ECONOMIC INTEGRATION IN ASEAN: TRADE-RELATED ASPECTS

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Abstract: The relevance and timeliness of researching the topic of economic integration in the Association of Southeast Asians Nations (ASEAN) is attributable to both the high importance of ASEAN in world and regional trade, and the growing role of global trade in general. ASEAN was able to achieve a high degree of trade integration, which has now become an important factor in the economic growth of ASEAN countries, and one of the tools to reduce the significant differentiation between countries in their levels of socio-economic development.

The purpose of the article is to analyze the processes of regional economic integration in ASEAN in the area of trade over the period of 2000-2019. ASEAN, composed of 10 countries in Southeast Asia (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam), was established in 1967. Now this is an integrated association highly developed in economic, trade and other aspects, and ASEAN’s foreign trade indicators are steadily growing driven by diversified national economies.

Innovation of the study is in its attempt to identify the impact of global instability on the processes of regional economic integration. The author analyzed statistics from the UNCTAD international database, confirming the increase of the value of exports and imports of the ASEAN member-states both within the Association as well as outside of ASEAN borders.

Results - it was shown that the foreign trade policy of the ASEAN countries is very effective and is in line with theoretical predictions. However, there are some problems that may have a negative impact on the integration processes in the future. According to the author, the ASEAN development model is of interest to the Eurasian Economic Union (EAEU). At the same time, “The 2019 Trade War” negatively affected ASEAN trade performance and may possibly lead to the emergence of internal integration problems.
Key words: The world economy, ASEAN, regional integration, foreign trade, intraregional trade

JEL codes: F02, F11, F12, F14, F15

1. Introduction

With the ongoing globalization international trade is becoming increasingly important in all areas of life of literally any state or regional association. As opposed to the previous century the degree of social, economic, informational and cultural interaction among people in the 21st century has increased so rapidly that trade and economic interaction reached almost peak levels which creates the foundation for discussion of the globalization of international trade. International trade is becoming increasingly important since a tool to expand the market can contribute to growing production and rising growth rates. Accordingly, allocation of comparative advantages can be determined either by historical events such as who was the first in this or another market or through net gains from economy of scales, or through learning and gaining new experiences.

In this article the author is attempting to answer the question about the origins of the Association of Southeast Asians Nations (ASEAN) comparative advantages and what role international trade played in this process – both within the region itself and with other nations. Additionally, Association’s experience in growing intra-regional trade and building trade integration can also be of considerable interest. This experience can be useful and applicable for other regional associations including Eurasian Economic Council.

2. Methodology and Data

In this article the author evaluates existing economic theories and models describing regional economic integration and international trade. Research is based on analytical and synthetic tools, statistical analysis of trade levels and export and import of the ASEAN member states (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) from 2000 through 2019. Comparison of statistics over this period allowed the author to identify constant trends in the ASEAN international trade. The author used the data compiled by UNCTAD database and applied the abstraction technique.

In this research the author focuses on the perspectives for ASEAN future development especially in light of the fact that in 2015 Association launched a project to create its own
Economic Community and evaluates the chances for successful completion of those ambitious plans.

The article is structured as follows. First, the author reviews some theoretical aspects of modern models describing global trade. Further the author focuses on trade practices themselves – both on the global scale and within the Association. The author also touches upon trade protectionism and its effect on international trade growth rates and negative impact of those processes on the Association.

3. Results and Discussion
Why nations trade with each other and how do they do it? This is the question which has traditionally been a subject of numerous research and for a number of centuries researchers offered different answers to these questions.

In the 20th century the primary theory of describing international trade was offered by Heckscher – Ohlin in the 1920s which is based on the differences among the countries in their stock of factors of production. The country having excess supply of labor and lack of capital, for example, China should produce and export goods which are labor intensive, for example – rice.

On the other hand, the country having relatively high supplies of capital, for example, the United States should export capital intensive goods, for example – automobiles. The Heckscher – Ohlin theorem suggests that the highest volume of trade should be registered among countries most different from each other. On the other hand, countries manufacturing similar goods shouldn't trade with each other. However, in the 1960s and 70s it became apparent that the highest volume of trade was registered among the countries offering similar commodities (compared to the rest of the world) such as the United States, Canada, Western Europe, Japan. Quite often one and the same nation simultaneously imported and exported very similar goods, for example, automobiles of the similar type / class or even price range. Reality was no longer supporting the theory, and demand for new models was growing strong within the economics community.

Works by Paul Krugman in 1979 and 1980 became an important step in understanding the mechanism of trade among countries and offered an explanation for contradictions observed in the complex mechanism of multilateral trade relations (Krugman, 1980). It needs to be emphasized that Paul Krugman doesn't challenge the results of classic theory – he merely
develops and extends them. Mechanisms of international trade offered in his models operate alongside with the classical principles of comparative advantage ensuring additional gains from international exchange.

Paul Krugman attempted to explain why some nations get advantage in the process of trading with other countries. According to his research with large scale production trade grows not only among the countries specializing on certain commodities groups (as follows from traditional economic theory). Eventually not only the nations who had reached specific levels of economic development but also those who specialize in import or export of a specific commodity gain dominating positions in the marketplace. In turn, competition of national economies on the global marketplace leads to price reductions (Krugman, 1981).

Krugman’s model also explains global trend towards urbanization. On the one hand, large scale production and efforts to reduce transportation costs, on the other hand, results in the fact that higher and higher percentage of population tends to move to megalopolises. Growing urban population in turn stimulates economic development and production rates, which in turn lead to growing urban populations. As a result we see differentiation among regions by high tech “primary zones” and less developed “periphery” (Krugman, 1991).

The model suggested by Paul Krugman was very simple, flexible and successfully explained existing facts. For these reasons hundreds of economists all over the world started developing this model and expanding its application to different areas. In our opinion, Krugman’s model is perfectly applicable to ASEAN member states.

Speaking from historical perspective, one cannot ignore growing influence of Asian countries on global trade as they hold leading positions in global production and sales. Increasing role of the ASEAN both in the regional and global economy as well as in regional and global trade (Lee, Itakura, 2018) insured close attention which various researchers pay to this region as one of the most influential regions of the world. In 2014 Ken Itakura attempted to evaluate possible economic outcomes of liberalization and improving interactions and simplifying trade procedures between ASEAN member states by applying imitational analysis based on the computable general equilibrium (CGE) models. The author concludes that the three key factors determining dynamics of the ASEAN foreign trade were reduction of tariffs, eliminating barriers for service industries, and time saving measures in logistics.

During the first years of Association existence the primary goal was to normalize foreign relations among the member states, and later the focus was moved to enhancing economic
cooperation in the area of trade. Major shift in improving trade relations within ASEAN was accomplished with the creation of the Asian Free Trade Area (AFTA) which introduced common preferential tariffs.

Association is working on improving trade environment – such as reducing the time and paperwork requirements for export/import operations, increasing effectiveness of foreign trade and customs logistics and elimination of customs barriers. For example, as of today 99.65% of import duties have been eliminated for internal transactions and other duties do not exceed 5%. ASEAN is working on developing a reliable mechanism for identification and elimination of non-tariff barriers. The countries are also considering an option of introducing a “single window” system for all member states and for interregional trade transactions as well. These steps are being implemented in each country with different degree of efficiency and expediency.

For example, empirical results from Thang N. Doan and Yuqing Xingab (2018) suggest that “the volume of Vietnam’s actual exports is far below the estimated efficient level, and that there is considerable room for increasing Vietnam’s exports. Membership in ASEAN contributed positively to the country’s trade efficiency while rules of origin and non-membership in EU and NAFTA had a negative impact”.

It should be noted, that member states are very different in terms of their economic potential, socio-economic development levels, as well as in terms of the factors of production available to individual members. This observation needs to be taken into account while developing a differential approach towards developing trade and economic cooperation. For example, Laos is one of the poorest countries of the region, however it is becoming more successful in achieving its socio-economic and international trade development goals (Shkvarya et al., 2016) as foreign trade plays an important role within ASEAN and its overall socio-economic development both for the Association in general and for individual countries. It is foreign trade that allows member states to gain lacking technologies, food and other commodities, provides hard currency earnings and opens strategic development opportunities.

But for the purposes of further research we need to review export and import volumes in the ASEAN countries (Figure 1).
Fig. 1 Export – Import Volume in the ASEAN member-states (2000-2019)

Thousands of US dollars at current prices

In 2019 ASEAN combined commodities turnover reached 2,810 million dollars including exports of 1,421 USD million and imports 1,388.8 USD million. Compared to 2018 trade volume in 2019 declined by 2.3% including reduction of export by 1.8% and reduction of imports by 2.9%. These developments within ASEAN reflect overall global trends (see Figure 2). ASEAN foreign trade is very well balanced which reflects on the adequate and efficient foreign trade policies pursued by the Association. According to Willem Thorbecke (2018), “Exporting has contributed to technological assimilation and development in ASEAN. Thus supply chains are playing a greater role in driving ASEAN’s exports”.

Figure 2 represents dynamics of global trade volumes. Global turnover in 2019 amounted to 38,126.2 USD million, including global exports of 18,888.8 USD million, and imports – 19,237.4 USD million. Exports reduced by 2.98%, imports by – 2.89%, and overall turnover declined by 2.93% accordingly.

Source: compiled by the author on UNCTAD database.
One of the main reason for reduction of the volume of global trade in 2019 compared to 2018 was growth in the application of protectionist measures in the world trade initiated by the United States. Responding to these actions many countries, including the EU member-states, Canada, Mexico, the Peoples Republic of China and others introduced similar measures – i.e. also started protecting domestic markets and domestic manufacturers.

In this regard we can state that 2018 became a turning point in the modern history of global trade and some researchers (and we're in full agreement with them) consider current situation as a trade war (Dhar, 2018). In our opinion this situation reflects a fundamental shift of global trade towards Asian region. Since trade volumes in South America and Europe fluctuate considerably, the main battle for trade supremacy is fought between North America and Asia. Export growth is primarily driven by Asia while import is driven by both continents. A slight decline of North American exports was already observed in the 4th quarter of 2018. Most likely, the United States understand the consequences of shifting global trade towards Asia and are making conscious efforts to combat this trend. Unilateral approach which is illustrated by such developments can pose a threat to a number of multilateral trade organizations including the World Trade Organization.
In this environment integrational processes within ASEAN especially in the area of trade integration play an increasing role for its member states.

ASEAN is “relatively well integrated along dimensions of trade and investment and the free movement of people, not so well integrated along the institutional and social dimension. Overall, ASEAN is somewhat more integrated than South America and Africa, but much less integrated than the European Union” (Huha, Parkb, 2018).

Despite of growing uncertainty and new challenges for world economy, ASEAN economy is beginning to grow with the regional GDP exceeding 3 trillion US Dollars in 2018 compared to 2.5 trillion in 2015. Currently ASEAN occupies 5th place in the rating of world economies. In 2018 regional trade increased to 2.8 trillion dollars (an increase of 23.9% compared to 2015) while investment hit the record level throughout the entire history amounting to 154.7 billion US Dollars. In the area of economic integration Association achieved 98.6% reduction of tariffs for intra-regional trade. As a result, further efforts will be focused on stimulating trade and elimination of non-tariff barriers using recently introduced “single-window” system, self-certification of exporters along with the introduction of performance indicators to evaluate and monitor trade development. In addition, Association will continue working on unifying technical requirements and standards applied to commodities. To promote economic competition Association is introducing both market mechanisms as well as legislative support. Nine of the member states already introduced and adopted anti-trust laws and consumer protection legislation (ASEAN Integration Report, 2019). Success and effectiveness of those measures is already clearly seen in ASEAN and we believe this to be one of the most effective integrated units in the world. Therefore, other associations, for example Eurasian Economic Council should adopt this experience in developing their own integration process where we still experience certain problems.

Intra-regional trade volume of the Asian countries is presented on Figure 3. This presentation is limited by 2018 due to lack of reliable data on trade volumes in 2019 and therefore it doesn't reflect those negative trends which the countries obviously experienced in 2019. At the same time, we can see that intra-regional trade in ASEAN is becoming less balanced and does carry a negative trade balance. Nevertheless, it correlates perfectly well with the overall trends of interregional trade.
The reason for this uncertainty within ASEAN is increased strategic competition between China and the United States. Both countries are important trading partners for ASEAN member states. Thus, ASEAN entered into a free trade agreement with China which provides for separate tariffs reductions for each member state. Beijing also initiated an agreement on establishing a free trade zone encompassing 10 of the ASEAN member states, as well as Australia, India, China, New Zealand, South Korea and Japan. Those are the countries representing 1/3 of the global economy and almost 1/2 of the global population. As of now, not all of these countries supported this initiative and it's still under review and discussion.

In light of the increasing economic and geopolitical confrontation between the United States and China ASEAN member states are forced to evaluate all of the appropriate risks to make sure that they do not fall under the influence of one of the superpowers. So far ASEAN member states do not have a common opinion. For example, Cambodia for quite some time is acting as a very close ally of China. When China broke from its US dollar peg in 2005, Malaysia and Singapore likewise loosened their currency ties to the US dollar (Yoshino, Kaj, Asonuma, 2016).

Vietnam, on the other hand, is actively developing relationship with the United States and was even considering joining the Trans-Pacific Partnership proposed by the Americans, but...
abandoned after Donald Trump took office in the United States. However, we need to remember that Vietnam also has very close ties with China. China remains the most important economic partner of Vietnam. As a result, there is a threat that those conflicting opinions and trends may cause an internal confrontation within ASEAN (Shkvarya, Tyrkba, 2016). Therefore ASEAN is entering a new stage of its development and we hope that its volatility will be softened by the well thought policies of its member states.

4. Conclusions
Based on this research the following conclusions can be made. First of all, for all ASEAN member states foreign (including intra-regional) trade plays a very important role. Integration processes can provide for equalizing levels of socio-economic development among the countries. ASEAN contribution to the world trade and the world economy as a whole is significant, and enhancing trade integration has produced clear positive outcomes. This experience could be of considerable interest to other integration blocks including, in the author’s opinion, for the Eurasian Economic Council.

Second, ASEAN member states are experiencing growing impact of one of the major trends in the world trade – namely a clear shift in the global trade dynamics towards Asia headed by prosperous China. Starting from 2018 this shift resulted in strengthening trade protectionism and slowing down of the world trade and economic growth. And since trade war between the United States and China could not but impact ASEAN member states, which are of great interest to both economic superpowers, ASEAN members have to perform very careful risk analysis and develop its own foreign trade policies stimulating further development of regional integration both in the area of trade as well as other areas of integration. This policy also needs to ensure economic security of the Association. One of the elements of such policy could be further diversification of trading partners, including trade relationships with individual countries, as well as other regional economic associations.

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References


