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

Indonesia sebagai negara-bangsa (nation-state). Bagi para alumni perlu mempersiapkan diri lebih matang untuk bersaing, karena persaingan untuk memperoleh pekerjaan bukan hanya antar kota atau propinsi tetapi sudah melibatkan antar negara. Sehingga institusi pendidikan juga memiliki tanggungjawab moral untuk meningkatkan kualitas pendidikannya dengan memberi alumni tersebut bekal keterampilan yang bersifat life-skill (keterampilan hidup) dan soft-skill yang diharapkan mampu menjadi bekal mereka untuk memasuki dunia kerja.

**Kata Kunci**: Masyarakat Ekonomi Asean, Globalisasi, Ketidaksetaraan dan Pengaruh Psikologis

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 all1.

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

1 Our Socio-Cultural Community is at once the easiest and also the most difficult for ASEAN-10 leaders to organize. The lessons of the European Union teach us that elite arrangements -- made over the heads of ordinary people -- have limited effectiveness and longevity. If the Southeast Asian peoples are to embrace ASEAN as their "Community," they must see it as a pervading, beneficial influence on their daily lives. They must regard the ASEAN vision and mission as their own, being its most important stakeholders. And, Southeast Asia's economic growth they should experience in their own lives -- by reducing the poverty of families and their communities; and by bringing better public health, housing, basic education, and jobs, as well as higher incomes for everyone. Thus, a great deal of ASEAN's work in building "Community" must focus on encouraging, assisting, and -- if need be -- pressuring member-States to promote good governance; strengthen the rule of law and respect for human rights; build an inclusive economy; and defend freedom under the umbrella of representative democracy. Also, if ASEAN is to achieve "Community," it must build durable regional institutions. Right now, it has no regional institution strong enough to expedite decision-making and -- even more important -- to enforce compliance with ASEAN group decisions.
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.2

2 Certain policy decisions of potential target countries of investment receive close scrutiny from international investors. Consequently, a number of international agreements have been written to specifically address those concerns. They include the following issues: National treatment: This has been a core element of most agreements on trade in goods and services, and is also a critical issue pertaining to international investment. Typically, these provisions ensure that foreign investors and their subsidiary companies are “treated at least as well as their domestic counterparts,” or “no less favorably” than domestic industries. A law which taxed foreign-owned entities at a higher rate than domestically owned entities would therefore violate these provisions. However, if a government wishes to give foreign-owned companies an incentive to invest, such as tax-free treatment of manufacturing in an export processing zone (EPZ), this would not generally constitute a violation of these agreements. Thus countries may treat foreign corporations and nationals with better or more favorable regulations, but not poorer ones. Domestic Content: Another limitation sometimes imposed on foreign investors is “domestic content requirements.” These require foreign investors to purchase a certain percentage of intermediate goods from the host country. Domestic content requirements are perhaps the most common form of interventions by governments on foreign investment, and many economists believe they are the most harmful to economic development. Rules on investment developed among all 159 members of the World Trade Organization (WTO) have limited substantially the opportunity for imposition of such requirements. Expropriation: The seizure of foreign assets by governments has historically been a major concern for international investors. Changes in governments in developing countries, or sometimes just changes in policies, have led to government takeovers of foreign assets. In the past, these expropriations have nationalized key industries (e.g. oil, electric power, mines, or telecommunications), often providing little or no compensation to the original owner. This has long been a significant deterrent to foreign investment. Hence, provisions on expropriation both in U.S. law and in bilateral and regional agreements, as well as in customary international law seek to ensure that any losses by investors must be fairly compensated without delay. But the “expropriation” issue has come to hold new meaning in legal disputes over property. Although the actual seizure of assets by governments is relatively uncommon today, the use of the term has been broadened to include other kinds of regulatory activities. Consider the following example: an investor purchases property overseas with the intention of building a manufacturing plant there. She may have even begun construction on the facility, spending millions of dollars. However, in the midst of this construction process, the host country government introduces new regulations, declaring the location of the facility unsuitable for industrial use, perhaps re-zoning it for exclusively residential purposes or declaring that it is an environmentally protected area that cannot be developed. As a result of this ruling, the investor has not only lost the money that was spent on building a factory on the site, but the real estate probably cannot even be resold for the purchase price because no other investor would want it given the new limitations on its use. In economic terms, the government regulation has therefore reduced substantially the value of the property to the investor. The investor may seek to claim that this new regulation constitutes an expropriation of property and that she therefore is entitled to compensation by the government for the loss she has suffered. Environmental activists have especially serious concerns about this interpretation of the meaning of expropriation. If provisions seeking to give investors protection from such “takings” are not carefully and properly implemented, argues a report by the International Institute for Sustainable Development and the World Wildlife Fund, “any environmental law worth adopting will affect business operations and
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. (Luca, Spatfora, 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)

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3 In recent history the world’s largest recipient of foreign investment has been the United States. In the first half of 2012 though, China surpassed the United States and became the world’s largest recipient of foreign direct investment, though by the end of 2012, the U.S. regained its number one spot. In 2003, China did beat out the United States for the number one position. One reason might be the fact that the China is growing faster than the U.S. and most developed countries, even though the growth rate in Asia is slowly down. Another reason may be that China no longer seems to be a risky investment.
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

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