

# Integration in Regional Organizations -A Comparison of EU and ASEAN

Wensi Xu

Wuhan Technology and Business University, School of Management,  
Wuhan 430065, Hubei, China  
100827244@qq.com

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**Abstract.** This paper will evaluate the prospects of the ASEAN Free Trade Area (AFTA) approaching the level of sophistication of the European Union as a regional economic block. In the first part of this paper a brief overview of the EU and ASEAN history background will be given. It also includes a discussion of the similarities and differences of these two world regions that may have an impact on the viability of economic integrations. The next section deals with the issue of ASEAN's alternative futures: 1) key challenges that need to be addressed; 2) outcomes of alternative futures; 3) benefit for industry, government, stakeholder groups, etc.

## 1. Introduction

In the new century, the trend of the world economy regional grouping has been growing rapidly. The Association of Southeast Asian Nations (ASEAN) is a relatively successful one in the regional economic integration of developing countries. As the process of ASEAN market integration continues more and more rapidly, ASEAN needs to sustain the region's international competitiveness on a world scale such as the model of the EU. As a result, facilitating ASEAN economic integration has become a big issue. This paper will introduce ASEAN and the EU as the examples of the regional economic integration in Asia and the Europe, and discuss the similarities and differences between them in order to evaluate whether ASEAN has achieved the level of integration as the EU. The future facing ASEAN will be talked as well.

## 2. The overview of the EU and ASEAN

### 2.1 Regional economic integration

With the help of globalization of economic activity, the expansion of market and deepening of economic interdependency beyond state borders have been resulted. Regionalism, through which neighboring countries attempt to strengthen their economies by entering into some form of regional integration, has become a major trend. According to Ginkel and Langenhove, regional integration refers to the process by which states within a particular region increase their level of interaction with regard to economic, security, political, and also social and cultural issues [1].

Economic integration as one of the natures of integration refers to the amalgamation of separate economics into large regions, and it contains different measures aimed at abolishing any discrimination between these separate economics [2]. As shown in Table 1[3], there are 5 levels referring to the degree of economic integration, among which the evolution of the increasing number of customs unions and free trade areas (FTAs) is rapid in both developed and developing countries.

**Table 1. Levels of economic integration**

Type (Level)	Example	Membership	Principal features
Free Trade Area	North American Free Trade Agreement (NAFTA) Closer Economic Relations (CER)	United States Canada Mexico Australia New Zealand	No internal tariffs. Each country determines its own trade policies toward non-members.
Customs Union	Andean Pact	Bolivia Colombia Ecuador Peru	As for FTA above. Common external tariff on goods imported from outside.
Common Market	European Community (EC) before January 1994. There has not been another.	12 European countries.	As for customs union above. Labour and capital free to move. No restrictions on migration.
Economic Union	European Union (EU) as from January 1999.	25 European countries.	As for common market above. Common currency - European Monetary Unit (called the 'Euro') Harmonisation of tax rates. Common monetary and fiscal policies.
Political Union	EU has some elements; see previous level. The ultimate aim is a United States of Europe.	25 European countries, but may include 28 countries by 2007.	European parliament, directly elected by citizens of EU countries. Council of Ministers: government ministers for each EU country. An administrative bureaucracy. Court of Justice: the official interpreter of EU law.

## 2.2 ASEAN Free Trade Area (AFTA)

The ASEAN which was established on 8 August 1967, consists of Thailand, Indonesia, Malaysia, Singapore, and the Philippines. Membership now has expanded to Brunei, Burma, Cambodia, Laos, and Vietnam [4]. Its aims include strengthening the economic and social stability of the Southeast Asian region and guaranteeing peaceful and progressive national development [5].

As the development of global trade liberalization, the work undertaken within and outside ASEAN heightened the importance of the creation of AFTA at the fourth ASEAN Summit Meeting in January 1992. The original goal of AFTA was to establish a wide and open regional market with reduced tariffs ranging between zero and 5 per cent and with all non-tariff barriers (NTBs) and quantitative restrictions eliminated [6], which was to be achieved by means of the CEPT (Common Effective Preferential Tariff) scheme.

## 2.3 European Union (EU)

Committed to regional integration, the EU was established on 1 November 1993 after the ratification of the Maastricht Treaty, but it carries a long history rooting in the aftermath of World War II. Recently, it is a union of 27 independent states based on the European Communities and founded to enhance political, economic and social co-operation [7].

The EU has the following basic aspects, such as a single market through a sound system of laws to ensure the free movement of workers, goods, services and capital/investments, common external tariff and common international trade policy without internal tariffs, and common policies with respect to defense and foreign policy, internal affairs, regional development, interest rate and economic stability and social policies.

## 2.4 The similarities & differences of ASEAN and EU

Regional economic integration is one of the most debated issues in Asia today. Even though the regional political and economic arrangements come out only recently comparing to those existing in the EU, Asia is not really far behind Europe in terms of its economic interdependence. There are both similarities and differences in the both organizations in various aspects.

Firstly, according to EU Ambassador MacDonald, the origins of the EU and of ASEAN are in fact very similar [8]. Both of them are ostensibly economic integration efforts such as reducing tariffs and building towards free trade. However, Gramegna, Ambassador of Luxembourg to Japan, stated that

the underlying motivation of the members of ASEAN and that of the EU were quite different [9]. As a result of searching for the lasting peace between Germany and France, people in Europe decided to intertwine their economies. Obviously, the motivation was political, but the means of achieving it was the economy. On the other hand, the creation of ASEAN was of a completely different nature that is linked with the external threat of expanding communism. A closer look at the treaty establishing ASEAN confirms this analysis. Unlike the Treaty of Rome for the EU, which set particular goals to be achieved in a certain date, the treaty is just an agreement exhorting the member countries to work together by cooperation.

Another similarity is that both ASEAN and the EU seek to ensure the safeguarding of national independence against interference from external actors, the quest for economic prosperity and social security, and more and more the preservation of the national competitiveness in the age of globalization [10]. Nevertheless, their approaches leading to this aim are not the same. The EU uses the concept of Community method of decision-making, in which the Commission makes a proposal to the Council and Parliament who then debate it, propose amendments and eventually adopt it as EU law. However, in ASEAN, the approach is characterized as ASEAN way that means consensus-based decision-making, strict principles of non-intervention, and the sanctity of state sovereignty.

### 2.5 Why Asia will/ will not achieve the same level of integration as the EU?

Apart from the above differences, there are many other differences comparison between ASEAN and the EU that make ASEAN go far behind the level of economic integration in the EU.

As mentioned before, there are 5 levels referring to the degree of economic integration. As shown in Figure 1, the lowest level of economic integration is reached when countries agree on the creation of a free trade area (FTA) where all barriers to the trade of goods and services among member countries are removed, but the member countries retain their own systems of tariff duties on products from non-member countries. A customs union is the second level of economic integration, in which case trade barriers between member countries are eliminated and a common external trade policy is usually adopted. In addition, the group is acting as one body in all matters relating to international trade agreements with non-members. A third level consists of a common market, which is one important step further than the customs union. Among the members of a common market there is no barriers to trade between member countries, includes a common external trade policy, and allows factors of production to move freely between members. The second highest level of regional economic integration is reached when an economic union is established, which has the characteristics involving the free flow of products and factors of production between member countries and the adoption of a common external trade policy, but it also requires a common currency, harmonization of members' tax rates, and a common monetary and fiscal policy. Political union is the highest level of economic integration, through which the move toward economic union raises the issue of how to make a coordinating bureaucracy accountable to the citizens of member nations.

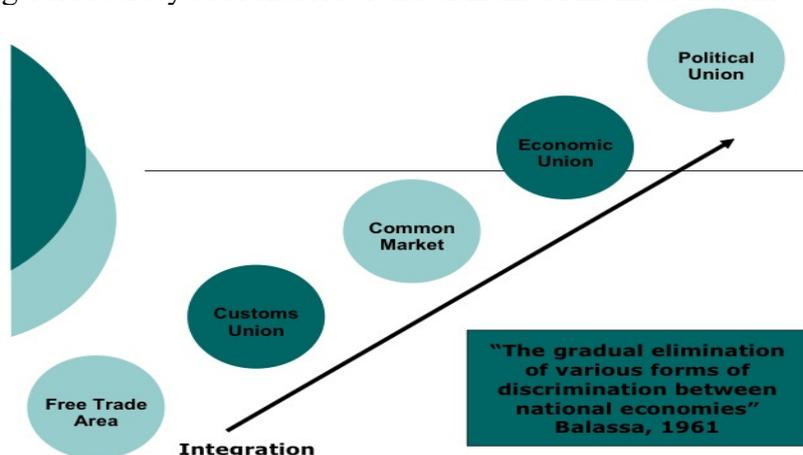


Fig.1. Ranks of economic integration

In terms of this scheme, it is obvious that AFTA belongs to the lowest level of regional economic integration while the EU is an economic and political union of 27 member states now. Integration has been on the European political agenda for more than half a century, and economic integration means the removal of trade barriers and the introduction of free movement of factors of production. There is a large body of scholarly literature which considers European regional economic integration as a model for other part of the world [11,12]. Hansen stated that the concept of economic integration in the EU is broader and also includes concerted efforts to address specific policy areas such as monetary stability, the survival of certain sectors, or assistance to underdeveloped regions [13]. Gramegna thought no other international organization in the world can claim such a degree of integration [14]. Similarly, Chirathivat stated that AFTA, in itself, cannot provide a strong influence for ASEAN countries to effectively integrate their economies [15]. As shown in Figure 2, some study suggested that the sources of intra-ASEAN trade growth seem to be derived from policies promoting economic transformation in general rather than from AFTA alone.

**TOTAL AND INTRA-ASEAN EXPORTS**

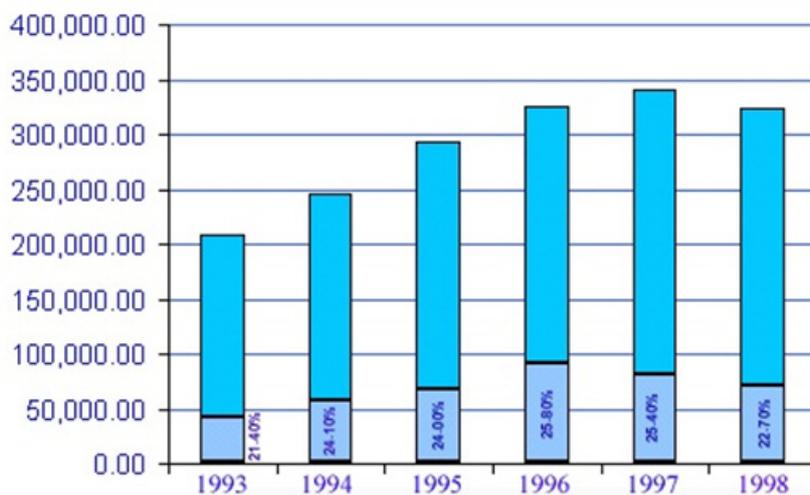


Fig.2. Total and intra-ASEAN exports

What’s more, the type of economic integration that countries are opting for are very much determined by regional policies. Cuypers, Chairman, European Institute for Asian Studies mentioned that ASEAN and the EU’s regional policies in economic integration are not the same [16]. The EU uses policy instrument such as the Structural Funds to reduce regional disparities between member countries. Moreover, there is also a Cohesion Fund in relation to the environment and transport infrastructure of common interest which aims to promote economic and social cohesion and solidarity between member countries. While in ASEAN with a free trade agreement, the national approach is dominant. The major instrument is sub-regional co-operation with the purpose of narrowing the gap in the levels of development among member countries and reducing poverty and socio-economic disparities in the region. The member countries involved only grant to each other duty-free market access, but their trade policies in the rest of the world fully remain under national authority, which make it weaker for influencing income disparities between nations. In a word, the EU is in a level of supra-national co-operation while ASEAN is in a level of inter-national co-operation [17].

At last, ASEAN is still a far cry from the European-style single market according to Finn. The EU is the only successful single market that has been created thus far. It has become an ideal single economic area where all physical and technical barriers for the movement of goods and services have been removed. Steps have also been taken to improve the mobility of labour and tax barriers have been reduced. For the single market to work effectively, a number of related policies needs to be established in order to support it. However, the ASEAN Economic Community is far from a single market as typified by the EU. AFTA framework has not even provided for a common external tariff

policy to create a custom union. It also lacks institutional structures and legislative framework necessary for a single market to operate.

### **3. Future challenges faced by ASEAN**

Looking forward, what are the future challenges facing ASEAN? ASEAN should work towards the establishment of a rule-based ASEAN Community like the EU, where legally-binding procedures might gradually replace the rule of consensus. It also important to work towards a greater regional cooperation in these areas which ASEAN aspires to be. For instance, creating an ASEAN Social Charter to achieve the Caring & Sharing Community.

The current regional architecture in the Asia Pacific is another challenge for ASEAN. Following the establishment of ASEAN, there are now other pillars of regional mechanisms that exists in the region like the Asia Pacific Economic Cooperation (APEC). Since ASEAN has been actively involved in all these regional mechanisms, ASEAN can only play its role if its members can cooperate more cohesively to solve the aforementioned internal problems in the region.

The well development of ASEAN will result in bigger market for products and increasing intra-ASEAN trade. FDI will likely increase as barriers to production networks are removed. Development gap between member countries will also be narrower. Beside the economic benefits, stakeholders will also benefit. Member countries are expected to experience employment growth, faster economic growth, larger inflows of FDI, better resource allocation and so on. Business of all sizes will benefit from greater market access, lower input and transaction costs due to tariffs and better trade facilitation processes for customs as well as rationalized rules of product and technical standards [18].

### **4. Conclusion**

It would be very unlikely for ASEAN to become another EU, but it is possible for ASEAN to learn from EU. However, the actual implementation would a slow process because of the differences existing between them in the level of integration. The means of advancing its own norms of governance and trade in EU do have important implications for ASEAN. It is important to be aware that integration is a process that both of ASEAN and the EU are attempt to achieve for interacting with globalization.

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