
“Economic Integration the leading path way for the Development of ASEAN”

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ABSTRACT:

This research paper takes a forward-looking view of ASEAN in the context of a rapidly changing world economy. It is concerned solely with ASEAN as an agreement affecting economic relations among the member economies, that is, with the ASEAN Economic Community. It focuses on issues of economic integration. Economic integration is equated to a single market which in turn is equated to the Law of One Price holding in all markets. The research paper explores what a commitment to the goal of a single market or complete economic integration implies. It requires the elimination of both border and beyond-the-border measures that discriminate against foreign goods or persons and sometimes too the harmonization across borders of standards, laws and regulations that inhibit trade. The paper is divided into four sections. The first section discusses about the problem of economic integration ASEAN. The ways to solve problem of economic integration are discussed in the second section. The Emerging risks in the 21st century are presented in the third section. Concluding observations are given in the last section.

[**Key Words:** Economic Community, Border, Harmonization, Laws, Regulations, Trade]

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1.0 INTRODUCTION:

Since the 1990s to the present, closer economic cooperation and integration have become the predominant concern of the ASEAN. Dynamic economic growth in the early to mid-1990s, the onset of the financial crisis in mid-1997, the emergence of China as a dominant economic player, the new round of WTO

negotiations, and the advancement of other regional economic groupings elsewhere in the world, among other things, provided the impetus for the ASEAN Member Countries to pursue economic integration more seriously and more urgently.

ASEAN certainly cannot be accused of lack of activity on its economic integration agenda. And taken against the benchmark of the region's own past performance, ASEAN's recent accomplishments toward greater economic integration have been quite remarkable. However, taken against the pace of integration achieved in other prominent regional trading arrangements like NAFTA, MERCOSUR and EU, the pace of liberalization and integration in ASEAN appears slow. And taken against the backdrop of rapid developments in the regional and global context, ASEAN may be courting the risk of missing its potential for becoming a prominent powerhouse in the global economy unless the pace of integration speeds up significantly

2.0 Main Objectives of the study:

1. To analyze the problem of economic integration.
2. To analyze the ways to solve problem of economic integration.
3. To analyze the Emerging risks in the 21st century.

3.0 The Review of Literature:

Park (2000) finds that AFTA will enhance intra-ASEAN trade and accelerate the economic growth of ASEAN member nations. The author concludes that economies with higher pre-FTA tariff barriers and larger intra-regional trade volume such as Philippines and Thailand share larger gains from freer trade

Hap sari and Mangunsong (2006) found that the standard gravity variables such as reporting and partner country GDP, distance, common language, common border and whether the partner country is landlocked or not have significant effects on the bilateral exports of ASEAN members.

Ismail (2007) found that GDP, population, relative endowment, distance and common language are the main determinants of bilateral trade in ASEAN. The ASEAN dummies used to measure the intra ASEAN trade prove that there was trade creation among the five ASEAN members. Closer examination also shows that the trade creation among the ASEAN-5 is enhanced following the AFTA formation.

Sharma (2008) reveal that agricultural trade is unexpectedly a small share of the total trade for China, India and AFTA. Also, this share is decrease further as non-agricultural trade is increasing rapidly. Still, agriculture still remains important for poverty reduction, particularly in India and China together with several ASEAN countries. The data also prove that China, India and AFTA trade quite heavily with countries outside this block, the exemption being AFTA because of its large intra-AFTA trade

Lee (2008) evaluate the extent of trade adjustments and other economic effects that the enlargement and redefinition of a free-trade agreement to encompassing ASEAN+3 or ASEAN+6 could have on European Union (EU) and

North America. The trade and output effects on European Union (EU) and North America are relatively small as well with the distinguished omission of crops in North America.

4.0 Problem of economic integration:

4.1 Lack of progress on policy commitments: - In general, lack of political will on the part of specific Member Country governments has hampered compliance with policy commitments. At the same time, the lack of a stronger mechanism for discipline and compliance among the members has slowed down implementation of AFTA commitments. This has even made it possible for certain members to backtrack on earlier commitments with little adverse consequences for them.

4.2 The “Development Gap”:- The widened diversity in political orientation, economic development and readiness for economic liberalization (the “development gap”) that came with the expansion in the group’s membership has also slowed down the progress of economic integration. For example, a Vietnamese official pointed to the need to enhance the technical infrastructure in the CLMV countries in the areas of the legal system, equipment, and human resources. Some Member Countries have no existing regulatory framework or legislation to govern delivery of services in the identified common sectors. Consequently, not all Member Countries are able to participate and table indicative offers in the negotiations.

4.3 Lack of information and lack of understanding of policy consequences: - Negotiations are often hampered by lack of information on rules and regulations governing the concerned sectors in respective Member Countries. An ASEAN Secretariat officer also mentioned lack of information from individual Member Countries as a constraint to the updating of the directory of associations of services suppliers and professional associations in ASEAN.

4.4 Lack of funding support:- A number of projects could not be implemented for lack of funding support. Among the notable ones are the study to identify high-impact investment opportunities in key food, agriculture and forestry sectors; the study on the value-added contribution of the ASEAN manufacturing sector; projects in research and development (R&D), and the second phase of the Forest Information System. Other projects had met with limited success due to downscaling necessitated by inadequate funding, such as the Visit ASEAN Campaign and the conduct of joint tourism promotion missions. It was a common observation that the HPA suffered from the serious flaw of listing various initiatives and projects without any clear indication of funding sources therefore.

4.5 Member Country constraints and shortcomings:- Internal administrative weaknesses and resource and infrastructure constraints within individual Member Countries often got in the way of effective implementation of HPA initiatives. For example, the effort to forge strategic private sector alliances including among agricultural cooperatives was complicated by the need of some Member Countries to take a longer time than the others to carry out the required activities. Similarly, the HPA Mid-term Review indicated that many cases remain where national authorities require more than the prescribed time for processing AICO applications. Apart from bureaucratic inertia, parts of the delays are explained by the

need to conduct public consultation before national authorities could decide on an application.

5.0 Ways to solve problem of economic integration:

5.1 Stronger mechanisms for discipline and accountability need to be provided: - The problem with lack of political will leading to non-compliance with policy reform commitments is to a large extent attributable to the lack of stronger mechanisms for discipline among the Member Countries. The so-called “ASEAN way” of voluntary compliance and polite non-interference with each other’s actions even in the face of violations of commitments must give way to mechanisms and modalities for stronger peer pressure.

5.2 Earnest efforts are needed to gather and disseminate empirical evidence on the benefits (and costs) of closer economic integration:- The arguments for closer economic integration and more liberal trade and investment policies tend to be based more on assertions and less on hard data. For policymakers to speak and act with conviction on policies for closer economic integration, they need to be equipped with empirical justification for such policies that tend to attract resistance from groups or sectors perceived to be direct losers from the policy. This suggests the need for a focused research program on the empirical analysis of economic integration policies, in direct support of policy advocacy.

5.3 There must be much stronger cognizance and consideration of the development disparities among Member Countries in the design and implementation of ASEAN integration initiatives: -There is a recurrent plea from the CLMV countries that the development gap must be factored into the design and implementation of policies, programs and projects towards closer integration in the region. This may call for outright redesign of certain initiatives, varying timetables for compliance, or varying levels of flexibility. There is fear, for example, that the pursuit of bilateral FTAs by some advanced members may have the undesired effect of further widening the development gap. Thus, mechanisms must be put in place to ensure that such arrangements would lead to “win-win” outcomes for all members.

5.4 The ASEAN Secretariat’s mandate needs to be expanded to include the conduct of in house policy research: -The ASEAN Secretariat consistently received praises from respondents around the region for their competence, dedication and professionalism. There tends to be a prevailing sentiment that much more substantive contributions should be provided by the Secretariat to help speed up the work for economic integration. Thus, there is a need for a significant increase in the staffing complement of the Secretariat, with the number and deployment of positions to be determined from the required organization to support the forthcoming Vientiane Action Programme. The ASEAN Secretariat needs to be able to undertake a minimum of research in-house, even as it should continue to tap think tanks and other academic institutions around the region to undertake policy analyses that will complement its own work. In particular, some research to support integration efforts can best be undertaken from within the Secretariat, due to their unique vantage point, perspective and access to information that cannot be possessed by outside consultants.

6.0 Emerging risks in the 21st century:

The management of risk to a nation has always been important. However, recent terrorist attacks and outbreaks of communicable diseases such as sudden acute respiratory syndrome have demonstrated how events that may once have been localized in their impact can now quickly spread across international borders. This is another effect of globalization as these risks are associated with the movement of goods or people. The result has been a heightened international awareness of the importance of international co-operation in perceiving and mitigating potential risks. This section briefly considers potential new threats to the region.

6.1 Terrorism: Nitsch and Schumacher (2004) find evidence that countries that are the targets of a larger number of terrorist attacks trade significantly less than similar countries that do not have such problems. The mechanisms through which this can occur may be divided into three broad groups. The first is that terrorism, in increasing insecurity and uncertainty, also acts to increase transaction costs associated with trade, thereby lowering the incentives to do so. Secondly, terrorist attacks often lead to tightened security arrangements that can make trade more expensive. Thirdly there is the risk that traded goods will be destroyed or stolen.

6.2 Oil prices and Energy process: There is some concern about any impact the recent inflation of oil prices may have on economic growth in the region. The high degree of dependence of several ASEAN economies on oil imports raises the concern that recent increases in oil prices to over US\$40 a barrel, if continued, could dampen, or even reverse economic recovery in net oil consuming economies. However, it is unlikely that recent increase in oil prices will be as large or match the impacts of previous oil shocks, with the real price of oil still substantially lower than was the case with the 1970s oil price shocks.

6.3 Natural and Technological Disasters: While concern over terrorist activity is currently receiving attention from policy makers as well as the public at large, a new report by the OECD Emerging Risks in the 21st Century highlights the fact that the number of natural disasters reported in the world, including floods storms and droughts has been gradually increasing over the last fifty years. Progress in technology as well as health and emergency services has reduced the human cost of such disasters but the financial burden, particularly insurance costs, has been steadily increasing world wide.

6.4 Issues of Public Health: (a) Communicable Diseases: Despite great improvements in epidemiological surveillance systems in the South-East Asian region since the outbreak of sudden acute respiratory syndrome and concern over the avian flu, such systems remain at various stages of development. Epidemiological surveillance systems are vital to the early detection and prevention of out-breaks of life-threatening diseases. They become increasingly important as developing countries near eradication of target diseases such as polio or leprosy in order to prevent new outbreaks or re-introduction. While the monitoring of new diseases such as sudden acute respiratory syndrome is important, it is worth noting that according to the World Health Organization (2004), certain communicable diseases,

such as HIV/AIDS, malaria and tuberculosis will remain as major problems of public health in the region and that priority needs to be given to their surveillance and control

(b) Non Communicable Diseases: Associated with the rapid progress of economic development in the region has been a gradual increase in life expectancies. Non-Communicable diseases have therefore become more important in the South East Asian region. This potentially places new burdens on the health care systems of South-East Asian countries. While all countries in the region have official public health policies, the World Health Organization (2004) argues that the quantity, quality and accessibility of information on non-communicable diseases in the region largely remain inadequate

7.0 Conclusions:

Certain courses of action are needed in order to ensure that ASEAN continues to be a key player in the global economy. First, stronger mechanisms for discipline and accountability need to be provided. There should be earnest efforts to gather and disseminate empirical evidence on the benefits of closer economic integration, to bolster advocacy for reform. Also, there must be much stronger cognizance and consideration of the development disparities among Member Countries in the design and implementation of ASEAN integration initiatives. The research and analytical capabilities of the ASEAN Secretariat need to be significantly strengthened. It would be beneficial if regional initiatives benefit from a participatory or at least consultative process beginning at the national level. There must also be greater reliance on needs-based, tailor-fit bilateral training initiatives.

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