

## *Part I*

# The Antecedents of ASEAN Integration

*What is the role of the private sector in the forthcoming ASEAN Economic Community (AEC)? What are the characteristics of local firms operating within the ASEAN member-community?*

In the next three chapters, we provide an overview of our core arguments (Chapter 1), and abridged background on ASEAN (Chapter 2), and an appraisal of progress leading to the formal enactment of the AEC this year (Chapter 3).

In all, we argue that firms matter, but that participation will depend on their ability to leverage their competitive advantages into the broader ASEAN market. For this reason, we have selected the most successful firms, or our fifty-eight ASEAN champions, as they have exhibited a capacity to sustain and build advantage in highly adverse economic conditions.

## 1 Our Core Arguments

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### Introduction

A widely acclaimed mantra in strategy – in both military and business contexts – is the advantage derived from unity in numbers guided by a common purpose. Throughout history, such collectivity was forged by unions, agreements, alliances, collusion, partnerships, economic integration, and regional trading blocs. Not surprisingly, there are approximately forty economic regional blocs – bilateral and multilateral trade agreements – that comprise the global trading system today.

Beneath this scaffolding of events, obscured by the prominence of other headliners, is a quiet transformation that has been occurring in Southeast Asia: the evolution of an economic bloc called the Association of Southeast Asian Nations (ASEAN). Accordingly, the formal enactment of its next initiative – the ASEAN Economic Community (AEC) – in December 2015 has been much anticipated.<sup>1</sup> Against this backdrop, the AEC is the newcomer in this field of regional integration. Its eventual realization could be momentous.

Consider the region's economic data for 2015: a population of about 620 million, or close to 9% of humanity; a combined GNP of more than US\$2.4 trillion, approximating the seventh-largest economy in the world; and a projection that it could easily become the fourth-largest economy by 2050 (Vinayak, Thompson, & Tonby, 2014; ASEAN Economic Community 2015a: Progress and Key Achievements; Forecast from International Monetary Fund, *World Economic Outlook*, 2014).

Motivations for purposeful collaboration can be numerous – political, cultural, and economic – but tend to converge on two basic objectives: the

<sup>1</sup> ASEAN was inaugurated in 1967 with Indonesia, Malaysia, Thailand, Singapore, and the Philippines as its founding members, and has since added Brunei, Vietnam, Laos, Cambodia, and Myanmar. In the Bali Concord II, which was held in 2003, three pillars were proposed: the ASEAN Economic Community (AEC), the ASEAN Security Community (ASC), and the ASEAN Socio-Cultural Community (ASCC). This book is primarily directed at the present and proposed activities of the AEC.

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need for security and the economic benefits derived from formal cooperation (Roxas, 1970). These underlying objectives tend to be interrelated, if not tightly coupled. For example, it is difficult to comprehend the full consequences of economic integration without considering political/security issues (and vice versa). Although it is generally acknowledged that these objectives cannot be separated in practice, it is not uncommon for scholars to parse them into specific categories to analyze their feasibility and tractability.

In this light, understanding the economic potential of the AEC is particularly challenging because of the diversity of the ASEAN community (Lim, 2004). Beyond its relatively recent initiatives toward a single market for trade and an investment base, the AEC is distinguished because of its mixed composition of advanced, emerging, and developing countries. Such diversity can be characterized in terms of cultural and institutional differences; uneven economic development; varying infrastructural levels; differing religions, languages, and cultures; and a history of political/military confrontation (Lim, 2004; Acharya, 2012).

Because diversity can impede integration, a persistent question is whether the benefits derived from economic integration outweigh the differences and complexities of the participants. Unsurprisingly, current attention is focused on agreements to reduce political and economic barriers to integration.<sup>2</sup> These agreements cover trade, nontariff barriers, political and military security and cooperation, climate change and environmental degradation, and physical infrastructures (see Acharya, 2012).

#### Focus on Exemplary Firms—ASEAN Champions

The overarching theme of this book is the selection and description of the most successful firms operating in ASEAN for a period of time, or the ASEAN Champions.<sup>3</sup> Because of their sustained success, prominence, and visibility in their respective local markets, these firms cannot be ignored as potential players in regional integration.

But will these successful firms necessarily be the drivers of regional integration? Among the primary goals of the AEC include a single market and

<sup>2</sup> Although it is true that governments can trade by providing advice, outsourcing, and managing services, the extent to which such activities can favorably compare with interfirm trade across borders is hardly disputable. See <http://www.economist.com/news/international/21595928-countries-have-started-outsource-public-services-each-other-unbundling-nation>.

<sup>3</sup> Whereas most studies focus on governments as the unit of analysis, one notable exception is Sanchita Basu Das (ed.), *Achieving the ASEAN Economic Community 2015: Challenges for Member Countries & Businesses* (Singapore: ISEAS Publishing, 2012), which addresses firm-level analyses. This book is intended to complement her work, and her ideas are presented in detail in Chapter 11.

production base, a competitive region, balanced economic and equitable development for firms of varying sizes, and integration with the global community. Conceivably, some exemplary firms will not be as involved in these goals, but more focused on building capabilities that are aligned with their domestic objectives (i.e., real estate development, commercial banking, or specialized local services, such as utilities). Nevertheless, their propensity to become involved in the future, if propitious circumstances arise, has implications for the AEC, and this subject is addressed later in this book.

But will less successful firms necessarily be excluded from regional integration? Although these firms might not be as successful (profitable), or might have erratic performance, we submit that they could be key players in the integration process. Consider that these prospective integrators include up-and-coming firms that are relatively new or relatively small and that hence fall outside the radar of established financial databases and timelines for analysis. Arguably, they could be key players in the future of the AEC. Therefore, understanding the barriers and facilitators to regional integration that impact both current and prospective participants will affect the future of the AEC, and this subject is likewise included in our analysis.

What about the role of foreign multinational firms? Indubitably, these firms will play an important role in the AEC. Notable scholars have already touted the potential of well-established global icons, specifically Ben & Jerry's, Apple, Givaudan, H&M (Hennes & Mauritz), Samsung, Huawei, Kinokuniya, Procter & Gamble, Inditex, and Honda, among others, which are positioned to become involved in the "New ASEAN" (cited in Kotler, Kartajaya, and Huan, 2015).

Although we acknowledge their important role in the AEC, our focus on local firms within ASEAN underscores our intent to examine indigenous conditions underlying the success of these local firms. This focus includes their historical origins, their colonial past, and their fledgling institutions – conditions that generally do not apply to most foreign multinationals from highly advanced economies. As we will detail, the challenges and experiences confronting local firms differ markedly from successful foreign multinationals. Historically, these multinationals entered into emerging and developing markets not primarily to build markets and secure customers, although this strategy is currently changing; the main strategy of multinationals was to capitalize on lower labor costs, access key resources, or secure markets for their maturing products (see Jones, 2005).<sup>4</sup>

<sup>4</sup> Although there are historical accounts of multinationals selling their goods and services to emerging and developing economies, it is generally acknowledged that this was not done for the purposes of building a market and securing customers in the sense and context in which we selected our successful local companies (ASEAN champions).

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Based on these considerations, the following key questions provide the format for this study: Which local firms will lead this charge? How might they be represented in each of the ten ASEAN countries? What are the characteristics of such firms? What sustained their competitive advantages? What enabled these firms to succeed in the context of highly difficult and largely unfavorable circumstances? What are the facilitators and obstacles to regional integration? What are the implications for regional integration?

### **A Brief Word on the Selection Process**

Our selection process was particularly stringent, incorporating multiple screens and criteria of available financial information and consultations with industry experts. Although these are described in detail (see Box 1.1), our objective was to select firms that were resilient to changing political and economic challenges over time. We were occasionally prodded to include certain firms that had received fanfare from academic and populist sources. Even so, a closer assessment of these cases indicated that high performance was confined to a much shorter period of time when compared to the final list of successful firms. When appropriate, we cite these firms but do not select them as primary sources for the in-field interviews. Our premise is that ASEAN champions are able to sustain high performance amid highly adverse conditions over a comparable study period (see Table 1.1 for the list).

#### **Box 1.1. Selecting ASEAN Champions**

ASEAN champions represent high-performing local private enterprises in ASEAN member countries. The Rough Diamonds project by Park, Zhou, and Ungson (2013) developed a rigorous framework to identify sustained high-performing local companies in emerging markets. We follow a similar guideline to that of the Rough Diamonds project but had to loosen the selection criteria to secure enough companies for this study. The Rough Diamonds companies show higher annual growth rate, profitability, and efficiency ratio for at least seven of the ten years of their observation than the averages of the annual top five hundred companies in each BRIC country. ASEAN Champions generally satisfy higher revenue growth and profitability for at least four years during 2003–2012 than the averages of the annual top five hundred companies in each ASEAN country. The selection is country

based to include all ten ASEAN countries in the study. The process involves the following three specific steps, which lead to a list of fifty-eight ASEAN champions.

First, according to operating revenues, we identify annual top five hundred companies for 2003–2012 in six ASEAN countries that have enough companies included in ORBIS. The six countries are Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. This was not possible for other countries (Brunei, Cambodia, Laos, and Myanmar) due to the small sample sizes in ORBIS. For these countries, as described below, we follow experts' recommendations to identify high-performing local private companies among the ASEAN champions for this study.

Second, we calculate the ten-year average revenue growth rate and profitability of the 2012 top five hundred companies and the averages of the annual top five hundred companies in each country. We select 202 companies from the 2012 top 500 list whose 10-year averages in both growth rate and profitability are higher than the averages of the annual top 500 companies. We further narrow down the list to forty-six companies that show higher annual growth rate and profitability than the averages of annual top five hundred companies in each country for at least four years during the study period. These forty-six companies are then carefully examined to assure the majority ownership belongs to local private investors. Among these, we replace seven companies with their shareholding companies that are better identified in each local market. For two companies we include the most representative subsidiaries since they are highly diversified holding companies.

Lastly, we consult with multiple local experts to confirm the validity of our selection and identify potential candidates of ASEAN champions for the remaining four countries. The forty-six companies are well supported by experts as leading companies in each of the six countries. Their recommendations lead to five more companies that are well respected and sector leaders in each country. Experts also identify seven companies as potential ASEAN champions from the remaining four countries. The final list of ASEAN champions includes fifty-eight companies, with two from Brunei, one from Cambodia, eleven from Indonesia, three from Laos, four from Malaysia, one from Myanmar, twelve from the Philippines, three from Singapore, fifteen from Thailand, and six from Vietnam. Table 1.1 includes the list of these fifty-eight ASEAN champions.

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Table 1.1. *List of ASEAN Champions*

The ASEAN Champions	Country	Industry
Aboitiz Power Corporation	Philippines	power generation and distribution
Adinin Group of Companies	Brunei	civil construction
Advanced Info Service PCL	Thailand	telecommunications
Ayala Land, Inc.	Philippines	real estate
Bangkok Cable Co., Ltd.	Thailand	cable products
Bangkok Dusit Medical Services PCL	Thailand	healthcare
Bood Rawd Brewery	Thailand	brewery
Cebu Air, Inc.	Philippines	air transportation
Charoen Pokphand Foods PCL	Thailand	agro-industrial products
Dao-Heuang Group	Lao PDR	coffee and tea products
DIALOG Group Berhad	Malaysia	services for oil and gas
Dutch Mill Co., Ltd.	Thailand	dairy products
EDL-Generation Public Company	Lao PDR	electricity
EEI Corporation	Philippines	industrial construction
Energy Development Corporation	Philippines	renewable energy
Far Eastern University, Inc.	Philippines	education
FPT Corporation	Vietnam	information and communication
Hanoi Production Services Import-Export JSC	Vietnam	agriculture and handicraft
Holcim Philippines, Inc.	Philippines	cement and aggregates
Jollibee Foods Corporation	Philippines	fast food
Keppel FELS Limited	Singapore	rig building
Lafarge Republic, Inc.	Philippines	cement and aggregates
Lao Brewery Co., Ltd.	Lao PDR	Brewery
Manila Electric Company (Meralco)	Philippines	electricity and utilities
Masan Consumer Corporation	Vietnam	diversified consumer goods
Mudajaya Corporation Berhad	Malaysia	engineering and construction
PETRONAS Dagangan Berhad	Malaysia	petroleum production
PetroVietnam Gas JSC	Vietnam	oil and gas
Philippine Long Distance Telephone Company	Philippines	telecommunications
Phnom Penh Water Supply Authority	Cambodia	water supply and distribution
Pruksa Real Estate PCL	Thailand	real estate
PT FKS Multiagro Tbk.	Indonesia	agro-industrial products
PT Global Mediacom Tbk.	Indonesia	integrated media
PT Indofood Sukses Makmur Tbk.	Indonesia	packaged food
PT Lippo Karawaci Tbk.	Indonesia	real estate and property development
PT Malindo Feedmill Tbk.	Indonesia	animal feed
PT Mitra Adiperkasa Tbk.	Indonesia	lifestyle retail

Table 1.1 (*cont.*)

The ASEAN Champions	Country	Industry
PT Petrosea Tbk.	Indonesia	mining, oil, and gas
PT Solusi Tunas Pratama Tbk.	Indonesia	telecommunications
PT Sumber Alfaria Trijaya Tbk.	Indonesia	mini mart
PT Summarecon Agung Tbk.	Indonesia	property development
PT Ultrajaya Milk Industry & Trading Company Tbk.	Indonesia	liquid milk products
PTT Exploration and Production PCL	Thailand	oil exploration
QAF Brunei Sdn. Bhd.	Brunei	conglomerate
Sembcorp Marine Limited	Singapore	engineering solutions
Siam Cement Group	Thailand	cement products
Singapore Aero Engine Services Limited	Singapore	engine maintenance and repair
SM Prime Holdings, Inc.	Philippines	shopping centers
Summit Auto Body Industry Co., Ltd.	Thailand	automotive systems
TC Pharmaceutical Industries Co., Ltd.	Thailand	beverages
Thai Beverage PCL	Thailand	beverages
Thai Metal Trade PCL	Thailand	steel solutions
Thai Union Frozen Products PCL	Thailand	seafood products
Tien Phong Plastic JSC	Vietnam	civil plastics
TOA Paint (Thailand) Co., Ltd.	Thailand	paint products
Vietnam Dairy Products JSC (Vinamilk)	Vietnam	dairy products
WCT Land Sdn. Bhd.	Malaysia	property development
Yoma Strategic Holdings Limited	Myanmar	real estate

Throughout the study, we deliberated on the appropriate measures for deciding which firms to include and which to exclude. Although we initially settled on established financial measures along with stringent criteria, we acknowledge the importance of other nonfinancial factors. In this regard, we consulted with industry experts in several ASEAN countries and included other firms. After we analyzed our first selection of firms, however, it became evident that the meaning of success (high performance) principally defined in terms of financial measures was in itself a major consideration. The appropriateness of performance measures largely used to describe the experiences of firms in advanced/developed economic settings had to be contextualized in terms of ASEAN regional integration. We deliberated whether the experiences of successful firms from advanced economies might be totally suitable for comparing the relative success of ASEAN firms.

This issue is further addressed in our next sections. By way of an overview, we argue that narratives about successful firms, which have been extolled in bestsellers largely in the developed world (Collins & Porras, 1994; Collins, 2001), are nuanced toward what scholars call an “internalist view” (Adelman, 2015). This refers to explanations that attribute high performance to internal or “organic” characteristics of these firms, specifically their inane ability to build, nurture, and sustain core competencies. In contrast, a differing view – the “externalist view” (Adelman, 2015) – posits that such high performance could not have occurred without incorporating the full context of external events.

In a review of the origins of capitalism, specifically the transformation of the cotton industry (Beckert, 2014), Adelman (2015) cites external factors such as slavery, external trade, and the factory system as contributing factors. In our own analysis of ASEAN, these arguments resonate well with theories of modernization and dependency, which we develop as another theoretical prism through which to understand the success of local ASEAN firms and to differentiate them from erstwhile successful firms from advanced economies. Following these narratives, we propose a different explanation for the success of local firms based on an integration of theories about institutions and economic development, as well as strategic management.

### **Qualifying the Meaning of Success for ASEAN**

Researchers generally acknowledge that successful multinationals originate from countries in which these firms are able to develop core competencies that they can transfer and sustain in other parts of the world. Conventional wisdom suggests that firms in this environment generally succeed because they employ low-cost labor or have access to important raw materials (see Cavusgil, Knight, & Riesenberger, 2014). In addition, as in the cases of Japan, South Korea, China, and other successful emerging countries, firms also have to develop capabilities to export their products and compete with others in the world market.

Undoubtedly, this argument is valid for a number of cases. In the case of ASEAN, however, except for some countries, most operate in highly underdeveloped institutional environments characterized as “institutional voids,” defined broadly as the absence of market intermediaries that enable and facilitate efficient market transactions (Khanna & Palepu, 1997). It is precisely this condition of economic and institutional underdevelopment, coupled with the risk and uncertainty of political regimes that has made multinationals from other countries leery of entering

into ASEAN and other developing countries for the purposes of building markets and securing customers. Yet, despite formidable challenges, some exemplary firms within ASEAN have been able to overcome these unattractive conditions.

Uneven economic development raises questions of whether the experiences of highly successful firms in developed countries might be appropriate in our selection of our ASEAN champions. There are at least two reasons for some redirection. First, the economies of developed countries are much further advanced in industrialization, as reflected in their institutional munificence. No economy is so perfect that no institutional voids exist, but few would argue that institutional development in advanced countries is better than that in emerging and developing economies. Second, unlike the established multinational firms that extend their dominance by expanding into export markets, many firms within the ASEAN region face daunting catch-up strategies with operations that are largely confined to a few international markets (Cuervo-Cazurra & Ramamurti, 2014).

For these reasons, defining successful firms within ASEAN is much less tractable than might be gleaned from the surface. Currently, there is interest in emerging multinationals (EMNCs), but most are from emerging nations (China, Brazil, Russia, and India) that do not generally include most ASEAN countries (Sauvant, 2008; Ramamurti & Singh, 2009; Chattopadhyay & Batra, 2012; Guillen & Garcia-Canal, 2013; Santiso, 2013; Cuervo-Cazurra & Ramamurti, 2014). Although the firms within ASEAN excel domestically, many are still in their infancy in terms of becoming effective global multinationals. In fact, few of them can be considered full-fledged multinationals (Cuervo-Cazurra & Ramamurti, 2014). Catch-up strategies and the industrialization process are still in progress for most of these firms (Cuervo-Cazurra & Ramamurti, 2014).

What distinguishes the ASEAN champions is their financial strength and resiliency over time, despite challenges arising from regime changes, inconsistent government policies, periods of financial crisis, and adverse macroeconomic conditions. In this regard, the meaning of development and high performance is embedded in a different context, one that takes into account other considerations, such as cultures, institutions, and stage of economic development. These differences in high-performance firms have to be precisely defined not only for purposes of measurement but also from their historical origins. In terms of background leading to this argument, we provide a brief review of studies that have defined winners in developed economies.