



## Comparative analysis of the process of economic integration of EU and ASEAN

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### Abstract

The birth of the EU (European Union) and ASEAN (Association of Southeast Asian Nations) is nearly two decades apart but both organizations are strongly influenced by the bipolar world in the time of cold war. However, after more than 60 years of EU development, it is recognized by the world as the most successful regional, economic and political association. In contrast, ASEAN is initially established with 5 members: Thailand, Singapore, Malaysia, Indonesia, Philippines with the first motive of cooperation and coordination on security and politics. Although established with the same purpose, both organizations have different goals and integration principles from which to bring about different achievements. The paper analyzes and compares deeply the process of international economic integration of countries in the EU and ASEAN.

**Keywords:** EU, ASEAN, economic integration, comparative analysis

### 1. Introduction

International economic integration is one of the guidelines of the developed and developing countries in the world in general. International economic integration not only provides opportunities but also brings many challenges. So, countries knowing how to take the opportunity and how to cope and deal with those challenges will enhance their position in the world market. Referring to international economic integration, it is impossible not to mention the countries of the European Union (EU) and the Association of Southeast Asian Nations (ASEAN) about the process of formation and integration throughout previous several decades; the achievements that countries have achieved in addition to their weakness and difficulties. Although, each country has a different economic culture, the linkage has brought them great success.

The EU was established when Western Europe was only a ruin after World War II (1945), the EU was born based on the desire to live peacefully, together to recover and develop economically, to neutralize the hostility between the two hostile nations of France and Germany. The EU is established based on the cooperation and association of six countries: Germany, France, Belgium, the Netherlands and Luxemburg. Through 6 times of changing and expanding in the association, there is a disparity in development among countries especially between the previously and the newly acceded countries. Up to the present time, the European Union consists of 28 members, of which 18 countries are in total using the common monetary system (Euro common currency). After the departure of the UK on June 23, 2016, the EU situation has changed. According to some reports of experts from the International Monetary Fund (IMF), the economy of the Eurozone has increased and there is uniformity among countries, the level of difference in GDP has decreased to the lowest in history. In addition, the policies for developing the economy are quite appropriate despite the increase in inflation. After more than half a century of new formation, existence and development, the EU always reveals a common development trend that is

increasingly narrowing the nature of a collection of sovereign nations. Perhaps, this is the most fundamental difference between the EU and ASEAN models <sup>[1,4]</sup>.

ASEAN was founded on August 8, 1967, when countries were heavily influenced by two opposing political systems, socialism and capitalism. ASEAN was established first with five Southeast Asian countries: Thailand, Singapore, Malaysia, Indonesia, and the Philippines, with the initial goal of combating communism followed by political and security cooperation. Today the organization has increased to 10 members working together and developing. In 2015, ASEAN ranked 6th in the world and 3rd in Asia in terms of total GDP of 2.55 trillion USD. Compared to the changes taking place in the EU, ASEAN is an organization that demonstrates stability and unanimity as ASEAN has created a stable security environment in the region, strengthening trust among nations and promoting economic growth. The association also helps strengthen regional relations with international powers and organizations with the policy of seizing the future development based on self-reliance and creativity <sup>[2,3]</sup>.

Although the achievements of and the cooperation between the two organizations are different because each of them has its own directions. But in short, both organizations are closely linked to the goal of peace, stability, development and reaffirming the role of nations in the international market. In the past few decades, the world has witnessed the expansion in both quantity and quality, the scale of cooperation and integration of many regional organizations, but still most notable are the EU and the ASEAN <sup>[5]</sup>.

### 2. Theoretical Framework

In this new era, it is impossible for a country to survive without any connection and linkage with the outside world and no country can develop its economy without cooperating with other countries. Integration is an indispensable rule when production forces are growing. Therefore, in this new era, international economic integration is an inevitable trend. In order to conduct

economic integration countries need to pay attention to both aspects of the opportunities and challenges it brings. Opportunities that open up include: expanding markets, acquiring science and technology, taking advantage of the strengths of nations, strengthening investment cooperation with foreign countries. In addition, there are challenges such as fierce competition not only in foreign countries but also in the domestic market, improving product quality to meet the needs of the world market. A big question is raised in all some countries: what are the necessary conditions for economic integration? Because the benefits that most countries have actually gained from the integration process are greater than the price they have to pay for negative impacts in terms of growth and economic development. This explains why international integration becomes the policy choice of most countries in the world today <sup>[6]</sup> and the conditions that every country should have is to fully understand the content agreement, rules of the game rules, understand the needs of the partners, understand the world economic situation and development trends, the way to function orderly in it. The second thing is based on knowledge to plan business strategy, promoting strengths and reducing weaknesses. The third thing is the State and industry associations providing information and directions, guiding enterprises to do business and especially the State should create the most favorable conditions for them, applying appropriate measures consistent with international commitments to protect them accordingly <sup>[7]</sup>.

International integration is a high development stage of international cooperation, a process of applying and participating in the development of common rules and rules of the international community, in line with national and ethnic interests. International economic integration is also the process of integrating the economies of nations into regional and global economic organizations, in which member countries are bound by the general rules of the whole bloc. After the Second World War, the boom in the market economy and production forces have formed and promoted the cooperation and integration between nations. With two-way benefits for the developed and developing countries, there is a need to expand the market of goods, investment, and technology transfer and take advantage of foreign resources in developed the countries. At the same time, low-growth and developing countries want to promote economic cooperation with with strong economies to call for investment in capital, technology and export of goods to promote economic growth. As a result, the process of international economic integration is formed at many levels and is growing more deeply and comprehensively. Today international economic integration has become the leading trend for the development of most countries in the world. In common economic literature it is easy to identify the following types of economic integration:

- Free trade area: member countries participating in this area are responsible for reducing tariffs for each other. The supergoal of establishment of a free trade area is to promote free trade between member countries. Non-tariff barriers are also reduced or eliminated completely. Goods and services are freely moved between countries. However, the free trade area does not stipulate a common tariff applied to non-member countries. Instead, each member state can maintain different tariff policies for non-member countries. There are many free trade areas in the world today, namely the Southeast Asian Free Trade Area (AFTA), the North

American Free Trade Area (NAFTA), the Central American Free Trade Area, the Latin American Free Trade Area (LAFTA) are among specific forms of free trade areas <sup>[8]</sup>.

- Customs Union: The customs union also has many similarities with the free trade area. However, in the customs union there is a distinction of tax rates and other characteristics between member countries and non-member countries.

- Common market: The common market has the basic characteristics of the Commonwealth Union. The market has no trade barriers between countries in the community. The countries agree to build a general trade policy with countries outside the community. Production factors such as labor, capital and technology are freely moved between countries. Restrictions on immigration and investment between countries are eliminated. Countries are prepared for the coordination of common monetary, fiscal and employment policies <sup>[9]</sup>.

- Monetary Union: This form of association is based on countries coordinating together their monetary policies, agreeing on monetary reserves as well as issuing collective currencies. In monetary allies, countries agree on the activities of central banks, and at the same time unify the operation of transactions with international monetary and financial institutions such as the International Monetary Fund (IMF), World Bank (WB) <sup>[10]</sup>.

- Economic Union: So far the Economic Union has been considered the highest form of economic integration. The economic alliance is built on the basis of member countries agreeing to implement trade, monetary and financial policies and a number of common socio-economic policies among members and with other countries outside the block. Thus, in the Economic Union, in addition to capital flows, goods, labor and services being freely circulated in the common market, countries also approach unified economic and social management policies, in addition to the usage of the common single currency. Today, only the European Union is operating in line with this direction <sup>[11]</sup>.

Economic integration is the ongoing process of eliminating barriers to trade and investment. It evokes resources and expands domestic and foreign markets. It promotes local businesses to constantly innovate to improve their competitiveness. Economic integration is also the development opportunity of underdeveloped countries and promotes their strengths while accessing new science and technology in production and management. International economic integration is a process of cooperation and development and it is also a complex process of struggle between nations.

### 3. Research Methodology

In this article we conducted a study by applying a number of scientific research methods such as: methods of analyzing and synthesizing theory to identify and approach the problem of the two interested but separate objects: EU and ASEAN, to learn more about their economic linkage and integration. After having detailed information about each of them, next step is to summarize to create a clear and specific theory system. Next, the article applied historical methods by carrying research on the process from the formation, the development through many basic achievements, in addition to the difficulties and challenges that both organizations have encountered until now. Finally, we were using expert methods based on referring to some research and empirical

articles written by experts and referring to the data and information possessed to analyze to reach objective conclusions and recommendation. After applying a number of research methods to analyze and compare the integration process of the EU and ASEAN, the authors found that there are many differences and similarities between them. Those differences and similarities are subject of discussion on difficulties faced by the EU as well as the lessons that ASEAN needs to draw from the EU example.

#### 4. Research Results

The EU and the ASEAN have many similarities such as the goal of establishment. Besides, the two organizations also have many differences such as:

- Goals and principles of integration. The EU has a population of over 500 million people, with 27 member countries, an area of 4,000,000 km<sup>2</sup>, a GDP of about 12,000 billion USD, an average GDP per capita of about 24,000 USD. ASEAN with 10 member countries has an area larger than 900,000 million km<sup>2</sup> but the average GDP per capita and the scale of the economy is 12 times lower than the EU. With the aim of ensuring a solid peace for Europe, resolving the conflict between the two great powers, France and Germany, promoting the strengthening of cooperation between the six countries (France, Germany, Belgium, Netherlands, Luxembourg and Italy), the EU was established and started international economic integration in all sectors including trade and services. In contrast, ASEAN was founded on the goal of linking with the US to fight communism in Vietnam, the Soviet Union and China. In addition, ASEAN is established with the objective of fighting violence and instability among member countries. EU integration principles are built on inter-state relations between countries, initially the economic relations followed by politics, culture, society and most importantly, the development of a unified, consistent institution with a clear legal system. Instead, ASEAN countries have been formed in the form of a union, countries have an independent role and cooperate with each other on the principles of consensus on security and politics, and later also on cultural and social issues. During the 73 years (for EU) and 51 years (for ASEAN) of development so far, both organizations have been through positive changes in the goals and principles of association, more in line with the globalization trend of the world. Although the EU has encountered many difficulties in recent years, the linkage between countries has been increasingly tightened, resulting in increasingly positive results. ASEAN countries have been adjusting their cooperative relations in all socio-economic aspects to tighten the friendship between countries and enhance the position of the organization in the world arena.

- Regarding the level of integration: Through many analyzed reports, it can be seen that there is a huge difference in the development speed of the two organizations. From the time of establishment of the European Coal and Steel Community (ECSC) and 6 times of expansion EU has far exceeded the level of integration in the world. As for ASEAN, in 1992 countries signed the Framework Agreement to strengthen economic cooperation and form the Free Trade Area (AFTA) and it was not until 2005 that ASEAN countries discussed the common currency. It is estimated that in 2026-2036 the new ACU (Asian Currency Unit) can officially become the Asian common currency. It can be seen that the EU has made great

progress compared to ASEAN, which is obvious because there is a strong link between countries and a unified common market. EU and ASEAN are not only different in terms of the level of development but also different in terms of strategies for development. Right from the start of the EU formation, there are clear specific strategies with the consensus on their implementation among participating countries. After the economic linkage has steadily stabilized in the countries in the EU, it is next to make political alliances. Unlike the EU, the ASEAN was established on the basis of political alliances and alliances with the US to fight against the communist regime, creating a political security environment for development of each country in bloc. Differences are also mentioned at the level of mass association among organizations. After 50 years of establishment and development ASEAN has achieved landmark achievements, Southeast Asia has transformed from mutual suspicion into a peaceful and cooperative area. However, despite being evaluated as a dynamic and potential market with high population density, young population structure and abundant labor resources, ASEAN's intra-regional trade by the end of 2015 is 24.1 %. This shows that commercial activities have not yet brought positive effects because countries in the organization are always directed to the world's biggest markets such as the US, EU, Japan and China. For the EU in recent years, intra-regional trade accounts for about 52%, 2 times higher than ASEAN, even in some major fields, the figure may increase to 80%.

- Regarding foreign policies: With the risk of breaking ties between the EU and the US, the EU's top leaders move to a new direction of independent foreign policy. The departure of the UK has brought new opportunities to link defense security in the EU. Currently, EU countries have quickly implemented the EU Defense Program 2017, in which there is a regulation that from 2020 each year 5.5 billion EURO will be spent to set up the European Defense Fund. Economically, the United States and Europe still hold strong trade and investment partnerships. In contrast to the stressful developments in the EU, in recent years ASEAN has been developing smoothly, expanding its cooperation with countries around the world. Some countries like India and Indonesia have affirmed that ASEAN is always the foundation of their foreign policy.

- Regarding institutions: Unlike the EU, ASEAN has relatively simple institutions since its early days. ASEAN has seven functional agencies: ASEAN Summit, ASEAN Community council, Sectoral Ministerial, Secretary-General and Secretariat, Committee of Permanent Representatives, ASEAN Committee in third countries and international organizations with the advantages of design, construction and operation of institutions in both centralized and responsible manner, increasing efficiency and effectiveness when making unified decisions, shortening the distance of the meetings workshop, reducing inequality among authorities, emphasizing the role of the Secretariat's positions. When it comes to the EU, member countries are governed by the Council of Europe, the European Parliament, the European Commission, the Council of European Ministers, the European Court of Justice, and the European Court of Auditors and European Central Bank (ECB). It can be said that between the EU and ASEAN, there are similarities such as a rather strict organizational and operational structure according to certain principles to

ensure concentration, depth and expertise. In charge of helping to resolve issues more smoothly, members of the agencies are all heads of states with the task of solving important issues, giving orientations for organizational development and ultimately the authority of the organization are specified by specific documents. On the other hand, both organizations have different characteristics such as the construction nature and the legal system of the EU based on the federal principle, according to the supranational model, the level of close association; ASEAN's organizational structure is based on the principle of loose state association. The difference comes from many reasons but the main reason is due to the cooperative nature of each organization. ASEAN is the unified in diversity link of independent states in Southeast Asia. ASEAN does not aim to unify and link to create super-nation like the EU. ASEAN cooperation mechanism is an intergovernmental mechanism based on the principle of consultation and consensus. According to these principles, ASEAN decisions are only made on the basis of consensus of all member states. The legal system of the EU is more complicated than that of ASEAN because of the combination of regional organizations, international organizations with the power of federal states.

### 5. Conclusion and Recommendation

Since the EU first establishment with 6 members, the number of participating countries has reached 28 countries with more than 500 million people and GDP of more than 14 billion EURO. This shows that the EU is growing stronger and stronger and expanding markets to other continents. Besides, EU aid also provides to more than 150 countries in the world, mainly poor and underdeveloped countries. Between 2014 and 2020, about 75% of EU support will be for countries heavily affected by natural disasters or conflicts, which makes these countries particularly vulnerable. Humanitarian crises continue to shock the globe, and in 2016, the EU has rescued more than 120 million people in more than 80 countries with more than 1.5 billion EURO aids for food, shelter, protection and health care. Since the Syrian conflict began in 2011, the EU is the largest donor for humanitarian aid to care for millions of people including men, women and children displaced by conflict.

Over the past 50 years, ASEAN has made many achievements from an organization including poor and backward economies to become the most dynamic economic community in the Asia-Pacific region, creating a large market of 630 million people with a gross domestic product of 3,000 billion USD, a growth rate of 4.7% annually that is the highest level in the region as well as in the world. In particular, ASEAN has established economic links through free trade agreements, building up the market up to 3 billion people with GDP of 20,000 billion USD. It is an economic relationship that other can hardly do compared to ASEAN. Through the research results analyzed, it can be seen that ASEAN countries have made achievements and successes in some fields, confirming their position and role in the world market. However, it is not possible to stop there, with the rapid development of EU socio-politically and economically, it would become a shining example for ASEAN to learn and follow the model of association and economic linkage. Thanks to the close, unified relationship between countries the EU can implement policies and strategies with ease. In recent years, due to instability in the

political and social situation, the UK decided to leave the EU, but that brought a new opportunity for EU countries to develop and tighten their political ties. Since then, it is easy to see that ASEAN countries do not necessarily have to learn and apply fully EU institutions but need to study selectively the conditions suitable to their circumstances. Not only that, the European common currency EURO is also a bridge to help members of the block easily exchange goods and also a help less developed countries in the EU to reach their full potential. Therefore, ASEAN should quickly accelerate the process of unifying the Asian common currency so that countries in the region can easily and freely circulate and exchange goods.

In short, both the EU and ASEAN have their own strengths and weaknesses, but generally both are developing in a positive direction. Besides, the cooperation between EU and ASEAN is increasingly improved, expanding to many other fields. EU assists ASEAN in technical issues, science and technology, human resource development. Besides, EU supports ASEAN in development aid. As for the EU, ASEAN is a potential market, providing raw materials and the main consumer of goods in the world market. This relationship is based on both mutual respect and promises should grow more deeply and strongly in the future.

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