Italian companies allow to discern controlling interests from the total of shareholdings and to analyse the two sets of data against the total number of involved businesses, the total number of people employed in those companies and the total turnover.

In the first place we can observe that the number of ASEAN businesses participated by Italian companies has grown from 435 units in 2003 (of which 353 are controlled) to 517 in 2009 (of which 426 are controlled). These numbers, however, are small if compared with the total businesses participated by Italian companies operating in Eastern Asia (1,618 in 2003, of which 1,292 are controlled, and 2,215 in 2009, of which 1,788 are controlled) and, in general, with the total businesses participated by Italian companies at global level (18,435 in 2003, of which 15,181 are controlled, and 22,715 in 2009, out of which 18,692 are controlled).

The ASEAN country hosting the majority of businesses participated by Italian companies is without a doubt Singapore (38%), followed by Malaysia (20%) and Thailand (17%). The same rates can be observed if we look at businesses controlled by Italian companies. Despite an increase in the number of ASEAN-operating businesses participated by Italian companies, the total employees in these companies have slightly decreased. In particular, while in 2003 there were a total of 32,849 units (of which 21,081 working in businesses controlled by Italian companies), in 2009 there were 31,854 units (of which just 14,834 were employed in businesses controlled by Italian companies).

Again, the Country with the largest number of employees in businesses participated by Italian companies is Singapore (31%), followed by Malaysia (26%), Indonesia (15%) and Vietnam (12%). The distribution of data related to businesses controlled by Italian companies is quite different. In particular, the largest number of employees has been surveyed in Vietnam (21%), followed by Malaysia (19%), Indonesia (17%), Thailand (14%), Singapore (14%) and Philippines (14%).



Finally, the analysis of revenues generated by ASEAN businesses participated by Italian companies show a growing trend, although less noticeable as far as controlled businesses are concerned. While in 2003 the total turnover of participated businesses amounted to 3,592 million euros (of which 1,511 generated by controlled businesses), in 2009 the total turnover of participated businesses amounted to 5,729 million euros (of which 2,220 generated by controlled businesses).

The majority of revenues were generated in Singapore (60% of total revenues generated by businesses participated by Italian companies) and in Indonesia (16% of total revenues). If we analyse the numbers of the controlled businesses, Singapore is still the country where the majority of the revenues have been generated (29% of the turnover), followed by Indonesia (24%), Philippines (15%) and Thailand (14%).

In the end, data related to the Italian presence in ASEAN countries confirm the minor relevance of the area for the Italian interests, but also its increasing attractiveness for Italian companies. Singapore is the country hosting the majority of Italian businesses, followed by the other ASEAN-5 countries (Indonesia, Malaysia, Thailand and Philippines) and Vietnam. The other ASEAN countries (Brunei, Cambodia, Laos and Myanmar) do not seem on the radar of Italian companies, at least at the moment. From 2003 to 2011, Italy has generated a total of 1,370 million euros in FDIs. These show a growing trend until the peak of 2008, then a decrease of the same consistency, until reaching a value similar to that of 2005. The ASEAN-5 country hosting the majority of Italian FDIs in the 2003-2011 period is Indonesia, followed by Malaysia.

From a sectorial point of view, instead, the majority of Italian FDIs in the area are related to the following sectors: textiles, mining, tourism, aerospace, fast moving consumer goods, machineries and rubber derivatives.

Risk profiles assigned by SACE to ASEAN countries are in line with those by OCSE and other main rating agencies. What we can observe, though, is a strong differentiation between the economies of the area.

A more critical profile emerges from jointly reading the main indicators about trade and the general economic activity, such as the Doing Business, Economic Freedom and Corruption indexes. Besides Singapore, which occupies the first spot in every ranking, the best ASEAN country where to start an economic activity is Malaysia and then Thailand. The other ASEAN countries are all in the lowest half of the rankings.



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Singapore and Brunei have very low risk profiles compared to the ASEAN average, while the other ASEAN-6 countries (Malaysia, Indonesia, Thailand, Philippines) and Vietnam are in a middle position. Cambodia, Laos and Myanmar have high-risk profiles.

Between Italy and some ASEAN countries there are agreements for the promotion and the protection of investments (Philippines, Indonesia, Malaysia and Vietnam), against double taxation (Philippines, Indonesia, Malaysia, Singapore, Thailand and Vietnam). Insurance by SACE is transferable in Indonesia, Singapore, Thailand and Vietnam. SACE does not insure economic activities in Laos and Myanmar, while reserves the right to evaluate investments in Cambodia on a case-by-case basis (sovereign risk excluded, which is not insurable anyway). For the other ASEAN countries, SACE guarantees insurance against sovereign risk, banking risk and private risk, without further conditions.



3. ASEAN IN THE INTERNATIONAL SCENARIO

Thanks to its strategic geographical position, at the intersection between the Indian and the Pacific oceans and crossed by the main Sea Lines of Communication (SLOCs) feeding into the markets of East Asia, Southeast Asia has always been a crucial area for international balances. In the past, this region has been at the centre, first, of the rivalry between western colonial empires and, during the second half of 1990's, of the confrontation between great powers like China and the United States. However, nowadays the littoral states within the ASEAN framework seem to want to use their economic, political and demographic potential to play a leading role in defining international interests in their regional context. However, ASEAN is a neutral organization by status, aimed at solving regional crisis on the principles of no-interference and sovereignty of member States. These guidelines have always challenged its capability of expressing a common stance on foreign policy, an issue that directly involves the national interests of different actors.

3.1 The international forums and the involvement of the International Community

Run by ASEAN Foreign Ministers Meeting, in these years the foreign policy and international relations of the Association have been institutionalized through several collective meeting occasions, which allowed involved States to share policies, hints and perspectives in order to find a common solution for the main regional challenges. ASEAN is currently operating two kinds of forums with its partners: multilateral forums, focused on developing common policies for the stability and the development of Asia, and bilateral forums, with an architecture varying according to the partners involved. Until now, the Association has ten Dialogue Partners: Australia, Canada, European Union, India, Japan, New Zealand, South Korea, Russia and United States.

Multilateral forums aim to create a regional conflict-solving system by bringing to the same table all the actors who consider the stability of the Pacific as a strategic priority for their national interest. To this purpose, the Association institutionalized several meeting configurations: the ASEAN Regional Forum (ARF); the ASEAN Plus Three (ASEAN+3); the East Asia Summit (EAS); the ASEAN Defence Minister Meeting Plus (ADMM+), aiming at increasing trust and cooperation between the security apparatus of different member States and fostering the creation of an ASEAN Security Community.



Even though ASEAN is showing a real interest in enhancing its engagement on regional issues and in becoming a political partner for the International Community, some critical factors in the decision-making mechanism prevent it from doing a leap in quality. In fact, the Association not being able (yet) to have a common stance on issues of different importance for each Member State calls into question the interests of China, the big neighbour that has a great influence on many of the nations of the area. The most significant example is the long-standing sovereignty-related dispute in the South China Sea, between Beijing and some of the littoral members of ASEAN. The dispute dates back to 2009, when Beijing presented to the United Nations the so-called “nine-dotted-line” (also known as “U-shaped line”). This demarcation represents the area on which China is claiming its sovereignty, the legitimate control on fishing activities and its right of exploiting natural resources. The line would include in the Chinese Exclusive Economic Zone (EEZ) the Spratly and Paracel islands, which are contested by Vietnam, The Philippines, Brunei, Malaysia and Taiwan.

As this demarcation is not confirmed by the United Nations Convention of the Law of the Sea (UNCLOS), signed by all the States involved in the disputes, China’s efforts to prevent foreign fishing vessels and ships from entering the area, are exacerbating tensions among the rivals. At a time when Chinese government is increasing the dredging activities and the building of naval and airport infrastructures on some contended atolls, the strong protests raised by Vietnam and the Philippines, two of the strongest members of ASEAN, seem not to find enough support within the Organization. Even though in 2002 China and ASEAN signed a Code of Conduct aimed at disciplining the political strategies of the claimants and preventing a deterioration of the situation, the document has not brought anything new until now. In fact, Beijing is looking at the possibility to de facto institutionalize its sovereignty on the islands as a crucial step of its power projection strategy in the Pacific. Given the strategic importance of these outposts for its agenda, it is very unlikely that the Chinese government will review its regional policy in favour of more stability in the area. In this context, the Association still has a passive stance on issues where the interests of some member States contrast with those of Beijing. The economic and social ties that most of ASEAN’s littoral States have with China, sometimes to the extent of a substantial dependence from Beijing, prevent some ASEAN members from taking a position that could jeopardize their bilateral relations with Beijing. With a decisional mechanism based on consensus and with some States unwilling to take a clear decision on the issue, it has been impossible for the Association to play a significant role in the management of such dispute.

To reduce China’s space of manoeuvre, ASEAN is trying to reinforce its bonds with international partners, starting from the main competitors of Beijing in the area, such as



Japan, Australia and, especially, the United States. Since November 2015, ASEAN has started a strategic partnership with Washington, focused on granting stability, maritime security and freedom of navigation in the South China Sea, on reinforcing the cooperation with Member States on sensitive issue like fight against terrorism, ideological extremism, weapons of mass destruction and illegal traffics. Finally, with third-party subjects like European countries: their increased attention towards Southeast Asia could represent a chance for ASEAN Member States of diversifying their political and economic network of relations.

3.2 The EU - ASEAN relations

The first official dialogue between ASEAN and European Union was established in 1977. Since the signature of the ASEAN-EC Cooperation Agreement (1980), bilateral relations between the two blocks have been developed both in quality and in quantity. Beyond the economic agenda, the UE-ASEAN partnership now includes several political and security issues. European engagement towards the Association has been aiming to support the integration process and the transformation of ASEAN into a real regional architecture, able to implement a stability-oriented strategy and to create a mechanism for cooperation on global challenges. Despite the Asian dossier not being a central issue on Brussels' agenda in the past, nowadays the EU-ASEAN relationship is a positive example of a strategic partnership between two realities that, although geographically distant, are now sharing aims and objectives.

In the framework of the EU-ASEAN Dialogue Relations, ties between the two organizations are based on some pillars and objectives that, if implemented, could turn out for both sides as a great opportunity for growth and development:

- Increased cooperation aimed at fostering exchanges and connectivity between the two blocks, allowing Europe to get a privileged access to dynamic local realities. Gained the results of institutionalizing the ASEAN Economic Community, Europe has now created a EUR 15 million program for investing in the improvement of those infrastructures needed to increase the circulation of goods and workers.
- Incentives to trade, investments and business initiatives between the two sides. Since 2003 the EU and ASEAN have already been cooperating for the mutual removal of custom barriers and now Europe is the second trading partner for the Association.



- Increased cultural and political interaction for improved mutual awareness and the development of more solid socio-cultural relations. This objective includes the intensification of collaborations on tourism, scholastic exchanges, knowledge and expertise-sharing.
- The reinforcement of a common commitment in enhancing maritime security and information sharing (according to the objectives of the High-level Dialogue on Maritime Cooperation, held in Jakarta in November 2013), in order to contrast human trafficking and systematically face the challenges posed by migration flows. The European Union, from its part, has a strong interest in preserving the stability of an area that represents a privileged transit point for at least 50% of the global maritime traffic. Moreover, the maritime collaboration includes an increase of the European effort against piracy and of littoral States' harbour security and surveillance capabilities.
- The implementation of a closer collaboration on sustainable development, humanitarian crisis prevention and human rights protection.
- The realization in Southeast Asia of a comprehensive regional architecture, for effective crisis management and conflict resolution at regional level.

This agenda for a deeper partnership between the EU and ASEAN highlights the potential of a more systematic cooperation between the two organizations, as the European model, although coming from a different political and social environment, could provide some important suggestions for the evolution of the Association in the near future.



4. CONCLUSIONS

As the main multilateral cooperation mechanism in Southeast Asia, in the last twenty years ASEAN faced a significant internal evolution, pushed by the will of becoming a reference body for the balances and stability in the region. The deep political, ethnic and cultural heterogeneity that characterized regional societies made this process delicate. The economic disparity among member States, the principle of non-interference in national issues, the low democratization level of some countries represented, and still represent, huge criticalities for transforming ASEAN from an “association” into a real “community”.

Even now, it is struggling to achieve this goal. The recent inauguration of the ASEAN Economic Community, in fact, has forced the organization to confront once again the pre-eminence that the economic dimension has had in its evolutionary process. Despite growth rates shrinking over the last two years, the Southeast Asia’s perspectives are still promising, regarding both the intra-regional trade and the national economies’ attractiveness for foreign investments in several sectors. In this framework, a very interesting feature of the ASEAN global production network is the strategy regarding the 12 priority sectors and the development of the Mekong area.

Despite the strategy of creating a free trade agreement with China, India and South Korea, as a possible model of regional integration, the fast development of the economic pillar of the so-called “Vision 2020” is not matched by a parallel strengthening of the political pillar. Due to the importance of single national interests, as opposed to ASEAN’s political goals, the Organization is essentially a mechanism for the achievement of compromise among different positions rather than an instrument of policy-making for the elaboration of a long-term regional strategy.

The difficulties that still last in expressing a single voice on issues of great importance for the region are blocking ASEAN in a dangerous political stalemate, that could further endanger its role inside regional dynamics. As the Pacific scenario is becoming more and more interesting for major international powers (China and the United States, first of all), in fact, ASEAN is losing a good opportunity to be recognized as a partner for the definition of regional balances. The incapacity of the organization of finding a common position on issues that involve primary interests of some member States, like the overlapping claims in South China Sea, is highlighting that ASEAN is not politically mature yet to elaborate a common strategy, free from external influences.



Because of its geographical position in such a dynamic and strategic region, the realization of its political potential would allow ASEAN to become a central subject for the management of issues that, even though of regional scope, usually have global consequences. This is particularly the case for issues such as maritime security, fight against religious extremism and management of irregular migrations.

In this framework, the relationship with the European Union could be a precious asset for ASEAN, since the European integration process could be a good model to take inspiration from. Looking at the European experience, forged by successes, but also sharpened by setbacks, the Association could increase its awareness of how a common political strategy would benefit its international standing. In the short-term, in fact, not being able to speak with a single voice could not only marginalize the Association's role in the regional framework, but also, especially, create a political space that other subjects would be ready to fill.



5. RECOMMENDATIONS

Considering the political and economic potential of ASEAN for the forthcoming years, both the European Union and Italy could start to strengthen their commitment in the region and to leverage the important “windows of opportunity” opened by the consolidation of the Association. In this way, they could reinforce their presence in a dynamic and growing context such as Southeast Asia.

Particularly:

- Europe and Southeast Asia are facing a series of common security challenges, such as religious extremism, international terrorism and irregular migrations. The EU could bolster its cooperation with ASEAN in order to create an information sharing and monitoring mechanism, for the prevention of future crises and the joint management, where applicable, of common situations of concern.
- The EU, already a Dialogue Partner of ASEAN, could accelerate the transformation of this relation into a real strategic partnership, to systematically support the Association in overcoming the criticalities that still prevent it from becoming a comprehensive political entity. In this way, the EU could become the privileged partner of what is actually the only supranational institution in Asia.
- Through the reinforcement of political and diplomatic cooperation with ASEAN, the EU could support more efficiently its call for accessing, as an observer, the East Asia Summit. This would allow Europe to attend the main dialogue forum dedicated to the discussion of important issues for security and stability in Asia.
- The EU could promote a stronger collaboration between the European Parliament and the ASEAN Inter-Parliamentary Assembly (AIPA), in order to create a new opportunity of joint discussion on topics of mutual interest. Moreover, in order to increase their mutual understanding, both sides could involve their representatives in awareness-building initiatives aimed at their own public opinions.
- The European Union and Italy in particular could raise awareness about the liberalization process in the ASEAN region, supporting private initiatives in priority sectors and contributing with its technology and human capital to the economic growth of the area.
- Due to its importance in Europe, Italy should count on its artisan excellences, on the technical expertise of its manufacturing industry and on the quality of its luxury sector to become a valuable partner for Southeast Asia’s markets.



- Besides economic considerations, Italy could try to reinforce its presence in the region as a partner for issues of common interest. In fact, as Italy has a central position in the Mediterranean Sea, focus of exchanges and interconnections between trade and human flows, ASEAN also is at the intersection of two different areas, such as the Indian and the Pacific Ocean. Therefore, our country could make its experience available to the Association in order to help it in surveillance activities and search and rescue operations, in order to strengthen the capabilities of its member States in managing migration flows and enforcing maritime security.
- Increasing its political commitment could allow Italy to gain a special position in the forums organized by ASEAN, in order for her to start participating to important discussions for the balance of the region. The attendance of Italy to security meetings, like the ADMM+, would allow our country to have a stronger voice on issues that could directly affect the strategic interests of Italy, such as safeguarding freedom of movement in international waters and monitoring the security of the SLOCs that feed the rich markets beyond the Malacca Strait, after cutting through Southeast Asia.