

## Learning EU's Roadmap to Consider ASEAN's way

เรียนรู้แผนการดำเนินงานของสหภาพยุโรป เพื่อพิจารณาแนวทางของสมาคมประชาชาติแห่งเอเชียตะวันออกเฉียงใต้

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### Abstract

The Association of Southeast Asian Nations (ASEAN) is climbing to be the further level of economic competitiveness ratified a Charter as ASEAN Economic Community (AEC) with a single market in trade and production base. Since ASEAN is a new player of regional integration, ASEAN has been suggested to apply a roadmap of the European Union (EU), the most effective economic integration, nowadays. However, there are a couple of big differences between EU and ASEAN, probably indicate the unsuitability in adopting EU's way.

The author accumulates critical details of both EU and ASEAN with the criticisms to consider dim possibilities of the young institution of countries to follow the powerful giant's path as an Economic Union, ranging from distinguishing forms of economic integration, illustrating their historical backgrounds and demonstrating other dissimilarities between EU and ASEAN. Moreover, this article indicates some recommendations for ASEAN to handle with the coming, intensive changes as a result of becoming stronger AEC in 2015.

**Keywords:** The Association of Southeast Asian Nations (ASEAN), The European Union (EU), ASEAN Economic Community (AEC), Economic Integration

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## บทคัดย่อ

สมาคมประชาชาติแห่งเอเชียตะวันออกเฉียงใต้ (อาเซียน) กำลังจะก้าวข้ามไปสู่การรวมตัวทางเศรษฐกิจในระดับที่สูงขึ้น ในนามของ ประชาคมเศรษฐกิจอาเซียน โดยมีหลักการของการเป็นตลาดและแหล่งการผลิตร่วมในภูมิภาค อันเนื่องมาจากอาเซียนเสมือนเป็นเด็กใหม่ในการรวมตัวกันทางเศรษฐกิจ จึงเกิดคำแนะนำให้ประชาคมเศรษฐกิจอาเซียนประยุกต์ใช้แผนการดำเนินการของสหภาพยุโรป ซึ่งเป็นการรวมตัวทางเศรษฐกิจที่ประสบความสำเร็จมากที่สุดในปัจจุบัน อย่างไรก็ตาม อย่างไรก็ดี สหภาพยุโรปและอาเซียนมีข้อแตกต่างอยู่หลายประการ อันเป็นนัยสำคัญที่สื่อถึงความไม่เหมาะสมที่อาเซียนจะนำแผนและกลยุทธ์ในการรวมตัวกันทางเศรษฐกิจของสหภาพยุโรปมาประยุกต์ใช้

ผู้เขียนได้ทำการรวบรวมข้อมูลและเหตุปัจจัยที่สำคัญในการพิจารณาความเป็นไปได้ที่อาเซียนในฐานะน้องเล็กของการรวมตัวทางเศรษฐกิจ กับยักษ์ใหญ่แห่งอำนาจ อย่างเช่น สหภาพยุโรป นับตั้งแต่ การระบุให้เห็นความแตกต่างของการจัดตั้ง การรวมกลุ่ม ในแง่ของประวัติ ความเป็นมาของการจัดตั้ง และปัจจัยความแตกต่างอื่นๆ ที่สำคัญระหว่างสหภาพยุโรปและอาเซียน นอกจากนี้ผู้เขียนยังได้ทำการระบุข้อแนะนำต่างๆ ในการรับมือกับความเปลี่ยนแปลงที่อาจจะเกิดขึ้นหลังการรวมตัวเป็นประชาคมทางเศรษฐกิจ เพื่อให้ภูมิภาคอาเซียนกลายเป็นประชาคมที่มั่นคงในปี ค.ศ.2015 ที่กำลังจะมาถึง

**คำสำคัญ:** สมาคมประชาชาติแห่งเอเชียตะวันออกเฉียงใต้ (อาเซียน) สหภาพยุโรป ประชาคมเศรษฐกิจอาเซียน (AEC) การรวมตัวกันทางเศรษฐกิจ

## Introduction

ASEAN was established in 1964, was for supporting the co-operation in politics, economics, peace and stability-related issues in Southeast Asia. Even though, ASEAN was developed for three key objectives, to stabilize the regional economics, society and culture, while politics seemed to be hidden agenda for ASEAN. Until 1990's when the cold war ended, ASEAN's focus apparently shuffled to economic regime. By 1992, the committees of ASEAN had the consensus for setting up the ASEAN Free Trade Area (AFTA), in order to encourage an internal trade, decrease production costs and attract foreign investment by reducing an intra-regional custom tax. The regional integration for economic pillar has been strengthened since ASEAN was facing with non-traditional threats. The war of global

economic co-operations has become more intensive as a result of globalization. Furthermore, the financial crisis, such as Tom Yum Kung crisis and Hamburger crisis made ASEAN realizes that the region were lacking of three main mechanisms for flowing the economics, financial fund, investment and market for exported goods that the region could not be dependent to each other when these crises occurred (Thepchatri, 2012).

For this reason, ASEAN has attempted to increase, formulize and stimulate a favor modification to be a greater regionalism (Angresano, 2004) (Beeson, 2005). By 2003, The ASEAN summit approved the Bali Concord II to show the intention in founding ASEAN community based upon three pillars (before creating an action program a year later), one of the

pillars<sup>2</sup> is the ASEAN Economic Community (AEC). AEC was established with an expectation of sharing mutual benefits in the region by means of free flow of goods, services, foreign investment, capital and skilled labor within the year 2015 (AEC Blueprint, 2012). The step of being AEC is not the ultimate goal for ASEAN, moreover, being ASEAN Economic Union (AEU) with a mutual monetary and fiscal policy, becomes the most anticipated form of regional integration.

According to the ASEAN discussion by 2006, ASEAN ministers believe that ASEAN will be able to expedite a ‘European-style’ single market in 2015, after that the aspiration is to transform a common market to be an Economic Union by adopting the European Union as a model. With more than five decades of integration, the European Union (EU) is admired as one of the most successful of cross-border cooperation with advanced experience. As EU integration experience is characterized by altering international landscapes, security issues and ideologies, EU relatively has high acceleration, solidity and stability growth compared to other groups of integration. Therefore, the regional integration of EU seems to be an active model for other regionalism worldwide.

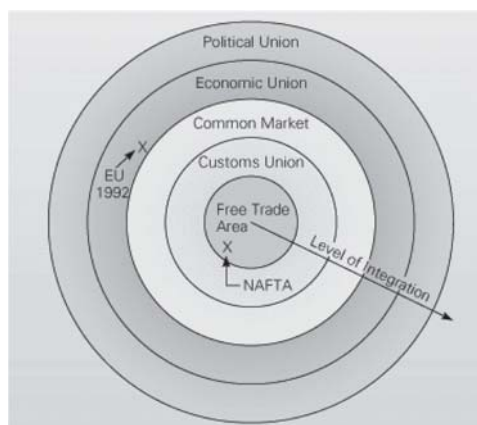
However, an imperative question comes up “Is the EU an appropriate model for ASEAN?” This article will determine the evolution of EU and ASEAN’s roadmap leading to consider the

contrasts, and also offer recommendations as a stepping stone for ASEAN to be a greater regionalism in the future.

### Forms of Economic Integration

To consider the roadmap of AEC and EU, it is better to briefly understand the theory of international economic integration levels and where they are, beforehand.

The international economic integration comprises five levels including a free trade area, a custom union, a common market, an economic union and ultimately, a political union, respectively.



**Figure 1** Levels of Economic Integration

Source: <http://www.mbaknol.com/global-business-environment/regional-economic-integration/>

Refer to the theory, the first level of integration is a free trade area, all tariffs and non-tariffs barriers of goods and services among member states are eliminated. However, each member is permitted to consider its trade policies with regard to nonmembers. The further level of economic integration is a custom union,

<sup>2</sup> Three pillars of ASEAN charter are three pillars including ASEAN Security Community (ASC), ASEAN Economic Community (AEC) and an ASEAN Socio-Cultural Community (ASCC).

it is a group of nations committed to remove internal trade barriers, in addition, they adopt a mutual policy stance to outer countries. Apart from a custom union, it is a common market (the expected level of AEC). At this position, a custom market has no trade barriers among the member countries, includes a common external trade policy and allows cross-border flow of production factors such as capital and labor (the beginning level of EU). Moving toward a custom union raises the issues of the harmonization of monetary and fiscal policies; a common currency and also tax rates, so called an economic union (the further anticipation from AEC to AEU). The ultimate economic integration, refer to the theory, is a political union. It is not only the adoption of mutual economics-related policies and regulations, the member countries also need to have a central political regime to coordinate all economic, social and foreign policies. The United States may be an example of even closer a political union since in the US, there are independent states effectively combined into a single nation (Hill, 2009).

### **From EU's roadmap to ASEAN's way**

The European Union originated as a result of two main objectives:

- (1) The desire of long lasting peace in Western Europe would be occurred after the two world wars.
- (2) The European countries would like to hold their own on political and economic stage worldwide, besides, for the economic recovery

and global economic competition, Europeans were aware of potential economic benefits derived from the regional integration.

The beginning point was started from the form of European Coal and Steel Community Treaty (ECSC) in 1952. The core purpose was to remove barriers of intra-member shipment of coal, iron, steel and scrap metal. The signing of the Treaty of Rome occurred in 1957 with the development of integration level to be a custom union called the European Economic Community (EEC). EEC specifically focused on trading and economical issues with 3 key objectives including the removal of internal trade barriers, the creation of common external tariff policy and the support of free movement of goods and production factors. In 1987, there was a launch of Single European Act in developing a custom union to be a common market level before the year 1993 and changed the name from EEC to be the European Community (EC). To facilitate these objectives, the treaty provided the member states' laws for the regional harmonization. Finally, there was the official establishment of EU has taken up in late 1993 with the Maastricht Treaty, the reason in terms of economics is that Europeans yearned to have a mutual economic, fiscal and monetary policy by forming the Economic and Monetary Union (EMU) along with the euro currency usage in member nations (Hill, 2009). According to EU as an economic union level, many supranational institutes and mechanisms has established such as the European Central Bank and the Economic and Monetary Union.

Because of these special institutional and structural mechanisms with a supranational authority, EU has stronger possibilities to develop, implement and finance structural policies among nations (Curveys, 2012).

Even though EU is as an Economic Union, it cannot say that EU is a perfect union with a few reasons. Firstly, it is not all members in the union have adopted a mutual currency, Euro. Obviously, the United Kingdom have denied adopting Euro, in contrast, they use Pound sterling as an official currency. Secondly, the member states still remain their own individual tax rates and regulations. Last but not least, some specific market such as the market of energy, have not been entirely deregulated, yet.



Figure 2 Roadmap of the European Union

From only six establishing nations, including Belgium, France, West Germany, Italy, Luxembourg and the Netherlands, there has become the total of 27 states from 2007. With a population of mostly 500 million and a GDP (nominal) of €13.26 trillion estimated in 2011, these make EU larger than that of the US, as a result of these enlargements, EU has become a

global superpower (Hill, 2009).

Look back to consider ASEAN's evolution, especially in terms of regional economic co-operation, it can say that the most successful and concrete integration of the region is the AFTA. To begin with the first phase of the evolution, it was the Preferential Trading Arrangement (PTA) which established in 1976 as the origin of the regional co-operation, before improving further projects continually including ASEAN Industrial Projects (AIP)<sup>3</sup>, ASEAN Industrial Complementation (AIC)<sup>4</sup> and ASEAN Industrial Joint Venture (AIJV)<sup>5</sup>. Until 1992, the second phase started with the establishment of AFTA and this has become one of the important steps of the ASEAN's economic integration. The existing of AFTA has resulted in a number of favorable aspects to ASEAN. For instance the intramarket has extended.

The costs of production have been decreased since the resources can be traded without tariff barriers among the members. Due to the AFTA, moreover, ASEAN seems to have increasing negotiation power on an international stage. However, there is an important problem in terms of fairness in applying AFTA, as well. With the same products among the

<sup>3</sup> AIP was aimed to support in terms of investment-related issues. A government needed to create its own national project which the region would fund those projects sensibly.

<sup>4</sup> AIC was a division of labor project focused on producing efficiency of each member state.

<sup>5</sup> AIC was a division of labor project focused on producing efficiency of each member state.

members, any countries where have higher technologies and economies of scale affecting lower costs of production tend to take advantage from AFTA rather than other (more) developing countries, for this reason, those countries with higher technologies are able to trade products in cheaper prices. By the way, there were a few economics-related projects founded afterward such as the ASEAN Framework Agreement on Services (AFAS) and the ASEAN Investment Areas (AIA) in 1995 and 1998, respectively.

However, ASEAN still remains at the level of intergovernmental organization which member countries would agree on some aspects of economic integration, but deny giving up their own national sovereignty with a policy of non-

interference in the partner nations' affairs. For this reason, ASEAN seems to have weaker mechanisms to handle with social level-differences and income disparities among member nations since they have no any supra-national authority as EU (Murray, 2008).

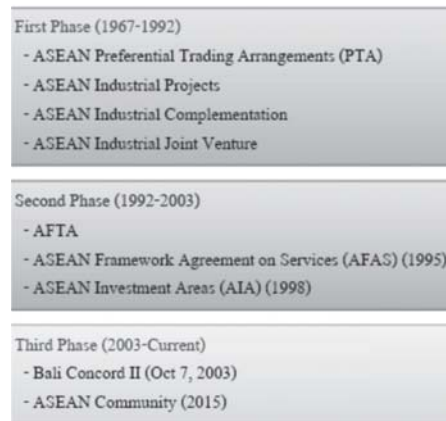
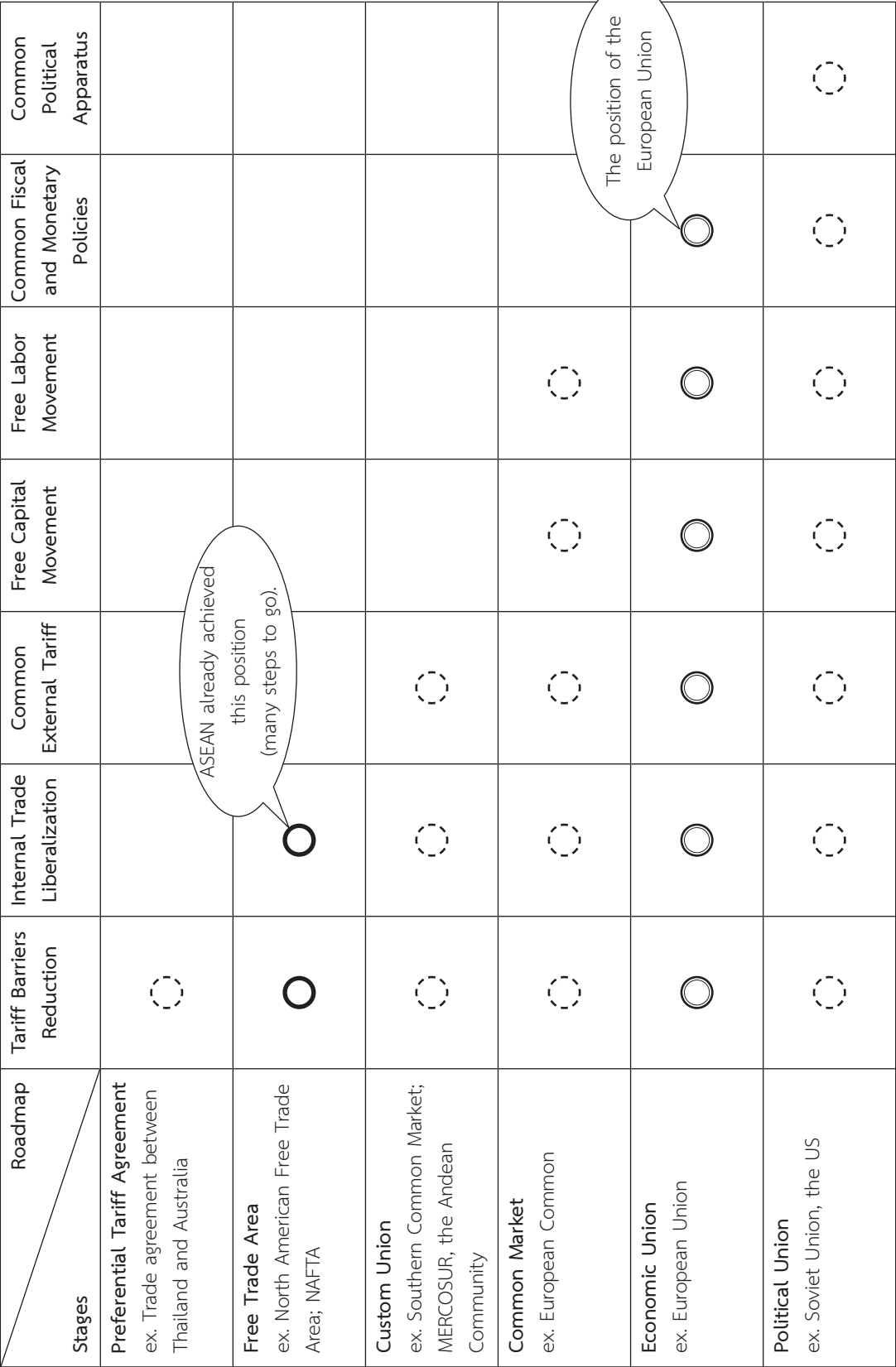


Figure 3 Roadmap of ASEAN Community



● ASEAN's accomplishment    ● EU's accomplishment    ○ accomplishing steps for other of economic integration

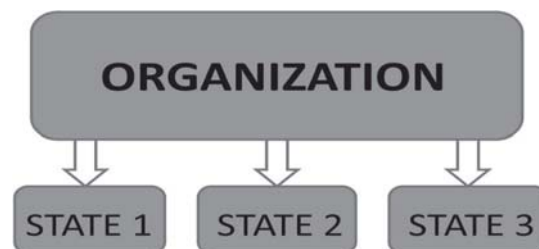
Figure 4 Stages of the economic integration

### Compare and Contrast EU to ASEAN

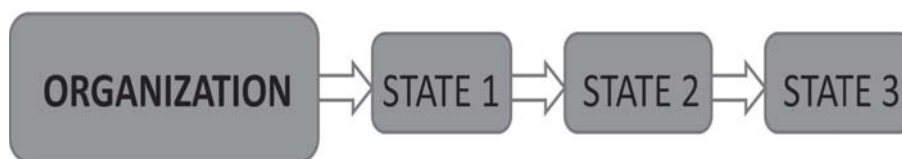
According to the ASEAN's expectation, the result of AEC will change from FTA (the recent position of ASEAN) to be a Common Market and may be the union in the future. Moreover, this economic integration is supposed to have high acceleration and solidarity by holding the EU as model of ASEAN. Actually, it seems to be incomparable and inappropriate to hold EU as ASEAN's model due to a couple of different factors between EU and ASEAN indicated below.

The first fundamental element is the dichotomy which affects to their authority-related structures lying as the heart of diversities between these two regional groupings. While EU holds a supranational form, ASEAN

remains basically on an intergovernmental level. According to Schuman Declaration in 1950, the EU member countries have delegated their national sovereignty in certain areas to supranational institutions becoming quicker, easier, deeper and more powerful mechanisms in making rules and decision, also creating the solidarity among the members than ASEAN. It can be said that its members have been reluctant to intervene, decrease or share their own sovereignty with others. For this reason, they have decided to choose the intergovernmental method which individual states have equal authority and sovereignty (Curveys, 2012) (Chuen, 2003) (Petchsiri, Sutthisripok and Thontiravong, 2002).



**Figure 6** Structure of SupraNational International Organization Idea (EU)



**Figure 7** Intergovernmental Method: Equivalency Status of Member State  
(General International Organization including ASEAN)

For example, the establishment of the

European Structural Funds was proven to be

a powerful mechanism to reduce a problem of poverty and disparities among member countries, and between regions. Another obvious success of supranational institutes is the interaction of EU council and the European Commission to adopt the EU pre-accession strategy vis-à-vis the 13 candidate nations of Central and Eastern Europe. In contrast, the ASEAN way is as a Sub-Regional cooperation body agreeing by so-called growth areas, for instance the Great Mekong Sub-Region. It has been established in order to extend the co-operation between the countries in particular growth area.


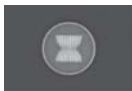
The second is related to the monetary policies. EU as a supranational body was started with the creation of the European Monetary System in 1979 to hold fixed, however, adjustable exchange rate among member countries before established the European Monetary Union in 1999 through the mandate of the European Central Bank. As a result of “Maastricht criteria” in early 2002, the EMU countries applied a single currency (Euro: €) showed the economic convergence in the region.

On the contrary, the economic solidarity of ASEAN has been weaker than the EU. Although, there would be the fundamental of an Asian Monetary Fund (AMF) to be a mechanism for the ASEAN Plus Three (APT)<sup>6</sup>, it has never been

further than the currency swop facility (Curveys, 2012).

However, EU is just an imperfect economic union for a few reasons. Firstly, there is not all members in EU have adopted the Euro (€) such as the United Kingdom, Sweden and Denmark. Thus, it cannot be said that EU is absolutely adopt the single currency. Moreover, the adoption of mutual currency among member nations probably causes economic crisis. For instance, as Greece joined EU and also adopted the Euro (€), its public expenditure soared. Due to after years of overspending, big difference between spending and income as a main result of prevalent tax evasion, appeared its budget deficit. The government continued to run up huge debts with no capacity to repay. Precisely, Greece’s chronic fiscal trouble affects downturn of overall economy in Europe (Nelson, Belkin and Mix, 2011). This disadvantageous circumstance of EU probably is an advantageous lesson for ASEAN to learn and figure out the prevention ahead. Secondly, Differences in tax rates and regulations cross nations still remain. Furthermore, in some markets including market of energy in EU are still not fully deregulated (Hill, 2009).

<sup>6</sup> ASEAN Plus Three is a forum that functions the cooperation between ASEAN and the three East Asian nations consisting of China, Japan, and South Korea, started working in 1977.

	European Union  Has done	ASEAN  Is going to do
Internal tariff (Normal Items)	Reduce to 0%	Reduce to 0%  PS. New ASEAN members assert 5% tariffs on sensitive items.
External tariff	All countries in the EU agree to offer the same tariff rate for each non-member.  (Common external tariff)	Individuals are able to deter- mine it own trade policies to non-members.  (Non- common external tariff)
Internal portfolio investment proportion  (Foreign Ownership)	100%	70%
Labor movement	Free movement	Limited movement; skilled or identified labors only

**Figure 8** The ASEAN's action via the launch of AEC in 2015

Sources: Amornvivat, S and team (2012), Insight: Business Opportunities for Services sector under the AEC, Journal of Siam Commercial Bank, Economic Intelligence Center. Hill, C, W. (2009), Global Business Today (6th ed.). New York: McGraw- Hill Companies, Inc.

If consider the table above, it can be said that ASEAN is still on the attempting stage compared to the success of EU, in terms of economic integration. However, the agreement of ASEAN's regional officials realized that it was time for further acceleration of regional co-ordination, especially in economical issues. Consequently, AEC, one of the three pillars of the future ASEAN Community, was concen-

trated on the anticipation in achieving the goal to tie the region to be a single marketplace of goods and services, moreover, a production base causing cost efficiency and pooling factors of production. The issued agreements consist of complete reducing trading barriers on normal goods among ASEAN, increasing foreign ownership from 51% to 70% by 2015 and piloting seven selected professionals being free labor

movement in ASEAN.

However, implementation of a common external trade policy by imposing a common tariff seems to be one of the hardest actions in specialists' view, and this policy is a hidden agenda now. It must be very difficult for AEC to change Singapore's external 0% tariff, in case that most ASEAN members agree to impose a common tariff rate at more than 0% on specific items imported from non-member nations. There possibly becomes an exception for some members at the end (Hill, 2009) (Thepchatri, 2012).

### Conclusions & Recommendations

At the age of regionalization, ASEAN is going to strengthen the power leading to the solidarity and security in the region, especially in economic part. In 2015, ASEAN will have the progressive economic integration called AEC. Moreover, ASEAN is able to be ambitious with the project of being ASEAN Union in the further future. For this reason, it is undoubted that EU will be brought up as ASEAN's model. However, there are different matters between EU and ASEAN.

Starting with the objectives of establishment, EU was formed to alleviate damage after the World War in Europe, especially in strengthening regional administration and economics. In contrast, the main objective of ASEAN is to make better atmosphere of regional economics with effective trading agreements, however, fragile issues such as political notions have been avoided from the focus.

Since EU is the form of an economic union which member countries need to delegate national sovereignty in certain areas to be on the supranational level. As a result, there are a number of supranational institutes as vital mechanisms of the union such as EU council, the EC and the European Central Bank to develop, implement and finance the policies in the region. On the other hand, ASEAN is directing to be custom union with the notion of being single market and production base in 2015. Refer to AEC's blueprint, there will be apparent changes including trading, investing and laboring exchange conditions. Even though, ASEAN is going to be further form of economic integration, it still applies the intergovernmental body resulting in less firm authority and legitimacy to handle with different views and living standards of member nations.

For this reason, ASEAN is recommended to strengthen the regional integration by considering and improving the "Inside Out" and "Outside In" missions.

In terms of "Inside Out", it means that ASEAN should accomplish a lot of works before the AEC occurs, such as supporting Public Private Partnership (PPP) and Corporate Social Responsibility (CSR) issues in region, improving logistic and servicing sectors in order to support exchanges of labors and investments, to establish more authorizing institutions to handle with the probable conflicts and making of good perception and preparation for accelerating growth of GDP-to-be as a result of opened door market and friendly policies, especially

in ASEAN's new members, namely Cambodia, Myanmar, Vietnam and Laos (CMVL).

Apart from the Inside Out perspectives, ASEAN is suggested to strengthen the relationship with other supranational institutes or countries being outside the region recognized as "Outside In" strategy. It cannot be denied that the most significant co-operation is ASEAN Plus Three (APT). APT has considered, discussed and figured out agreements not only on the

economics and financial-related topics, also a number of subjects including the areas of trade facilitation, food and energy management, rural improvement and poverty alleviation, educational supports, human trafficking, communicable diseases, catastrophe management, environmental development, transnational crime and terrorism countering. Apparently, the cooperation has brought about a lot of preferable figures for ASEAN.

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