

An ASEAN customs union?

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Abstract

In 2003, the Association of Southeast Asian Nations (ASEAN) decided to create an ASEAN Economic Community by 2020, a single market in which goods and services would flow freely, and where there would be freer flows of capital and skilled labor. For the AEC to succeed, the creation of an ASEAN Customs Union (ACU) will be necessary. The goal of this paper is to analyze various economic and political-economy-related issues associated with the process of creating an ACU. *Inter alia*, it finds that, relative to the existing ASEAN Free-Trade Area, the potential benefits of an ACU are high, providing that the region succeeds in unifying commercial policies across these heterogeneous states under a liberal, outward-oriented regime.

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1. Introduction

By any measure, ASEAN economic cooperation has come a long way. ASEAN adopted relatively superficial measures to reduce intra-regional barriers in the 1970s and 1980s, with little effect on trade and investment flows. While most ASEAN countries experienced a boom in international economic interaction and export-oriented growth in the 1980s, this was due to unilateral, country-based liberalization programs rather than any regionally driven process. In fact, after the stabilization of Southeast Asian geopolitics in the late 1980s, some predicted the demise of ASEAN as a cohesive group. The argument was that, since the diplomatic/political glue that held ASEAN together had dissipated, ASEAN leaders would soon abandon even the elementary economic-integration policies that were in place.

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How wrong they were. Beginning with the decision to create an ASEAN Free Trade Area (AFTA, 1992), a process which will be completed shortly, ASEAN leaders have progressively launched various initiatives to deepen regional economic integration. The process has been unique in that it has been geared at not merely fostering intra-regional trade but also reducing transactions costs in the region to become more *globally* competitive. In this sense, ASEAN economic integration has always been outward-looking with a policy of “open regionalism” at its heart.

Post-AFTA Economic “deepening” in ASEAN has been taking place on many fronts, for example, in the areas of investment (ASEAN Investment Area, AIA), services (ASEAN Framework Agreement on Services), trade facilitation, and intellectual property protection. The Ha Noi Plan of Action (1998) outlined a series of first steps along the way to fulfill the goal of the ASEAN Vision 2020 (December 1997), elaborated on by the Second Declaration of ASEAN Bali Concord II (October 2003), to create an Economic Community (AEC) by the year 2020.¹ The Bali Concord II summarizes nicely the ultimate goals of the AEC:

The ASEAN Economic Community is the realisation of the end-goal of economic integration as outlined in the ASEAN Vision 2020, to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020... The ASEAN Economic Community shall establish ASEAN as a single market and production base, turning the diversity that characterises the region into opportunities for business complementation making the ASEAN a more dynamic and stronger segment of the global supply chain.

The mandate of the Ha Noi Plan of Action expired in 2004 and has been superseded by the Vientiane Action Programme (November 2004), or VAP, which outlined specific goals and strategies intended to create the AEC.²

The term ASEAN *Economic Community* evokes the European experience of integration, with its common market. As such, a critical aspect of the AEC will have to be the creation of an ASEAN Customs Union (ACU) to ensure the free movement of goods. The process of establishing a customs union among such a diverse group of countries will no doubt be fraught with difficulties. The commercial policies of ASEAN Member Countries (AMCs) range from an essentially free-trade zone (Singapore) to some relatively protected economies. Moreover, the level of development of the AMCs, which influences the speed at which liberalization can take place, varies widely: ASEAN includes high income, middle-income, and least-developed economies.³ Creating a Common External Tariff (CET) in such a diverse organization will be no mean feat.

The goals of this study are to: (a) analyze the commercial policy regimes of the AMCs and suggest means to harmonize them in the ACU; (b) evaluate of the costs and benefits of the AEC from both quantitative and qualitative (policy) perspectives given the emerging changes in the

¹ The ASEAN leaders have actually been considering speeding up the process to 2015, with more time for the transitional ASEAN economies.

² In fact, the AEC is only one of three pillars in the development of an “ASEAN Community,” together with an ASEAN Security Community and an ASEAN Socio-Cultural Community.

³ The coefficient of variation (standard deviation divided by the mean) of *per capita* income across AMCs in 2004 comes to 1.62. This would put it among the most diverse regional organizations in the world.

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