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Conclusion

This book has analyzed critical issues of ASEAN's attempt to create an economic community (AEC) combining a single production base and a single market. As recalled by Mikic in chapter 3, ASEAN is not only launching an AEC by the end of 2015, it has also embarked, since its annual summit in 2011, onto the creation of a broad free trade zone encompassing all free trade agreements signed with China, Japan, Republic of Korea, India, Australia and New-Zealand called the Regional Comprehensive Economic Partnership (RCEP). At the same time, major powers such as the USA and China, are competing for hegemony on Asia-wide integration process with their respective favorite trade agreement namely the TPP and FTAAP. This peculiar moment raises doubts about the capacity of a "shallow" institution such as ASEAN to complete such an ambitious regional integration endeavor as the AEC plus the RCEP successfully. The different chapters of this book have stressed the difficulties that the AEC will have to overcome before broader economic integration may realistically be accomplished. The conclusions drawn by the authors point to the following issues:

Concerning the political and diplomatic dimensions of ASEAN, Jones in chapter 1 concludes that non-interference and non-binding consensus inhibit deeper integration either within ASEAN or wider regional groupings. These norms and practices are only suited for "limited intergovernmental and bureaucratically rigidified interaction" but cannot promote a sense of "we-ness". More, dominant powers manipulate them for their own interest which does not bode well for the capacity of ASEAN to assert itself in the future wider groupings.

Regarding the single production base and the single market, one may expect that this process of integration would create a genuine regional focus whereby an important share of goods and services produced by the single production base is sold locally in the single market. Such are for instance the European Union and to a certain degree North American Free Trade Area experiences. This is not the case for the AEC despite the use of the EU rhetoric style. The common thread that links the AMS national production bases is primarily the global production network established by Western and Japanese multinational firms. As recalled by Athukorala in chapter 4, “network products” constitute the bulk of manufacturing exports from Singapore, Malaysia, Philippines and Thailand, and a smaller but significant share of Indonesia. The creation of regional or global production network by multinational firms originated from AMS is still incipient and one reason is that these southeast multinational firms have different and very country-specific interests. This means that the single production base is essentially a seamless area for non-ASEAN multinational firms to produce for exports to global markets. This reinforces the dependence of ASEAN growth on the global economy for the best when worldwide growth is buoyant and for the worse as epitomized by the 2008-2009 global recession.

This does not mean that all AMS are alike and that the single production base can be easily summed up in global production networks. Chaponnière and Lautier in chapter 2 show that both Indonesia and Viet Nam lie outside what they call “the ASEAN integrated circuit” to highlight the importance of electronics components’ trade inside global production network. Indonesian and Vietnamese export structures are quite dissimilar to that of Malaysia, Philippines or Thailand which constitute with Singapore the core of the ASEAN integrated circuit. This is of the utmost importance as Indonesia is by far the biggest ASEAN economy and plays an increasing role in global politics as reflected by its participation in the G20. According to data presented by Athukorala in chapter 3, manufacturing plays less role in

Indonesia than in other AMS amounting to 54% of its non-oil exports against 72% on average for total ASEAN and network products account for 18% of non-oil exports versus 52% for total ASEAN. Exports of natural resources are much more important than in any ASEAN founders creating a “Dutch Disease” challenge to policy makers as the exchange rate tends to appreciate and makes other traditional exports (including tourism) less competitive; and the stock of realized FDI is the lowest in ASEAN alongside the Philippines. According to Athukorala, multinational firms have traditionally shunned Indonesia as network production location. This context explains why Indonesia appears as “precariously open” (Basri and Hill, 2011) and protectionism is still widely shared among Indonesian business elites and their support in the state apparatus who would stand to lose from a dramatic openness. Indonesia clearly epitomizes the struggle that exists in all AMS between free trade reformers to be found in the technocracy most linked to global firms and international institutions and the opponents representing small and medium sized enterprises operating alongside a small number of big local enterprises linked in one way or another to the government, state-owned companies and local banks, whose boards include many bureaucrats, politicians and militaries. Since the reformers have not yet won a decisive victory against their opponents, like in the European Union, the ongoing struggle explains the “work-in-progress” character of the AEC highlighted by Chaponnière and Lautier in their conclusion.

This also explains why the removing of non-tariff barriers and other impediments to trade has been slower than expected as depicted in chapter 7. Worse, Duval and Feyler show that “...non-tariff comprehensive trade costs within ASEAN remain sometimes higher than those with other subregions”. They are higher than those between China, Japan and the Republic of Korea which have no formal single trade agreement in place between them. Duval and Feyler’s findings suggest that the level of trade integration between Indonesia, Malaysia, the Philippines and Thailand is “... possibly lower than the one between these

economies and the three North-East Asian economies". These NT-CTC are also higher between these four AMS founders and the group formed by Cambodia, Lao PDR, and Viet Nam than with European Union and North America. They did not significantly decrease between 2001 and 2012 despite the AEC implementation agenda. In a way, these findings recoup those of Athukorala which points to a strong integration of AMS with Northeast Asia, and among them China, through global production networks. At the same time, they show that although the elimination of tariffs by AMS on intra-AEC trade is a real and important achievement, the single market will remain a remote objective if non-tariffs barriers remain in place and if laws and regulations governing markets do not harmonize. The outcome of these remaining impediments to the ASEAN single market is that the share of the intra-ASEAN trade in total AMS trade has not significantly increased since 2003 and remains around ¼ mark. Duval and Feyler conclude with policy recommendations pointing to the possibility of reducing significantly trade costs arising from non-tariff barriers between AMS. One important source of high trade costs as discussed in chapter 3 are diverse and stringent RoO and in general high complexity of trading terms associated with a web of different trade agreements under implementation by AMS. Benefits from elimination of these extra costs of trade as well as regulatory barriers in diverse services activities are well proven by researchers and intuitively understood by business. But the question remains: Why is the political will to do it so weak?

Anukoonwattaka in chapter 6 and Aflouk, Mazier and On in chapter 5 address the exchange rate issue of ASEAN economic integration which again reflects the growing importance of global production networks. Anukoonwattaka studies how GVC challenge the prevailing policy thinking about how trade responds to a change in exchange rate between AMS and China where most of assembly of components is now realized. For instance, a depreciation of the Chinese currency may decrease the incentive to import components from

ASEAN but if it boosts Chinese final exports the overall effect may be the continued exports of components from ASEAN even though of a lesser magnitude. Her empirical investigations reveal that this is not necessarily the case but is product-specific (with stronger impacts for electronics, apparel/footwear and automobiles) and the countries involved. This creates more complexity in the definition of exchange rate policy, but one recommendation is that GVC participating industries would benefit from exchange rate coordination between GVC participating countries. This is precisely the point to which Afrouk, Mazier and On bring new insights. They show that East and Southeast Asian countries have adopted intermediate exchange rate regimes with a rather wide spectrum which have given them useful room of maneuver to limit the appreciation of their currencies in the 2000s. At the same time these countries need more exchange rate coordination due to their high level of economic and financial integration and to limit the risk of contagious crisis. But there is no consensus on the way this coordination could be organized. The failure of the euro zone shows that a too rigid exchange rate system and a fortiori a project of a monetary union is not appropriate when countries are at very different levels of development. This is precisely the case of AMS and Northeast Asian countries not to mention India, Australia and New Zealand. To explore the various alternative exchange rate regimes around a possible Asian Currency Unit or Yuan block and its numerous variants, the authors use a four-country/area (two AMS, China, and the rest of the world) stock-flow consistent model to simulate what happens when China benefits from an initial gain in competitiveness vis-à-vis AMS or when one AMS suffers from an initial loss of competitiveness. These simulations lead them to the following conclusions. When the yuan and ASEAN currencies are pegged to the currencies of the rest of the world (which include the dollar) an initial Chinese competitiveness gains leads to a boom in China at the expense of AMS which incur a slowdown of growth and large current account imbalances as there is no exchange rate adjustment mechanisms. When the yuan is pegged

but AMS currencies are floating, an initial gain in competitiveness of China can be balanced thanks to AMS currencies' depreciation against the rest of the world and growth can quickly recover. Similarly, in case of an initial loss of competitiveness of one AMS against the other and China, the negative growth slowdown and current account deficit remain on the long-term in case of fix peg of Asian currencies with the rest of the world or in case of a yuan area, because there is no adjustment mechanism. On the contrary, more flexible regimes like generalized floating or a pegged yuan and floating AMS currencies allow a progressive growth recovery and a reduction of current account deficit thanks to a depreciation of the currency of the AMS affected by the initial shock. The same result is obtained with an Asian Currency Unit but more slowly because the adjustment is realized step by step. The general conclusion is that flexible exchange rate regimes perform always better than fixed ones. For Asian integration, this means that a yuan area would have the same negative effects for ASEAN as the euro has for Southern Europe. An Asian currency unit, i.e. a basket currency, would perform much better as it would allow regular adjustments of the exchange rates but its capacities are very sensitive to the precise mix of currencies participating in the Asian Currency Unit. For instance, such a Unit without the yuan is well suited for shocks originating from China, but more problematic for intra-ASEAN shocks. But in any case, the Asian Currency Unit is a remote possibility that depends on a strong and long-term political will based on shared vision of common interests which does not necessarily exist yet.

A third set of conclusions deals with the effects the ASEAN economic integration may have on jobs, wages, poverty, inequality and social cohesion.

Kee, Fan and Phu start with the hypothesis that regional integration may spur further the structural change associated with the development process which entails a movement of workers from one sector of an economy to another beyond what may be expected in the absence of integration. They use an innovative computable general equilibrium model the

labor market impact of deepening ASEAN trade integration. The innovation comes from the inclusion of intra-industry firm heterogeneity and of three labor skill levels (high, medium and low). The model is used to simulate the impact on labor market of an AEC scenario based on the complete removal of tariffs, the reduction by half of non-tariffs barriers and a 20% reduction of fixed trade costs. The results show that GDP in ASEAN is 7.1% higher in 2025 relative to the baseline (2007), with lower-income AMS gaining the most and Indonesia and other AMS gaining the least. The degree of economic dependence on international trade and the share intra-ASEAN trade account for a large part of the variation in GDP gains. The removal of non-tariffs barriers plays an important role in the realization of the gains which underscores the importance of Duval and Feyler's findings in chapter 7.

One important result of Kee, Fan and Phu is the evaluation of job creations. Overall gains in total employment in 2025 range from 130 thousand in Lao PDR to 6 million in Viet Nam. The share of agriculture continues to decline up to 2025, the AEC scenario accelerating this pattern in Cambodia, Indonesia, Lao PDR and Viet Nam but slows in the Philippines and Thailand. This structural change is decisive for the continued improvements of living standards and productivity gains and lower poverty incidence providing those workers find jobs in higher productivity services and manufacturing which is far from guaranteed. There is a need to carefully monitor the quality of jobs created and the gender impact of ASEAN integration and adopt the necessary policies to avoid the rise of vulnerable employment and informal economy.

The relevance of job skills is then addressed by Chongvilaivan in chapter 10 and Puutio in chapter 11.

Chonvilaivan approaches the issue of the proliferation of outsourcing activities in ASEAN fueled principally by global production networks and their effect on labor

productivity and employment. He recalls that seen from developed economies' perspective, outsourcing is widely deemed as the exports of jobs, usually low-skilled and low-productivity jobs. However, seen from ASEAN's perspective, outsourced jobs may rise labor productivity and translate into higher wages and standard of living. He presents such an example in the case of Singapore's manufacturing industries during 1995-2004. As a consequence, outsourcing tends to increase wage inequality especially when outsourced jobs are skill-intensive. He provides evidence for this in the case of manufacturing industries in Thailand although the intensity of the relation varies with the industry and there are even exceptions. He finally gives the example of Viet Nam to show that outsourcing helps ASEAN firms to tap on technology diffusion and spillovers. The overall outcome is that as "... firms become more and more specialized in certain stages of production, productivity of and demand for skilled workers rise, but unskilled workers – the largest pool of labor supplies in most ASEAN countries – tend to fall out from production fragmentation". It rests on AMS to develop adequate policies to upgrade education and skills and one may wonder if the poorest AMS where unskilled workers are the most numerous are the best equipped to develop such policies.

Puutio describes the importance of creative economies both as source of growth and trade and as a source of skilled jobs. The success of Japan and the Republic of Korea in manga and music, for instance, generates a flow of exports in cultural products and services but also stimulates the sales of ICT products such as computers, tablets, smartphones, and TV from Japanese and Korean brand names. There is no doubt that AMS could mobilize their strong cultural heritage to develop a whole range of creative economies with positive effects on the creation of skilled jobs. Puutio describes this potential taking by the examples of Cambodia, Viet Nam and Singapore. He reminds that ASEAN "... addresses many of the enabling factors of creativity through its efforts to establish an ASEAN Socio-Cultural

Community which augments the AEC”. But he observes that “... concrete accomplishments in promoting creativity on the regional level are all but non-existent”. One of the reasons is the weak protection of intellectual property rights in the region except for Singapore which has the strongest creative economies of the region. This touches upon difficult issues: the weak rule of law and the reluctance or incapacity of some AMS to protect property rights, in ICT for instance, because piracy makes software free. At the same time, the generalization of strict property rights to all aspects of creative activities can turn into obstacles to creativity. It can also generate legal and trade conflicts such as who owns the ownership rights of Balinese dance or cook recipe between AMS. It is clear that on all these issues ASEAN provides no solution.

The chapter of Cripps and Khurasee provides a macroeconomic assessment of how the economic growth in ASEAN could be oriented by coordinated policies promoted by the AEC in the direction of a better income distribution between and within AMS. They rely on macro model (the World economy database and CAM model) to engage a prospective analysis that defines precisely what could be a “cohesion” scenario. This scenario includes exchange rate policies, competition policies, agricultural policies and government services standards. The results show that these policies generate an increase of around 0.5% per year in real growth of the ASEAN economy compared to a baseline. The increase is concentrated in lower- and middle-income AMS with Lao PDR and Indonesia gaining the largest share (respectively 2.1% and 2%), followed by Cambodia, the Philippines, and Myanmar. Higher income AMS like Singapore, Malaysia and Thailand have lower GDP growth reflecting a deliberate shift of competitive advantage in favor of lower income AMS. This cost would be “... compensated by improved security, sustainability of development with a stronger shared identity and reduced dependence on low-wage migrant workers”. They then describe on a country and policy basis the details of this cohesion scenario. Of course, the political conditions for the

realization of this cohesion scenario are far from being reunited but the interest of this prospective analysis is to show in a coherent macroeconomic way, what could be done to allow for the emergence of a cohesive ASEAN.

The role of social cohesion is further explored by Lautier and Jetin in chapter 12 and 13.

In a very original work, Lautier tackles a complex and critical issue for AMS which is countries' resilience to crisis. Starting with the fact that structural change is the main engine of long-term catch-up processes, he observes that structural change accelerated by international trade and regional integration increases the vulnerability of an economy and the risk of crisis contagion. He then argues that the capacity to adjust to these crises is a key determinant in the long-term growth differences in the developing world. He hypothesizes that the capacity to recover quickly from crises depends on what he calls "economic resilience" which combines state effectiveness and social cohesion. When government and social cohesion is high the loss of growth is minimized because governments implement quickly adaptive measures and social conflict arising from crises is less intense. Using innovative indexes of state effectiveness and social cohesion he then shows that East Asia displays the highest level of state effectiveness and social cohesion compared to other regions of the world and Southeast Asia an intermediary level with wide discrepancies between Singapore at the highest level and Cambodia at the lowest. He then tests the relation between loss of growth and a combined index of state effectiveness and social cohesion which represents economic resilience and reveals a significant relationship between the two. A high economic resilience is associated with a lower loss of growth. Southeast Asia history fits well with the relationship. His conclusion is that social cohesion and state effectiveness are key conditions to benefit from economic openness and in particular regional integration.

Jetin analyzes the role of social cohesion from a different perspective in chapter 13. ASEAN has promised to deliver poverty reduction and wellbeing to its people thanks to inclusive growth and equitable access to opportunity of human development. To assess such a claim, he starts by looking at the evolution of living standards since 1960 and detects no convergence trend until the end of the nineties between the countries that would form the ASEAN in 1967 despite the adoption of various measures of economic integration. Only since the years 2000 such a convergence seems to be at work due to the catching up of low-income AMS with Thailand, what he calls a convergence to the middle because Thailand is not closing the income per capita gap with the richest AMS, namely Malaysia, Brunei and Singapore. These mixed results regarding between-country inequality are accompanied by an increase in within-country income inequality in almost all AMS or at best its stagnation at a high level. Jetin then assesses the importance of this high-income inequality for ASEAN's social cohesion. Inequality may not be perceived as unfair when absolute poverty decline, and people have the feeling that the future is open thanks to high growth. To deepen the analysis, he uses the OECD framework which defines social cohesion as a combination of social exclusion, social capital and social mobility and calculates relevant indexes of these three components. His results reveal a contrasted situation among AMS: Cambodia is a country where social cohesion is at risk because a high share of people beyond the poor are dissatisfied with their living standards and social capital is low. The only positive element for social cohesion is a high level of perceived social mobility, the feeling that by working hard one can improve its personal situation. At the other extreme of the spectrum, Singapore is a highly cohesive society featuring a high level of satisfaction with living standards and a high level of trust. But paradoxically, perceived social mobility is rather low. Indonesia epitomizes the case of an intermediate level of social cohesion. It has a high share of dissatisfied people, but a high level of social capital and a high perceived level of social mobility. It is

representative of the majority of AMS. Its future stability depends on its capacity to deliver its promises: reducing the motives for dissatisfaction and materializing upward social mobility.

Finally, the book delivers another set of important conclusions regarding connectivity and its underpinning, infrastructure, and their effect on inequality. The Master Plan on ASEAN Connectivity (MPAC) defines connectivity as the physical, institutional, and people-to-people linkages that comprise the foundation support and facilitative means to achieve the economic, political security and socio-cultural pillars towards realizing the vision of an integrated ASEAN Community. According to ASEAN leaders, the construction and upgrading of infrastructure and the harmonization of the regulatory framework would significantly narrow the development gap within ASEAN.

This question is addressed by Fau in chapter 14, using a geographical approach. Focusing especially on the MPAC's development projects, her investigation reveals that there is no mechanical effect between the growth of transport flow and economic development. Infrastructure building just provides new opportunities, but the reality of its economic impact depends on many factors: economical (manufacturing capacities of different areas, production costs, tariff and legal barriers, specific demands) and political (strategies of international organizations such as the ADB, policies implemented by national governments) and social (capacity of adaptation of local populations). This explains why the success of certain spatial strategies, for example, economic corridors in mainland Southeast Asia or special economic zones in Thailand, cannot be duplicated with similar achievement in other territories: economic corridors are not suited to the operation of maritime areas, and special economic zones in Cambodia and Lao PDR are merely enclaves unable to bring growth to their immediate environment. Building new infrastructures may even play a negative role in territorial change. Enclosure is a protection from competition, and therefore if accessibility improves, competition increases. This explains the reluctance of the Indonesian government

to become more committed in the implementation of the ASEAN connectivity plan as it wants to protect a still fragile economy. On the contrary, the construction of transnational infrastructures in Lao PDR has certainly led to the opening up of this long-isolated territory, and increased integration into the world economy, but at the cost of an even greater marginalization of part of the Laotian population. A final important conclusion of Fau deals directly with ASEAN integration into broader Asia-wide settings. Connectivity has become a major power stake in regional competition between China, India, and Japan but also between AMS. It is also a stake for global transport firms like shipping companies who decide whether or not to use a port. The outcome result does not guarantee that internal connectivity within ASEAN and external connectivity outside ASEAN will be coherent and fit people needs.

On that matter, Cabasset in chapter 15 provides a case study on spatial inequality in Indonesia, the biggest AMS. She recalls that spatial inequality is an old issue that was compounded but masked over 30 years by the Suharto regime. The fall of this dictatorial regime in May 1998 did put an end to growing spatial inequalities and worse they were compounded by an increase of income inequality among individuals within provinces and districts of the whole Indonesia even in the richest parts. Although many economic factors are at play to explain the rise of inequality, Cabasset stresses the role of local governance as it can mitigate but also increase inequality. She shows that corruption and limited capacity of civil servants which traditionally plague state effectiveness to use Lautier's word, were amplified by the decentralization process of the beginning of the 2000s contributing to the rise of inequality. This also plays a role in the building of ASEAN community. Few districts' heads and civil servants have a clear understanding of the local territory they are supposed to manage, and many have poor knowledge of the national, of ASEAN and the international contexts and concerns. In this context, the increasing internationalization, and notably the regional reinforcement of integration with the AEC in 2015, is going to constitute another

new challenge for local governments. These long-lasting characteristics do not match with the expectation that Indonesia will gain real leadership in ASEAN and become a developed country and a prominent economic power in the world by 2025 as officially proclaimed.

This case study of the biggest ASEAN economy shows the distance that exists between the ambitious goals and the political and institutional reality on the ground, as if the strength of economic development promised by the AEC would be enough to push for a solution of all the pending problems. Out of three communities the AMS are pursuing, AEC is much more advanced than the Socio-Cultural or Political and Security Communities. AEC is mostly based on the trust that free intra-ASEAN trade, investment and mobility of skilled people will lead to a formation of a single market. No attempts in terms of a transfer of sovereignty of AMS to some supra-national institution tasked to drive integration has ever been made. Thus the question could be raised about the prospects of such institutionally-shallow integration in view of contemporary processes to establish other regional blocs, similarly based on freedom of flows of goods, services, capital and people while also considering much more ambitious inroads towards regulations of competition policies, government procurement, IPRs, labor and environment standards than the AEC. The network linkages between individual AMS and, for example, some of the negotiating parties in the RCEP are much stronger than among AMS and thus deeper liberalization in RCEP might in fact hinder, at least temporarily the full completion of all pillars under the AEC. On the other hand, the same links may cause even further fragmentation between tight-knit economic network existing between AMS and Northeast Asia on one side and other subregions in Asia, in particular Central Asia and Pacific. Economic theory does not offer much to understand a priori impacts of these simultaneous processes of integration (AEC, RCEP, TPP and FTAAP) apart from scenarios-based modeling using CGE-type models. However, given that too little is known about the depth of tariff elimination, non-tariff barriers removal and other commitments, nor we have a

clear idea of the transition periods, any such numerical modeling turns out to be highly hypothetical or even speculative. Chapter 3 thus uses a more orthodox approach of looking at factors impacting trade creation and trade diversion effects. It concludes that these effects will depend on how wide the differences might be between margins of preference in each agreement. In principle, individual countries in the AEC might be harmed by the regional integration at a broader level (RCEP or TPP) if their current intra-AEC trade is diverted to either non-ASEAN members of RCEP or TTP. Furthermore, there are countries not included in AEC, RCEP or TPP negotiations, especially several Asian LDCs, and they could find themselves even more distanced from the dynamic East and Southeast Asia definitely suffer from. Two solutions are found to minimize these results from happening: 1) need to rationalize number of existing FTAs and retain those which are allowing for more flexible rules (for example co-equal RoR), binding, at the regional level, all unilateral services and investment liberalization, and 2) open accession to all other Asian countries especially LDCs under the terms negotiated already among the members of RCEP.

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