

ASEAN Economic Integration in Theory and Practice

In any economic activity, you have to think of the 4 freedoms of economic integration: free movements of goods, labour, capital and services and investment. The extent of having free movements of each of factors of production means that the more freedom you have, the more integration you have.

For the level of economic integration, in first place we start at the freetrade level. It is the easiest level and ASEAN is in this level which is low complexity and low level of integration. Next level, customs union, you have common external tariffs. For free trade, the external tariff can be set by an individual country but for customs union is set by the whole union group. For example, France or Germany set an external tariff for its country, it has to use the EU tariff. Common market is the next level. This means that the factors of production are move freely between members. The EU was at this level before 1992. The fourth level is economic union. You have a common currency with harmonized tax rates. This one is the EU right now and the common currency is Euro. Next level is the political union. This level you have the common government such as the US.

ASEAN has 5 members: Thailand, Singapore, Indonesia, Malaysia and Philippines and was established in 1967. Pillars of the ASEAN economic community, Pillar I is the most important pillar in the AEC where you have a single market and production base. It can be separated into 5 categories. The first one is goods, there are 3 key important issues which are tariffs, trade facilitation and trade with non ASEAN partners. For the second and third are services and investment. Liberalisation of services is very uneven. Foreigners can hold a maximum 49% and Thai has to own at least 51%. Investment liberalisation within ASEAN is also uneven. Intra ASEAN services and investment a fraction of the total. The intra ASEAN services is about 16% and intra ASEAN FDI is about 18%. The next one is labor. Only facilitation of 8 skilled professionals: doctors, dentists, nurses, architects, surveyors, accountants and tourism professionals, but they still need to comply with domestic entry regulations. If you are from one of the ASEAN countries, you are free to apply for a doctor license in Thailand but you have to pass the exam with the thai language. Most migrant workers within ASEAN are non professionals, whose remittance total up to 5% of GDP. But professionals account for only a minuscule share of labour movements. The last one is capital. Freer flows of capital implies gradual capital account liberalisation corresponding with members' different capital account regimes. When we do capital in ASEAN, we divide up the capital account. The balance of payment is the current account plus capital account. Current account is the movement of funds for goods and services and this is the step one of the liberalisation phase. Step two is the direct investment. It is the funds that flow into such as building factories and building firms. The next step is the portfolio, we try to separate between the inflows and outflows. Next, the most riskiest is the cross border loans. It is the riskiest because in the past, we opened up the part of the capital account. It has made thai investors borrow loans from abroad and invest them locally which has

a higher return. The interest rate that we borrowed was like 3% and the interest rate that has been charged in Thailand was around 15%. The fund came into real estate and into the stock market which led to a crisis in 1997.

Cross border trade in goods, the first one is the international trade, trading with non domestic. The subset of the international trade would be border trade for example carrying goods across borders. It can be separated into formal and informal border trade. If your goods are not counted by the custom official, that is informal. Products that Thailand border mainly exports to Lao are agricultural products and industrial products. Products that the Thailand border mainly imports from Lao is electricity. The barriers to trade are tariffs, non tariff barriers and facilitation. Services and investment, you also see the different things from your country when you cross the border such as the casino. This is because they know that gambling is illegal in Thailand and the border is the closest place from Thailand and casinos can attract thai people. For the payment, the cost of a domestic bank transfer is about 1 USD in 2015 but the cost of a cross border bank remittance transfer is about 18% of the total amount transfered. The cost of cash management is 155 million USD in 2018. Cross border payments and remittances projects, Thailand set to kick off cross border payment via QR code technology in ASEAN by mid year, aiming to enhance financial transactions through the digital platform across the region.

Covid19, Labour and CLMVT

The differences of the impact between covid19 and the other crisis in the past are the process and the size, speed and shape. The process, covid19, the economic downturn caused by the lockdown from the disease problem and then affect the supply and demand in the market respectively. On the other hand, other crisis such as the hamburger crisis, it happened first in the financial market. So, it actually affect the demand side first and then lead to great depression. Secondly, covid19 effect is much bigger than other crisis. The effect is also deeper and faster drop in economic activity. But the similarity from both is the reaction from the government for example monetary and fiscal policies.

Impact on thai economy from the covid19 pandemic, the GDP growth forecast -5%, interest rate 0.5% and unemployment rates forecast 12 million people. For the estimated drop in aggregate working hours, in the 1st quarter of 2020, we see the losses in working hours 4.5% or 130 million people full time job loss. It will be even worse in the 2nd quarter of 2020 which is about 10.5% losses in working hours or 305 million people full time job loss. When you look at the income group countries, you will see that the upper middle income countries are the most affected and they lose 8.6% of working hours in the 1st quarter. This is because the covid19 happened first in China which is an upper middle income country. But for the 2nd quarter, the disease spread to many countries and the situation became worse. So, in this period, we start to see the lower middle income countries lose 12.5% of the working hours. If we look at the regional group, you will see that Asea and the Pacific are the most affected, 6.5% losses in working hours in the 1st quarter. For the 2nd quarter, Americas, Europe and Central Asia are the greatest losses in terms of working hours. The impacts of earning, especially in the informal sector, people who work in the informal sector will not receive any benefit from the social security fund if they lose their jobs or incomes from the crisis. This is because they did not register in the social security system and did not pay the tax. The median earnings of informal workers pre covid19 would be about 900 but after covid19 would be about 350 which is about 60% reduction. Income group, the lower middle and low income countries earning drop by 82%.

The unemployment in Thailand, the most updated data is in March 2020 and the rate is about 1% which is very low. Thailand is one of the lowest unemployment rate in the world. But in April and the next month, the rate might increase. The number of people who applied for unemployment benefits is about 1.7 million people. This is only the workers who are under the social security system. So, we do not count the informal economy workers. For the IT jobs, IT available jobs declined 3 times from the beginning of March to June. For IT jobs application rose by 2 times. For new graduates, new jobs opening will be limited which means it is going to be harder to find a job. There is a higher jobless graduates in 2020 if we compared with 2019.

The workers are not affected equally by covid19 and it depends on the industries that they are working in. For example, people who work in the accommodation and food services, wholesales and retail trade, manufacturing and business and administrative sectors are highly affected. Informal workers are 62% of total employment and 47% are significantly impacted by covid19. So, informal workers are highly hit from the current pandemic and Thai government helps them by subsidizing 5,000 Baht/month for 3 months. For relative poverty, it defines the proportion of workers with earnings fall below 50% of the median earnings in the population. The poverty at the global level increases from before covid19, 26% to the first month of the crisis, 59%.

In order to categorize the worker into 4 types, using 2 indexes. The first index is the work location index flexibility. If you can work from home for example teacher and researcher, you have a high work location flexibility. Second one is physical proximity. If your job requires contact with people such as dentists and guided tours then you are highly affected. For migrant workers, most of them are laid off from these crisis and do not get any help from Thai government.

Gig is a job that lasts a certain period of time, often the life of a project or as long as the company has that specific need. Gig workers enter into formal agreements with on demand companies to provide services to the company's clients. Gig population is about 30% of the total workforce in Thailand. The perks of being a gig worker are take your own time, go where passion takes you and choose any jobs you want. The bad side of the gig work would be the protection or security. Also, if gig workers sick, then they will not get any money but working in the company, they will still receive.

Government policy, I suggest the government to provide universal basic income to everyone to help them from the current pandemic instead of giving 5,000 baht/month to some group of people as the current policy. The government also should try to include the gig workers into our social security system but they have to pay some tax like formal workers.

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