ECONOMIC INTEGRATION

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TU101: Thailand, ASEAN, and the World

WHAT IS ECONOMIC INTEGRATION?

- A process to abolish discrimination between economic units belonging to different national states

AIMS AND OBJECTIVES OF ECONOMIC INTEGRATION

- Economic integration schemes share the common aim and objective of expanding net benefits available for international distribution through fiscal compensation and net distribution mechanisms
- Peter Robson notes:

"A primary economic objective of integration is <u>to raise the real output and income of the participants and their rates of growth by increasing specialization and competition by facilitating desirable structural (linkages) changes.</u> This objective may be pursued with reference to trade in products only, as in a free trade area or a customs union, or it may extend to factor mobility—the free movement of labour, capital and enterprises as in a common market, or an economic union."

(Source: Peter Robson, *International Economic Integration* (Middlesex: Penguin, 1972), p. 17)

AIMS AND OBJECTIVES OF ECONOMIC INTEGRATION

- The expected rise in output and income are essentially due to a combination of several factors.
- First, *specialization* based on *comparative advantage* in production tends to enlarge the output of products that can be shared by participating states.
- Second, *economies of scale* associated with increased production tends to lead to the obtaining of more output from a given quantity of inputs and a given state of industrial technology.

AIMS AND OBJECTIVES OF ECONOMIC INTEGRATION

- Third, this induced widening of economic activity frequently contributes to an increase in outputs arising from the *augmented availability* of factor inputs and improvements in industrial technology.
- And fourth, enhanced intraregional competition could cause *structural* and technological changes that would reduce the power of local monopolies and lead to a more competitive market.

THE PROCESS OF ECONOMIC INTEGRATION

Integration increases

the interdependence between the members increases

the need for cooperation is intensified.

During the economic integration the member states voluntarily choose to restrict/ replace their national objectives and policies and undertake it in a common level of union.

Integration is a process during which the sovereign power of the member states is progressively diminished.

LEVELS OF ECONOMIC INTEGRATION

- Three levels of economic integration
  1. ***Global*: trade liberalization by GATT or WTO**
     - The General Agreement on Tariffs and Trade (GATT) was first signed in 1947. This agreement was designed to provide an international forum that encouraged free trade between member states by regulating and reducing tariffs on traded goods and by providing a common mechanism for resolving trade disputes.

LEVELS OF ECONOMIC INTEGRATION

- Three levels of economic integration

1. ***Global*: trade liberalization by GATT or WTO**
    - The World Trade Organization (WTO) came into being in 1995. It is the successor to the GATT. Now it is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

WORLD TRADE ORGANIZATION (WTO)

- Location: Geneva, Switzerland
- Membership: 164 countries (as of August 15, 2018)
- Afghanistan is the newest member, joining effective 29 July 2016.
- Thailand has been a WTO member since 1 January 1995.

(Sources: https://www.wto.org)

LEVELS OF ECONOMIC INTEGRATION

2. *Regional*
   - Regionalism is an international region can be defined broadly as a limited number of states linked by a geographical relationship and some degree of mutual interdependence (Joseph S. Nye)

LEVELS OF ECONOMIC INTEGRATION

2. *Regional*

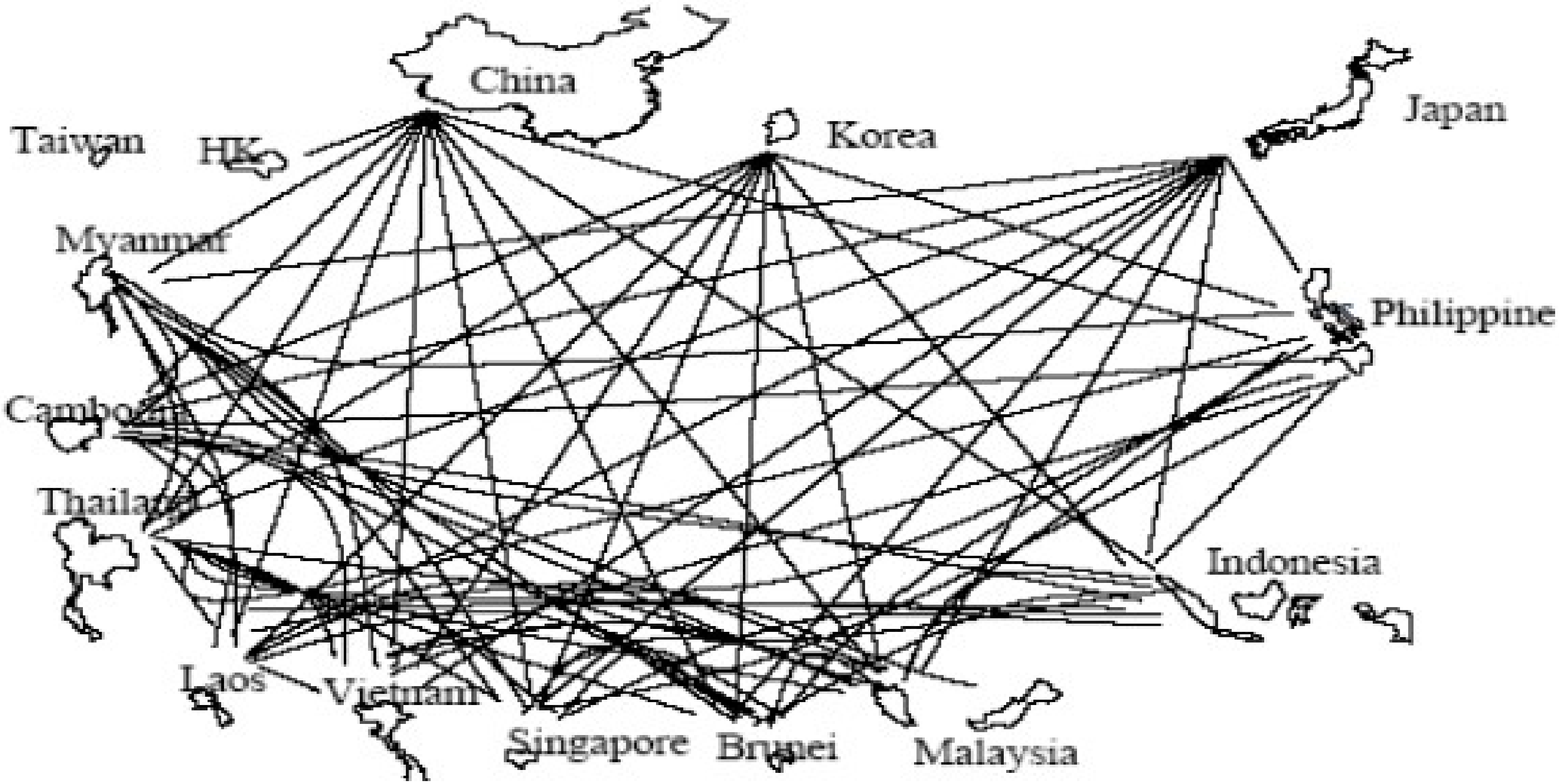
   - Ex. AFTA (the Association of Southeast Asian Nations Free Trade Agreement) was signed in 1992. Thailand signed the Framework Agreement on Enhancing ASEAN Economic Cooperation.
   - The goal of this agreement was to establish an ASEAN Free Trade Agreement (AFTA).
   - The countries now affected by AFTA are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

LEVELS OF ECONOMIC INTEGRATION

3. *Bilateral*

- Preferential treatment between two countries
- Thailand has 23 FTAs.
- Ex. Japan-Thailand Economic Partnership Agreement (Source: https://aric.adb.org/fta-country)

Web of FTAs in East Asia



Source: Baldwin 2006.

FOUR TYPES OF ECONOMIC INTEGRATION

a. **FTA (free trade area)**—free and open trade among members

- no internal tariffs among members, but each country imposes its own external tariffs to the third country.
  - NAFTA (North America Free Trade Agreement) 1994; free trade area among the US, Canada and Mexico.
  - AFTA (ASEAN Free Trade Area)
  - EFTA (European Free Trade Area) 1960, Austria, Denmark, Norway, Sweden, Portugal, Switzerland and UK

FOUR TYPES OF ECONOMIC INTEGRATION

b. **Customs union (CU)**

- no internal tariffs and common external tariffs
- FTA + common external tariffs (CET) on trade with non-members
- Mercosur (Southern Common Market), formed in 1991 by Brazil, Argentina, Paraguay and Uruguay
- CACM (Central American Common Market) 1960, Guatemala, El Salvador, Honduras, Nicaragua
- CARICOM (Caribbean Community and Common Market) 1973, 15 members

FOUR TYPES OF ECONOMIC INTEGRATION

c. Common market (CM)

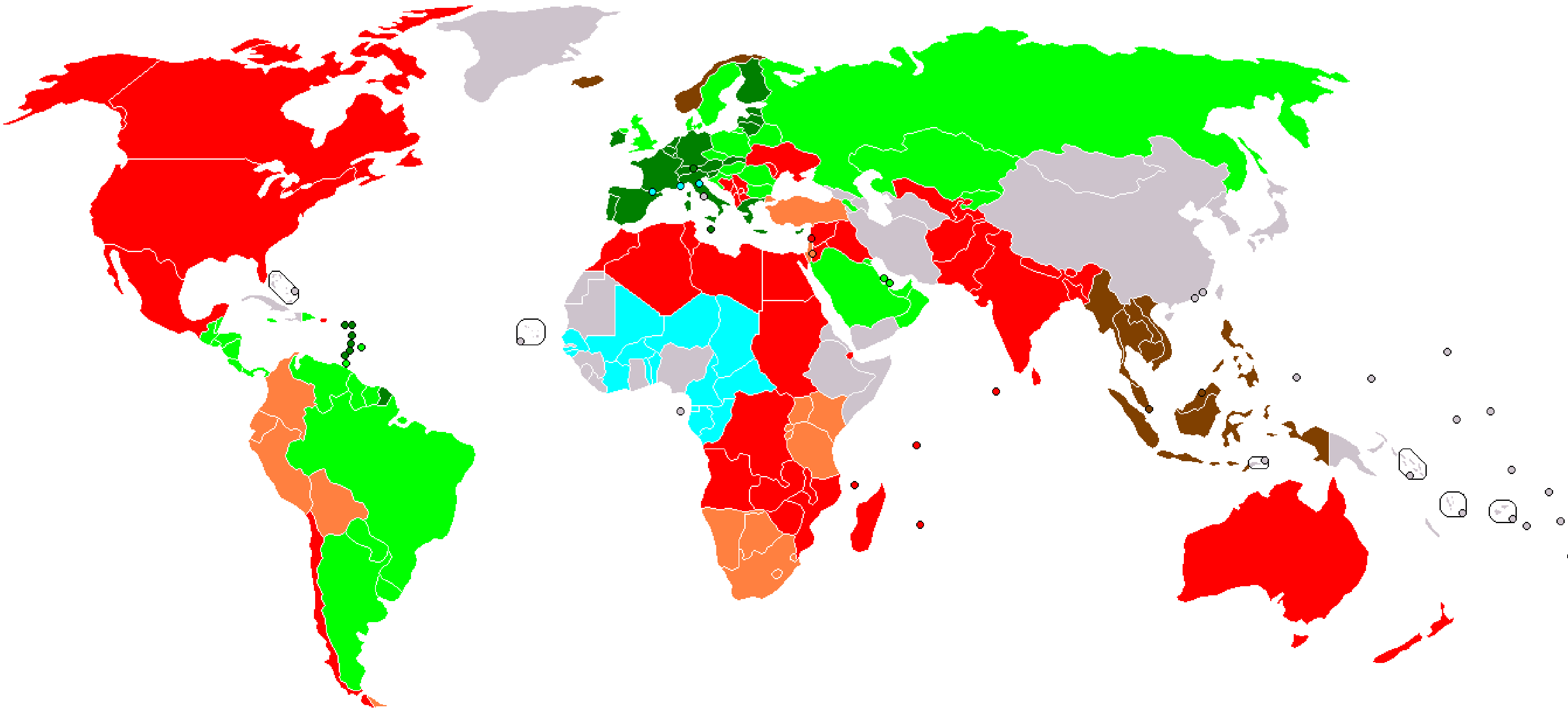
- free movement of products and factors (resources), which is customs union plus factor mobility
- CU + free mobility of factors of production
- ASEAN

d. Economic union (EU)

- common market plus common currency
- coordination of fiscal and monetary policy
- CM + common economic policy
- EU (European Union – previously Euro Econ Community)

SCHEME	Free intra-scheme trade	Common commercial policy	Free factor mobility	Common monetary and fiscal policy	One government
Free trade area	Yes	No	No	No	No
Customs union	Yes	Yes	No	No	No
Common market	Yes	Yes	Yes	No	No
Economic union	Yes	Yes	Yes	Yes	No
Complete economic & political integration	Yes	Yes	Yes	Yes	Yes

STAGES OF ECONOMIC INTEGRATION AROUND THE WORLD



Stages of economic integration around the World (each country colored according to the most integrated form that it participates with): **Economic and monetary union** (CSME/EC$, EU/€, Switzerland–Liechtenstein/CHF) Economic union (CSME, EU, EAEU, MERCOSUR, GCC, SICA) Customs and monetary union (CEMAC/XAF, UEMOA/XOF) Common market (EEA–Switzerland, ASEAN) Customs union (CAN, EAC, EUCU, SACU) Multilateral Free Trade Area (CEFTA, CISFTA, COMESA, EFTA, GAFTA, NAFTA, SAFTA, AANZFTA, PAFTA, SADCFTA) v t e

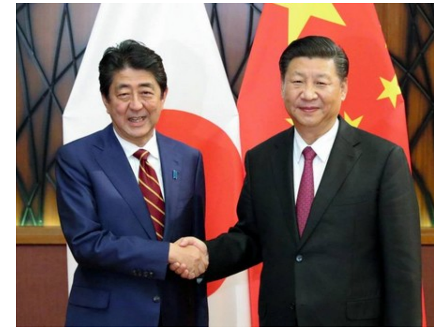
ECONOMIC EFFECTS OF ECONOMIC INTEGRATION

- Static effects: Short-term effects
  - Better use of existing resources
  - Trade creation: production shifts to more efficient member countries from inefficient domestic or outside countries.
    - Specialization, comparative advantage

ECONOMIC EFFECTS OF ECONOMIC INTEGRATION

- Dynamic effects: Long-term effects
  - Cost reduction due to economies of scale
  - Cost reduction due to increased competition.
  - Both producers and consumers benefit from more efficient allocation of resources as a result of integration

The Asia-Pacific Economic Cooperation (APEC) leaders' summit in the central Vietnamese city of Danang on November 11, 2017



Economic integration is beyond

"a visible handshake".


HAPPY
FRIDAY
HAVE A
GREAT
WEEKEND