

ASEAN: Problems of Regional Integration

ASEAN: Problemas de integración regional

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ABSTRACT:

This research paper is devoted to the ASEAN Economic Community and its problems of regional integration. It has been considered objectives of the AEC. It has been analyzed the current situation of each member countries, defining peculiarities for each of them. It has been identified weak and strong sides of the AEC, as well as threats and opportunities based on the 2008-2017 period, in order to determine the causes of problems slowdown the regional integration, and what countermeasures can be implemented.

Keywords: ASEAN, AEC, integration, problems.

RESUMEN:

Este artículo de investigación está dedicado a la Comunidad Económica de ASEAN y sus problemas de integración regional. Se ha considerado objetivos de la AEC. Se ha analizado la situación actual de cada país miembro, definiendo peculiaridades para cada uno de ellos. Se han identificado lados débiles y fuertes de la AEC, así como amenazas y oportunidades basadas en el período 2008-2017, con el fin de determinar las causas de los problemas que retrasan la integración regional, y qué contramedidas pueden implementarse.

Palabras clave: ASEAN, AEC, integración, problemas

1. Introduction

The integration of ASEAN and ASEAN Economic Communities (AEC) has made it the largest market among the major blocs in terms population and became significantly attractive as the investment destination for the foreign investors. Objectives of the integration was to accelerate the economic growth and the trade development for the sustained prosperity in the region and also to enhance competitiveness of the region through the free flow of goods, free flow of services in form of tax relief, and free flow of skilled labors and capital. 10 member countries which are Thailand, Malaysia, Brunei Darussalam, Vietnam, Cambodia, Indonesia, Laos, Myanmar, Philippines, and Singapore agreed to establish ASEAN Economic Communication by 2015. Labor forces were expected to move across the third-largest labor force region. After integration, However, due to the different level of development in ASEAN such as the literacy level, skills of each member countries which directly related to the job quality, cultural differences, has made many implementations behind the schedule and the integration is required to be flexible towards a more integrated (The ASEAN secretariat, 2008). In this research, the information about ASEAN and AEC will be collected in order to understand more about the objectives, the core element, and the benefits of AEC, including the current situation of each member countries in order to understand and analyze more on the current problems or issues they are facing, Causes or the obstacles that slowdown the regional integration will be determined together with the countermeasures that have been implemented in order to respond to the challenges, ease or eliminate those difficulties and obstacles and accelerate the outcomes.

2. Literature review

ASEAN Economic Communities or AEC was established in 2015 by 10 member countries. The core 10 economic communities in Southeast Asia were integrated in order to promote ASEAN competitiveness internationally and to generate huge opportunities and accelerate the economic growth in the region (Ramlrez & Pooittiwong, 2016). After the integration, it became the largest labor market among the major blocs in the world in terms of population that over 622 million, followed by 515 million population for EU, 478 million population for NAFTA and 295 million population for MERCOSUR (rosalienebacchus.com, 2017). This integration had significant impact on Asian economic growth, country's and human capital competitiveness in conditions of globalization (Onyusheva, 2017). The AEC economies have grown faster than any other countries in ASIAN except China (Low, 2016). The five core principles of AEC which are single market and production base, competitive economic region, equitable economic development, and integration into the global economy are the major goals of this integration (The ASEAN secretariat, 2008). However, there are many challenges to overcome. Even almost 99% of tariff lines were reduced to zero between member countries, the free flow of goods is still hindered by the non-tariff measures (Tangkitvanich & Rattanakhmfu, 2017). There are limitations to achieve in the economic integration process due to insufficient knowledge and experiences, lack of foreign language skills or other required skills (Nhan Dan Online, 2017). Even one of the core element for AEC is the free flow of skilled labors, many professionals have limited interest to transfer in the region due to the cultural differences (Papademetriou, Mendoza, Salant, & Sugiyarto, 2016; Szczepańska-Woszczyna, 2014). The labor restriction is also one of the obstacle and many multinational companies do not believe that this problem will be resolve in the future (KPMG International Cooperative, 2015). Most of small and medium-size enterprises do not pay attention much on the integration of AEC, while most of large companies proactively have prepared (Ngoc, 2015). The huge obstacles to the achievement of AEC blueprint goals are non-tariff barriers which maintain a strong presence in the ASEAN region. The world economic forum mentioned that reducing NTBs would have larger benefits than the tariff elimination (Asian Trade Centre, 2016).

3. The research problems, goal and objectives

Even the ASEAN and AEC regional integration was already established and generated growth and opportunities to the region, competitiveness of the region has been strengthened. There are still many work in progress that behind schedule. Even the integration was approach to promote free flow of goods through no tariff barriers, non-tariff measures were issued in order to protect the interest of local interest.

The *research problems* concern the causes that slowdown the outcome of the regional integration, as well as factors that generated of these causes.

The *research goal* is to study problems of ASEAN regional integration, analyze current state of ASEAN and find possible solutions to solve the problems based on understanding the current situation and problems of ASEAN and AEC.

The *research objectives* are as followings:

- to explore the facts about the current situation of ASEAN and AEC;
- to analyze the current situation in ASEAN that affect or related to the relationship of the causes and issues;
- to find possible solutions or countermeasures that government of each member countries implemented to ease or to eliminate the causes that slowdown the integration.

4. The research methods

The research findings are based on the theoretical background and collecting data analysis in order to consider the current situation and find out what affects the delay of progress and outcome of the integration and the causes of ASEAN problems and the countermeasures or solutions. Key methods of the research are comparative and systematic analyses, SWOT, methods of statistical grouping, and expert assessment.

5. Key research findings

ASEAN Economic Community was established in 2015 by 10 member states to promote the ASEAN competitiveness worldwide by integrating 10 core economic communities in Southeast Asia countries which were Thailand, Malaysia, Brunei Darussalam, Vietnam, Cambodia, Indonesia, Laos, Myanmar, Philippines, and Singapore in order to generate huge opportunities for ASEAN as the largest market in terms of the size of population: 622 million population for AEC, 515 million population for EU, 478 population for NAFTA and 295 million population for MERCOSUR (rosalienebacchus.com, 2017). This integration generates great impact on the region's economic competitiveness over global economy, equitable economic development (Meyer, et al., 2017) and advantage to SMEs and other areas including manufacturing in the region as well as the challenges.

5.1 Characteristic and elements of AEC

In the ASEAN Economic Community Blueprint, (2008), mentioned that ASEAN aims to achieve the five core principles of AEC which are (A) Single market and production base; (B) Competitive economic region; (C) Equitable economic development, and (D) Integration into the global economy.

(A) Single market and production base. This core principle is comprised of 5 core elements: free flow of goods, free flow of services, free flow of investment, free flow of capital, and free flow of skilled labor.

Free flow of goods. This element is one of the most important elements under the concept of a single market and production base to enhance the production networks of goods and products and strengthen the capacity to serve as a global production center as a part of the global supply chain through ASEAN Free Trade Area (AFTA) to remove tariff and scheduled to set the Common Effective Preferential Tariff for ASEAN Free Trade Area (CEPT-AFTA). The related actions will be the elimination of all import duties and the elimination of Non-Tariff Barriers (NTBs).

The rule of origin (ROO) are introduced to facilitate the production network, encourage the development of SMEs and narrow the development gaps and promote for the increasing usage of CEPT-AFTA.

The trade facilitation to simplify, harmonize and standardize trade and customs process and procedures with an aim to enhance the competitiveness.

The custom integration to integrate customs structures, modernize tariff classification and valuation through the establishment of e-customs, smoothen the custom clearance, strengthen human resources development and promote partnership with international organization under the concept of ASEAN Single window along with the standards and technical barriers to trade for the standards and quality assurance to promote greater efficiency and enhance cost effectiveness.

Free flow of services. It is important to realize ASEAN Economic Community by removing substantially all restriction on trade in services for 4 priority services sectors which are air transport, e-ASEAN, healthcare and tourism by 2010 and logistic services by 2013 to facilitate the movement in the region.

Free flow of investment. This is to enhance the competitiveness in the region and attract the foreign direct investment (FDI) across the region. Through the framework agreement ASEAN Investment Area (AIA), ASEAN investment cooperation was implemented for the promotion and protection of investment. Protection will be enhanced for all investors and their investment. Facilitation and cooperation are the tools for more transparent, consistent and predictable of related investment regulations.

Free flow of capital. This is to strengthen the development and integration of the ASEAN capital and allow greater capital mobility.

Free flow of skilled labor. In order to facilitate the entry or movement of skilled persons who engaged in the activities of the trade of goods, services and investment based on the regulation of each country. Actions include the harmonization and standardization to facilitate their movement within the region, develop core competencies and qualification for occupational skills (The ASEAN secretariat, 2008).

(B) Competitive Economic Region. This principle is characterized by the following elements.

Competition policy. This is to promote the fair competition culture. Some of the laws related to competition have been established

Consumer protection. This has been developed to propose economic measures to address the already emerging consumer protection.

Intellectual Property Right (IPR). IPR is to influence the volume of quality and external trade and investment as well as the advance technology transfers for the value added of competitiveness.

Infrastructure development. For instance, the transport cooperation, the land transport, the maritime and air transport, information infrastructure, Energy Cooperation, and the mining cooperation are the core infrastructure to be developed in order to enhance the attractiveness and competitiveness of the region as a single market and production base by linkage of the products and service with the neighboring physically through land, sea and air transportation and digitally through the hi-speed online networks (Sroka and Hittmar, 2015). Taxation to avoid the double taxation among all member countries.

E-commerce. In order to enable on-line trade in goods within the region through the e-ASEAN framework agreement (The ASEAN secretariat, 2008).

(C) Equitable Economic Development

SME Development. To generate the direct impact to the SMEs in the region. The framework for SME development in the region was outlined in the ASEAN Policy Blueprint for the SME Development (APBSD) 2004-2014 mentioned about the strategic work, policy measurement and indicative outputs to enhance the competitiveness by facilitating the access to the information, market, human resource development and skills, finance and technology and to challenge more liberalized trading environment and contribute to the overall economic growth of the region.

Initiative for ASEAN Integration (IAI). To ensure the deepening and broadening integration of ASEAN and to accelerate the economic integration in the less developed ASEAN member countries by technical and development cooperation (The ASEAN secretariat, 2008).

(D) Integration into the global economy

Coherent Approach towards External Economic Relations. In order to negotiate or approach the external partnership as a group of ASEAN Centrality

Enhanced participation in global supply networks by the adoption of the international best practices and standard together with the comprehensive package of technical assistance for the less developed ASEAN member countries (The ASEAN secretariat, 2008)

5.2 AEC's SWOT analysis

Further, analyzing data of the ASEAN secretariat reports for 2008-2017, it has been held and represented the AEC's SWOT Analysis below.

The *strengths* of the AEC are rich natural resources, world class production base, lower wage, five core principles of 'Free flow' (goods, services, investment, capital, skilled labor), SMEs development, center of global supply chain, attractive labor and consumer market. The world biggest trading blocs in terms of populations and the third-largest labor and consumer market (Single market concept)

Among *weaknesses* it should be mentioned little trade among member countries, diversity of culture, norms and political systems in each member countries, language barrier, lack of proper public utility system in some countries, banks' structural inefficiencies and weak financial infrastructures in some countries, lack of transparency (Except Singapore), weak governance and regulations, corruption (Poititwong & Ramirez, 2016; Oláh, et al., 2017), low middle income in most member countries.

The AEC *opportunities* are the followings. For members and investors, they are:

- more efficiency of cost control on investment;
- lower or no tax barrier;
- opportunity to select skilled labor with more reasonable labor cost.

For members, they are:

- to become competitive economic region;

- equitable economic development;
 - integration in global economy (ASEAN Up, 2016);
 - increasing in the FDI and stronger regional economy;
- development of infrastructure and utility which impacted from the increasing of FDI for countries with lack of utility and infrastructure;
- technology transfer.

For labors of member countries, it is opportunity to get better jobs or incomes in other member countries

Defying *threats* it is noticed negative impact on culture, mobility of skilled labours in member countries with lower income to other member countries. It is possible to expect the rising cost related to develop infrastructure and utility in the country with lack of those. Investors may move to the other member countries with lower wage, more skilled resources and lower production cost. It is losing of protective advantage from lower or no tax barriers as well as more complex countermeasures against less border control.

5.3 ASEAN and AEC's Bottlenecks

The peace in extra diverse environment keep ASEAN help the drive the integration in this region. As mentioned above, the integration had significant impact on the competitiveness, advantages and opportunities for all member countries. The AEC economies have grown faster than any other countries in ASIAN except China and made it the seventh-largest economy in the world and the third-largest of population in Asia after China and India. However, in terms of the diversity among ten country members, development divide between established and new members, different languages, different skill of population, no plan for strong centralization, no powerful secretariat, on the other word, no enforcement mechanism to approach development. Not all the AEC agreements are enforced and many of them are considered behind the plan. Several non-tariff measures were issued against no tariff barriers to protect the interest of local interest (Low, 2016). The outcome of the integration is still blur.

5.3.1. The free flow of goods among member countries continued to be hinders by the use of non-tariff measures (NTMS).

The ASEAN Free Trade Area (AFTA) was implemented in 1993 to eliminate trade barriers. with an aim to develop the bilateral free trade agreements in order to eliminate tariff and to enhance new markets and production networks to step up into the global stage. ASEAN members could contribute the significant progress of AFTA. The average tariff rates in the original six countries (Singapore, Thailand, Brunei, Indonesia, Malaysia, and Philippines) have been reduced to 0-5% or eliminated through the Common Effective Preferential Tariff (CEPT). Cambodia, Myanmar, Laos, and Vietnam, as new members, moved 80% of their products to CEPT (ASEAN Free Trade Area (AFTA Council): The ASEAN Free Trade Area (AFTA), n.d.). The ASEAN Economic Community (AEC) was launched in 2015 with an aim to go beyond typical trade agreement. The AEC blueprint also clearly mentioned about the targets to remove all restrictions over trade in services by 2015 (Tangkitvanich & Rattanakhmfu, 2017).

Government, enterprises or businesses, labours, and consumers of both ASEAN member countries and Non-ASEAN member countries have both advantage and disadvantage from AFTAs. In terms of advantage, more FDI for government sectors, lower cost from the tariff elimination for both importer and exporters, more job opportunities for labours and more reasonable price with higher quality for consumers.

However, as mentioned above, even the tariff barriers were eliminated, in order to protect interest of the locals, other types of protection barriers or non-tariff barriers were remained or newly created (Tonby, Ng, & Mancini, 2014).

There is no efficient monitoring system to track the change of non-tariff measures. Thailand, Philippines and Indonesia still could not achieve target by 2015 (Tangkitvanich & Rattanakhmfu, 2017).

5.3.2. Insufficient knowledge and experiences, lack of foreign language skills or other required skills

Each country in Southeast Asia does not speak the same language. Many countries do not use English as their official language. There is lack of English language efficiency in many countries. In some countries, lack of experience and foreign language skill hinder them from achieving. Language barrier can lead to the bigger problem. Different degree of experience and different skill level have highly impact on the integration process. While the integration attracts foreign investors from outside the region, however the limitation of required skills have slowdown the investment. For instance, Vietnam is one of the attractive for foreign investment for its plenty of cheaper workforce. However, Vietnam skill have lack of experienced and skilled labour (Nhan Dan Online, 2017). Compare to Thailand even with the higher labour cost, but with the availability of infrastructure and facilities for manufacturing, which means that Thailand has sufficient of skilled workforce in terms of manufacturing. However, in terms of foreign language proficiency (Mursalim, et al., 2017), Thailand is one of the country with lack of foreign language skills compare with Singapore or Philippines. English skills became more important than ever. It is vital to improve English language skill in order to meet the AEC market needs and to become the hub of international education among ASEAN countries (Sinhaneti & Fu).

With lack of required technical skills, cognitive skills, problem solving and logical thinking skills, and teamwork and communication skills, the firms will need to work harder to recruit or to retain the talents. On the other word, business will have to recruit carefully to get the right persons. The integration of ASEAN Economic Community will increase the demand for diverse skilled human resource. More managerial, technical and other medium-skills are required. Hiring labor without proper skill will lead to the lower productivity and the higher turnover rate as labors may want to change to the job that match their capacities. To stay more competitive and sustainability, it is very important to strengthen and improve the education system. (International Labour Organization and Asian Development Bank, 2014).

5.3.3. Skilled labour have limited interest to transfer in the region and the labour restrictions

The concept of free flow of skilled labour has hold behind due to the lack of interest to transfer in the region as they perceived the differences in the culture, languages, and socioeconomic. The complexity of qualification recognition process discourages many professional to move. The complex and opaque requirement and procedure to acquire visa or work permit also limited their interest (Papademetriou, Mendoza, Salant, & Sugiyarto, Achieving Skill Mobility in the ASEAN Economic Community: Challenges, Opportunities, and Policy Implications, 2016).

While tax or tariff barriers are lower, the harder issue for most investors has been shifted to many forms of non-tariff measure which is harder or more complex to respond. Labour is still strictly regulated. Governments still keep protecting their labour. Thailand for instance, the requirement for ASEAN professionals are the same as for non-ASEAN countries (Tangkitvanich & Rattanakhmfu, 2017). While skill shortage are severe, mismatch of skills between countries is also a big problem. As a result, investors multinational companies need to send their expatriates to maintain standards and to strengthen the efficiencies of their organizations in ASEAN region which related to higher cost (KPMG International Cooperative, 2015).

5.3.4. Lack of awareness of integration in the region

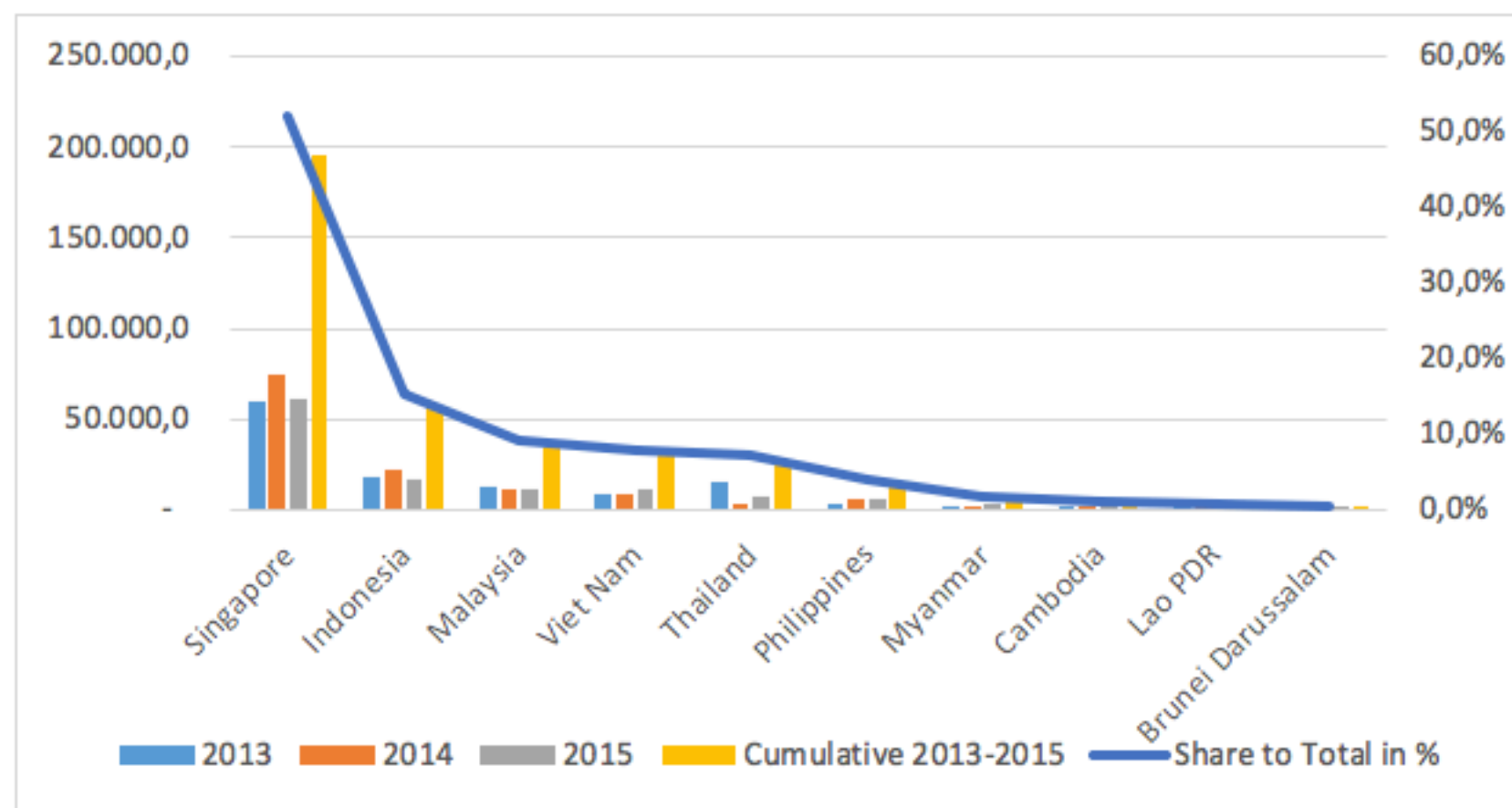
SME Development was clearly stated in the AEC blueprint that the integration will generate direct impact to the SMEs in the region. While opportunities to attract foreign investment were leveraged both from internal and external the region with its great logistic location and lower trade barriers by several trade agreements or liberalization, there is still less interesting or less awareness about the AEC. Many SMEs ignored with the reason that they mainly deal with countries outside AEC. do not understand much about what are the benefits and opportunities from ASEAN and AEC. Even export and import to many countries those under the agreement but the benefits of AEC have not been fully used due to lack of knowledge and insufficient information. The information provided or available are also too general or too broad. SMEs need more support for their more understanding about AEC and to use the full benefits of AEC. Compare to the big firms with more understanding and with the availability of necessary resources (Sukawati and Astawa, 2017; Ślusarczyk and Golnik, 2014), the big firms or MNCs can move forward with significant growth as they can use all the benefits provided under the concept of single market and production base (ACCA, 2016).

5.3.5. Internal competition

As mentioned above, while the larger companies are well prepared for the integration, SMEs, even aware about AEC, many of them tend to ignore. For SMEs, instead of generating advantage, a highly competitive economic and prosperity of the region, the free flow of goods, free flow of services, free flow of investment, free flow of capital, and free flow of skilled labour affects to the increasing of internal competition due to the diversity of developing and competencies in the region, on the other word, unequitable development. For instance, the intense competition among regional rivals to attract the investment from other regions, several business meetings to attract investors were held in different countries at the same time (Ngoc, 2015).

Figure 1

Cumulative FDI net inflow to ASEAN, 2013-2015



Source: Compiled by authors based on ASEAN foreign direct investments net inflow from selected partner countries/region retrieved from http://asean.org/?static_post=foreign-direct-investment-statistics

Above figure illustrate the diversity of foreign investment inflow to ASEAN by country. One of the reason that many SMEs ignore the AEC integration due to the intense competition among regional competitors.

5.4. Approach and implementation from governments and organizations

It is very challenge for AEC leaders and stakeholders to control the progress under the uncertain global environment and unexpected situation change in several areas with diversity of cultures, living standards, and different stage of development.

It is clear that the huge obstacles to the achievement of AEC blueprint goals are non-tariff barriers which maintain a strong presence in the ASEAN region. The world economic forum mentioned that reducing NTBs would have larger benefits than the tariff elimination. The integrated Trade Intelligence Portal (I-TIP), a database detailing all of the NTBs in the ASEAN region, has been launched by the Economic Research Institute for ASEAN and the East Asia (ERIA) and the Nations Conference on Trade and Development (UNCTAD) to involves data analyzes on how the NTMs affects ASEAN region's trade. Companies can share information on how NTBs affected them to support this project.

To strengthen the foreign language competencies, especially for English communication skills and to prepare for ASEAN community, professional English course were created to improve students' English, same as the initiation from the Ministry of Education to encourage Thai citizens both in urban and countryside to be able to communicate English with ASEAN neighbors.

Government leaders of each member countries in collaboration with many organization have promoted AEC information and its benefits to their citizens. ASEAN SME Agencies Working group or SMEWG and the ASEAN Secretariat have developed ASEAN SME Service Centre Web Portal to provide information about AEC, business and trade opportunities and provide advisory services to SMEs with regional and sub-regional linkages.

6. Discussion and recomendations

We can categorize the stakeholders who benefit from AEC integration to 3 major groups based on above findings. They are MNCs, regional leaders and SMEs.

The MNCs can directly benefit from the integration of AEC than the SMEs as they have more power and ability to acquire and analyze all necessary information and the most important is that they have vision and ambition. While AEC will provide more efficient investment opportunities with lower or no tax barriers, harmonized procedures and regulations, but those could not guarantee their successes. Many challenges still remain. Different cultural, economic, political and regulations are major. It is very essential to manage and balance those local differences efficiently based on information analysis by experienced experts (KPMG International Cooperative, 2015).

Speaking about regional leaders, their challenges are to develop the regional strategy to eliminate the gap among countries members and to meet the schedule as they have been criticized for being "too slow". Another challenge is the lack of leadership or no chairmanship to control this integration (Runckel, n.d.). The lack of recognition and clear understanding of this AEC integration, its opportunities and challenges, among the citizens in each countries are also needed to be developed.

SMEs have lack of vision and ambition and information especially in the lesser developed countries (Runckel, n.d.). They also have lower budget to compete with the bigger companies. They need to develop to respond to the quick change and government will also have to support in terms of knowledge, correct information, and funds at the beginning stage.

Concerning recommendations, firstly, for citizens in each member countries, it is important to acquire related knowledge and skills required for AEC to stay ahead and to be superior in order to enjoy full benefit of AEC integration. AEC integration is not only for the firms or organization; it is also directly concerned to all of us in this region.

Secondly, for investors, to ensure their sustainability growth and efficiency of value chain, it is very important to move faster than others to grasp those opportunities. investing the emerging markets is more prefer. It is not only about the lower wage. One of the significant attractiveness of AEC is the strong value chain and plenty of production resources. Strategic planning that focusing on the critical resources such as skilled human capitals, the availability of production facilities, infrastructures, will surely are the key success for this region.

Thirdly, it is challenge for all stakeholders in the region to respond quickly and sharply to both internal and external changes. the intense competitions are not only in the region but also with the rivals in the external region. Every groups are involving both with cooperation and competition. Even this integration will help to enhance the ASEAN competitiveness but many challenges still remain and behind the schedule. Both internal and external rivals also recognize the great impact of AEC integration and are preparing themselves to stay on the top to meet the challenges. It is very important to be ready for continuous internal/external change.

Fourthly, support from government or country leader is vital. In order to enhance the awareness of all stakeholders, more information sharing, more promotion of ASEAN/AEC's knowledge in order to enjoy the full benefits of integration. Moreover, government should support SMEs not only in term of knowledge but also financial support and strategies to enhance their competitiveness.

7. Conclusions

To sum up, the integration of ASEAN Economic Communities has generated the attractiveness with over 600 million population. It has also created huge opportunities for all stakeholders from the leader of each country, governments, MNCs, SMEs to each citizen. The concept of a single market and production base of AEC attract investors around the world for its plenty of skilled labor forces with lower labor cost, tax privileges, and competitive locations. However, there are gaps between member countries, the full benefits of AEC are not being used due to the cultural differences, non-tariff measures, internal competition, lack of awareness and knowledge or insufficient information. Communication and cooperation from all members to eliminate gap and align with the schedule or roadmap are highly essential. All stakeholders have to work harder to aware and understand their current positions, improve and develop to achieve the integration goal.

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