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978-1-107-50387-8 - Asean Economic Cooperation and Integration: Progress,
Challenges and Future Directions

Siow Yue Chia and Michael G. Plummer

Excerpt

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Chapter 1

Introduction

The 1967 Bangkok Declaration established the Association of Southeast Asian Nations (ASEAN) by the five founding members of Indonesia, Malaysia, the Philippines, Singapore and Thailand. ASEAN was joined by Brunei (hereafter collectively referred to as the ASEAN6) in 1984 and by Cambodia, Laos, Myanmar and Vietnam (hereafter collectively referred to as CLMV) in 1995–9. The two-page ASEAN Declaration contains the aims and purposes of the Association, which include cooperation in the economic, social, cultural, technical, educational and other fields, the promotion of regional peace and stability through abiding respect for justice and the rule of law, and adherence to the principles of the United Nations Charter. The initial objective of ASEAN was to prevent regional conflicts, build mutual confidence and promote regional stability and security so as to lay the regional foundation for the pursuit of economic development. Reference to economic cooperation was partly to dispel suspicions of ASEAN being a military alliance. It is to be noted that in the early years only ASEAN foreign ministers met regularly.

A new era of economic cooperation and integration began with the first ASEAN Summit of heads of state in 1976,

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followed by meetings of economic ministers. Economic cooperation schemes began in 1977 with the ASEAN Preferential Trading Arrangement (ASEAN PTA), followed by several industrial cooperation schemes. In 1992, in response to a rapidly changing global economic and strategic environment, ASEAN took the first serious step towards economic integration with the agreement on the ASEAN Free Trade Area (AFTA). This was followed in 1995 by the ASEAN Framework Agreement on Services (AFAS), and in 1998 by the agreement on the ASEAN Investment Area (AIA).

It should be recalled that in 1992 India was still mostly an inward-looking, poor country dealing with a major financial crisis and China was growing but still a relatively minor player in international markets. Neither country featured in the World Bank's 1993 *East Asian Miracle* study on 'high performing Asian economies'. However, two decades later, global competition has been intensifying, China and India have become formidable competitors as well as partners of ASEAN member states, successes at the multilateral Doha Development Agenda negotiations (started in November 2001) have been minimal,¹ and bilateral and regional preferential trading arrangements have proliferated. ASEAN has free trade agreements (FTAs) with the major trading partners of Japan, China, South Korea, India and Australia–New

¹ At the Ninth WTO Ministerial in Bali, 3–6 December 2003, the WTO member states did agree to a 'mini-package' that included aspects of trade facilitations, agriculture and development, showing that the Doha Development Agenda is still moving forward. However, much remains to be done in terms of the 'single undertaking'.

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Zealand (and is negotiating with the European Union (or EU), but not with the USA), while individual ASEAN member states have numerous FTAs with partners throughout the world, including the USA and the EU.

It is against this backdrop that ASEAN leaders decided in 2003 to create the ASEAN Economic Community (AEC), complemented by the ASEAN Political-Security Community (APSC) and the ASEAN Socio-Cultural Community (ASCC). The AEC would create a single market and production base by 2020 (later advanced to 2015) via a free flow of goods, services, foreign direct investment (FDI), skilled labour and a freer flow of capital. It is a highly ambitious programme for economic integration.

Economic integration in ASEAN is arguably pressured more by perceptions of external 'threats' than internal conviction of the benefits of deeper intra-regional cooperation. The perceived external 'threat' to ASEAN's export market access and attractiveness for FDI with the formation of the North American Free Trade Area (NAFTA) and the European single market led to the decision to establish AFTA, AFAS and AIA in the 1990s. A subsequent perceived external 'threat' from the economic rise of China and India led to the 2003 decision to form the AEC.

This book examines the evolution of economic cooperation and integration from ASEAN's inception in 1967, highlighting progress and shortcomings, and suggesting possible next steps. Chapter 2 provides a brief overview of economic growth and trends in internationalisation in the ASEAN region. Chapter 3 examines trends in ASEAN's international trade and FDI and the role of commercial policy

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reforms and production networks. Chapter 4 analyses the rationale, process and challenges of institutionalised economic integration. Chapter 5 offers an overview of the components of the AEC and its implementation and assesses the economic effects that can be expected from its successful implementation. Chapter 6 examines the direction of ASEAN economic integration beyond AEC 2015.²

² The book benefits from the publication of former ASEAN Secretary General Severino which gives an 'insider' perspective of ASEAN leadership thinking, and the rationale and processes of ASEAN economic cooperation and integration (Severino 2006).

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Chapter 2

ASEAN diversity, economic growth and internationalisation

2.1 ASEAN's economic diversity

ASEAN diversity has often been cited to explain difficulties in reaching consensus on the speed and depth of ASEAN economic integration. Table 2.1 below highlights the economic diversity as proxied by population size, GDP, per capita GDP and per capita GNI-PPP, trade openness and FDI dependence as of 2012. Vast differences continue to exist notwithstanding decades of economic cooperation and integration. Singapore and Brunei have high per capita incomes that better many in the Organisation for Economic Co-operation and Development (OECD), while Cambodia, Laos and Myanmar are the least developed economies.¹ Indonesia is ASEAN's largest economy, followed by Thailand and Malaysia, while, in comparison, Brunei, Cambodia, Laos and Myanmar are small economies. The diversities are reflected in the different production and export structures and commercial policies.

¹ In addition, and not shown in the table, is the diversity in natural resource endowment and financial resources. Several ASEAN countries are rich in oil and gas, mineral deposits, agricultural and marine resources and hydro power. Only Singapore is natural resource poor, but it has compensated for this by building up its financial reserves and human capital.

Table 2.1 ASEAN: differences in size, level of development and trade and foreign direct investment dependence, 2012

	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand	Cambodia	Laos	Myanmar	Vietnam
Population (million)	0.4	246.9	29.2	96.7	5.3	66.8	14.9	6.6	52.8	90.7
Land area (thousand sq. km)	5.8	1,860.4	330.3	300	0.7	513.1	181	236.8	676.6	331.1
GDP (US\$ billion)	16.6	878.4	303.5	250.3	270.5	390.9	14.2	9.2	57.8	140.6
GDP per capita (US\$)	39,418	3,589	10,350	2,594	51,455	5,592	978	1,442	1,186	1,567
GDP per capita (ppp-adjusted)	52,059	4,736	15,955	4,289	60,744	8,907	2,287	2,825	1,393	3,440
Merchandise trade (US\$ billion)	15.9	368	415.1	107.9	818.2	443.9	14	4.4	16	218.3
Trade/GDP ratio (%)	95.5	41.4	136.8	43.1	302.5	113.6	98.7	47.8	27.6	155.3
Inward foreign direct investment stock (US\$ billion)	13.3	205.7	132.4	31	682.4	159.1	8.4	2.5	11.9	72.5
Inward foreign direct investment stock/investment stock/GDP ratio (%)	80.4	23.4	43.6	12.4	252.3	40.7	59.4	27	20.6	51.6

Note: GDP per capita, ppp-adjusted values are for 2011. Brunei population is for 2010; all other population values are estimates for 2012.
Source: Compiled from ASEAN Secretariat database, UNCTAD and UNCTAD World Investment Report 2013.

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2.1 ECONOMIC DIVERSITY

All ASEAN countries have become highly open trade economies, although there remains wide inter-country variation, with Singapore having the highest trade/GDP ratio and Myanmar and Indonesia the lowest. Generally smaller economies are more trade dependent than the very large ones. A high trade/GDP ratio may reflect competitiveness in the international market place, but also renders the economy highly vulnerable to business cycle fluctuations in international demand. There are also wide inter-country differences in investment regimes. The inward FDI stock is very unevenly spread among ASEAN countries, with Singapore the major recipient of inward FDI into manufacturing and services, while CLMV accounted for only a minor share of total ASEAN inward FDI stock.

Table 2.2 shows the wide diversity in competitiveness as proxied by rankings in the World Bank's 2014 'ease of doing business' index. Generally, Singapore stands at the top while CLMV is at the other end of the competitiveness spectrum. The rankings of the specific components of the index give an indication of the specific areas in which individual countries need to improve on their competitiveness. For example, it costs on average US\$460 to export a container from Singapore but over four times as much (US\$1,950) from Laos.

Wide differences among ASEAN countries in levels of development and, more particularly, in competitiveness and economic openness have affected ASEAN consensus building, speed of economic liberalisation and implementation of specific measures. In the early years of ASEAN, there was more economic competition than complementarity among its six members, as geographical and technological

Table 2.2 Ranks of ASEAN economies in World Bank “Doing Business” Report, 2014

	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Ease of doing business	59	137	120	159	6	182	108	1	18	99
Starting a business	137	184	175	85	16	189	170	3	91	109
Dealing with construction permits	46	161	88	96	43	150	99	3	14	29
Getting electricity	29	134	121	140	21	126	33	6	12	156
Registering property	116	118	101	76	35	154	121	28	29	51
Getting credit	55	42	86	159	1	170	86	3	73	42
Protecting investors	115	80	52	187	4	182	128	2	12	157
Paying taxes	20	65	137	119	36	107	131	5	70	149
Trading across borders	39	114	54	161	5	113	42	1	24	65
Documents to export (number)	5	8	4	10	4	9	6	3	5	5

Time to export (days)	19	22	17	23	11	25	15	6	14	21
Cost to export (US\$ per container)	705	795	615	1,950	450	670	585	460	595	610
Documents to import (number)	5	9	8	10	4	9	7	3	5	8
Time to import (days)	15	24	23	26	8	27	14	4	13	21
Cost to import (US\$ per container)	770	930	660	1,910	485	660	660	440	760	600
Enforcing contracts	161	162	147	104	30	188	114	12	22	46
Resolving Insolvency	48	163	144	189	42	155	100	4	58	149

Source: World Bank, *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises* (Washington, DC: World Bank, 2013): www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-reports/English/DB14-Full-Report.pdf.

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ASEAN DIVERSITY

similarities led to similar exports of natural resources and labour-intensive manufactures, both having to seek extra-ASEAN markets. However, since the mid-1980s, ASEAN economies were able to leverage their differences in endowment and cost structures to attract inward FDI and so participate in global and regional production networks and intra-industry trade. As a result, the ASEAN economies have become much more complementary, with growing intra-industry trade in parts and components.

2.2 ASEAN economic growth and internationalisation

Economic growth in ASEAN has been impressive in recent decades. Figures 2.1a and 2.1b show annual real GDP growth rates for the ASEAN6, CLMV and an ASEAN10 (that is, ASEAN6 and CLMV) aggregate for the period 1990–2012. Some member states, such as Singapore, Malaysia and Thailand, have experienced among the fastest growth rates in the world, and since the Asian Financial Crisis (AFC) of 1997–8 CLMV have done generally better than the ASEAN average, signalling the beginnings of economic convergence. This growth has not been monotonic: the AFC severely affected several ASEAN economies, and the ‘twin shocks’ of the USA-originated financial crisis of 2008–9 and the Eurozone debt crisis beginning in 2010 have taken their tolls on the region’s growth performance, though there was a growth rebound in 2012 from 2010 to 2011.

A few points are worth noting. First, while there continues to be a good deal of variable economic performance