



Imagined ASEAN Community: Reflections from Above and Below

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Imagined ASEAN Economic Community

AEC:

What we imagine it to be



AEC:

What it actually is



Themes for today

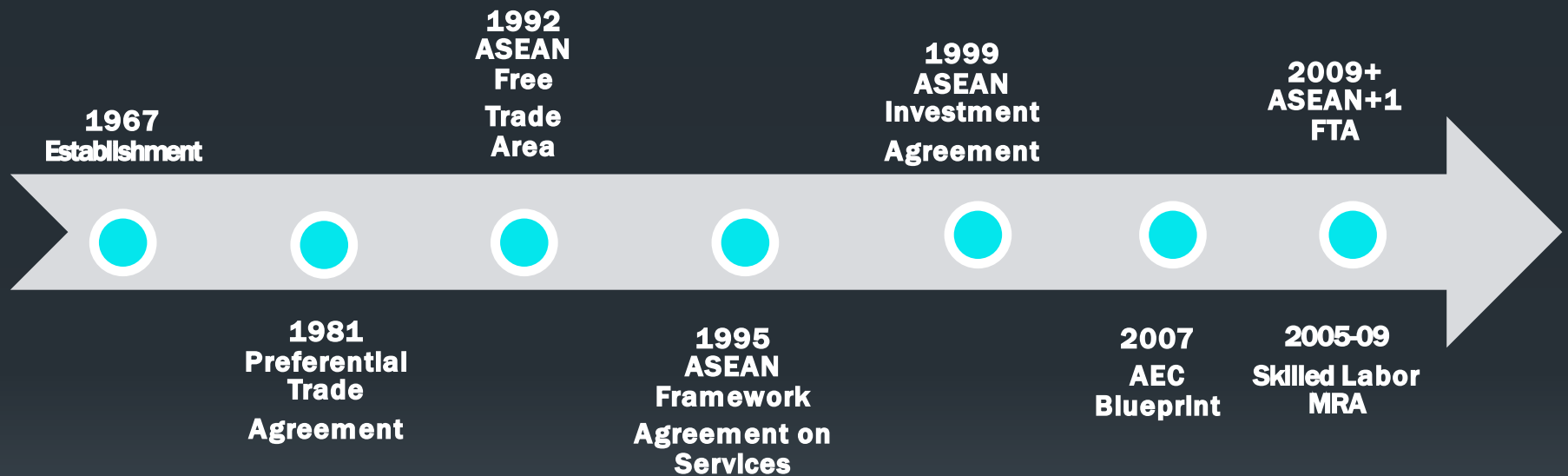
I. AEC From Above

“Imagined” integration through international agreements

II. AEC From Below

Real-life integration through cross-border activities

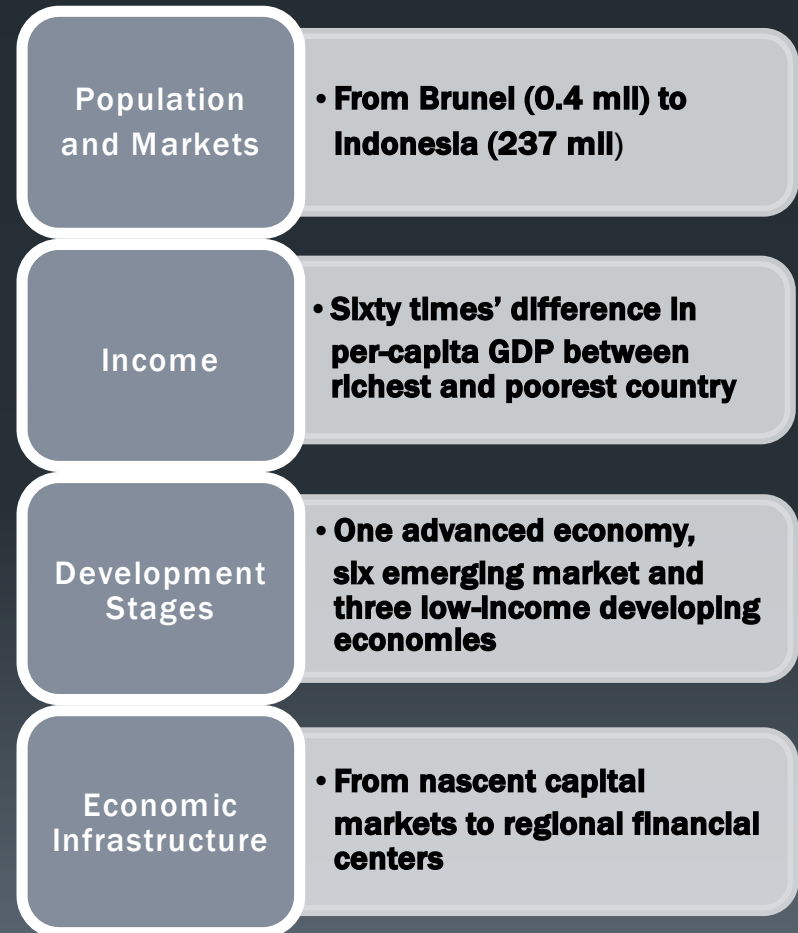
Intro: ASEAN Economic Community



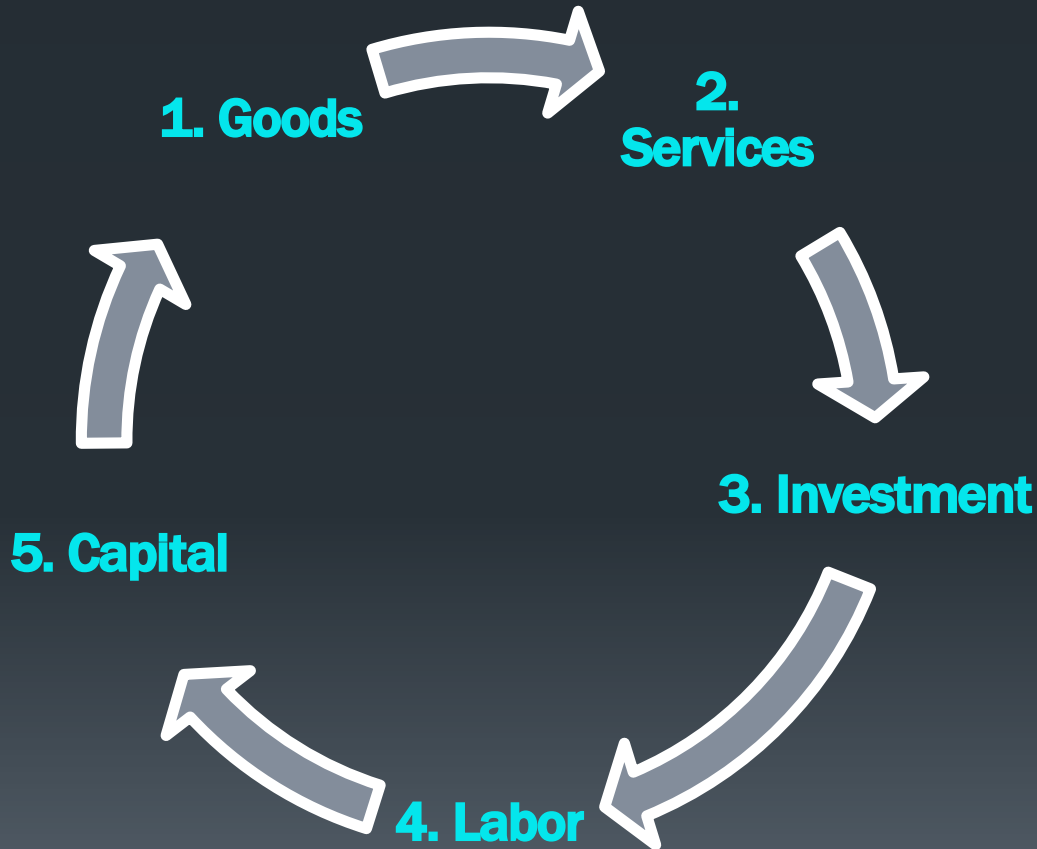
Intro: ASEAN Economic Community

- The AEC is a work in process, moving in “baby steps”.
- Loose and flexible integration due to diversity

ASEAN: Most diverse economic grouping



Five Areas of ASEAN Integration



1. Goods

Tariffs eliminated for ASEAN5, underway for CLMV...

Goal: eliminate tariffs for ASEAN-6 in 2010 and for CLMV in 2015 except for a very few sensitive items

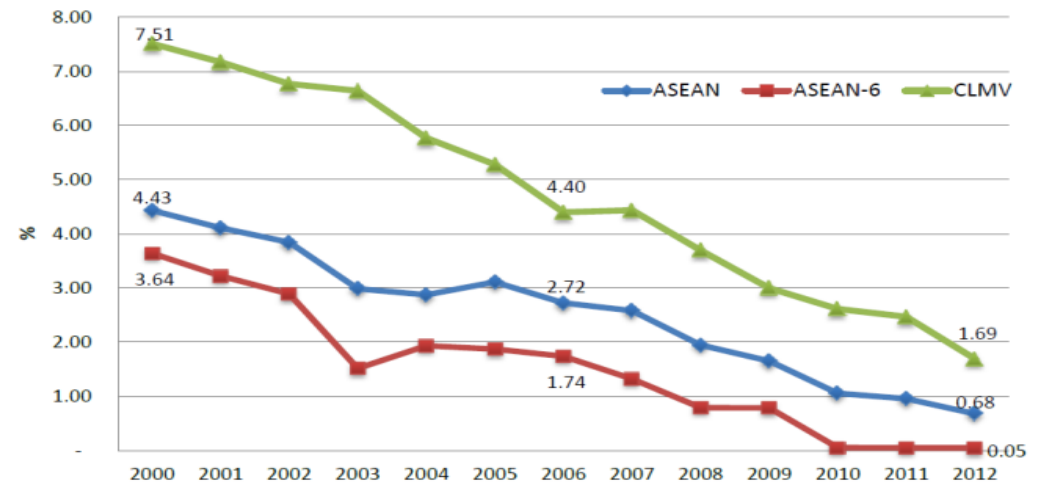
Tariff reductions

	2010	2015
ASEAN6	0%	
CLMV		0%

ASEAN Economic Community Blueprint (2007)

Tariff reductions progressing as planned

Figure 1.8: Average CEPT Rates in ASEAN Countries: 2000-2012



Source: ASEAN Tariff Database 2013

ERIA (2014) ASEAN Rising and UNCTAD/ESCAP (2013) Addressing Non-tariff Measures in ASEAN, TDR1 (2554)

1. Goods

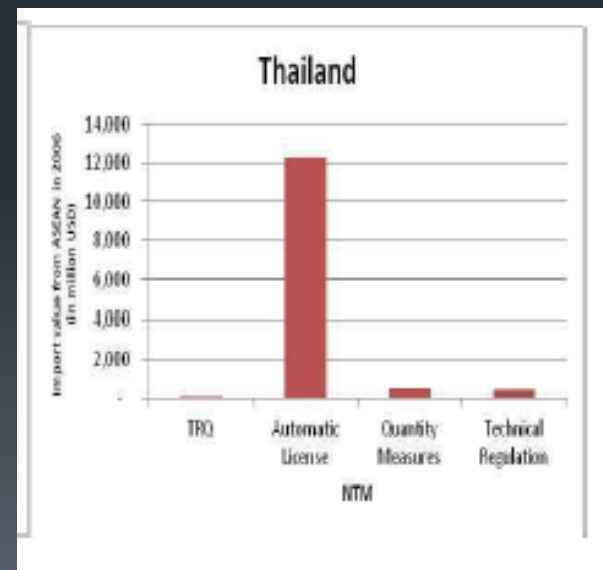
...but non-tariff barriers remain important obstacles.

Goal: Eliminate non-tariff barriers such as quotas, or any measure which restrict trade

- Not much progress in eliminating NTBs.
- Used in place of tariffs!
- NTBs scattered across countries' laws and regulations

Round 1	Round 2	Round 3
Remove by 1 Jan 2008	Remove by 1 Jan 2009	ASEAN 5 : Remove by 1 Jan 2010
		Philippines : Remove by 1 Jan 2012
		CLMV : Remove by 1 Jan 2015

Affected intra-ASEAN trade value by NTM



1. Goods

Trade facilitation done through logistics networks.

9

- Logistical advantages for peninsular ASEAN
- Island countries face enormous costs

Shipping costs for 20ft container



Sources: World Bank Indonesia (2013), Profreight (2012), NEDA (2013)

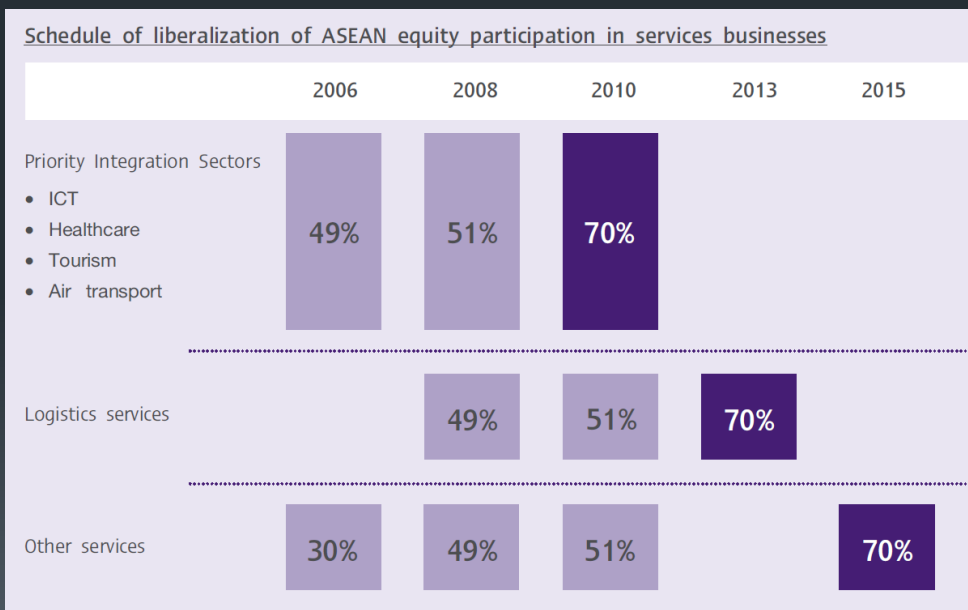
ASEAN Connectivity



2. Services/Investment

ASEAN's (overly) ambitious liberalization goals...

Goal: Gradual relaxation of ASEAN foreign ownership in services according to schedule



2. Services

...which lead to slow progress

Committed ASEAN shareholding in selected services

Services Subsector	Goal 2013	THA 	IDN 	MAL 	PHI 	SIN 
IT (Mobile Phone Services)	70	49	49	70	40	74
Health (Hospital Services)	70	49	70	70	40	51
Tourism (Hotel Services)	70	49	50	70	40	100
Logistics (Freight Services)	70	49	49	51	40	100

•Not much progress in services integration—even in Priority Integration Sectors which are supposed to be liberalized before other sectors

Source: ASEAN Framework Agreement on Services—8th Package (2010)

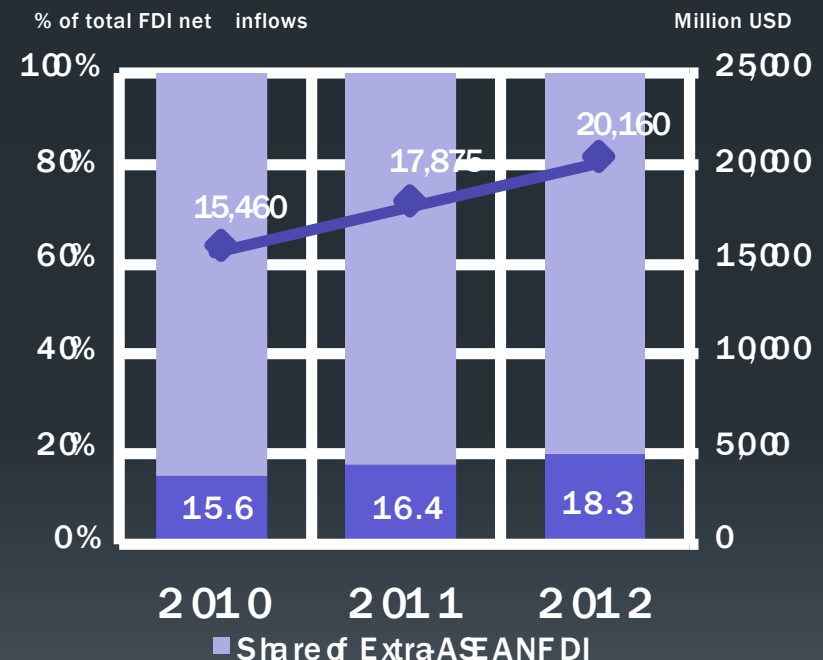
3. Investment

Only up to domestic laws, most of it comes from abroad

- Members liberalize only to the extent their domestic laws, e.g. Thailand's Foreign Businesses Act which prohibits or restricts foreigners to invest in land acquisition, farming, etc.

- Other countries reserve their own sensitive sectors e.g. oil/gas production for Malaysia/Brunei/Indonesia

Intra- and extra-ASEAN net foreign direct investment flows



- But: Intra-ASEAN FDI, while rising, is still low compared with FDI from outside ASEAN (e.g. Japan)

4. Labor

Shallow commitments in skilled professional labor...

- Mutual Recognition Arrangements (MRAs) signed for 8 professions (medical practitioners, dentists, architects, surveyors, tourism professionals)

ASEAN MUTUAL RECOGNITION ARRANGEMENT ON TOURISM PROFESSIONALS

ARTICLE III RECOGNITION AND ELIGIBILITY OF FOREIGN TOURISM PROFESSIONALS

The qualification of a Foreign Tourism Professional may be recognised by other ASEAN Member States, and if such qualification is recognised, he/she may be eligible to work in a host country provided that he/she possesses a valid tourism competency certificate in a specific tourism job title as specified in the ACCSTP, issued by the TPCB in an ASEAN Member State. The eligibility to work in a host country will be subjected to prevailing domestic laws and regulations of the host country.

4. Labor

...though most labor movements are non-skilled or semi-skilled

Foreign Labor in Thailand

1,430,000+

Number of ASEAN labor
force in Thailand

=92%
of the foreign labor force
in Thailand

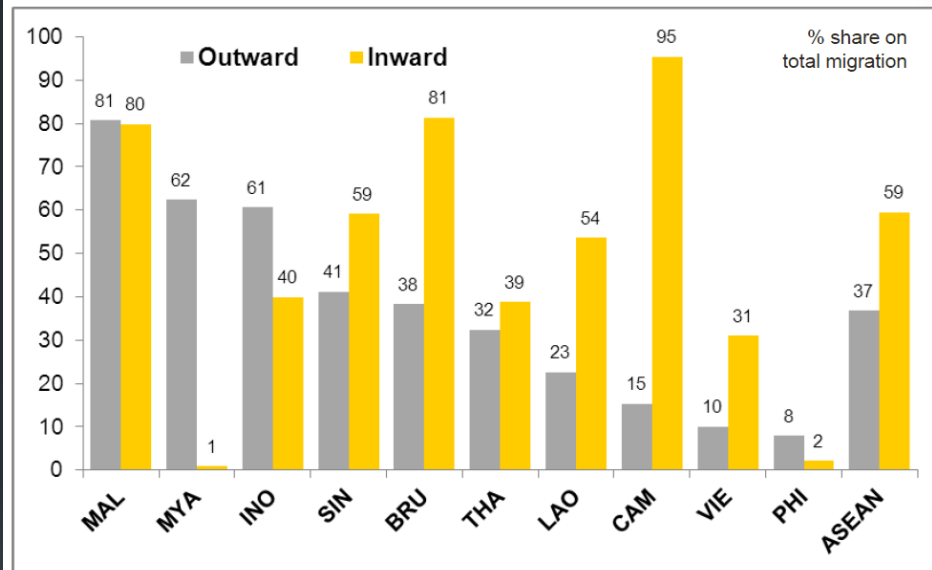
=3.6%
of the Thai labor force

390

Number of ASEAN Labor force in
MRA professions

Source Office of Foreign Labor Statistics

Intra-regional migration in ASEAN in 2010

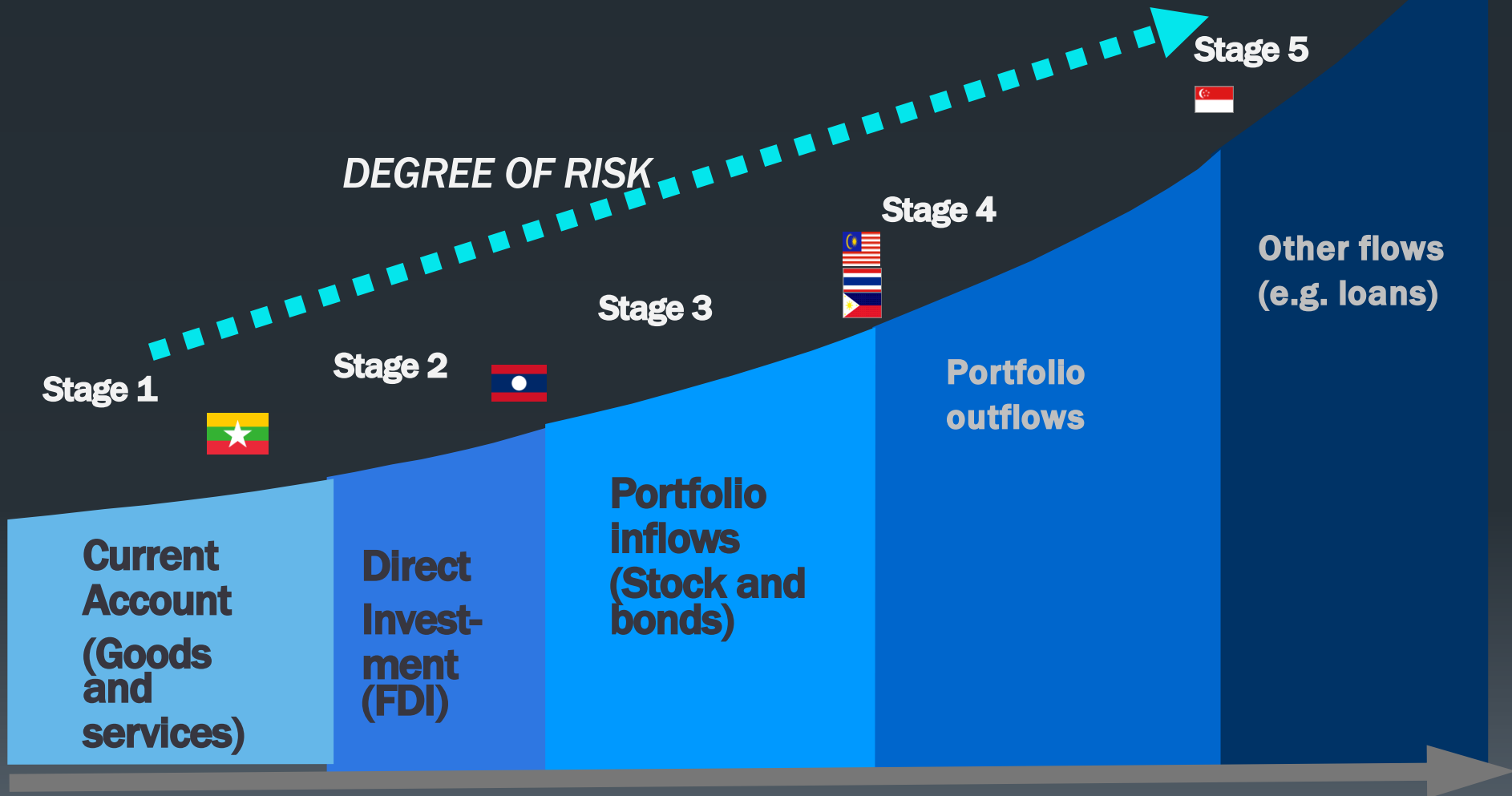


Source: Gloria O. Pasadilla (2011). Social Security and Labor Migration in ASEAN.
ADB Research Policy Brief 34

Capanelli (ADBI) (2013)

5. Capital:

“Freer” flows because members are at different stages of liberalization but no plans for a single currency



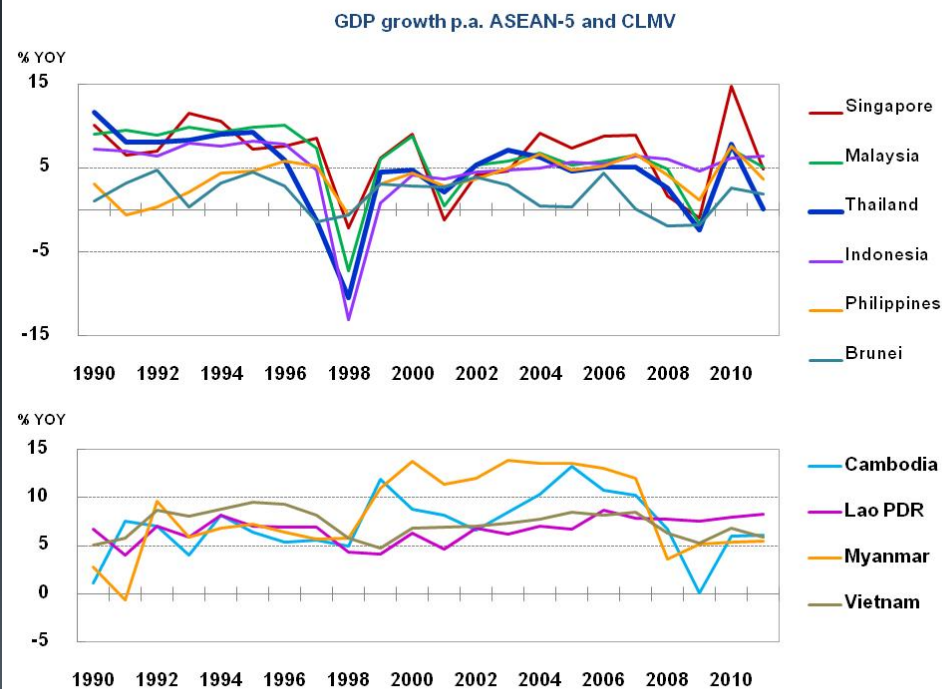
5. Common Currency in ASEAN?

- ASEAN does not currently fulfill optimum currency area conditions

“Optimum currency area” conditions:

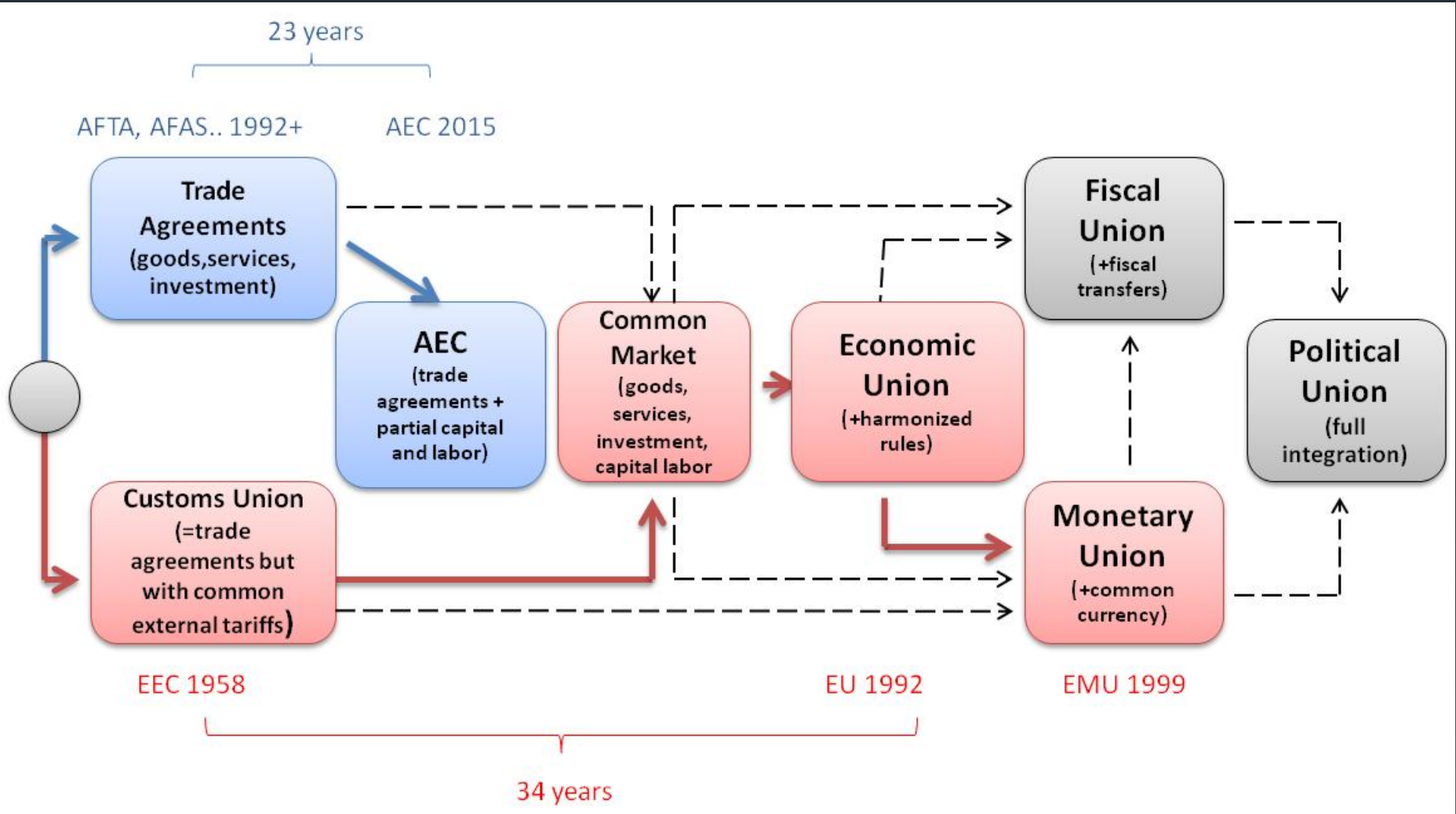
- Free movement of capital
- Free movement of labor
- Fiscal transfers
- Synchronized business cycles

Mundell, “A Theory of Optimum Currency Areas”, 1961



Source: International Monetary Fund, World Economic Outlook Database, April 2012

AEC and EU: Different Paths of Integration



Themes for today

- I. **AEC From Above**
“Imagined” integration through international agreements
- II. **AEC From Below**
Real-life integration through cross-border activities

1. Cross-border trade in goods

International
Trade

Border Trade

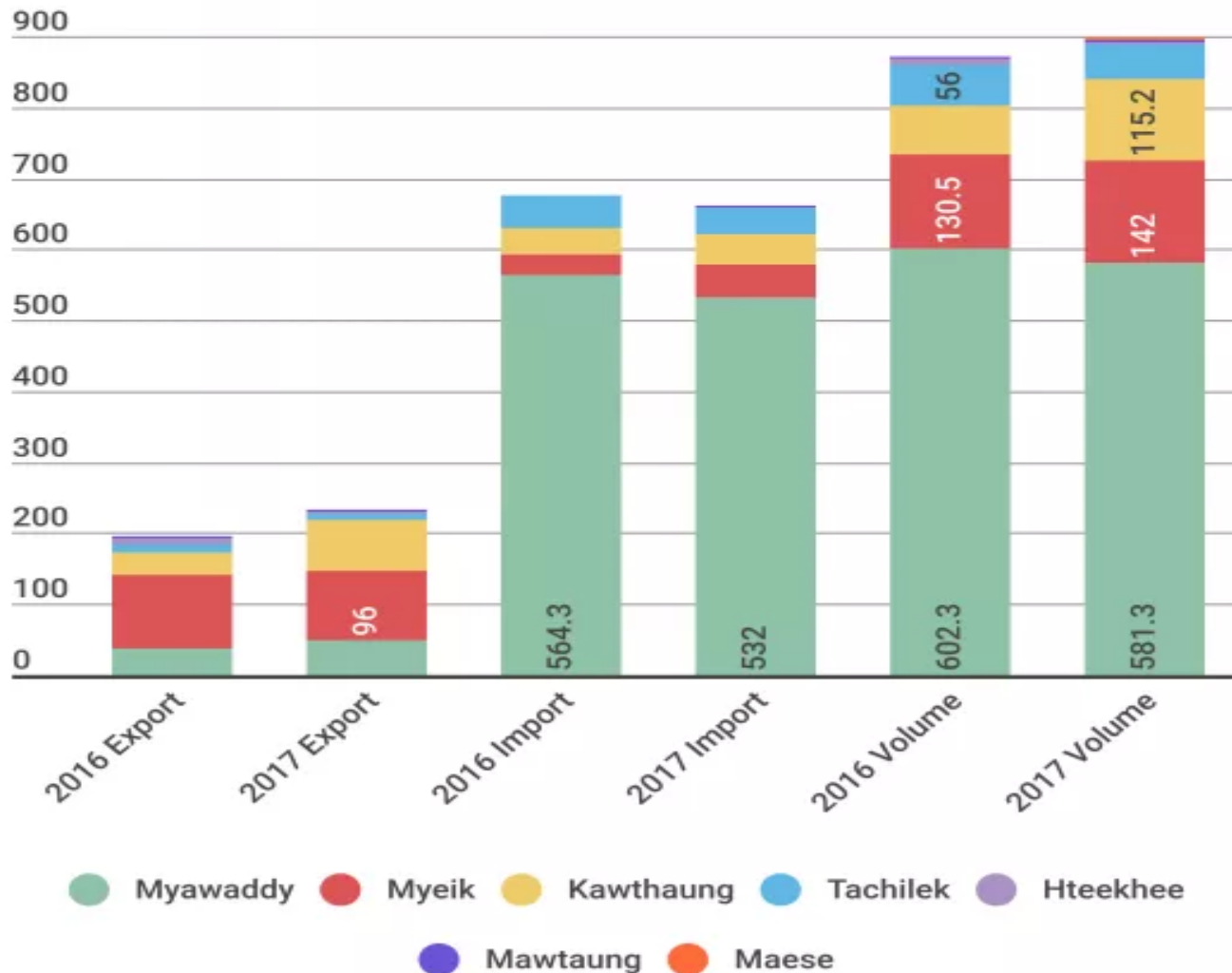
Informal
Border Trade

- What is being traded?
- Who are buyers and sellers?
- What is the final destination:?
- What are the barriers to trade?



1. How much is being traded?

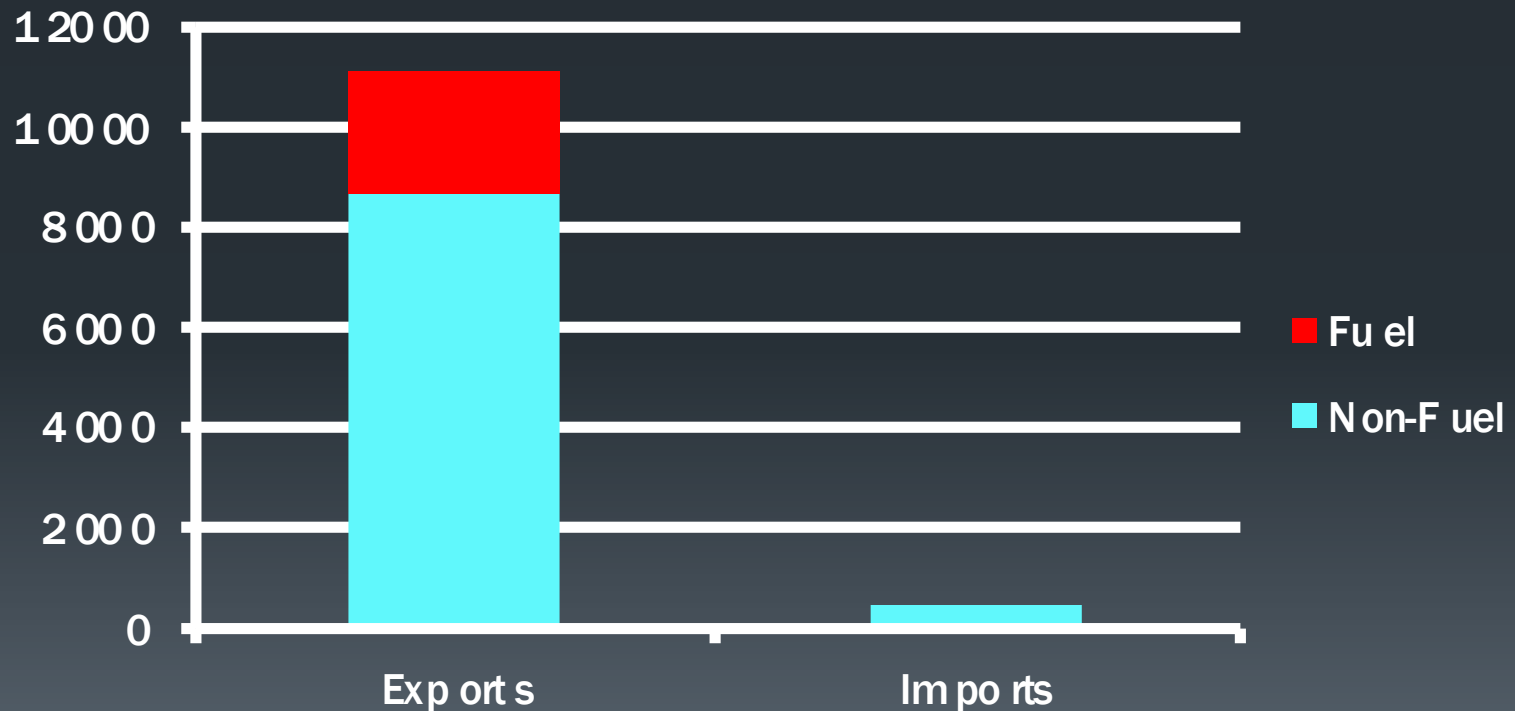
Thai-Myanmar Border Trade



1. How much is being traded?

Mae Sai-Tachilek Border Trade

Million baht

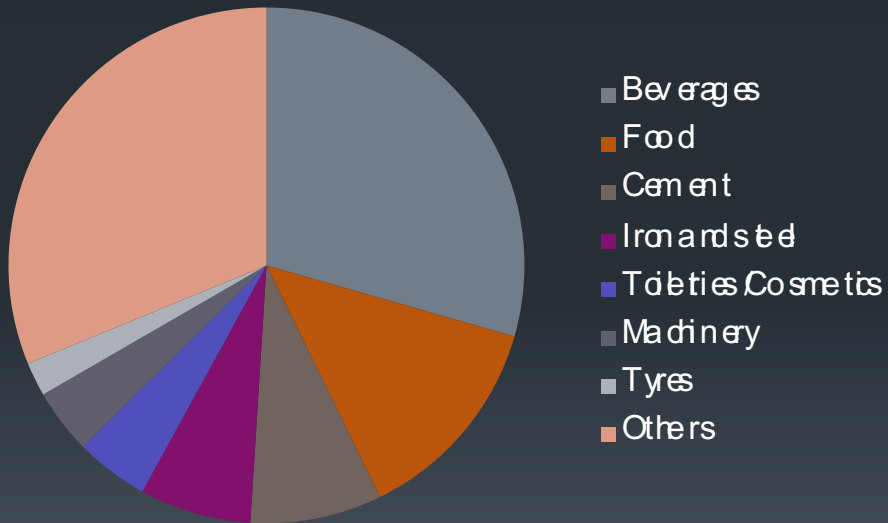


Source: Dept of Foreign Trade, 2015

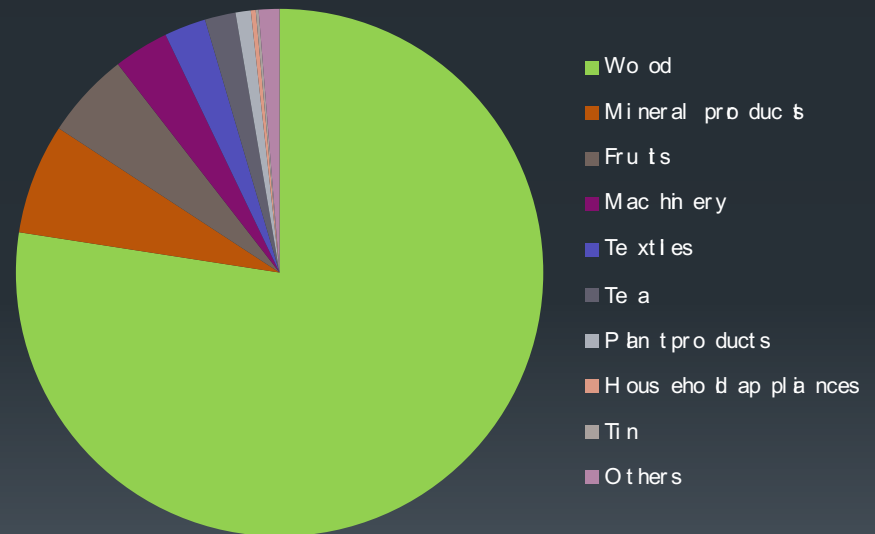
1. What is being traded?

Mae Sai-Tachilek Border Trade

Non-Fuel Exports



Non-Fuel Imports



Source: Customs Department

- What's not captured?

Goods: Where are the goods headed to?

Direct: Border
area consumption
Intermediate
domestic: Inland
Myanmar
Transit: Southern
China



Goods: What are barriers to trade?



1. **Tariffs: Thai side—eliminated since 2010**
Myanmar side—almost zero
2. **Non-tariff barriers: Fees collected by checkpoints**
3. **Facilitation/Logistics: Conditions of roads**

2. / 3. Services and Investment

- Who are the service providers?
- What are the key investments in the border area?
- What services/investments are available on only one side of the border?



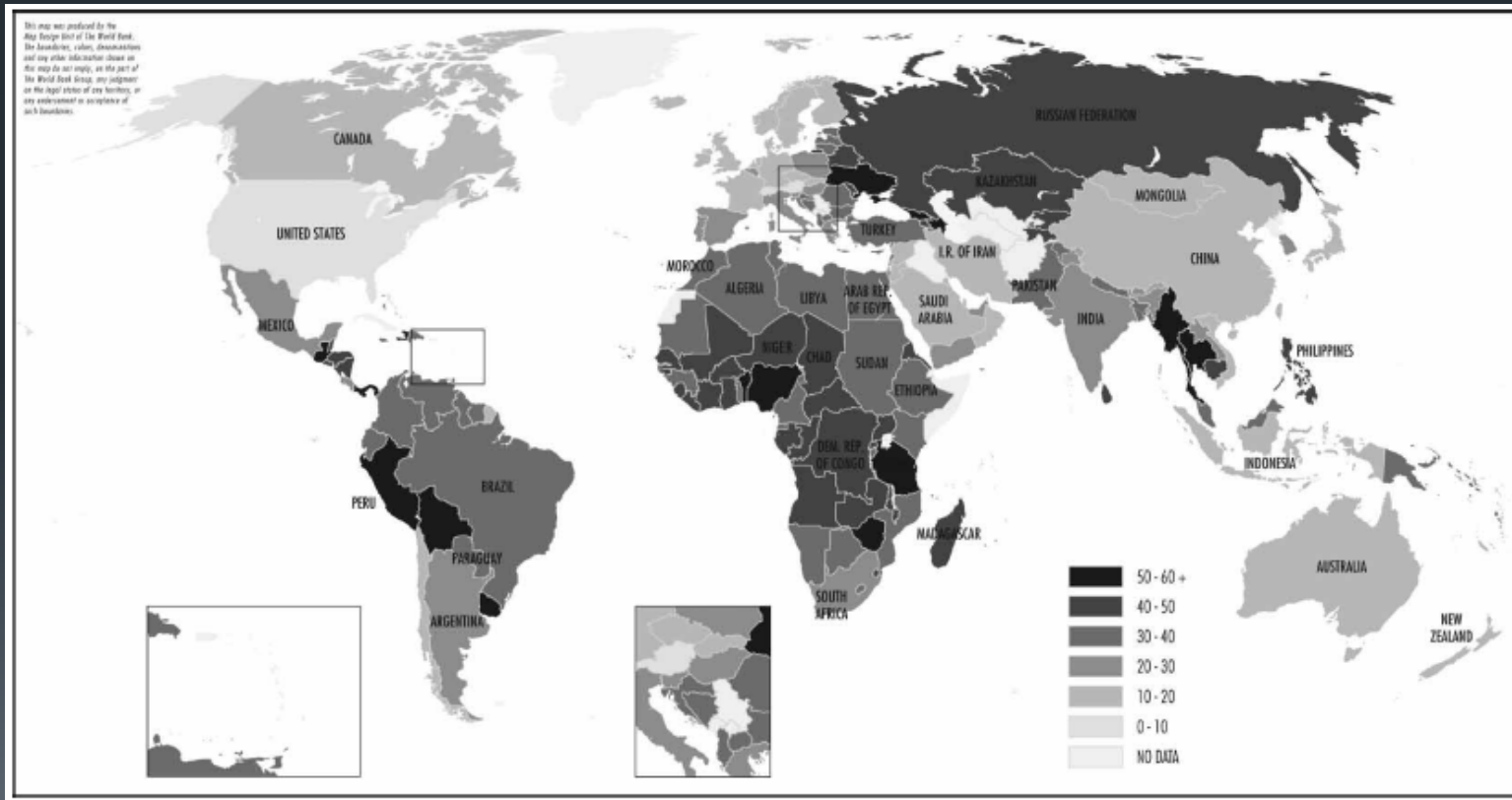
Kings Roman Casino, Lao PDR

Shades of Gray in Shadow Economies

Formal

Informal/
Gray

Illegal/
Black

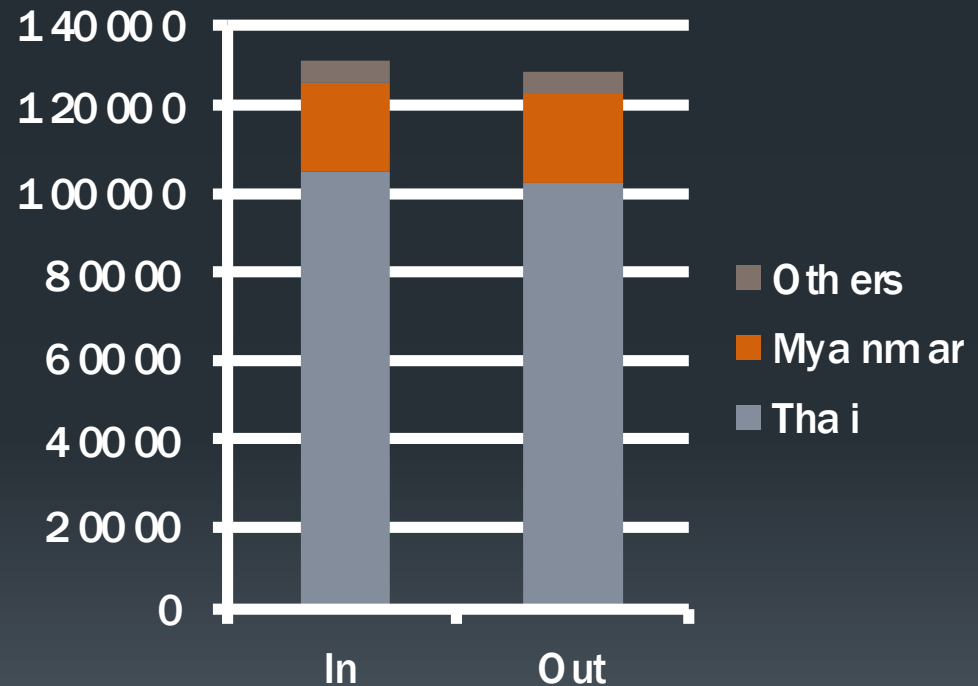


Schneider et al. (2010): New Estimates for the Shadow Economies all over the World, *Intl Econ Journal*

4. Movements of people

- What kind of movements of people take place across borders? Tourists? Workers?
- Skilled/unskilled? Day workers? Migrants?
- Immigration?
- Requirements and restrictions for crossing the border?

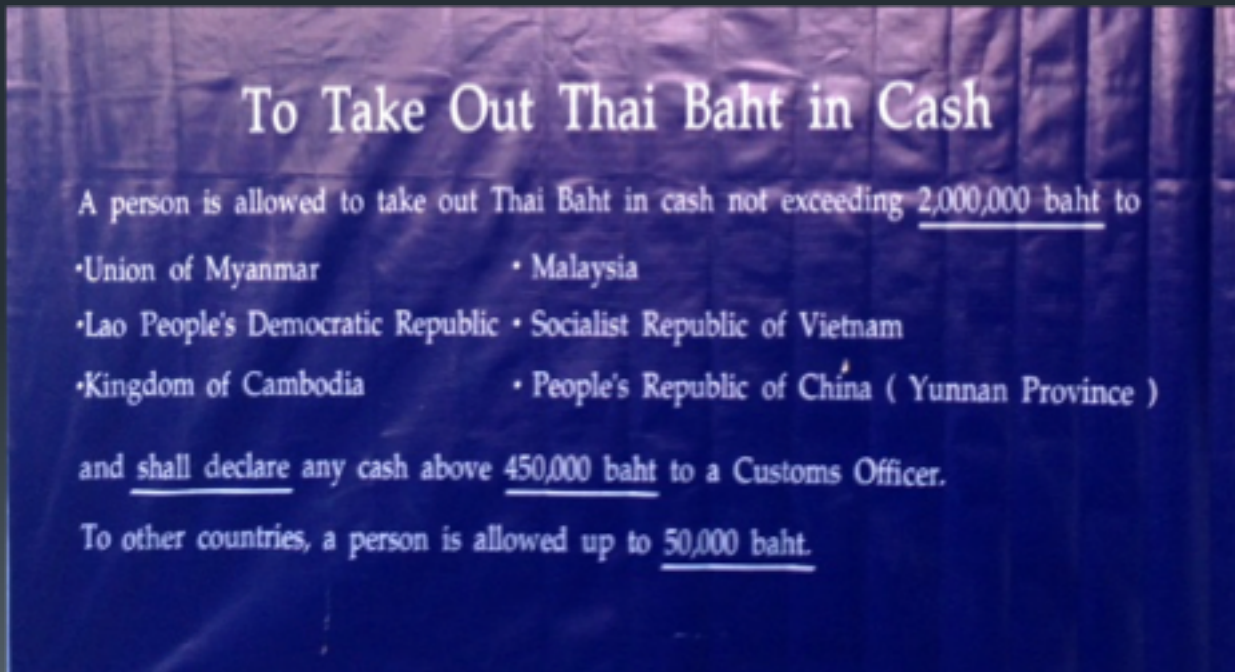
Mae Sai-Tachilek Border Crossings



5. Movements of Capital

-Which currencies are used for trade?

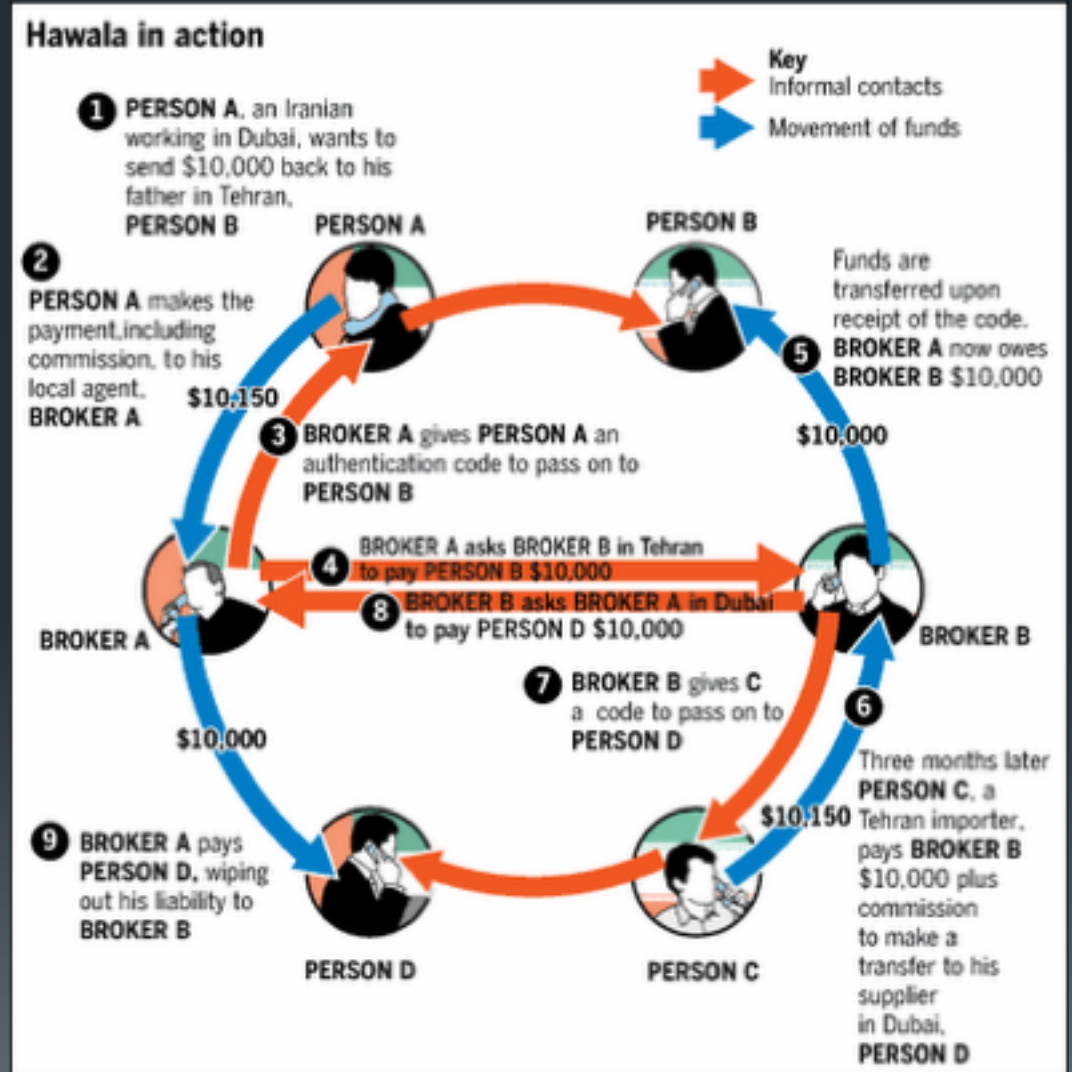
-What are the restrictions on in- and outflows of capital?



Capital Flow Measures, Sign at Mae Sai-Tachilek Border

5. Movements of Capital

-How are funds transferred?
- Informal system:
Hawala/Poy Guan



Issues for Discussion/Field Work

- 1. Observe cross-border activities in the context of the AEC. What are the key differences between AEC “from above” and AEC “from below”**
- 2. Examine real-life economic activities along the border in the context of shadow economies**
- 3. Discuss longer-term implications of cross-border activities on longer-term issues such as development, sustainability etc.**