

# Formation of asean economic community



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Formation of ASEAN Economic Community History ASEAN was preceded by the short-lived ASA (Association of Southeast Asia), founded in 1961 by Thailand, Malaysia and the Philippines. These three countries would eventually cooperate with Indonesia and Singapore to draft and sign the Bangkok Resolution on August 8, 1967, which established ASEAN. The organization expanded when Brunei joined in 1984, followed by Vietnam, Laos, Myanmar and Cambodia in the late 90s. As the organization's size doubled, so did its emblem, which depicts ten yellow rice stalks on a backdrop of red and blue. A majority of ASEAN's members were decolonized only in the years following WWII. Indeed, the main impetus for the organization's inception may have been the desire to fill in the power vacuum created by the recently withdrawn colonial powers. The organization operates primarily on an economic level, working to find compromises between the interests of each nation and the region as a whole. It also works within the political sphere, attempting to establish the region's solidarity through its unified actions. Structure The highest body of ASEAN is the annual summit (ASEAN Summit). The chairmanship of the ASEAN Summit and Ministerial Conferences rotates annually between member states in alphabetical order. The Head Office of the ASEAN Secretariat is located in Jakarta, Indonesia; in addition, each country features its own local foreign minister. ASEAN is also divided into three central Community Councils: Political-Security, Economic, and Socio-Cultural, each of which presides over several Sectoral Ministerial Bodies. ASEAN's decision-making process features its own hierarchy, divided into Tracks. Track I encompasses all official decisions made by diplomatic representatives of the member states. Track II deals with hypothetical policies proposed mainly by think tanks and

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academic institutions, essentially serving as a forum for potential ideas. Track III is also a forum, one that consists of civil society groups and special-interest lobbies. Though this structure implies the possibility of citizens' ideas trickling up to the inter-governmental level, the reality is that most of ASEAN's decisions are made by senior officials, independently of the represented masses' knowledge. Recent Developments On December 15, 2008, the organization officially adopted the new ASEAN Charter, which establishes ASEAN as a legal entity and pushes the region closer to becoming a unified free trade sector. The Charter stresses peaceful settlement of disputes and respect for each state's sovereignty and internal affairs. While this may signal that ASEAN is indeed moving towards reaching the status of the EU, the organization's inability to impose sanctions and lack of judicial power puts its power of influence in question. After years of discussion, the negotiation among Association of South East Asian Nations (ASEAN) member countries over the formation of the ASEAN Economic Community finally reached an amiable agreement. Recently, the ASEAN national leaders who gathered in Jakarta and attended the ASEAN Summit said that ASEAN will follow the ASEAN integration path and continue to push forward the formation of the ASEAN Economic Community; and to strengthen the influential power of ASEAN in international affairs. Although the agreed on ASEAN Economic Community framework has not yet fully complied with the requirement of all ASEAN countries, we can still say that it is a good agreement. In accordance to the agreement that has already been reached, ASEAN will soon come out with a more formal ASEAN Economic Community Agreement that comes with executive power. The agreement will go in line with the ASEAN Free Trade Agreement in order to push forward the specific

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task for ASEAN countries to promote free trade in Southeast Asia. This is certainly an epoch-making milestone. It is an agreement that is worth our effort to seriously making in-depth analysis, in-depth study and review.

Promotion of ACFTA If the ASEAN Economic Community can be established according to the agreement reached (at the Jakarta ASEAN Summit), then the greatest achievement (attained by ASEAN) is that after all ASEAN countries worked hard for close to 20 years, a regional economic cooperation framework has finally been materialized. In the future, all ASEAN countries will use such a comprehensive regional economic framework to think about regional economic issues. To this end, the economy in Southeast Asia will present a completely new look to the world community. Since the inception of ASEAN by 10 countries in Southeast Asia, all ASEAN member countries have already begun to work and plan on such a regional economic framework. ASEAN's plans have included the mobilization of long-term funds from ASEAN nations' respective central bank; the handling of currency exchange rates and the handling of ASEAN monetary fund's short-term capitals; and on the promotion of ASEAN-China Free Trade Agreement (ACFTA). Among them, the role of regional trade organizations has also become increasingly important with the implementation of Free Trade Area.

New Road Map Nevertheless, some of the negotiations within ASEAN in the promotion of reduction of tariffs agreements are still ongoing. Because of the fact that the implementation of the function of the free trade agreement has all along encountered much resistance from various sectors, the function of the respective central banks in ASEAN countries and the function of the monetary fund have not been able to fully realize. If the ASEAN Charter and the ASEAN Road Map of the ASEAN Economic Community can be established

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by the year 2015 smoothly, such an achievement can definitely help to improve the long-term difficulties encountered by ASEAN countries on regional financial operation. Such improvement will also have a significant impact on trade, finance as well as total production volume in Southeast Asia. However, the impact level and the degree of the intertwining impact of them on ASEAN will warrant ASEAN countries investing on manpower and resources to continually studying them. At this juncture, with the rise of regional economy in the world, ASEAN has put in special attention to consider the implementation of the ASEAN Economic Community. ASEAN has also put in special emphasis on the impact of this ASEAN Economic Community on each and every ASEAN member country's national production. Accordingly, it is believed that in the next 10 years, ASEAN's total regional production volume will be increased by hundreds of billions of dollars. Among them, Singapore, Malaysia, Indonesia will take up the majority share of the regional production volume within the ASEAN region. Regional Production Volume However, the estimation of this sharply increased regional production volume in ASEAN has in itself created two problems to ASEAN countries. The first problem has to do with the production distribution issue related to the additional regional production volume among different ASEAN countries. The second problem has to do with the production distribution issue related to the profits and cost of distribution of different industries in different ASEAN nations. In the case of production distribution among ASEAN countries, one must understand that the natural resources and endowments of ASEAN countries vary. Moreover, different ASEAN countries are developing along different stages of economic development. If by reducing trade barriers and tariff reductions, the level of

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the international division of labor among different ASEAN countries' industries can move along a healthy path, then the total production volume in ASEAN can of course hold strong possibility to increase. However, since the national economic development level of some ASEAN countries such as Laos, Cambodia and Burma are comparative lacking behind, the bargaining power of these countries to negotiate for a good product price they can supply to the Southeast Asian market will also be relative low. When countries such as Laos, Cambodia and Burma's original trade conditions are already at a disadvantage level and more so especially at this period of time when high-technology products have become more and more important, the unfavorable trade conditions of countries such as Laos, Cambodia and Burma are even more obvious. As such, even if the establishment and implementation of the ASEAN Economic Community Agreement can result in additional regional production volume in the coming years, the production distribution in countries such as Laos, Cambodia and Burma may turn low instead of high. Such development might create adverse and negative effects on the already expanding disparity of wealth and income in the ASEAN region. As such, the trade policies of respective ASEAN country may also need to be readjusted according to such a phenomenon. Industrial Structure In regard to the distribution of profits of different industries in each and every ASEAN nation, we should realize that the implementation of the ASEAN Economic Community in the future will be the result of accommodating the interests of the main ASEAN countries. In this regard, the ASEAN Economic Community framework has set different specification for agricultural, industrial and services industries. The industrial structure of different ASEAN countries has its respective peculiarity and different units

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and different sectors of respective ASEAN countries also have different stages of development. Under the specification of the new ASEAN Economic Community framework, although certain industries will have the opportunities to enjoy the benefits of the new specification, but there may also be more industries suffering adverse effects under the new trade specification. Even if there is a buffer period for those affected industries to take time and adjust to the new trade environment, nevertheless, if these affected industries cannot get reasonable support from their respective government, these affected industries may not be able to keep bearing the adverse effects in the long run. As such, in conclusion, how much net profit this new ASEAN Economic Community framework or agreement can provide to the economic growth of each and every ASEAN country; and how these net profits will change with the passing of time are crucial issues that the government officials and industries of respective ASEAN country must pay close attention to observe.

**1ASEAN Concept** From an objective perspective, the formation of the ASEAN Economic Community can definitely help in the future expansion of regional trade. As such, the formation of it will of course bring better and more beneficial opportunities to all ASEAN countries. As Malaysian Prime Minister Najib Razak said, through the promotion of the "1ASEAN" (one ASEAN) concept to strengthen ASEAN member countries and ASEAN people's greater public awareness of the concept of ASEAN, and through "letting the world know who we are," the "1ASEAN" concept will be of great benefit for ASEAN to expand its international activity space. Moreover, if ASEAN can use such a timely expanded international activity space to speed up the process in the handling of sovereignty right conflicts over the islands in the South China Sea and the disputes over economic

waters, then the influence of this 1ASEAN concept to protect the interest of ASEAN as a whole will not be something that can simply be measured in term of economic calculations. Nevertheless, in the course of promotion of regional trade liberalization, ASEAN governments must have a clear mind to recognize all the different issues that can involve levels from different spectrum. ASEAN countries must seriously carry in-depth review of the impact of the ASEAN Economic Community and carefully and effectively come out with plan to respond to such impact and development.