2. The competitiveness of the ASEAN economies: business competitiveness and international challenges

Philippe Gugler and Pavida Pananond[1]

INTRODUCTION

Since its beginnings in 1967, the Association of Southeast Asian Nations (ASEAN) has served as a strong core for regional integration in Asia.[2] As a regional grouping whose initial purpose was more security-related than economic, the significant changes brought about by the end of the Cold War and the deepening of globalization make it necessary for ASEAN to reassess its future direction (Chaisse and Gugler, 2009). From being a region whose main focus was on politico-security matters right up until the late 1980s, ASEAN now needs to evolve into a regional grouping with a more comprehensive range of regional issues. It was not until the early 1990s, and especially after the 1997 economic crisis, that ASEAN members agreed that its economic agenda should receive a substantially enhanced focus. As explained by Julien Chaisse and Philippe Gugler in Chapter 1, the ASEAN Free Trade Area (AFTA) and the ASEAN Investment Area (AIA) served this purpose. In addition, ties between member countries are expected to accelerate ASEAN trade and investment cooperation and integration as argued by Siow Yue Chia in Chapter 5.

The increased regional integration, together with other economic liberalization schemes, has enabled ASEAN to become more deeply involved in global economic competition. With the increasing role of fast-growing and large emerging economies like Brazil, Russia, India and China,[3] ASEAN member countries are faced with intensified competition from developed and developing countries alike. A serious concern for the ASEAN economies should thus be how to strengthen ASEAN's competitiveness in the face of rising competition (Jarvis et al., 2009).

This study analyses the competitiveness of the ASEAN region in three steps. The first is to establish the theoretical framework on competitiveness. This framework constitutes the basis of our research. In the second step, we assess the competitiveness of ASEAN economies according to the Global Competitiveness Report (GCR) indices. The third step is to consider the main challenges facing ASEAN economies by focusing inter alia on the role of inward and outward foreign direct investment (FDI). One way to gauge the competitiveness of the ASEAN countries is to analyse their relative positioning towards FDI. According to Porter et al. (2007), inbound and outbound FDI can serve as intermediate indicators of competitiveness. The view that a country's position towards FDI reflects its competitiveness is also shared in the investment development path (IDP). According to Dunning et al. (2008: 164), a country's trajectory along the investment development path 'reflects the changing competitive advantages of firms from particular countries vis-à-vis their foreign competitors, and the changing attractiveness of countries with respect to costs, markets, opportunities and natural or created resource endowments'.

THEORETICAL BACKGROUND

Competitiveness is a major preoccupation of both advanced and developing countries in an increasingly open and integrated world economy. However, despite its acknowledged importance, the concept of competitiveness is misunderstood (Ketels, 2006). The causes and effects of economic performance are confused. It is therefore important to explain the theoretical background of competitiveness and in doing so to identify the real roots of competitiveness of nations. Michael Porter offers a precise framework to analyse the roots of the competitiveness of ASEAN economies. The Business Competitiveness Index, published each year by the World Economic Forum, is based on this conceptual framework (World Economic Forum, 2007). We will scrutinize the competitiveness of the ASEAN economies on the basis of strong data which may be compared from one country to another.

Economic prosperity is determined by the productivity of an economy (Lewis, 2005). The productivity is measured by the value of goods and services produced per unit of the nation's input (human, capital and natural resources). As indicated by Porter, 'Productivity depends both on the value of a nation's products and services, measured by the prices they can command in open markets, and the efficiency with which they can be produced' (World Economic Forum, 2007, p. 53).

Figure 2.1 illustrates the main determinants as well as the conceptual framework of competitiveness. It is important to distinguish the macroeconomic, political, legal and social context (level 1) from the microeconomic determinants of competitiveness (level 2). A stable and sound context (level