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Asean Plan To Become Econ Community Difficult - Analysts

MANILA (AP)--An ambitious plan to turn Southeast Asia into a European-style economic community that can counter China and India will be a difficult unless the region shelves its protectionism and speeds up the liberalization of trade in services, analysts said Wednesday.

Trade ministers from the 10-member Association of Southeast Asian Nations, or Asean, agreed Tuesday at the end of their two-day meeting here to accelerate plans to turn the region into a single market. The Asean Economic Community, slated for 2020, will allow the free flow of goods, services and people across the region but does not call for a single currency.

The 39-year-old grouping's renewed push to become a unified economic bloc comes amid concerns the region may be dwarfed by giants China and India as East Asian integration gathers momentum.

But the actual economic assimilation in Asean - which includes two communist states and a military junta - has been sluggish, analysts say.

Although tariffs for most products have been cut under a regional free trade pact, the region has not been successful in wooing foreign investors, who flock largely to China. In 2004, foreign investment in Asean amounted to US\$25.7 billion, down from US\$34 billion in 1997. China has received more than US\$50 billion in foreign investment in recent years.

"The reason for this, of course, is that tariff-cutting alone is not enough to integrate a regional economy," said Rodolfo Severino, a former ASEAN secretary-general and currently a research fellow at the Institute of Southeast Asian Studies in Singapore.

Other non-tariff barriers such as restrictive regulations and technical measures have not been removed, customs procedures are only now being coordinated, standardization of products traded within Asean is progressing too slowly, he said. That's created transport bottlenecks in the flow of goods within Asean.

At the same time, negotiations to free up trade in services are moving slowly, there are still too many restrictions on cross-border financial operations and there is no coordination of monetary policy, he said.

"Asean needs to accelerate its integration measures," Severino said. "They have to move fast, the competition is not standing still."

It has a market of 530 million people but in reality, the region remains a chain of disparate markets and accounts for only 6% of global exports. Intra-regional trade makeup only about a quarter of Asean's total trade volume, compared to more than 70% in Europe.

Furthermore, a wide economic chasm divides Asean's six more developed nations - Malaysia, Indonesia, Singapore, Brunei, Thailand and the Philippines - and its four newer members - communist Vietnam and Laos, military-ruled Myanmar and Cambodia.

Most Asean countries still keep a tight grip over key industries such as banking, health care and transport, which are hindering economic integration, according to analysts.

Robert Broadfoot, managing director of the Hong Kong-based Political and Economic Risk Consultancy, said Asean members led by Singapore have turned outward and have forged bilateral free trade pacts with other nations that could further undermine regional integration.

"Asean nations have seen more rapid growth in trade and investment with other countries than among themselves," he said.

"The reality of the situation is that Asean integration has not happened as economic integration. Individual countries have vested interests and there is a great deal of a protectionist mindset in the region," Broadfoot said. "There is not enough political will to make it happen."

Severino said the establishment of a dispute settlement mechanism and plans to write an Asean charter would strengthen commitment to the next stage of regional economic integration.

"It could ensure more serious, more rapid compliance with commitments under Asean economic agreements and more effective enforcement of those agreements," he added.

Asean is also moving to boost links with its key trading partners. Last year, it signed an accord with China to create the world's biggest free trade area of 1.8 billion people by 2010, and is pursuing similar deals with India, Japan, South Korea, Australia, New Zealand and the European Union.