

Efficacy of the Association of South East Asian Nations (ASEAN)

ASEAN Economic Community (AEC): Opinions of Governor Dr. Vijit Supinit

Dr. Vijit Supinit has been and still have significant role for ASEAN financial integration and capital market integration. His different positions and expertise gave him as a key role to plan and design the financial and capital market integration. He involved the ASEAN financial and capital market integration in many decades already. He also assists China Banking system reform in 1990's. He has hold many different positions in various field in financial and capital market sectors.

Governor of the Central bank of Thailand; Chairperson of Central bank of Thailand; Chairperson of Stock Exchange of Thailand and Chairperson of Security and Exchange Commission.

Question 1. Can ASEAN successfully implement AEC, without a customs union? All economic theories suggest that before an economic community can be created, a customs union must be established. How can ASEAN create a common market without a customs union and what is ASEAN's expertise in dealing with this issue?

Answer: I think that the ideal target would be the same as the EU. One solution would be to promote trade and investment and financial transactions in the AEC as if it were one country. The extent to which supra-national groups such as EU, NAFTA or ASEAN can reach that ideal position depends on the state development and political commitment as each country should centralize authority for financial and political policy, decision-making and governance with the community as observers. Despite the EU having been integrating since the 50s, and whose member state economies are very advanced, they have not yet completed the process of integration.

Therefore, ASEAN, or any other economic community which is not economically highly developed, cannot hope to easily achieve an advanced stage of integration. The main reason is that each country has the primary objective to develop their own economy first: some members (original members), middle income countries, and new members, are under-developed or at most developing countries. Such countries want to have complete control over their economic policies. There is also the problem of similar patterns of production and similarity between good produced, so it is difficult to see fast growth of intra-ASEAN trade. ASEAN countries are likely to need a very long time to even think about creating a customs union, because in a customs union, every country has to observe the same rules - in particular the same tax rate for trade with non-member countries. Because of this, it is in the interest of each country to make their own trade rules with other countries. Most countries need to protect their own industries in the period of development and different countries have different goods to protect. It is impossible to have a feasible custom union in the foreseeable future.

But even without a customs union, ASEAN can benefit from free trade among themselves, because trade liberalization (that is, the elimination of tariffs), can create significant benefits in trade from trade creation and trade diversion.

Question 2. Despite the aspiration to increase the level of intra-ASEAN trade, it is still relatively low and has not seen significant development over the last 25 years. Why hasn't ASEAN been able to increase intra-ASEAN trade and make ASEAN less dependent on the West?

Answer: Although it is still relatively low, it has increased quite significantly. It started in 1967 with intra-ASEAN trade at only 10 %. In 1993, at the start of trade liberalization, intra-ASEAN trade was 19.2 percent. In 2011, it was 25 %. Intra-ASEAN trade has not increased to higher percentages despite almost zero tariffs, for two main reasons:

- 1) Patterns of production and export are similar – mostly simple manufactured products and agricultural produce. Therefore, the direction of export trade is outside the region.
- 2) Most ASEAN countries still cannot reduce their nontariff barriers to protect their domestic products.

Now the emphasis is on trade liberalization to sweeten negotiations on non-tariff barriers. Furthermore, there is now a trend of moving production from high-cost countries to lower-cost countries within ASEAN, particularly from Thailand to surrounding countries, with the goal of enjoying lower cost and the general system of preferential tax (lower tax) for exporting to main market in developed countries. Because of this development, it is expected that intra-ASEAN trade will increase rapidly in the near future.

Question 3. What do you think the role of ASEAN should be in the global financial system?

Answer: I think it should be focused more on trade rather than the financial system, because financial sectors are still under developed, and do not even cover all ASEAN countries. Trade, of course, depends on the world trading system. In the last few years, including this year, world trade is expanding at a moderate rate even though the economies of the EU and Japan have been in recession. Asian trade is therefore likely to expand, and ASEAN has many upper-middle-income countries which also produce key agricultural products. It can be expected, therefore, that the role of ASEAN trade could expand. In the future, when the economies of key ASEAN trade partners (namely the US, EU, and Japan) recover to a sustainable growth path, ASEAN trade will increase much more significantly. Within Asia itself, it is the only fast-growing trade region in the world; trade among themselves, in particular with China, India, Korea, and Japan, will expand at a faster rate than with the outside world. With this expectation, the twenty-first century is being designated the “Asian century.”

Question 4. How Can ASEAN more effectively integrate its financial systems?

Answer: First, the respective ASEAN governments must open their financial markets much more widely than in the past. So far they don't allow too many foreign banks to enter their financial sectors for fear of domination of their financial markets, because financial institutions in ASEAN are not strong – so much so that they cannot compete with foreign banks which are in much stronger positions. That is normal protection of national interest, in particular to protect the sensitive financial market. Every country wants to develop their national financial institutions and financial markets. This is normally considered a most important national policy.

Even commercial banks from ASEAN countries have not yet received any preferential treatment. In setting up a banking presence in other ASEAN countries, most banks have to buy domestic banks with the approval of the host governments, which is why there is only a limited presence of ASEAN banks in ASEAN region. This trend is expected to continue unless ASEAN governments agree to liberalize their banking sectors to allow more ASEAN banks to enter domestic markets in the next decade.

Secondly, ASEAN commercial banks themselves are short-sighted. To set up branches in other ASEAN countries involves a lot of costs and uncertainties, so banks cannot expect to gain much profit for a long time, because they don't know the markets and customers. If they want to buy into domestic banks, they will still face a lot of uncertainties, because to run a bank with majority of foreign is more difficult than running a bank with their own nationals as staff. However, expansion of wholesale banking in ASEAN may be more feasible.

Banks are the most important financial institutions in ASEAN, so there has been little integration in the ASEAN banking sector and in fact non-regional banks (Standard Chartered, ANZ, MUFG) have larger footprint in ASEAN than regional ASEAN banks.

Question 6. The Chiang Mai Initiative has been success, and ASEAN countries learned from the 1997-1998 financial crises well. Was the success of the CMI more the result of ASEAN effort, or was it more because of the security offered by ASEAN +3 (China, Japan, South Korea)?

Answer: The preparations for the Chiang Mai Initiative started in the 1970s, when the ASEAN swap network was set up. It was then expanded and developed to include cooperation with non-ASEAN countries such as, Australia, Hong Kong, and China in the 1990s. After the 1997 crisis, the network was expanded to include other countries like South Korea and Japan, and it was reformulated as the Chiang Mai Initiative in 2000, with the agreement expected to expand to a size of US\$120 billion by March 24, 2010. It is a multilateral currency swap arrangement among ASEAN +3 (which includes China, Korea and Japan) and became effective in March 24 2010, having developed from the ASEAN bilateral swap network in 1977. The purpose of this \$US120 billion fund is to help the members in balance of payments and international liquidity difficulties, particularly during times of currency turbulence.

A central office called ASEAN +3 Macro Economic Research Office (AMRO) was set up in Singapore to administer the fund and to monitor and analyze regional economies and to contribute to early detection of risks for swift implementation of remedial actions. It was hoped that AMRO would develop into a key regional financial institution (a regional IMF or AMF as first proposed by Japan after the 1997 crisis) for Asia as a whole, the same as

the Asia Development Bank (ADB) which serves as the regional equivalent of the World Bank. The success of CMI was the result of mutual interest between ASEAN +3 members, because all of them have trade benefits and political advantages.

Question 7. Why is capital market integration important to ASEAN?

Answer: Mainly because the equity of business companies of the member countries can be traded between member countries.

In 2005, the Stock Exchange of Thailand invited the Asian Development Bank (ADB) to start exploring the linkage of ASEAN capital markets, with the assistance of the Chair of the Hong Kong Securities and Futures Exchange Commission. The AEC Blueprint 2015 for Capital Market Integration is intended to achieve significant progress in building a regionally integrated capital market which will enable capital to move more freely within the ASEAN region, with issuers free to raise capital in different ASEAN markets, and investors able to invest freely across markets. It is hoped that anyone would be able to invest in ASEAN capital markets freely at a competitive fee, from a single access point, with capital market intermediaries providing services throughout ASEAN based on home -approval.

It was agreed to link 7 stock markets in ASEAN, the so-called ASEAN Linkage, including Thailand, Malaysia, Singapore, Indonesia, Philippines, and 2 markets in Vietnam by the end of 2012. The 3 ASEAN markets of Malaysia, Singapore, and Thailand were linked officially and started trading. The rest are expected to comply when domestic arrangements are completed.

Conceptually, the securities available to be traded in the 3 markets are more than 2000 securities. The choices for Thai investors will increase from 500 securities to 2000, if all the 7 markets are linked, the number will increase to 3,700, with a market value of US\$ 2 trillion, ranking 8th in the world, while, for example, the Thai stock market alone has a market value of US\$ 300 billion, or 27th in the world

Question 8. Why has ASEAN capital market integration happened so quickly?

Answer: Because of mutual interest and countries want to enlarge markets and create an attractive market size to encourage international investors from around the world, and in that process, the companies in member countries can gain the ability to mobilize investment funds. Also, stock market investors in ASEAN can have more choices to invest outside their own markets.

Question 9. ASEAN is very far from its potential; Can ASEAN achieve its global positioning goals under its current structure or should ASEAN aim for a paradigm shift?

Answer: The structure is adequate for reaching a high potential of ASEAN, but more liberalization is needed in trade, and members must reduce non-tariff barriers as fast as they can to encourage more trade. In human resource movement, real liberalization should start. Most important is to consider what will help trade movements in ASEAN even more, and to try to harmonize exchange rates, and to achieve that, governments must start to consider how to harmonize national economic policies.

Question 10: The AEC will apply in 2016, at the core of which is the free movement of labor and investment. Nowadays, intra-ASEAN investment is around 16 % with some variation, compared to Europe's almost 70%. How can the ASEAN Economic Community boost intra-FDI? Despite the ASEAN FDI investment framework, are the rules and regulations different in every country or are there uniform and equal opportunities for investment?

Answer: If all the conditions mentioned earlier achieve success, FDI and intra-trade will both speed up with same rate of success.

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