

# THE PSYCHOLOGICAL EFFECT OF THE ASEAN ECONOMIC COMMUNITY (AEC) TOWARDS HUMAN RESOURCES DEVELOPMENT

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## Abstract

*The theme of the article is "economy based on the principles of Islam". Yet those countries have several characteristics that are key to the creation of the ASEAN Economic Community, among others: (a) Market and a single production base (b) The high level of competition among the ASEAN countries. (b) This area has a great opportunity to grow as a global market. (d) an integrated ASEAN countries total in the global market. Cooperation undertaken by the ASEAN Economic Community includes: development of human resources, development potential, On professional qualifications, intense consultation on macroeconomic policy and financial policy, measurement of financial measures, Measurement of trade balance, infrastructure and so on. Through this article we are expected to understand that, the existence of the ASEAN Economic Community should be seen having a significant value by stakeholders; National entrepreneurs, economic actors, and especially by policy makers. Whereas, the presence of the ASEAN Economic Community is identical with the idea of globalization is realistic to build economic inequality amongst the people of the world. Where the owner of capital in this case is the first world countries expand its market to third world countries or poor. While the poor country is only a buyer or user of the rich country's products. This gave rise to widespread economic inequality. Not only that, the presence of the ASEAN Economic Community should not be a form of attitude inferiority complex and distrust themselves from ASEAN countries, which is just trying to "follow" the establishment of the European Economic Community. With simple language we need to take action to color the existence of the ASEAN Economic Community and not to be a passive audience that awaits change. At the same time we need to guard against conflicts of interest that would be detrimental to the national interests of Indonesia as a nation-state.*

**Keywords:** *Development, Globalization, Psychological, Human Resources*

## INTRODUCTION

Nowadays, economic, socio-cultural, and political-security concerns are, in our view, driving the ASEAN states closer. Of these issues, the most grievous is that of historic internal instability -- caused by rich-poor gaps and by ethnic, territorial, and religious rivalries and disputes in our plural societies. Yet another principal problem is Southeast Asia's rise as a populous market, production

base, and strategic playing field in the long-term political-security competition between the US and China. We are witness to Beijing's determination to regain its centrality in Asia and, in turn, Washington's "pivoting" to contain China's rise by protecting its role as the major Asia-Pacific power. East Asia's emergence as an economic-socio-political conglomeration of vigorous growth and dynamic change poses problematic factors and, at the same time, fresh

opportunities for ASEAN-10 as a competitive, regional performer - which, taken together with the WTO's failure to open global markets equitably, has stimulated the movement toward the larger Asian Grouping of ASEAN-10 plus China, Japan, South Korea, India, Australia, New Zealand-.plus etc.

We expect the China Sea tensions to continue, because the protracted contest to dominate this great global waterway -- which is our ASEAN "MARITIME HEARTLAND" -- is just beginning. So, when and where will it all end? As ASEAN's people, we must continue to be optimistic. Not only has the terminal destructive force of nuclear arms made World War III among the powers unthinkable -- because many nations today have the capability to "strike, counterstrike, and counter-counterstrike, ad infinitum, which will surely result in global self-destruction and humankind's obliteration. The truth is that China is not just reshaping the global economy. Globalization is also reshaping China. China today is connected to the global economy more densely than Japan (even at the height of the latter's Meiji-era modernization). China's interest is inclining towards the rules-based global market system the US itself has done the most to promote during these past decades. Hence, the two powers have paramount stakes in each other's prosperity, transparency, environmental sustainability, and sense of "community." Already China is moving -- if by fits and starts -- toward an economic structure based on the rule of law, a more efficient allocation of capital, and improved corporate governance.

### **ASEAN Economic Community Identically is "Globalization"**

Let's turn to our aspirations for an ASEAN Economic "Community" by year-end 2015. Its basic concept is the integration of priority sectors of the Southeast Asian economy, thereby making ASEAN a single market and production platform characterized by the free flow of capital, goods, services, investments, and skilled labor. ASEAN must still bridge many gaps between its more-developed and less-developed member-states. Compared with China, India, Brazil, and other emerging economies, Southeast Asia has higher operating costs, more complex policy uncertainties, and still-fragmented national markets -- despite the promise of AFTA, the internal ASEAN free trade area inaugurated in 1993. ASEAN economies must raise workers' productivity and cut costs across the production-value chain. To achieve these goals, ASEAN needs both national reforms and regional integration.

What reforms are urgently necessary? Basically, member-states must dismantle home-grown barriers that raise costs, inhibit competition, and deter new investments. We know, however, that governments still protect favored national corporations from competition. And, they continue to keep afloat small, unproductive firms by tolerating their evasion of taxes, labor rules, and product regulations (especially intellectual property aspects). Improved economies of scale and scope, heightened competition, higher productivity, and increased foreign direct investments -- all these reforms should

stimulate greater growth, generate more intra-regional trade, encourage the emergence of robust and globally competitive ASEAN enterprises, and more jobs for all.

The ASEAN Secretariat in Jakarta has neither the power nor the resources to propose/formulate policies, coordinate their implementation, monitor compliance, and settle disputes. ASEAN needs institutions that will represent not just the interests of individual states but also the interests of our regional confederation as a whole. Without such authoritative institutions, "ASEAN in effect grants a veto to any country that, for its own reasons, resists regional integration," according to a recent McKinsey study.

None of the ASEAN states need to fear the effects of regional integration. Southeast Asia's economies are varied enough for the comparative advantages of one country to complement those of another. The experience of other regional trading communities suggests that ASEAN's least-developed economies will have the most to gain from Southeast Asian integration.

### **The Globalization Produce *Inequality***

There is a considerable debate among economists about the extent to which globalization-and specifically the liberalization of trade and investment-may increase inequality. As discussed earlier, international investment leads to changes in the use of technology and may shift production-especially in lower skill sectors-into developing countries that have lower prevailing wage levels. The lowest wages may also be falling in industries struggling

to compete with new imports, while higher-paying export industry jobs are increasing in number but remain unavailable to the relatively unskilled labor force. These changes taken together mean that economies are putting a higher premium on skilled workers. This creates pressure to pay higher wages to skilled employees, while diminishing the value of lower-skilled workers. The net result globally has been a significant growth in inequality, both between nations and inside them.

Critics of that view counter that globalization has helped produce a significant expansion of global wealth, and that, in spite of a rapidly growing global population, the absolute number of people living in poverty has remained relatively constant. The question of the role that globalization plays in exacerbating inequality depends very much on how the question is asked. Data varies considerably by region and by what kinds of indicators are selected.

### **Capital Inflows**

Over the past several decades, the hundreds of billions of dollars of foreign capital that has been invested in the United States have been of tremendous benefit to the U.S. economy, strengthening the dollar, and helping to bring down interest rates by increasing the supply of capital for loans to business and individuals. The decreased investment flows due to the Financial Crisis and the Sovereign Debt Crisis certainly negatively impacted the flow of capital to the U.S. and Europe. According to a 2012 IMF Working Paper, for developing countries: Reductions in the global price of risk

and in domestic borrowing costs were the main contributors to the increase over time in net capital inflows and domestic credit. However, the large cross-country differences in domestic and international finance are best explained by fundamentals such as institutional quality, access to international export markets, and an appropriate macroeconomic policy. Both private capital inflows and domestic credit exert a positive effect on investment; they also mediate most of the investment impact of the global price of risk and domestic borrowing costs. Surprisingly, neither greater domestic credit nor greater institutional quality increase the extent to which capital inflows translate into domestic investment (Spatafora & Luca, 2012).

This means that developing countries can strengthen their institutions and better attract foreign investment though improved institutions do not always translate into better domestic investment (domestic companies investing locally).

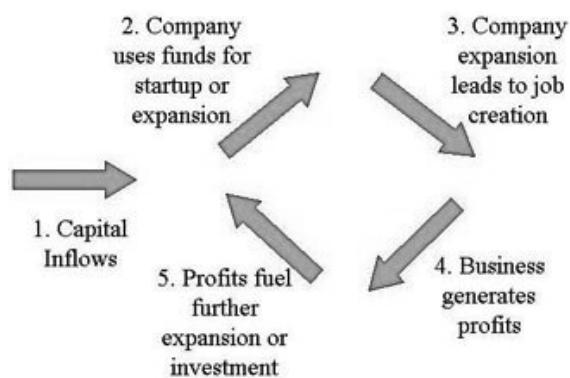


Figure 1. Effect of Capital Inflows

## Employment

Stated very simply, when a company builds a factory in a foreign country, it generally

creates new jobs. Foreign investment in the United States contributes significantly to domestic employment. In 2010, roughly four percent of the U.S. labor force (six million Americans) was employed by foreign-owned enterprises (Jackson, 2012). (Note: Because most foreign investment into the United States is portfolio investment, rather than direct, as discussed above, one might assume that foreign investment would account for more than four percent of the jobs in the United States. Portfolio investment undoubtedly accounts for a large number of jobs in the U.S., but is harder to quantify because it often involves ownership of a portion of a company, making the numbers harder to disaggregate).

Consider the following process: a company moves its factory to a less developed country to take advantage of lower labor costs and increase its profits. The poorer country may be said to have a comparative advantage in the production of low-skill, labor-intensive goods, such as textiles and apparel. Other companies follow to gain the benefits of lower costs of labor, and are likely to cut their prices to compete with the company already established in the poor country. As competition increases, consumers in the home market as well as those in the poor market will benefit from lower prices, while the less developed country has all the benefits of new know-how, jobs, and related consumer demand.

Globalization has raised numerous issues of concern about labor markets. Foreign investment, trade, technology, and immigration, to name a few issues, are all

disruptive to traditional means of productions. While most economists believe that the changes brought about by these factors tend to work to promote economic efficiency, and have great potential to improve the living standards of people all over the world, a host of concerns remain. Numerous proposals have been put forth to help mitigate the disruptions caused by globalization. Bringing down the prices of goods and services has the same effect as giving a pay raise to every worker who has access to these cheaper goods: their paycheck can now buy more.

### **Production Advantages**

**Increased outward orientation:** Foreign based affiliates tend to be more outward oriented. As multi-nationally based operations themselves, they are often more aware of the opportunities of foreign markets and therefore more likely to seek to export. This also helps improve a nation's balance of payments. In turn, this outward orientation often helps domestic firms become more aware of international opportunities.

**Technology transfers:** When companies build plants in foreign countries, they tend to bring the same production techniques and technologies with them that they use in domestic production. This helps raise the skill level of the workers employed in the new plants. The economist Raymond Vernon has observed that direct investment possesses a "life cycle," starting with innovation in a firm's home market, successful application of that new knowledge or technology, and ending with

the replication of that innovation in foreign affiliates.

**Productivity spillovers:** Productivity spillovers can spur growth and raise productivity in industrialized countries as well as developing economies. For example "just in time" manufacturing allows firms to minimize their needs for inventory by receiving necessary inputs immediately before they are needed. This reduces the need for warehousing and inventory costs. This innovation was brought to the United States from Japanese firms. It was adopted by many domestic firms and helped improve the productivity of many American businesses.

**Improved production processes:** Companies can enjoy significant improvements in productivity from economies of scale, which can be augmented by participating in global operations. Foreign investment need not mean duplicating production and distribution networks in new markets. Rather, foreign investment can make production more efficient by purchasing elements of a final product in the country with a comparative advantage in making that product. Globalization has produced an integration of production and marketing of goods across national borders.

**Increased competitiveness in domestic industry:** Competition from foreign corporations often encourages domestic companies to become more efficient and globally competitive. These improvements can result from the effect known as "backward linkages." Backward linkages are the long-term relationships that develop between a foreign

investor and other firms in the host country. For example, when a firm decides to build a plant that assembles electrical appliances in a foreign country, the firm not only provides a certain number of people with new jobs, but the location of the plant is also likely to encourage the development of new local industries that can supply it with electric motors, fans, and other parts for its production.

## CONCLUSION

As with many issues pertaining to globalization, concerns and hopes about international investment revolve in many ways around what governments may do. This means both what governments may do to regulate foreign investment, perhaps to make it less volatile, as well as actions government may take simply to get out of the way of the market, clearing the existing barriers to capital. In addition, the role of government refers not only to individual nations, but to international institutions such as the WTO and the IMF, which serve functions relating to global governance. Some of the steps these institutions of governance can take to help influence the choices made by international investors include:

The creation of new infrastructure and other facilities to attract foreign investment. As described earlier, an array of services can help promote foreign investment in a country, ranging from basic services such as the provision of electricity and clean water, to fair and effective dispute resolution systems. The ability of governments to prevent or

reduce financial crises also has a great impact on the growth of capital flows. Steps to address these crises include strengthening banking supervision, requiring more transparency in international financial transactions, reducing the risk of moral hazard, and ensuring adequate supervision and regulation of financial markets. The majority view among economists is that financial sector reform must precede capital account liberalization. Other steps have been suggested to help limit the volume of volatile short-term capital such as small taxes on foreign exchange transactions. One prominent advocate of this idea was Nobel Prize winning economist James Tobin. Although many countries have imposed limits or taxes on capital outflows, another creative way to address volatility was applied by Chile, which imposed a small transaction fee on capital inflows. This measure served to limit the amount of short-term investment, but did not create a risk of deep concern to investors, namely, of having trouble getting their money out of the country at some point in the future.

Working with developing country governments in particular to help establish more stringent labor and environmental standards to prevent either one from being exploited. Protecting domestic infant-industries only long enough to allow them to become competitive internationally. This step remains controversial, but some economists have pointed out that a number of developing countries—indeed many of the countries that have recorded the highest long-term growth rates—have done so after resorting to some

protection of sectors of domestic industry. As you can see from this list of policy options, people from almost the entire spectrum of beliefs about globalization have prescriptions for government policy, even those who advise that governments need only act to remove market-distorting tariff and regulatory barriers. And this list is by no means comprehensive.

Ongoing events are leading an increasing number of analysts of globalization to suggest that we explore the challenges and opportunities of globalization more fully, to better understand its consequences and learn how to maximize its potential benefits while mitigating its disruptions. Economic events such as the East Asian financial crisis and more recent incidents such as the collapse of the Argentinian economy in late 2001 have made many economists argue for improved market mechanisms, such as regulatory measures and oversight. The fact that different countries encountering similar problems have received different prescriptions from the international community has also led many to argue for a more firmly established set of ground rules. Coordination between governments will be crucial for dealing with the global financial and economic crisis of 2007-2009. According to UNCTAD, “the challenge is to restore the credibility and stability of the international and financial system, to provide stimulus to economic growth in order to prevent the risk of a spiraling depression, to renew a pragmatic commitment to an open economy, potentially put at risk by rising protectionist tensions, and to encourage investment and innovation”

(United Nations Conference on Trade and Development, 2009).

In addition, political events such as the large protests in 1999 at the Seattle WTO meeting or in 2001 at the G8 meeting in Genoa, Italy, have led some political leaders to conclude that certain kinds of market interventions or regulations are necessary to assist those who are endangered by globalization, simply to sustain political support for continued liberalization. Joseph Stiglitz, formerly chief economist of the World Bank and Nobel Prize winner for economics in 2001, has characterized the globalization of international finance as suffering from “global governance without global government.” He notes that the nationalization of the U.S. economy, which began 150 years ago and was analogous in many ways to the process of globalization, was accompanied by a significant expansion in government oversight and regulation, to help temper crises and provide accountability. One surefire prediction about the globalization debate is that much of the discussion will continue to revolve around appropriate government

## **RECOMENDATION**

### **The Net Benefits of Global Investment**

As you can see, international investment, like many aspects of globalization, presents opportunities as well as challenges. You may wonder where the balance of costs and benefits lies. The question is particularly acute for developing countries: many of the greatest controversies about financial liberalization covered in this

issue brief are raised when investment flows from developed to developing countries. To be sure, many of the problems of developing countries stem from internal deficiencies, ranging from the inadequate supervision of the banking sector to corruption or inadequate labor and environmental standards.

On the one hand, very few economists—even among the harshest critics of financial liberalization—dispute that international investment can be a powerful engine for economic growth. A look at development statistics shows that there is a correlation between investment and growth in developing countries. Proponents of liberalization such as David Dollar of the World Bank point out that essentially no developing country has managed to achieve rapid and sustained growth, successfully raising the prosperity levels of their population, without increasing their openness to foreign investment (Blustein, 2001).

But critics question the extent to which these success stories can be attributed to foreign investment alone. They tend to argue that what is most important for a developing country is that it supports an environment that is generally supportive of investment. That is, when the climate is favorable for domestic investment, it is likely to be favorable for international investment. Economists from this school of thought—while not denying the importance of international investment—end to promote policy prescriptions that are more focused on internal concerns.

For example, when asking whether a developing country with a limited government budget should

spend funds improving infrastructure at an EPZ to help attract foreign investors, or spend that money on local and national courts, police, and prosecutors to improve the management of their justice system to eventually help control corruption, they would argue for the latter. Their reading of the data posits that investment tends to follow growth, not lead it.

Other economists have suggested that, when disaggregating the data on growth and investment in developing countries, many of the supposed problems associated with foreign investment flows can be attributed to certain kinds of restrictions on investment. According to Theodore Moran: “Foreign direct investment is most likely to be harmful—actually damaging—to the growth and welfare of developing countries and the economies-in-transition when the investor is sheltered from competition in the domestic market and burdened with high domestic content, mandatory joint ventures and technology-sharing requirements” (Moran, 1999).

If this is the case, then it would appear that the most damaging scenario for developing countries would be in receiving foreign investment in the absence of strong agreements like TRIMs, the MAI, or NAFTA’s Chapter 11.

Other economists have stressed that there can be big differences in the effects on development according to the types of economic activities in which foreign investment is involved. In particular, many analysts have suggested that investment in the extraction of natural resources can have deleterious effects on a nation’s development and environment,



but investment in more labor-intensive manufacturing is more likely to be beneficial.

### **Investment and Trade**

As you have learned from this Issue in Depth, there are many relationships between international trade and investment. Roughly one-third of the world's volume of trade occurs within the same company's affiliates across borders. Furthermore, a higher percentage of the goods and services produced by facilities financed in part by foreign direct investment tend to be exported than by other domestic firms.

In this way, foreign investment can be seen as both a complement and a substitute for trade. A company that wishes to sell its goods and services in a foreign market may often ask whether its goals are best achieved by manufacturing in its home country and exporting its products, or by relocating production to the foreign market. A company's decision on which method to pursue in reaching foreign markets, via trade or investment, may well be determined by the comparison of trade barriers with the investment environment.

Questions for Discussion: Students of globalization may ask many questions about the relationship between these activities. Is it better for your economy to produce goods at home, or is it preferable to move production overseas so that consumers may pay lower prices? What is the effect on developing countries of these shifts in production? Is it better for to create jobs in these areas? How should concerns about labor and environmental standards be taken into account?

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