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DOI : 10.32734/lwsa.v1i2.211
Electronic ISSN : 2654-7066
Print ISSN : 2654-7058

Volume 1 Issue 2 – 2018 TALENTA Conference Series: Local Wisdom, Social and Arts



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ASEAN Economic Integration and Inclusive Economic Growth

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Abstract

Most of the ASEAN countries is the developing countries which still rely on economic of natural resources. The process of economic transformation has become a necessity to make changes towards industrialised countries. The transformation was done so that the economy is able to compete in the global market. The purpose of writing this paper is to convey the trees thoughts and ideas of the importance of economic integration in addressing society's income distribution inequality in the ASEAN countries. According to the estimated Gini index ASEAN countries actually fall into the category of economic inequality. This means that the inequality happens too extreme and there is positive movement towards equitable distribution of economic opportunities for the population. Therefore needed an inclusive development-oriented growth inclusive long-term. Inclusive development aimed at reducing the number of poor population and unemployment in order to be able to take advantage of the market to base prosper. Inclusive development requires improvement in the field of human resources, government bureaucracy, institutional economics, infrastructure improvements, strict law enforcement, satisfy basic needs certainty, and mastery of the science, technology, and political stability. Paper concluded the economy of ASEAN countries have not yet fully managed so well that the inclusive development process should give priority to a strong and stable economy facing global competition, the difference in their respective interests not yet guarantee the formation of economic integration of the ASEAN countries that are powerless competitiveness so that the need for an agreement based on the principle of mutual needs, mutual raising, and mutual benefit. The paper also suggested ASEAN countries to fix the things that detail in order that investments grow rapidly in their respective countries. Investment and exports of industrial products are the two factors that elementary in order for resilience and economic integration can be formed quickly and productively.

Keywords : *Economic transformation; inequality; inclusive growth; economic integration*

1. Introduction

Global competition happened in this current century has encouraged the change of economy process passage to each country. The same goes with ASEAN countries preparing themselves by forming the Asean Economic Community (AEC) as a platform that together brings the power of social, cultural and economic. The AEC is established as a strategic step on facing the challenges and capturing the rising opportunities due to global competition that could not be avoided. The goal of AEC is to develop an integrated Southeast Asia by forming a community which is open, stable, dynamic, and lead to welfare. ASEAN Economic Community (AEC) covers three areas, namely the ASEAN Political Security Community, ASEAN Economic Community and ASEAN Socio Cultural Community. A third of the field, the ASEAN Economic Community (AEC) has become the main force in developing cooperation among ASEAN countries, a justice and equitable prosperity achievement, and the developing of high competitiveness regions. In the "blue print" of AEC loads four main pillars, namely:

1. ASEAN as a single market and production base that supported by elements of a free flow of goods, services, investment, educated workforce, and flow of capital.
2. ASEAN as a region with high economic competitiveness in a given element in the regulation of competition, consumer protection, intellectual property, taxation, infrastructure development, and e-commerce.
3. ASEAN as a region with equitable economic development by small and medium enterprises (SMEs) development, and initiative integration of ASEAN countries that pertained in the CMLV (Cambodia, Myanmar, Laos, Vietnam).
4. ASEAN as a region that fully integrated with the global economic supported by a coherent approach with the relationship to outside area and the increase of participation in global production networks.

The transformation of economy

Indonesia, Malaysia, Singapore, Thailand and other ASEAN countries are the actively act country encouraging the formation of the AEC. Geographically, most of the ASEAN countries are agricultural countries. For example, Indonesia, two-thirds of the territory including sea covered by agricultural land and plantation that abundantly spread to almost all areas. Indonesia is one of the largest suppliers fulfilling the needs of the agricultural commodities in the world market, such as rubber, palm oil, and copra. While the tropical climate and fertile soil completing Indonesia as a country that very rich of natural resources. But the case is, the formed thick agricultural environment is very influential to business culture farming population of Indonesia. Thus, in fact Indonesia and ASEAN countries are actually a country whose economic base is agriculture with development of the manufacturing industry sector. But based on share against gross domestic product (GDP) the agricultural sector is still small compared with the manufacturing industry sector from year to year. That means the transformation of the economy indeed not yet runs optimally. But the undeniable presence of the agricultural sector is still the main starting points for most of the population lives in South East Asia. In addition, during this time, the agricultural sector Southeast Asia also has a significant trade sector to the development of commodity markets in ASEAN even to Japan and to China.

Some matters relating to the existence of the agricultural sector of ASEAN countries are stated as follows:

1. The ASEAN countries play an important role as a country that providing the enhancement a number of agricultural products in the global supply chain.
2. The ASEAN countries play important part in maintaining the stability of food prices in global market.
3. Agricultural industry technology that continues to develop especially related to the innovation of many types of food products, industrial raw materials, feed ingredients, and bioenergy.
4. Agricultural trade governance in a country is able to dampen price inflation so that the flush which rooting by the price of food products can be controlled effectively.
5. The regional agricultural sector production base is strong enough because it gets the support of a number of economic policy packages that loosen the flow of goods and services and investment.
6. The number of small and medium enterprises (SMEs) in ASEAN countries is relatively large so it can integrate each stage of the agricultural production products especially horticultural commodities (vegetables).

But then regarding to the progress prerequisite of a country, only relying on the agricultural sector is not the right choice. Relying on natural resources (agriculture) is very susceptible to market fluctuations and there is no guarantee inclusive economic growth can be sustainable for long term. Therefore, the transformation of the economy by a country towards industrialized countries should be done. As common developing countries, most of the ASEAN countries are still not classified as other massive industrialized nations except Singapore. For example is Indonesia. Based on the data of International Yearbook of Industrial Statistics 2016 expresses the United Nations Industrial Development Organization (UNIDO), the share of the manufacturing sector to the total Indonesia gross domestic product (GDP) when entering the year 2017 is still in the range of 22 to 25 percent which that haven't contributed to above 30 percent. In other words, the position of Indonesia is still outside of the top five world manufacturers.

1. There are at least five strategic steps to establish the transformation process of ASEAN countries with the amount of production and value addition of the increased manufacturing industry, namely:

2. Running a policy of industrialization with manufacturing and infrastructure based including the agricultural sector.
3. Developing the helpless industrialization competitiveness by reducing regulation that can slow down the goods, services and investment flows.
4. Developing innovations and creations in the production industry.
5. Increasing the production and distribution efficiency of manufacturing industry products results by reducing the cost of gas and electricity used by manufacturing industry sectors.
6. Enhancing the knowledge and skills capacity of a well-educated human resources work in the industrial sector as a prerequisite to advanced technology empowerment of growing production.

It seems that the economic transformation process is a policy that should be done together among ASEAN countries. Because the quick transformation of economy will push forward the formation of regional economic integration with the high productivity implementation of manufacture industry. If the economy transformation still not yet implemented then the potency of economic imbalances will complicate the process of regional economic integration. In fact that some ASEAN countries have shown fundamental change in economy bringing his country like other industrialized nations. Singapore, Malaysia and Vietnam are most ASEAN countries that showing their seriousness in the process of running the economic transformation. The case with Indonesia, Vietnam, Cambodia, the Philippines, Myanmar, Laos and Brunei's are estimated to set up economy as a step to build adequate forces competition. It is shown from their positive competitiveness index rankings and prospective movement in future global competition (see table 1).

Table 1. Global Competitive Index (CGI)

Countries	Rank of GCI 2015-2016	Subindex		
		Basic Requirement	Efficiency Enhancer	Innovation and Sophistication Factors
Singapore	2	1	2	11
Malaysia	18	22	22	17
Thailand	32	42	38	48
Indonesia	37	49	46	33
Phillippines	47	66	51	47
Vietnam	56	72	70	88
Lao PDR	83	86	106	103
Cambodia	90	93	101	121
Myanmar	131	128	131	134
Brunei	-	-	-	-

Source : World Economic Forum, Kemenko Perekonomian(2016)



Figure 1. Global Food Security Index (GFSI)

Source : *The Economist Intelligence Unit, Kemenko Perekonomian (2016)*

ASEAN countries have a great potential and fine prospect as for countries with an economy-based manufacturing industries that empowered the high competitiveness in the mid of the current globalization era. It is because the ASEAN countries already at a relatively stable food security with a high index level (see Figure 1). The question is how the efforts of the ASEAN countries are able to push the integrated economic of the respectively measured country and to show distinct realization as with the ASEAN data of high competitiveness in a mid global competition. Then the extent of the integration of ASEAN'S economies is able to compete with the global economic blocks movement controlled by big countries in the land of Europe. Furthermore, how the ASEAN economies are able to offset the current developed economic movement of big countries derives from Southeast Asia. All of the questions must be answered with realistic and easy to do approach.

ASEAN and Regional Economic Integration

Dealing with global dynamic market competition for the few past time, ASEAN countries should not only be silent. The global market slowly starts controlling countries over the world by forming the world economic blocks. Therefore, ASEAN countries must be able to play the main role on build its strategic alliances, especially in regional markets. Forming an economic integration has become the priority needs. There are 12 priority sectors will be integrated, which of seven came from industrial goods sector, namely agro-based industry, fishery, rubber, textiles and textile products, wood industry and wood products, electronic equipment and automotive. While other sectors are five services sectors, namely air transport, health services, tourism, logistics, and information technology industry or e-ASEAN.

The economic opportunities and prospects of ASEAN countries are very integrated and open make it potentially form a single market with a strong regional production base. Basically a single ASEAN market will be able to establish a strategic alliance for the activities of the trade sector. ASEAN countries certainly have their respective comparative advantages compared to other countries. Based on theoretical perspectives, economic integration of ASEAN will encourage its businessmen to enjoy "increasing return" in market and geographical advantage for access to the market. Through the economic integration then there will be reallocation of production and specialization based on comparative advantages of each country. However, it does not mean encouraging the formation of economic integration efforts will run smoothly. A number of challenges will be faced by the ASEAN countries, for instance, the readiness of resources to ready compete openly. The other challenge is the question of the dilemma between the labor and the cost of labor wages (labor cost value) that tends to increase. It is because the planning to use labor will have an impact to the value of good produced. Then the country will be mastering the deeper level technology and the

factors of production. Therefore, the ASEAN countries need to prepare the factors that can support the acceleration of economic integration (single market) formation:

1. Regulatory factor: each country first equalizes the structural perception about the regulations formulation of the course of commodity trading alliance in regional markets. Regulatory factors also contribute to the networks formation on a variety of business services, and the convenience of investing, the movement of capital and educated labor.
2. The tariff rates: difference factor could trigger the solidity of regional economic because countries outside ASEAN will choose the lowest tariffs in its trade dealings with one of the ASEAN countries. Discrimination rate can create the imbalance to regional trade.
3. Partnership commitment factor: each country should realize the importance of commitment that based on the principle of mutual needs, mutual raising and mutual benefit. Partnership efforts need to be supported by the good cooperation and the business of large-scale, medium and small partnership.
4. Institutional factors of business: business trade activity certainly cannot stand on its own without a collective institutional that pair up by the same purpose in manner involving the employers associations and chambers of commerce each country.
5. Availability of goods: each country should already provide the request market needs and supplies.
6. Quality and efficiency factor: each country should be able to build the region's high competitive power by managing the average cost of production at the level of efficient based on the target number of planned production.
7. Technology information and communication factors: These factors will create network of businesses that utilize media e-commerce to support on-line trading relationship between countries.
8. Human resources factors: the quality of education oriented to creation of the industrial product market competition requires a serious attention. Human resources should be on qualified "link and match" as strong enough to encourage the creation of the powerful high competitiveness products industry.
9. Political factor: almost all countries acknowledge the existence of legislative institutions as the representation of citizens contributing on drawing up government policy formulation. In common political views, pushing economic integration of each country largely determines the formation of economic integration and regionalization. An effective political communication will support the process of formation of economic integration. Challenges that have to faced seriously are the high individual nationalism countries on protecting individual trade. While actually the regional identity has no clear influence to the process of building up a commitment. It becomes more complex by the existence of geopolitical issues triggering the unresolved well territorial conflict.
10. Maritime security factors and economic gaps: border residents could potentially trigger acts of criminality against various trade interactions not only on land but also on sea. The numbers of large unemployment and employment are not capable of generating employment opportunities to absorb the excess of not accommodated labor. The problems of security disturbances on sea and the border of helpless economic region causing more unemployment happened and responding to closed access of employment. Strong safety factor and conducive condition boundary is a priority for regional economic integration and a good access to enter the market.

Ten factors above are a series of elementary problems to organize the process of the establishment of ASEAN regional economic integration. The influential factors in creating the single market, build production base, improving the competitiveness of the regional economy, regional economic growth, and a thorough integration of the regional economy with the world economy.

The stages of regional economic integration

Economic integration is one of the purposes why Asean Economic Community (AEC) formed. Southeast Asia is an open region as the part of the world trading system. The integration of ASEAN'S economies with the global economy cannot be simply unavoidable. However, to set up the ASEAN economic integration it should go through six stages, namely:

1. Trade Preference Agreement (TPA): every country produces special product as industry comparative advantage compare to other countries. This special product can be traded by the agreement between countries with a certain rate. However, a positive thing in this arrangement is the determination of the rates is not mutually detrimental but likely as the importance of maintaining sustainable trade cooperation. It is important for each ASEAN countries to look forward the future economic cooperation and jointly confront specifically a robust movement of market interventions major countries economy capabilities beyond ASEAN. ASEAN therefore needs to re-evaluate the tariffs on product industries of each countries for better future compared to the condition of the economy right now.
2. The Free Trade Area (FTA): the implementation of FTA between ASEAN countries by setting the zero percent tariffs is a good progress. But any ASEAN countries need to set rates that not reduce the competitiveness impact of their industrial products on the trade countries outside ASEAN. ASEAN countries need to agree about the price of industrial products traded with countries outside ASEAN in order to avoid the uneven trading profits and hindering productivity industries respectively. Besides that, the more important is not to obstruct the process of economic and financial integration.
3. Custom Union: the absence of obstacles to the goods movement between ASEAN industries is one of the successful condition processes of equally profitable economic integration. Therefore abolishing the tariffs trade between ASEAN countries becomes a necessity. However, a uniform rate assignment against countries outside the ASEAN needs to hold the communication in its implementation in order to avoid unnecessary suspicions. Custom Union could cause two things in one hand, i.e. the increase of international trade while on the other side doing a protection against countries other than members.
4. Custom Market: application of Custom Market requires intensive communication regarding price of the factors of production to achieve an efficient allocation of resources. In addition, the application of Custom Market must be able to diminish all kinds of obstacles.
5. Economic Union: this stage aims to realize the cooperation of economic region (regional) and to equalize the perception about regulations, social security, taxation and certainty in trying.
6. Monetary Union: this is the last stage in realizing regional economic integration. It concerns about unifying the single currency as means of payment for official countries. Single currency is closely related to the stability of the financial markets, the liquidity and the interest rates. Therefore its implementation is not easy as consider to each country has various monetary characteristics.

The inclusive economic growth

ASEAN should be strengthened their regional economic integration in order to face the competition in global economy which is increasing rapidly and should be able inhibit the growth of the economy of each countries. One model that can accelerate the achievement of accelerated regional economic integration is an inclusive economic growth. Regional economic integration will be more powerful and powerless competitiveness in each of the ASEAN countries in the process of attainment level inclusive economic growth which is sustainable for long term. But in reality, exclusive economic growth still exists in the economy of some countries in South East Asia. The condition is shown by people's income inequality, regional imbalances, and spatial inequalities. People's income inequality is a quite prominent issue. The implications of the wide income inequality are the relatively poor population of large and the high unemployment rate. Economic growth is enjoyed by only a small percentage of exclusive communities

consisting of capital owners, investors, conglomerate, and among bureaucrats. As the result income inequality in the society is barely under control. Inequality itself occurs due to the consequences of development of the countries in Southeast Asia are generally oriented to economic growth. The economy showing a growth-oriented domestic market becomes more open. The opportunities of market openness do not necessarily produce any greater benefits for the communities especially for the middle-income class. This condition should be prevented because it will further widen the income distribution gap. Even though the distribution of income inequality in ASEAN countries are not too extreme (relative inequality) but, if the economy-oriented open market is not managed effectively then the potential distribution of income inequality will turn into the extreme category (severe). This condition will severely undercut the strong and solid economic integration process. It is not impossible that the inequality distribution income weaken the width in the competitiveness of the economy. In addition, the distribution of income inequality leads to achieving inclusive economic growth efforts goes far from expectations. Whereas economic growth is a reflection of development activities marked on the wheels of economic movement through the optimization of the use of factors of production used in the production process, consumption, and distribution that have impact creating employment opportunities and increasing social welfare. The growth would likely be more meaningful when society can enjoy it fairly and evenly as a whole.

The relative distribution of income inequality between the residents at any country or region and the distribution tendency of income disparities among different members of the measurable economic community ability results to the calculation of the Gini Index concept. According to the World Bank to measure the distribution of income is to first classify the population over three groups, namely:

1. A group of 40 percent of low-income residents.
2. A group of 40 percent of the population of the medium income.
3. The group 20 percent of the population of high income brackets.

The uneven distribution of income can also be measured to see generate income distribution with the extreme levels (severe), moderate or mild. The Gini Coefficient is the ratio of the calculation concept that has a high sensitivity level on explaining the relationship between the group of high-income residents with other income population groups. Calculation of Gini Index is closely related to the law of Pareto and Lorenz Curve. The following table 2 shows Gini Index estimation of the ASEAN countries.

No	Countries	Index Gini
1.	Singapore	43,3
2.	Malaysian	42,4
3.	Philippines	42,8
4.	Thailand	39,2
5.	Cambodia	39,4
6.	Vietnam	39,6
7.	Myanmar	39,8
7.	Indonesia	39,5
8.	Laos	33,1
9.	Timor Leste	32,7

Actually the estimated Gini index above shows inequality of distribution income ASEAN community have been at the position moves toward the positive. A number of policies and programs to reduce the number of poor and unemployed people enough help to reduce inequality.

However, ASEAN should keep pushing the acceleration of development that generate sustained economic growth and inclusive in the long term. Because the policies and programs that are run not yet warrant the effort of overcoming

the inequalities of income distribution community succeeded in permanently. Because an economy always have the dynamics and sometimes difficult to predict. This means that there is no certainty in the economy. Only changes that always occur.

Therefore, the ASEAN countries need to undertake development programs that are inclusive sustainable in the long term. Essentially the inclusive sustainable development process in the long term is the basic requirement to produce an inclusive sustainable economic growth in the long term. Inclusive growth is growth that can meet the needs of current generations without compromising the ability of the generation will be dating, distribution of development results with evenly and justice for the entire population. While the construction of inclusive development which is able to create new opportunities in an economy that the new opportunities created by the accessible to all groups of people especially the poor people. Accessibility must be able to guarantee the existence of a strong impetus for increasing the welfare of the middle and lower-income communities.

The goal of inclusive development is a society with medium and low income levels that includes 90 percent of the population of ASEAN. For this group of middle income and lower income communities often experience barriers to developing the capacity of its economy compared with high-income communities in control 10 percent of the available assets. Moreover, the absolute poor in reality barely have absolutely no factors of production again. Inclusive development.

Therefore, should be the choice by each ASEAN country. Whenever it is not done then the gap in the distribution of income distribution can result in a reduced thrust to form an ASEAN regional economic integration. Inclusive development management is very important and strategic alliance to build great economy of ASEAN countries. The development process is not managed properly will certainly create development and economic growth, an individualistic and discriminatory.

Inclusive growth-oriented development inclusive are needed because some of the following:

1. It can help reduce the number of poor and unemployed.
2. Can increase the resilience of the economy as a whole in addressing the global financial crisis.
3. Can be a factor that directs the development process runs on the right path.
4. Can eliminate the possibility of the creation of the potential for social conflict.
5. Be able to support the occurrence of shared commitment to strengthening regional economic integration.

As for the inclusive development strategy an inclusive growth-oriented include among others:

1. Construction of the run should be oriented to sustainable growth in the long term and consider the quality of growth as the standard of creating prosperity and maintain the environment natural resources.
2. Construction provides a large and wide to the poor to get out of the trap of poverty that make it difficult. The accessibility of the poor must be assured of getting the ease of fulfilling basic needs (education, health, housing, information and social protection),
3. Development should be run-oriented job creation to all the inhabitants without any discrimination for the education and diversity of expertise. The most important is the community capable of creating income per capita corresponds to skill level and work achievement.
4. Construction of the run should be able to ensure no decline in the potential natural environment either in quality or quantity.
5. Development must be run with the support of the level of quality of natural resources, human resources, science and technology competitive power. Achievement of high competitiveness conducted by comparing the level of success of the economy of the country that is considered the industry forward and capable of meeting the needs of the global market.

Most of the ASEAN countries is developing so that the basic problems facing the same also. There are at least nine areas that need improvement with good management.

1. The field of bureaucratic government.
2. The field of regulation and legislation that is productive for the economy.
3. The field of empowerment in enforcing the law and the capacity of the apparatus clean government of the issue of legal irregularities.
4. The education field who are able to master science and technology-oriented competitiveness high.

5. The field of infrastructure that supports the social and economic activity.
6. The field of territorial and spatial integrating potential-potential regional and national economy.
7. The political field is stable with the welfare of the community interests and equitable justice.
8. The field of defense and security that is conducive in border areas, islands and outermost regions.
9. The areas economic institutional synergy with the economic needs of the community and economic independence.
10. The field of the construction of a high sense of nationalism as well as maintain integrity in the state and nation.

Inclusive development-oriented inclusive economic growth is not only the task of Government alone. But the task of all items related to the development process in a country including NGO (non-government organization) and high level political forum.

2. Conclusion

Based on the description above, it can be summed up as follows:

1. Competition of the global economy carries the implication of each country must prepare to build an economy that is stable and strong.
2. Global competition have implications for the incidence of challenges and opportunities that have to be faced by any countries including ASEAN countries.
3. One of the conditions necessary to build a strong economy and a high competitive power is to run the process of economic transformation by means of shifting the role of the agricultural sector to the sectors of the processing industry against gross domestic product (GDP).
4. Economic transformation required to support inclusive development process oriented inclusive economic growth.
5. Distribution of income distribution Inequality of society should be controlled by structuring an economy that aims to reduce the number of poor and unemployed.
6. The Gini index of ASEAN countries that describe the distribution of income inequality showed positive movement.
7. The process of economic transformation, the development of inclusive, inclusive economic growth is three policies required for the regional economic integration of the ASEAN countries.

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