ASEAN INTEGRATION; IS IT AN OPPORTUNITY OR THREAT FOR INDIA, ON ITS LOOK EAST POLICY?

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Abstract: ASEAN, (ASSOCIATION OF SOUTH EAST NATIONS), began a rather long journey with the adoption of the ASEAN Economic Community Blueprint in 2007; it has moved far ahead rapidly towards the goal of an ASEAN Economic Community (AEC) in 2015. The tasks set out in the Blueprint are various and the process of building a community of all the ten member countries is not easy. Progress has been made in many areas; the benefits, from the strides so made, are expected to be far reaching.

This research aims to increase the awareness and understanding among the business sector, top management of companies, thinkers and academicians as well as the general public, youth included, on the benefits of the AEC, for those members.

With a combined population, which constitutes ten percent of the world's populace, a GDP of around three trillion US dollars, the Asean Economic Community or AEC, is about to become a reality next year.

An EU style integration, except having a common currency, given the huge imbalance between the countries, promises to be bringing, people, resources and businesses together and offers a window of opportunity to those backward countries, thereby alleviating their poverty, making the lives of people better.

This research aims to identify, the two sides of the AEC integration and also to examine what lies in store for India, which is also an ASEAN+1 member along with- Japan, China, South Korea, Australia, New Zealand.

Keywords: Asean, Aec, Integration, Trade, Benefits.

Introduction:

What Is Asean? : Asean, (Association Of South East Nations), is an integration of ten South East Asian countries, which are: Brunei Darussalam, Cambodia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam; which began a rather long journey with the adoption of the ASEAN Economic Community Blueprint in 2007; with the objective to "think globally and prosper regionally". It has moved far ahead and rapidly towards the goal of an ASEAN Economic Community (AEC) in 2015. The tasks set out in the Blueprint are various and the process of building a community of all the ten member countries is not easy. Progress has been made in many areas; the benefits, from the strides so made, are expected to be far reaching.

Why An Asean Economic Community? Consisting of a market of over 625 million customers and growing, strategically located, with natural resources, fairly good infrastructure, a combined GDP of nearly 3 trillion US dollars, an EU style integration is bound to bring regional cooperation and better bargaining power, pool the resources together, to make it a formidable power, as it is home to about a tenth of the world's populace.

What Is Happening Now?: The ASEAN Trade in Goods Agreement (ATIGA), came to effect in May 2010, with the objective of covering all facets of trade, under a legal framework to improve the free flow of goods within the AEC.

The ASEAN Framework Agreement on Services (AFAS) aims to limit trade in services among ASEAN Member States in order to make it easier for suppliers to operate within the limitations of ASEAN. The ASEAN Comprehensive Investment Agreement (ACIA) came into effect in March 2012 , with the objective to support a free, open, transparent and integrated system, in compliance with the vision of AEC.

Regional integration and connectivity would be accelerated by the easier movement of skilled persons, capital and goods, offering compact barriers for trade and by creating a strong institution for ASEAN.

There are four pillars to the AEC: 1) Single Market and Production Base; 2) Competitive Economic Region; 3) Equitable Economic Development; and 4) ASEAN's Integration into the Global Economy. ASEAN has made significant progress on each of these pillars, and this has opened up new opportunities for both investors as well as the ASEAN people.Is Asean's economic integration encouraging the region to become a more distinctive collective entity in the global economy? The answer is yes, although with qualms. South-east Asia is an area, which has extreme socio-economic diversity. The gap in living standards between the richest and poorest countries (Singapore and Myanmar respectively) is 40 to 1. But this is only one dimension.

Singapore is a services-based economy; Brunei is oil-based; Malaysia and Thailand are strongly industrialized economies; Thailand and Vietnam are big agricultural exporters, including being the world's largest and second largest ones in turns, with India also at the top to form the formidable three; Indonesia and the Philippines are net food importers; and Cambodia, Laos and Myanmar are still agrarian societies. Government economic policies also vary widely. Singapore is a free port in which the total value of trade is equal to 400 per cent of gross domestic product. At the other extreme, Myanmar has only recently started to open up its borders. The value of trade in the latter is equal to only 31 per cent of GDP. Then there are huge gaps in the quality of regulation, institutions and the business climate. According to the World Bank, Singapore ranks first in the world for "ease of doing business"; Malaysia and Thailand are in the top 20; but the others are way behind. Compounding such economic diversity are wide differences in history, culture, geography, population, population density and - not least - political systems. Nevertheless, there are also increasingly important elements of convergence across Asean countries. Integration with the global economy stands out: Since the 1980s, all Asean countries have liberalised trade and foreign direct investment save Myanmar, which is just emerging from the shadows of decades long military rule, albeit green shoots are beginning to sprout in the resource filled country.

Average import excise is around 5 per cent for most Asean countries for most of them, except Indonesia; Philippines, Laos and Myanmar have trade-to-GDP ratios of about 100 per cent or higher. Asean, has also become a regional production hub for parts and components in global manufacturing supply chains; Thailand still nurtures the aim of being the Detriot of Asia, as well as also becoming the jewellery trade centre to the world too. This has entwined Asean and North-east Asia - including China - together in thicker trade and production linkages. Now turn to the regional economic outlook. The International Monetary Fund forecasts growth at 5 per cent this year for the Asean-5, which consists of the Philippines, Indonesia, Malaysia, Thailand and Vietnam - a figure that is in line with growth in the last few years. A slightly stronger recovery in advanced economies, particularly in the United States, should also give a marginal boost to Asean's growth through exports, mostly agrarian.

Are The Ten Countries Prepared For Aec?: Is Asean's economic integration encouraging the region to become a more distinctive collective entity in the global economy? The answer is yes, although with important reservations. South-east Asia is an area of extreme economic diversity. The gap in living standards between the richest and poorest countries (Singapore and Myanmar respectively) is 40 to 1. But this is only one dimension .

Singapore is a services-based economy; Brunei is oil-based; Malaysia and Thailand are fast industrialisers; Thailand and Vietnam are big agricultural exporters; Indonesia and the Philippines are net food importers; and Cambodia, Laos and Myanmar are still agrarian societies. Government economic policies also vary widely. Singapore is a free port in which the total value of trade is equal to 400 per cent of gross domestic product. At the other extreme, Myanmar has only recently started to open up its doors. The value of trade in the latter is equal to only 31 per cent of GDP. Then there are huge gaps in the quality of regulation, institutions and the business climate. According to the World Bank, Singapore ranks first in the world for "ease of doing business"; Malaysia and Thailand are in the top 20; but the others are way behind. Compounding such economic diversity are wide differences in history, culture, geography, population, population density and - not least - political systems. Nevertheless, there are also increasingly important elements of convergence across Asean countries. Integration with the global economy stands out: Since the 1980s, all Asean countries have liberalised trade and foreign direct investment.

Weaknesses Of Member States: On the whole, AEC is well behind its targets to reduce and abolish non-dutiable and regulatory roadblocks in goods, services and investment. Most limitations to intra-regional commerce lie here, not duty levies and quotas "at the border". Moreover, Asean's monetary and financial consolidation is even weaker than it is in trade and investment, so far restricted to modest measures like the Chiang Mai Initiative. Incremental progress, not a utopian leap to European Union-style top-down, institution-heavy integration, is probably the best Asean can expect, given the political realities. South-east Asia has made substantial economic progress because its governments have liberalised markets, thereby enabling integration into global supply chains. Now a second generation of market reforms is needed to cope with external shocks and to take advantage of new regional and global opportunities. Asean's collective efforts can at best be a helpful back up, but success is mainly a matter of independent action by governments individually.

Apart from the big five, the other economies, Myanmar and Cambodia in particular, will need to match with the others in terms of growth and also improve the living standards of its people to make them come into the fold a bit more strongly; foreign direct investment, particularly from its AEC counterparts, will be the key, to make these smaller economies grow faster.

Should these politically challenging reforms be implemented, Asean will become an even more distinctive and prosperous collective entity in the global economy and will soon pose a strong challenge to the might of the European Union.

Opportunities: FDI in ASEAN has grown massively over the last decade, even after the financial crisis of 2008; interestingly, intra-regional investments have taken a leading role in this context of AEC.

However, the distribution of foreign investments in the region is very uneven: three-fourths of investments are concentrated in five countries, and half in one country, Singapore; even though this is changing, with Myanmar, now hogging the limelight and companies eyeing, what looks to be a very productive and lucrative market, with the new generation eager to move forward, from the shadows of the junta rule, they have witnessed from birth..

The fact that foreign investment in ASEAN is geared towards investment in services industries and manufacturing, which are integrated into global and regional supply chains, suggests that there are still important barriers to regional trade integration.

Within the single market and production base, which Asean boasts of, are five core elements, which are:

1. Free flow of goods;
2. Free flow of services;
3. Free flow of investment;
4. Freer flow of capital; and
5. Free flow of skilled labour.

The institutional approach of the ASEAN Comprehensive Investment Agreement (ACIA) towards relaxation of investment would also benefit from meliorations. Factors which are less noticeable, than the limitations on foreign equity, are regulations such as performance requirements, restriction on capital movements, and movement of labor that can also severely restrict investments.

Implementation or facilitation of investment is also very important; with the facilitation of the investment agenda, which is closely related to the need to improve monitoring and transparency of policies.

Free flow of capital among the member states, will be another huge fillip to the smaller four, as they will stand to benefit hugely from the easier trading norms.

Next, the free flow of skilled labour, will work in favour of all the countries; the bigger ones, like Thailand, will be able to take advantage of the migrant labourers from Cambodia, Laos and Myanmar, whereas, those emigrants, will be able to have a job and be able to send home a reasonable amount of remittance, from their gainful employment with those countries where they are employed. Philippines, will also be able to immensely benefit from the open door policy as they will be able to find gainful employment in almost all the countries, as they have a large English speaking workforce, which should be more in demand in the Asean region, post the integration.

Threats And Challenges Lie Ahead: The integration will not be seamless; there will be a few pitfalls; firstly, a decline in China's growth will have implications for Asean's exports of products in global supply chains, its exports destined for the Chinese domestic market, will slow and this will have an impact on Chinese investments in Asean. Second, Asean countries have seen a credit explosion as a result of loose monetary policies at home and around the world. Consumer debt has piled up; with Thailand, according to many estimates, on the verge of a bubble, with huge debts to the average citizen, with interests from both the organized sector as well as from the loan sharks, piling up and biting!. Asset and property bubbles are getting bigger. Tighter global monetary conditions, especially with "tapering" by the US Federal Reserve and the likelihood of higher interest rates in the West, increase the risk of a mini-crash, which, when it comes, will hugely impact all of the ASEAN members. Governments will have to bite the political bullet and be prepared to introduce tighter monetary policies sooner rather than later. That said, Asean countries are in a much better position to weather global shocks than they were during the Asian financial crisis in 1997. Fiscal and monetary conditions are better, but, there is still a lot of scope for tightening and regulating; exchange rates are now, much more flexible than in the past, there is much less exposure to short-term foreign debt now; also, now, the bond markets are a lot more deeper. Third, a decade of cheap-money policies and high commodity prices has spawned complacency in all of the emerging markets and Asean is no exception. Governments have neglected structural reforms to reduce market distortions; they are now more obvious with tighter global monetary conditions and a fall in the commodity prices. Large belts of markets for land, labour and capital remain unregulated, including the public sector. The liberalisation of international trade and investment has stalled, will we see darker days ahead, remains to be seen. Government red tape hinders growth and dampens the business climate. The World Bank's Doing Business Index has Vietnam in 99th place, Myanmar bringing up the rear in 182nd place, with Philippines, Indonesia, Cambodia and Laos in between.

Asean countries need fresh structural reforms not only to cope better with external shocks, but also to take advantage of emerging trends in global supply chains. Multinationals are looking for new investment destinations as China has been over heating and has wages there have become dear; Vietnam is kind of saturated, with Myanmar being the new kid on the bloc.

If South Asia - India in particular - opens up more to global markets, labour-intensive, export-oriented manufacturing will move there, creating large opportunities for Asean countries in the middle of pan-Asian regional production networks, halfway between China and India. Genuine Asean economic integration - the free flow of goods, services, capital and people within the region - would deliver huge gains, which is the natural logic of the Asean Economic Community (AEC). While progress has been achieved in simplifying and harmonising customs procedures and formalities, facilitating cross-border infrastructure projects and opening up Asean skies to low-cost airlines, infrastructure needs to be improved and the income imbalance between the member states as well as within some countries like Thailand also need to be attended to soon.

Conclusions And Recommendations: India's strategies need to move beyond borders to focus on the ASEAN, on a warpath, with varying complexity and intensity, ranging from short-term bi-lateral trade and exchanges to ink deals on a multitude of issues across all the member states. Undeniably, strategies will differ according to the priorities and resources of the countries considered, but it needs to be prepared to adapt to a major shift in its engagement strategies with ASEAN, post the AEC.

To sum up, a new community is emerging and expanding. India needs to rethink its 'look east policy', which has not been very successful so far; this presents a vital opportunity as well as a challenge to engage with our neighbours and cement a brighter, better and safer tomorrow for the new technology generation.

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