

The Global Crisis and Economic Integration: Implications for ASEAN Economic Community

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Abstract: Many developing Asian countries, particularly those in ASEAN, have recovered from the 1997 Asia crisis, as a result of both domestic stimulus package and IMF rescue policies. Other bilateral, regional trade and investment liberalisation agreements have also been important contributing factors in the region's sustainable long-run growth. However, the emergence of the global financial crisis (GFC) due to chiefly to the US financial institutions' excesses during the 2008/09 have deeply affected the global economy. Especially affected have been developing Asian economies and their ongoing economic integration. This paper examines the casual and sequential relationship between the GFC, economic growth and current trade agreements in developing Asia, and then discusses the major policies and their implications particularly for Thailand and the ASEAN Economic Community, that are required to mitigate the negative effects of the GFC as well as to enhance post-CFC benefits from both bilateral and regional trade agreements.

Key words: global financial crisis; regional growth; free trade agreements; trade and investment policy; Thailand's growth; asean economic community

JEL Codes: F14, F15

1. Introduction

This study aims to review the causes and consequences of the recent of global financial crisis and regional trading agreements and FTAs in Asia. It also explains the relationship between the global financial crisis, regional growth and trading agreements. Additionally, the policy implications for ASEAN are discussed as the single market integration of ASEAN Economic Community (AEC) will be enhanced in 2015. This study is based on the documentary research from various reliable sources.

2. Literature review

The objective of this section is to investigate and analyse the major literature of issues that are discussed in the following sections.

Gilbert (2000) examines the correlation between trade policy and economic growth and performance defined by growth of income level. The panel data of 102 developing countries in differing regions is used to investigate

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the impact of trade policy and growth via trade policy indicator construction. It is revealed that trade openness attributes a moderately strong effect on economic growth and performance by high productivity and income distribution based on the empirical results of developing Asian countries.

Similarly, Nowak and Lehman (2000) study the effect of trade policy on economic growth for different developing countries in different regions. It is aimed to answer that whether trade openness enhances output growth and contributes to long term sustainable growth. An econometric model is constructed to explore the linkage between trade openness, capital accumulation and output growth. It is summarised that trade openness is an essential catalyst for total factor productivity (TFP) growth in nearly all developing countries under the study, including ASEAN.

Krishna et al. (2003) investigates the casual relationship between export, import, income, investment and growth in both industrialised and developing countries including the forecasting for each of the selected countries. Based on the empirical results, it is found that incidence and reverse causations of these variables contribute to growth. This study analyses each country's data from 1951 to 1998, except for the Malaysian data, which covers 1970 to 1997.

Tran Van Hoa (2004) examines the impact of trade, crises and policy reform on growth by using a simultaneous equation econometric model based on the endogenous gravity theory (EGT). This study is focuses on China and its five major trading partners. It affirms that trade openness has a positively effect on growth in only some cases. It also shows that crises have considerably negative impact while on the other hand; policy reform has an obviously positive impact on growth.

It can be concluded that most of the current studies focus on an investigation of the impact of trade openness on the growth of developing Asian countries through various econometric modeling and estimation approaches. Nevertheless, the examinations of the global financial crisis and the trade liberalisation agreement impacts on regional economic growth, especially in ASEAN, are under debate by both academics and policy makers. As a consequence, it is very interesting to explore the answer from both a qualitative and quantitative aspect for this issue.

3. Global financial crisis

The current global financial crisis is a new issue has affected the global economy and financial system. The policies required to encounter this crisis need to be efficiently implemented by both governments and policymakers in order to reduce the financial cost and to protect against a reoccurrence.

This section examines the causes, consequences and countermeasures of the global financial crisis. There are several factors emerging in the US attribute to causes by follows (Ellis, 2009). First basic engine of crisis is risk perceptions of investors using leverage borrowing to purchase assets contributing to boom-bust cycle. It can be explained clearly when the asset prices are decreased and recession resulting in the investors' loss that are magnified by leverage. The second factor attached with lower risk perceptions were the lower interest rates in the early part of the new millennium. Moreover, policy interest rates in most of the major economies move to unexpected low levels as well as bond yield comparing to previous decade. The third element was that the pressure of high inflation led to debate on monetary policy efficiency and financial stability issues. Finally, there was an insufficient amount of appropriate financial regulation in some global major economies including the US; this is often regarded as the most important cause of the global crisis.

Ellis (2009) also notes that there are other specific factors contribute to the global financial crisis and are

called build-up factors. The US mortgage market was the particular sector that generated the crisis. In the last five years, there was a lending boom in the USA generated primarily by low interest rate and a period of relaxed lending standards. Many households took out fixed rate mortgages, which were usually guaranteed by government sponsored enterprises. When the lending rates fell further in 2009, a large market for refinancing by mortgages developed with many acquiring additional debt to their original borrowing. Around the early of 2010, interest rates rose causing a market shrinkage which led to increased risk for the lenders with many mortgages defaulting on payments. As a consequence the sub-prime segment developed with the home mortgage debt to housing stock value ratio increasing significantly.

From the above, it can be said that this was an essential sign of the US mortgage market inefficiency and fragility. The easing of lending standards during the market boom led to a decrease in these securities' market price. Therefore, both investment banks and other institutions with large securities trading were obviously affected. Under this situation their risk perceptions increased and their lending policies and requirements tightened. In addition, other asset markets were also affected leading to tumultuous macroeconomic consequences.

These macroeconomic consequences can be more severe when risk aversion increases and confidence is low as was evident by the reduced commercial and consumer spending in the USA. As a result, investment projects which had previously tended to be profitable became risky and less attractive. Lenders faced higher risks with borrowers finding difficulty in servicing their debts. Consequently, the non-performing loans (NPLs) of the US banking sector relative to total lending rose quickly leading to the current economic downturn. This scenario was similar to the state of the weak and inefficient of banking sectors of the Asian economies prior to the Asian financial crisis of 1997.

Policy makers are currently debating the various possible options available to address the global financial crisis issues, especially in the banking system. Not only is a sound macroeconomic policy stimulus package via fiscal and monetary policy a crucial precondition for recovery from economic turmoil, but also the restoration of the global banking system to a state of strength is also a must. Credible restoring steps are crucial considerations. Regarding the most highly affected countries, substantial supporting policies for financial institutions and markets were implemented.

Nevertheless, it is hardly to conclude that there is most efficient way to solve the crisis. The financial system remains fragile in spite of these enthusiastic efforts. The US equity market has made only a partial recovery. Efforts to fix the immediate problem of the financial system architecture are to insulate against similar crisis occurring need to be taken into serious consideration. Central banks and other authorities in major economies have to do collaborative work to finalise effective policy implementation.

In summary, the important questions are still opened, namely, how quickly can the banking system particularly in major economies be restored effectively and how can quickly investors' confidence return to normal.

4. Regional trade agreements (RTAs)

This section explains the regional trade agreement (RTAs) with respect to the proliferation of RTAs since the 2000 Doha Round Negotiation is currently a focusing issue. It can be pointed out that most of Asian countries relied on non-discriminatory unilateral and multilateral liberalisation prior to the new trend of RTAs comparing to other regions that has been implemented discriminatory RTAs. As a result, Asia is in the catching up process.

Closer and greater regional trade liberalisation is needed to ensure the benefits of trade openness and is an

important consideration issue for developing Asian countries. There are imbalance burdens and benefits enhance the RTAs negotiation and implementation particularly between developed and developing countries on three important issues. These issues are the eliminating of restrictive measures associated with the GATT on wide-ranging quotas, the request for an application of countervailing and anti-dumping process and the highly import barriers subject to clothing and textiles (Panitchapakdi, 2001).

Moreover, following the Uruguay Round of talks in the uncertain outcomes accompany with an unfair distribution of benefits for developing countries. Both global and regional trade liberalisation agreements not only require deeper and wider economic integration but also transparent competition. According to Panitchapakdi (2001), the following considerations should be focused on with respect to ASEAN.

- An effective dispute settlement mechanism should be set up.
- Non-binding special and differentiated provisions need to be implemented and extended to the sectors that member countries have obstacle in reaching the deadline.
- Eliminating the tariff escalation on the exports of member countries.
- Trade liberalisation in agricultural, and textiles and clothing should be regarded as the top priority.
- Make the WTO-plus rule to support the regionalisation as building block towards multilateral trade liberalisation.
- Automatically extend of Special and Differential(S&D) provisions to the newer member of Cambodia, Laos, Myanmar and Vietnam.
- Implementing the free market access for exports from the least-developed members of ASEAN.
- Providing the technical assistance to newer ASEAN members to increase and strengthen capacity to assure the benefits.

Furthermore, an integration of developing countries such as ASEAN into the global trading system contributes to growth and sustainable economic development. Nevertheless, the transitional economies that form RTAs have to recognise this issue as the plausible essential obstacle to the success.

5. FTAs in Asia

This section discusses the trend due to GATT and WTO commitments of bilateral FTAs agreements between in both developed and developing countries in Asia being transformed towards more discriminatory unilateral liberalisation. The FTA policies of the major Asian players e.g. China, India, the ASEAN countries, Japan and South Korea, and the ASEAN countries are also explained.

The hub and spoke pattern of the ASEAN+3 FTA involving China, Japan and South Korea is an essential consideration with regards to accelerating regional integration and subsequent further global economy integration. Additionally, the bilateral FTAs have been enhanced by the regional integration rather than by multilateral trade agreements.

The current trade policy in Asia has to be rebalanced with both efficient regional and free trade agreements in accordance with the WTO to assure the long term mutual benefits (Sally, 2009). The obvious changes of trade policy in this region began in the late 1990s prior to the 1997 Asian crisis. Simultaneously, China's catching up process with Japan in terms of trade and FDI penetration involved more integration with the global economy. Similarly, Southeast Asia has also gained from wider and deeper integration into the global supply network chains. Nevertheless, despite the above progress, certain more developed ASEAN members have failed to fully implement

the liberalisation agreements set out in previous negotiations with respect to the agriculture and service sectors.

The transformation of trade policy in developing Asia has mainly contributed to market-based reforms. However, the Asian financial crisis has forced the debate on further liberalisation. Financial liberalisation, especially in short term capital flows is considered as crucial issue because of the effect on trade and FDI. This pattern fits in to South East Asia's case when considering from real burst of trade and investment liberalisation commenced in 1980s continues to half of 1990s (Sally, 2009). Nevertheless, this explanation is exceptional for Singapore due to the free trade policy. Other ASEAN members are remaining relatively impartial trade liberalisation in agriculture and services because of the high protection and non-tariff barriers.

The centralisation reform policy and highly protectionism of China has been replaced by trade and investment liberalisation scheme in accordance to its WTO membership commitment. India has also implemented market-based reform through several policies e.g. macroeconomic stabilisation, trade liberalisation, easing of FDI rules and privatisation. Similarly in China and India, non-tariff barriers and, licensing restrictions on manufacturing FDI have been eliminated expect for agriculture and services.

Another important issue that needs to be considered is the competitive liberalisation process. Sally (2009) suggests that this process can be regarded as a building block of multilateral liberalisation. FTAs should be comprehensive and consistent with related WTO provisions, for example Article XXIV GATT and Article V GATS and other commitments to avoid this undesirable impact. Improved transparency, harmonized regulations, increased market access and facilitated competition are all another requirements. Additionally, the rules of origin (ROO) and standards should be simple, generous and harmonised as much as possible in order to decrease trade diversion and extend negative effects. FTA implementation should apply rule namely WTO-plus to enforce domestic and institutional reforms to demolish market distortion and foster competition. Non-preferential most favored nation (MFN) tariffs have to be lowered to decrease possible trade diversification emerging from FTAs.

Furthermore, the FTA negotiation strategy is a very important issue for developing countries in terms of choosing potential mutually beneficial partners, evaluating the costs and benefits and efficiently integrating the WTO commitments with domestic policy frameworks. The following discusses the FTA policies of selected major Asian countries.

5.1 China and FTAs

China has recently entered into nine FTAs negotiations with both inside and outside the region. The main economic reason for China's involvement in FTA negotiations is to expand market access for their exports as can be seen by its growing share of intra-regional trade share. It is currently the largest regional importer of parts and components particularly in IT products. China's trade share with the more developed ASEAN members has continued to boom since the second half of 1990s. The WTO-plus rule FTAs implementation of China with regional partners is close trade and investment linkage in East Asia especially in global manufacturing supply chains. The negotiation of FTA between developing countries, that have similar in resources and production structures that include competing products, for example China and members of ASEAN, are difficult. Moreover, the rules of origin (ROOs), mutual benefits and risks of trade diversion are another essential consideration issues for consideration. Market economy driven reform is the key component of China's FTA strategy accompanied by anti-dumping and the access of WTO membership.

Currently, China is also implementing an FTA with Thailand in some preferential sectoral coverage of agricultural products. In addition, one threat of China's implementation of FTAs is that politically driven agreements could possibly eliminate sensible, grounded economic strategy resulting in rush, weak and gradual

trade creation FTA.

5.2 Southeast Asia and FTAs

Moving on to Southeast Asia, Singapore is the most enthusiastic and successful implementer of FTAs compared to others in the region. It has successfully implemented comprehensive FTAs with many major developed partners, e.g., the US, Japan, Australia and New Zealand, although Thailand, Indonesia, Malaysia, the Philippines and Vietnam are now also involved in negotiation processes with these developed countries. Japan is the most important partner within the region while the USA is the most crucial one outside of the region. Furthermore, the current bilateral FTAs that are being negotiated by both the other ASEAN countries and those that involve ASEAN collectively can be considered better than the traditional style of FTAs that covers only goods. Other ASEAN members such as Singapore and Malaysia that are currently negotiating bilateral FTAs both individually and collectively as ASEAN with China desire to be WTO consistent under Article XXIV of GATT and Article V of GATS which extend the scope of the agreements to cover services, investment, trade facilitation, regulatory cooperation and dispute settlement mechanisms, an improvement on the traditional “goods only” FTA (Sen, 2006).

While Singapore is efficient, with high regulatory standards and a capacity to negotiate and implement comprehensive FTAs, the remaining ASEAN members are in contrasting position. There are high levels of protectionism especially within the agriculture and service sectors, and weak institutions with reduced negotiation power. Regarding Thailand, the FTA indicators can be explained as rushed with insufficient preparation. Market access in a few sectors and import concessions in others lead to weak FTAs that have contributed to gradual difference in the competitiveness and efficiency of Thailand’s economy performance.

Sally (2006) states that ASEAN countries have become more involved with weak and partial FTAs due to various reasons. Firstly, the gains can be gradual because the neglect trade with some FTA partners chosen by individual countries. Secondly, the sensitive issue is remaining debate and be excepted for goods liberalisation when considering substantially all trade criterion under Article XXIV of GATT, e.g., agriculture. Thirdly, non-tariff barriers (NTBs) and other regulatory barriers tend to be untracked with disciplines beyond existing WTO commitments. Fourthly, trade in services liberalisation enhancement is remaining a gradual progress. Fifthly, trade facilitation and cooperation particularly in the harmonization of customs procedures need to be more collectively implemented. Sixthly, current trade liberalisation agreements are very difficult to solve the restriction of rules of origin. Lastly, the defections of bilateral FTAs tend to be replicated for collective ASEAN FTAs with third countries particularly China that non-tariff barriers, investment and services are needed to accelerate.

5.3 India and FTAs

India is considered as newly active in FTAs negotiation and implementation. Its first negotiation covers only in goods and excludes investment, services and other non-border market access issues. India’s dominant strategy is the formation of FTAs which are with countries and organisations outside of South Asia and that are mostly related to foreign policy rather than economic policy. For example, the FTA with ASEAN has planned to be completed in 2011 and bilateral FTAs are under negotiation with Thailand and Singapore. The India-Thailand FTA is expected to be comprehensive despite early harvest tariff elimination covers only 82 products including highly restrictive rules of origin. The India-Thailand FTA is less content comparing to Singapore’s FTAs. The comprehensive coverage needs to be enhanced.

It can be said that India’s FTAs are weak and their partial FTAs similar to those of Thailand (Sally, 2006). Trade and investment liberalisation has become more intensive and obviously unilateral since 1991, however,

India's FTAs status remains defensive according to WTO commitments and shallow. Therefore, trade policy implementation of India has to be more coherent and with comprehensive unilateral enforcement by strong WTO commitments.

5.4 Japan and FTAs

Japan is the pioneer country to against discriminatory trade agreements and favors non-discriminatory WTO commitments instead. Japan's first FTA of Japan was with Singapore and it commenced in 2002. At present, its top priority Japan-ASEAN Economic Partnership Agreement is planned to be completed in 2012 although the progress has been slow compared to the China-ASEAN FTA. The tardiness is primarily due to the reluctance to decrease agricultural tariffs and the highly restrictive of rules of origin subjected to both agricultural and manufacturing sensitive products. Another factor is that Japan has set prioritized bilateral FTA negotiations with individual ASEAN members rather than with the actual ASEAN collective. Besides, rules of origin in these bilateral FTAs are complex and restrictive. The Japan-Thailand FTA is an example of a weak and mutual defensive trade agreement. Economic partnership agreements (EPAs) can be defined as above traditional FTAs in goods and comprehensive coverage of goods and investment including other related issues. However, the EPAs can be considered as weak and partial FTAs. More specifically, Japan's FTAs are more defensive with regards to agriculture and more neglective to market access issue than China. In contrast to China, Japan prefers to negotiate bilateral FTAs deal with individually ASEAN members contributes to higher challenging with ASEAN entirely.

5.5 South Korea and FTAs

In 2005, an ASEAN-Korea framework was established which covers goods, services, investment and other related issues. An essential aim of this agreement is to eliminate more than 90 percent of tariffs by 2010. However, rice is excluded from the agreement which has resulted in Thailand refusing of Thailand to join. South Korea has recently put in force an FTA with Singapore has begun to negotiate FTAs with other partners e.g. India, Canada, Mexico, China and Australia. As with other countries in the region, South Korea has also launched FTA negotiations with the USA. A very trade-light FTAs approach is the dominant strategy of South Korea particularly in agriculture. As a consequence, wider and deeper commitments in goods, services, investment, trade facilitation, government procurement, competition rules and intellectual property protection are required to enhance further like other FTAs in Asia.

6. Asian miracle growth or not

This section reviews and analyses the economic growth and structural change in many Asian developing countries during the past twenty years. This outstanding feature has been called the Asian Growth Miracle (Dowling and Valenzuela, 2004).

Income in most of developing Asian countries particularly the East Asian countries of China and India have continually increased for decades. Another specific characteristic of this considerable spectacular growth in Asia require supporting policies that can be described as follows. The perspective of growth theories can apply to the Asian experience; however, each of these is not fully sufficient to explain the miracle.

The factors that have contributed to high and rapid growth are different from country to country. It is essential to examine the policy environments that have existed in the economies that have grown substantially during the period of transformation. In the beginning, the economies began start with a policy matrix implementation focused on import substitution via different of industries and products. In the 1960s, the East Asia

miracle economies enveloped an outward looking policy instead of inward looking policy. This policy increases not only exports but also attract the foreign direct investment (FDI) and technology. As a consequence, the economic efficiency and attractive investment environment accelerate both labour skills and technology diffusion. As a result, the economy structure is transformed to one of industrialisation. The dominant export products become manufactured products.

There are six specific factors contribute to the deep explanation of Asian Miracle Growth (Dowling and Valenzuela, 2004). Firstly, is the primary factor of outward looking policy that emphasise on exports and foreign direct investment (FDI). Similarly to other developing countries, East and Southeast Asia economies started the intensive industrialisation process by setting up and developing import substitution industries. The examples of these industries are food processing, textile and footwear and then further to medium and heavy industries. Korea and India are obvious example countries to implement this policy. Tariff rates and degree of protection has been decreased since 1990. The mix of export promotion with tariff elimination and complemented by FDI inflows as well as efficient supporting macroeconomic policies are other crucial factors.

Technology accompanied by investment also plays an important role to higher income and development levels. Developing economies in Asia can access new technology in three different ways: by buying products from foreign firms under license, by copying without license and by joint venture and importing technology via FDI. Japan and Korea have been the pioneers in adopting this technology access and have now been followed by others in Southeast Asia as well as China.

Secondly, there is the principle factor including macroeconomic policies and the role of government. East and Southeast Asian economies have achieved successful economic development due to by market competition and resource allocation process. Implementation of market-led development through effective fiscal and monetary policies including low inflation and human resource development is an essential engine for growth. This success can also be attributed to the role of government intervention at both the microeconomic and macroeconomic levels e.g., economic stability, export promotion and tariff reduction, FDI attractiveness, technology transfer, industrial, financial and trade policy to stimulus growth.

The third principle factor is education and labour productivity growth. Capital and saving in capital is very important in developing quality education and facilitating growth in productivity. Workforce in Asia has high adaptable capacity to technological changes. This combination factor contributes to the economic growth catalyst.

The fourth principle factor is the flexibility of labour markets. The labour market is flexible from the beginning and continues to be during periods of rapid growth.

Fifthly, there is an initial secondary factor of difference in initial conditions that provide basic fertile ground for successful economic development in East Asian economies. Many distributed factors under this perspective are human resource quality, higher income and wealth.

Finally, there is another secondary factor of sectoral policy regarding the agricultural sector and industrial policy. In general, implementations of policies in favor to industrial sector at the expense of agriculture when industrialisation proceeds need to be considered. This policy leads to higher risk in agricultural taxing and is inappropriate in the long term due to output growth reduction and can ruin the rural economy. Furthermore, the loss of income and employment can not be compensated for by growth in the industrial sector. Asian economies experienced in rapid rate of savings and private investment increasing. As a result, the fund for industrial development and eliminate the agricultural taxing is necessary. Regarding to an industrial policy, the specific capital intensive sub-sectors have been promoted to compete more efficiently in international markets.

In summary, the Asian Miracle Growth can be explained by combining the primary, principle and initial factors above. It can also be concluded that spectacular increase in savings and investments and total factor productivity (TFP) are another important factors that enhanced the industrialization process and growth in Asia especially in East and Southeast Asia.

7. Global financial crisis, regional growth and trade agreements in Asia

This section explains and analyses the transmission mechanisms to show linkage between the global financial crisis, regional growth and current trade agreements in Asia.

The present global financial crisis can be regarded as both a shock and a threat to the world's financial and economic systems. Although this crisis emerged in the US, the financial markets and economies of other countries have rapidly become affected with those in Asia being no exception.

There are four possible transmission channels to describe the impact of crisis on a given economy (Sheehan, 2009). It can be said that there are many interactions between cumulative and reinforced impact over time. These transmission channels can be explained by followings.

(1) Financial Market Conditions

The first considerably effects are on consumer or business behavior via changing in financial conditions e.g. supply of credit restrictions, high and tightening credit standards as well as high interest rates. This situation affects in one country at the beginning and then transmitted to other countries through global market.

(2) Real Activity in the Impact Industries

The decreasing in activity and demand in specific sectors is the other major disturbances in financial markets occurring from the global financial crisis. This impact is also considered as the impact industries that include motor vehicles, other durable consumer goods and some capital goods. Nevertheless, the amount of impact needs to be more examined.

(3) Export Shocks-The Impact and Other Industries

Another possible important real economy transmission impact is trough trade and particularly in export reduction. The magnitude level and duration of this effect depends on following three crucial factors.

- The extent of the country involves in manufactured goods trade.
- The extent of traded goods involves value added from country as opposed, e.g., how heavy depend on trade component
- The extent of the country's type of export products that are affected heavily and whether these products are of impact industries.

It is possible that the countries which are not specialised in the impact industries can also be affected in world trade of other industries.

(4) Resources and terms of trade effects

The prices of commodities decrease when global economic activity slows down and resulting in export volume and value fall. Both reduction in profit and demand contribute to reduce investment of resource firms in medium term despite this reduction will be eliminated by the scale and stage of under construction projects.

Moreover, the prices of resource are likely to be more fluctuated than prices of manufactured goods and services. The terms of trade for countries that especially specialised in resources tend to decline. The degree of decline depends on the commodity balance, the direction of trade and the contact prices.

(5) Reduction in capital flows, FDI and foreign aid

Lastly, the other impact of financial shock in developed countries can influence on capital flow in terms of both portfolio flows and foreign direct investment to developing countries. However, the degree of this effect is also different across countries as well as individual country conditions.

To conclude, the linkage between global financial crises, regional growth and current trade agreements can be explained from the above framework that is combination of trade, investment and financial perspectives. The regional trade liberalisation agreements can be regarded as one possible tool to insulate the serve negative effects on economy performance and growth. However, the efficiency of this scheme is an essential consideration issues for all regional trading agreements (RTAs) including ASEAN.

8. Policy implications for ASEAN

This section describes policy implications and recommendations view for ASEAN in rapidly changing global economy, global financial crisis and regional integration contexts. An essential future direction of economic policies for ASEAN is the ASEAN Economic Community (AEC) that enhances deep regional trade and other related issues liberalisation agreements in 2015. Globalisation and regionalisation are two apparent trends have contributed to the world trade environment.

Globalisation is forming global markets for goods, services and factors process. During the last two decades cross-border barriers to the movement of goods have been decreasing resulting in a steady expansion of world trade in goods and ASEAN countries have been involved in globalisation trend. The high growth rate of goods and services trade in the past two decades although these growth rates have apparently slowed down since the Asian financial crisis in 1997. Regionalisation is the forming of higher link of regional markets for goods, services and factors via the implementation of regional trading agreements (RTAs).

The single market is an absolute goal of the AEC so that there is no discrimination in both commodities and factors against foreign goods, services and factors. Lloyd and Smith (2004) suggest that there are several necessary conditions that need to be met when considering the AEC single market. First, the comprehensive elimination of all border measures is needed. Second, full nation treatment in regards to tariffs and other regulations are required after commodity or factors across border liberalisation. Third, the standards, laws and regulations including equally taxes are also needed to accelerate the single market integration process. Fourth, the common currency implementation is another support requirement.

Due to delays is satisfying in the above conditions; the RTA of ASEAN is making slow progress compared to the setting up and implementation of the NAFTA and EU. Additionally, the economic development gap of the newly joined ASEAN members of Cambodia, Laos, Myanmar and Vietnam is an essentially considerable issue. Other possible threats to the implementation of ASEAN's single market are the current global financial crisis, terrorism, oil price shocks and outbreaks of diseases. Similar to other RTAs, ASEAN has to continually increase the depth of efficient integration procedures via the AEC as an ultimate target. Consequently, it can be said that the AEC objective of a single market is remaining far-reaching and ambiguous (Lloyd and Smith, 2004).

The enhancement of economic integration through trade agreements RTA depends on three important factors: the objectives, timetable of objectives achievement and implementation modalities choice. Beyond the border measures are necessary to be full recognised and implemented in all markets. For ASEAN, the achievement of a single market in goods is the first priority before services, capital and related new measures will be applied later

because of an initial implementation of these issues. In regards to the setting of the timeframe, it is crucial that it be flexible and suitable for all members particularly for the new members as it will allow them to catch up with technological and economic development, enhance their labour skills and develop their capital markets development. In terms of modality, it should be closely related to the objectives especially in required commodity coverage measures in all markets. The extended positive list approach and rules of origin should be effectively implemented for sector-based modalities to support non-sectoral modalities.

In addition to the above, another essential issue for ASEAN single market integration is to assure and develop efficient policies to help new ASEAN countries fulfill economic gap. The strengthening of institutions to stimulate the achievement of timetable objectives and desirable and monitoring processes are also suggested. Another possibility is to establish fiscal and monetary union, although, this suggestion can be regarded as a long term goal.

Lloyd and Smith (2004) propose the following recommendations are toward achieving an ASEAN single market.

(1) ASEAN should set precise objective under the Vientiane Action Program that includes comprehensive coverage for goods, services, investment, capital and labour.

(2) The timetable to achieve these objectives should be appropriate.

(3) Regulations should be extended to laws that affect cooperate activities through harmonisation.

(4) Tariff elimination should be included in the positive list for both in goods and service markets; double taxation should be avoided.

(5) Establish ASEAN members should expand the implementation of additional special programs of assistance designed for reducing the economic gap between themselves and the newer, less developed members.

9. Risks and challenges for AEC establishment

This section discusses the risks and challenges that may be encountered with the AEC single market integration. It is necessary to tackle following risk and challenges to accelerate the success of AEC. These risks and challenges can be divided into two perspectives as intra-regional and extra-regional issues (Wattanaputtipaisan, 2006).

(1) Intra-regional Issues

- Large difference in income and economic development between old and new ASEAN members
- Insufficient of effective institutional development and implementation capacity
- Lack of efficient intellectual creativity and innovation as well as intellectual property rights protection
- Insufficient forward and backward linkages high value added industries via foreign direct investment (FDI)
- Natural disasters, outbreaks of serious diseases, terrorism and crime

(2) Extra-regional Issues

- Oil price shocks
- Highly competitiveness of China and India particularly in natural and financial resources and off-shored services
- More complicated consumers' demand and market structure including difficult market access
- Delays in negotiations and achievements covered under the Doha Round Negotiations

Therefore, it can be said that tackle following risk and challenges efficiently is necessary conditions to

accelerate the success of AEC.

10. Policy recommendations for Thailand

This section discusses the extended policy recommendations for Thailand according to the enthusiastic ASEAN member to enhance the AEC and the intensive negotiation and implementation of both regional and bilateral FTAs.

The following proposed policy recommendations are based on the Thailand's FTA preparation, negotiation and adjustment to assure the primary mutual benefits (Department of Trade Negotiation, 2008).

- FTAs should be comprehensive to cover trade in goods, service and investment including non-tariff barriers elimination, trade and investment facilitation and development cooperation.
- FTAs should take consideration of different development levels of partners as well as flexibility.
- WTO-plus rule implementation.
- FTAs negotiation committee should include experts from both public and private sectors.
- Simplification and harmonization of customs procedures are required.
- Strengthening of the small and medium enterprises (SMEs) via entrepreneurship skills in order to increase productivity and competitiveness and subsequently enhance the mutual benefits derived from FTAs.
- Efficient and more intensive trade and investment facilitation through joint ventures.
- Increasing the value-added content of the products.
- Sustaining competitive advantage by effective use of supply chains and regional production hubs.
- Further amendments of rules of origin (ROOs) under AFTA to insure the success of the AEC.

11. Conclusions

In summary, it can be concluded that the proliferation of regional trade agreements (RTAs) throughout the world including those in Asia is current debate issue. The reason to explain this is that the RTAs can be considered as an instrument to foster economic growth and development especially for developing countries. Most developing nations have still not fully recovered from this crisis; however the deep and comprehensive RTAs of ASEAN can accelerate benefits and insulate the negative impacts of the crisis.

12. Suggestions for further research

It should be noted that this study is the basis for extended research into the quantitative impacts of the global financial crisis, and regional trade liberalisation on the growth of ASEAN as a whole as well as each ASEAN members. Appropriate model and variables and estimation methods are necessary to construct and apply to answer the objectives. The plausible, accurate and reliable empirical results have to be used as guideline to provide extended policy implications and recommendations. Furthermore, the comparative study can be undertaken to investigate different impacts of global financial crisis, regional trade liberalisation on growth of other countries in other regions.

Besides the efficient implementation of RTAs, more in dept research should be undertaken to explore the empirical results to describe the linkage between the global financial crisis, regional growth and trade agreements. Most importantly, the RTAs need to be building block towards multilateral trade agreements.

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