

MAKING OF THE ASEAN COMMUNITY: ECONOMIC INTEGRATION AND ITS IMPACT ON WORKERS IN SOUTHEAST ASIA

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ABSTRACT

This paper examined the ASEAN integration and its impacts on the workers in the region. It used the theories of economic integration to explain how the economic integration would effect the employment situations and working conditions of the workers in the ASEAN countries. It is interesting to note that it took more than 40 years to create the Free Trade Area (FTA) in the region after the establishment of ASEAN in 1967. Moreover, it is very well-known fact that the AFTA still have not adopted the Common External Tariff (CET). The free movement of goods and services under the FTA tends to have least direct effects on the workers in the FTA member countries. Furthermore, in 2003, ASEAN leaders agree to establish the ASEAN Community by 2020. However, ASEAN leader carefully excluded the free movement of labour under this “incomplete” Common Market named ASEAN Community. In short, these facts seem to indicate that ASEAN integration would have some indirect impacts on the employment situations and working conditions through foreign direct investment or international trade. However, ASEAN integration, so far, would have minimum direct impact on workers in ASEAN countries because the free movement of workers was carefully excluded from discussion and negotiation of making ASEAN Community.

Keywords: Economic integration, workers, ASEAN Community

INTRODUCTION:

It is well-known fact that the ASEAN (Association of Southeast Asian Nations) is one of the most successful and most ambitious economic integration in the world. The association was established on August 8, 1967 at the capital of Thailand with signing of the ASEAN Declaration, or so-called the “Bangkok Declaration” (ASEAN, 2011a).¹

The ASEAN consists of the following ten member countries, 1)Brunei, 2)Cambodia, 3)Indonesia, 4)Laos, 5)Malaysia, 6)Myanmar, 7)the Philippines, 8)Singapore, 9)Thailand and 10)Vietnam. The original member countries of the ASEAN are Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei became member state in 1984 while Vietnam joined ASEAN in 1995. Two more countries, Laos and Myanmar became the ASEAN member countries in 1997. Finally, Cambodia joined the ASEAN in 1999 (ASEAN, 2011a).²

According to the Bangkok Declaration, there are seven main aims and purpose of the ASEAN. First of all, ASEAN aims to promote economic, social and cultural development in the region. Secondly, ASEAN aims to promote regional peace and stability. Thirdly, ASEAN aims to promote active regional collaboration. Fourthly, ASEAN aims to provide assistance to each other. Fifthly, ASEAN aims to collaborate more effectively for the utilization of resource and expansion of international trade, Sixthly, ASEAN aim to promote the Southeast Asian Studies. Finally, ASEAN aims to maintain closer relationship with other international organizations (ASEAN, 2011a).

On February 24, 1976, the leaders of original five ASEAN countries, namely, 1)Lee Kuan Yew, 2)Ferdinand Marcos, 3)Hussein Onn, 4)Kukrit Pramoj, 5)Suharto signed an important document called the “Treaty of Amity and Cooperation in Southeast Asia” (TAC) at Denpasar, Bali. This treaty became a underlying foundation of unique characteristics of ASEAN, or so-called the “ASEAN Way” (ASEAN, 2011b).

According to the treaty, there are six fundamental principle of ASEAN. The first principle is the “mutual respect”. The second principle is the “freedom from external interference”. The third principle is the “non-interference in international affairs of other member countries”. The fourth principle is the “peaceful settlement of dispute”. The fifth principle is the “renunciation of use of arms”. Finally, the sixth principle is the “effective collaboration” (ASEAN, 2011b).

It is very interesting to note that there is huge discrepancy among ASEAN member countries in terms of their population, total area and income. First of all, in term of population, the largest country in ASEAN is Indonesia with population of 231 million. The second largest country is the Philippine with population of 92 million, followed by Vietnam with population of 87 million.

By contrast, the smallest country in ASEAN, in term of population, is Brunei with population of only 0.4 million. The second smallest country in ASEAN, in term of population, is Singapore with population of 4.9 million, followed by the Laos with population of 5.9 million.

Secondly, in term of total area, the largest country in ASEAN is Indonesia with total area of 1.860 million square kilometres. The second largest country is Myanmar with total area of 0.676 million square kilometres, followed by Thailand with total area of 0.513 million square kilometres.

On the other hand, the smallest country in ASEAN, in term of total area, is Singapore with total area of only 0.7 thousand square kilometres. The second smallest country in ASEAN, in term of total area, is Brunei with total area of 4 thousand square kilometres.

Thirdly, in term of total national income, Indonesia has the largest Gross Domestic Product (GDP) in ASEAN and it amounted to US\$ 546 billion in 2009. Thailand has second largest GDP and it amounted to US\$ 264 billion, followed by Malaysia and its GDP amounted to US\$193 in the same year.

By contrast, Laos has the smallest GDP in ASEAN and it amounted to only US\$ 5.5 billion in 2009. Cambodia has the second smallest GDP and it amounted to US\$ 10.3 billion, followed by Brunei and its GDP amounted to US\$ 10.7 in the same year.

Finally, in term of income per person, Singapore is the wealthiest country in ASEAN and its per capita GDP amounted to US\$36,631 in 2009. The second wealthiest country is Brunei and its per capita income amounted to US\$26,486, followed by Malaysia and its per capita income amounted to US\$6,822 in same year.

On the other hand, Myanmar is the least wealthy country in ASEAN and its per capita GDP amounted to

¹ Other successful economic integrations in the world are the European Union (EU) and the North American Free Trade Agreement (NAFTA). The origin of the EU was a international organization called the “European Coal and Steel Community” (ECSC) which was established on July 23, 1952 with signing the Treaty of Paris. On the other hand, the NAFTA came into force on January 1, 1994.

² Currently, EU consists of 27 member states while the NAFTA consists of 3 countries only. The original member states of EU are: France, (West) Germany, Belgium, Luxembourg, the Netherlands and Italy. The member countries of NAFTA are: Canada, Mexico and United States and it does not expand its membership to other countries.

only US\$419 in 2009. The second least wealthy country is Cambodia and its per capita income amounted to US\$692, followed by Laos and its per capita income amounted to US\$910 in same year.

TABLE 1: BASIC FACT OF ASEAN (2009)

	Population (Million)	Area (Thousand Km²)	GDP (US\$ Billion)	GDP Per Capita (US\$)
Brunei	0.4	5	10.7	26,486
Cambodia	14	181	10.3	692
Indonesia	231	1860	546	2,363
Laos	5.9	236	5.5	910
Malaysia	28	330	193	6,822
Myanmar	59	676	24	419
Philippines	92	300	161	1,749
Singapore	4.9	0.7	182	36,631
Thailand	66	513	264	3,950
Vietnam	87	331	96	1,119
Total	591	4,435	1,496	2,532

Source: "Selected basic ASEAN indicators" from ASEAN (2011c)

There is also huge difference in the labour market condition in ASEAN countries. In term of labour force, Indonesia has the largest labour force in ASEAN. Indonesia's total number of labour force amounted to 116 million and 108 million workers are employed in 2010. Vietnam has the second largest labour force in the region. The total number of labour force in the country amounted to 50 million and 49 million workers are employed. The Philippines has the third largest labour force in the region. Total number of labour force in the country amounted to 38.8 million and 36 million workers are employed.

By contrast, Brunei has the smallest labour force among ASEAN countries. Brunei's total number of labour force amounted to only 198 thousand and 193 thousand workers are employed in 2010. Laos has the second smallest labour force. The total labour force in the country amounted to 2,776 thousand and 2,738 thousand workers are employed. Singapore has the third smallest labour force. Singapore's total number of labour force amounted to 3,135 thousand and 3,045 thousand workers are employed.

In term of unemployment rate, the Philippines' unemployment rate is highest in ASEAN and its unemployment rate is 7.4 percent in 2010. Indonesia has second highest unemployment rate and its unemployment rate was 7.1 percent, followed by Myanmar and its unemployment rate was 4.0 percent in 2007.

On the other hand, Thailand's unemployment rate is lowest in ASEAN and its unemployment rate is 1.0 percent in 2011. Laos has second lowest unemployment rate and its unemployment rate was 1.3 percent in 2005, followed by Cambodia and its unemployment rate was 1.8 percent in 2001.

Next, in term of male labour force participation (MLFP) rate, Indonesia has the highest MLFP in the ASEAN and its MLFP rate is 83.76 percent in 2010. Myanmar has the second highest MLFP and its MLFP rate is 82.04 percent in 2007, followed by Vietnam and its MLFP rate is 82.0 percent.

By contrast, Cambodia has the lowest MLFP in the ASEAN and its MLFP rate is 72.1 percent in 2001. Brunei has the second lowest MLFP and its MLFP is 76.4 percent in 2007, followed by Singapore and its MLFP rate is 76.5 percent.

Finally, in term of female labour force participation (FLFP) rate, Vietnam has the highest FLFP in the ASEAN and its FLFP rate is 73.0 percent in 2010. Cambodia has the second highest FLFP and its FLFP rate is 64.4 percent in 2001, followed by Thailand and its FLFP rate is 64.2 percent.

By contrast, Malaysia has the lowest FLFP in the ASEAN and its FLFP rate is 46.1 percent in 2010. The Philippines has the second lowest FLFP and its FLFP rate is 49.7 percent in 2007, followed by Myanmar and its FLFP rate is 49.8 percent in 2007.

TABLE 2: LABOUR MARKET CONDITION IN ASEAN (2010)

	Labour Force (thousand)	Employed workers (thousand)	Unemployment Rate (percentage)	Male Labour Force Participation (percentage)	Female Labour Force Participation (percentage)
Brunei	198	193	2.6	76.4	58.0
Cambodia (2001)	6,309	6,243	1.8	72.1	64.4
Indonesia	116,527	108,207	7.1	83.7	51.7
Laos (2005)	2,776	2,738	1.3	n/a	n/a
Malaysia	11,517	11,129	3.4	78.7	46.1
Myanmar (2007)	n/a	n/a	4.0	82.0	49.8
Philippines	38,894	36,025	7.4	78.5	49.7
Singapore	3,135	3,045	2.8	76.5	56.5
Thailand	38,643	38,037	1.0	80.7	64.2
Vietnam	50,392	49,048	2.6	82.0	73.0

Source: "Statistical Database System", from Asian Development Bank (2011)

Note: n/a is an abbreviation of the "not available"

This paper consists of five sections. Following this introductory section, the second section examines the creation of ASEAN community. The third uses the theory of economic integration to examine the future of ASEAN. The fourth section is conclusion.

ASEAN INTEGRATION: MAKING OF ASEAN COMMUNITY:

The ASEAN integration started as an informal production network led by Japan after the World War II. This production network was known as the "Flying Geese" pattern of economic integration, which, in effect, could be regarded as the first attempt at ASEAN integration (Furuoka, 2005).

According to Furuoka (2005), it took decades for Japan to restore its economy after the war. The huge US market has been vital for Japan's export-related industries. In order to bolster its increasing economic power, Japan embarked on creating a production network in East Asia.

Zhang (2011) pointed out that Japan played a leading role to create the "Flying Geese" production network in East Asia. This production-based economic integration could explain the rapid expansion of inter-regional and inter-industrial trade in the region. More importantly, the "Flying Geese" pattern of economic integration in ASEAN is a result of market force. There is no formal mechanism for the economic integration in ASEAN.

However, the "Flying Geese" pattern of economic integration was destroyed by the Asian Financial Crisis of 1998-1999. Simon Tay (2002) commented that the Asian economic crisis has scattered the flock of geese that followed the Japanese model of development.

On the other hand, formal process of ASEAN integration took place by creating the free trade area in the ASEAN or so-called the "ASEAN Free Trade Area" (AFTA). According to the Ministry of International Trade and Industry (MITI), Malaysia, the creation of the AFTA started in 1992. The six countries of ASEAN member countries or so-called ASEAN-6, namely Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand, signed the AFTA agreement at the ASEAN Summit in Singapore on January 28, 1992 (MITI, 2011).

There are three main objective of creating of the AFTA. The first objective of the AFTA is to establish a single market in the South East Asia. The second objective of the AFTA is to attract multinational corporations (MNCs) to invest in the region. Third objective of the AFTA is to increase international trade and investment among ASEAN countries (MITI, 2011).

According to Malaysia's MITI, the creation of the AFTA is the ASEAN countries' response to the emerging other economic integration in other regions, such as the North American Free Trade Agreement (NAFTA) or the expansion of the European Union (EU) (MITI, 2011).

Under the Common Effective Preferential Tariffs (CEPTs) scheme, the ASEAN-6 countries successfully lowered intra-region tariffs. The tariff rates of more than 99 percent of all products in the CEPT inclusive list have been brought down to 0-5 percent range by January 1, 2010 (ASEAN, 2011d)

At the Ninth ASEAN Summit at Bali, Indonesia on October 3, 2003, ASEAN leaders agree to establish the ASEAN Community by signing a declaration known as the Bali Concord II. There are three pillars of the

ASEAN Community, namely 1) political and security cooperation, 2) economic cooperation and 3) socio-cultural cooperation (ASEAN, 2011e).

Furthermore, at the Twelfth ASEAN Summit at Cebu, the Philippines on January 13, 2007, the ASEAN leaders agreed to accelerate the creation of the ASEAN Community by 2015 by the signing of another declaration known as the “Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community” (ASEAN, 2011f).

The ASEAN leaders signed the constitution of the ASEAN community, the “ASEAN Charter” at the Thirteenth ASEAN Summit at Singapore on November 20, 2007, (ASEAN 2011g). The ASEAN Charter can be considered as a firm foundation of the ASEAN community by providing its legal and institutional framework (ASEAN, 2011g).

In other words, the adaptation of the ASEAN Charter would transform the ASEAN integration from the market force-based regional organization into the regulation-based one. However, Pushpanathan commented that the ASEAN Charter is a “form” rather than “substance”. The substantial outcome would be achieved only after the regulation and institution would become more mature (Pushpanathan, 2009).

More importantly, the ASEAN Charter would ensure that the ASEAN member countries would speak out other member countries’ political situation. The ASEAN Secretary-General Surin Pitsuwan commented that the ASEAN member countries could not discuss about the internal matters of each member in the past. However, after the adaptation of the ASEAN Charter, the ASEAN member countries are able to express their concerns, to give warnings, to ask for explanations (Hotland, 2008).

ASEAN INTEGRATION AND ITS IMPACTS ON WORKERS:

There are four stage of economic integration. The first stage of economic integration is known as the Free Trade Area (FTA). The main characteristic of the FTA is that all member countries will remove the tariffs on other member countries’ products. However, each member country would retain its independence in imposing individual tariffs on non-member countries’ products (Appleyard, *et al*, 2006; Holden, 2003).

The second stage of economic integration is known as the Custom Union (CU). The main characteristic of the CU is that all member countries will remove the tariffs on member countries’ products. At same time, all member countries would impose same tariffs on non-member countries’ product. This tariff is called the “Common External Tariff” (CET) (Appleyard, *et al*, 2006; Holden, 2003).

The main purpose of the CET is to prevent the trans-shipment strategy. When each country imposed on own external tariffs, non-member countries would export a product to the country which has the lowest external tariff. This strategy is called the “trans-shipment strategy”(Appleyard, *et al*, 2006).

The third stage of economic integration is known as the Common Market (CM). The main characteristic of CM is that all member countries will remove the tariffs on member countries and adopt the CET. At same time, member countries remove all barriers to the factor movement among member countries. It means that labour and capital will move freely without barriers in the CM (Appleyard, *et al*, 2006; Holden, 2003).

The final stage of economic integration is known as the Economic Union (EU). The main characteristic of the EU is that all member countries will remove all barriers to the free movements of goods, services, labour and capital and will adopt the CET. At same time, all member country would unify the economic institutions and adopt common economic policies (Appleyard, *et al*, 2006; Holden, 2003).

The four stages of economic integration can be summarised in Table 3.

TABLE 3: FOUR STAGE OF ECONOMIC INTEGRATION

Stages of economic integration	Main characteristics
Free Trade Area (FTA)	No tariffs among member countries
Custom Union (CU)	FTA + common external tariff (CET)
Common Market (CM)	CU + free movement of labour and capital
Economic Union (EU)	CM + common economic policy and institution

Source: Appleyard et al. (2006) and Holden (2003)

First of all, a famous example of the Free Trade Area (FTA) is the North American Free Trade Agreement (NAFTA). The origin of the NAFTA is the Canada-US Free Trade Agreement which was signed on October 4, 1988. It expanded its membership to Mexico and become the tripartite FTA in 1994 (Cockerham, 2010).

Secondly, the well-known example of the Custom Union (CU) is the Southern African Customs Union (SACU). The SACU is the oldest custom union which was established in 1910 and consists of following five countries, 1)Botswana, 2)Lesotho, 3)Namibia, 4)South Africa and 5)Swaziland. The SACU will collect the import duties on products from non-member countries and tariff revenues would be allocated to member countries following a revenue-sharing formula (SACU, 2011).

Thirdly, a famous example of the Common Market (CM) is the European Economic Area (EEA) which came into force on January 1, 1994. The CM consists of twenty-seven member countries of the European Union (EU) and three member countries of the European Free Trade Association (EFTA) or so-called EEA-EFTA countries, namely, Iceland, Liechtenstein and Norway (EFTA, 2011).

Fourthly, the well-known example of the Economic Union (EU) is the European Union (EU). The origin of the European Union is the European Coal and Steel Community (ECSC) was established by signing the Treaty of Paris on April 18, 1951. There were only six countries in 1951 and currently are twenty-seven member countries in the European Union (EU, 2011).

It is very well-known fact that the AFTA have not adopted the Common External Tariff (CET). In other words, the stage of ASEAN integration remains as the first stage of the Free Trade Area (FTA). The free movement of goods and services under the FTA tends to have least direct effects on the workers in the FTA member countries. Furthermore, in 2003, ASEAN leaders agree to establish the ASEAN Community by 2020. However, the ASEAN Community would not a “complete” Common Market in the all member countries would remove all barriers for the goods, service, labour and capital. In other words, the ASEAN Community would be a single market in which all member countries would remove barriers for goods, services and capital (Cockerham, 2010). It should be noted that ASEAN leader carefully excluded the free movement of labour under this “incomplete” Common Market named ASEAN Community.

These facts seem to indicate that ASEAN integration would have some indirect impacts on the employment situations and working conditions through foreign direct investment or international trade. However, ASEAN integration, so far, would have minimum direct impact on workers in ASEAN countries because the free movement of workers was carefully excluded from discussion and negotiation of making ASEAN Community.

CONCLUSION:

ASEAN is one of the most successful and most ambitious economic integration in the world. This paper examined the ASEAN integration and its impacts on the workers in the region. It used the theories of economic integration to explain how the economic integration would effect the employment situations and working conditions of the workers in the ASEAN countries.

It is interesting to note that it took more than 40 years to create the Free Trade Area (FTA) in the region after the establishment of ASEAN in 1967. Moreover, it is very well-known fact that the AFTA still have not adopted the Common External Tariff (CET). The free movement of goods and services under the FTA tends to have least direct effects on the workers in the FTA member countries. Furthermore, in 2003, ASEAN leaders agree to establish the ASEAN Community by 2020. However, ASEAN leader carefully excluded the free movement of labour under this “incomplete” Common Market named ASEAN Community.

In short, these facts seem to indicate that ASEAN integration would have some indirect impacts on the employment situations and working conditions through foreign direct investment or international trade. However, ASEAN integration, so far, would have minimum direct impact on workers in ASEAN countries because the free movement of workers was carefully excluded from discussion and negotiation of making ASEAN Community.

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