

## ASEAN Integration on Track, but Risks Must Be Managed

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Fon Mathuros, Director, Media, Communications Department, Tel.: +66 9 0678 3436, E-mail: [fma@weforum.org](mailto:fma@weforum.org)

- The free movement of people, goods and services within ASEAN will happen by 2015 as planned
- But the disparities in economic development risk hollowing out the economy of poorer members
- ASEAN also faces the risk of financial contagion as member states are interlinked more closely
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Bangkok, Thailand, 1 June 2012 – Work on creating an ASEAN Economic Community by 2015 is progressing as planned, but there are risks and they must be recognized and managed, participants at the World Economic Forum on East Asia in Bangkok were told today.

“ You could have talented people leaving some countries and converging in Singapore, hollowing out the economies of those countries, ” warned Joseph E. Stiglitz, Professor, Columbia University, USA. An influx of unskilled and semi-skilled migrants from poorer members can also overwhelm the more prosperous states.

Surin Pitsuwan, Secretary-General, ASEAN (Association of South-East Asian Nations), Jakarta, said the grouping recognizes the risks. “ We have to be extremely careful and proceed step by step, ” he said, noting that ASEAN is starting with a limited number of professions, including doctors and hospitality professionals.

“ Sequencing is very important, ” agreed Rajat M. Nag, Managing Director-General, Asian Development Bank, Manila. Free movement of goods, services and capital should come first. The mobility of people can come later. However, the ultimate objective remains labour mobility, without which economic integration will not be a success.

The biggest obstacle to integration is the divergence in economic development of ASEAN ’ s 10 member states, said Mustapa Mohamed, Minister of International Trade and Industry of Malaysia. “ We have to do things in stages, ” he stressed. One of the first things ASEAN will do is reduce the economic disparities among its member states.

Financial contagion is also a risk as ASEAN economies become more integrated. A more virulent “ tom yum effect ” can hit the region, as it did in 1997 when implosion of the Thai baht spread to other Asian currencies and precipitated the Asian financial crisis.

Surin pointed out that ASEAN now has a US\$ 240 billion firewall under the Chiang Mai Initiative. “ It is not enough by itself in a crisis, ” he conceded. But it is enough to send a message that the signatories to the multi-currency swap arrangement, namely ASEAN, China, Japan and South Korea, will act in concert to respond to any crisis.

A mechanism has also been created to regularly monitor macroeconomic stability and other indicators in each member state, said Mustapa. “ We are better prepared today, ” he said.

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World Economic Forum, 91-93 route de la Capite, CH-1223 Cologny/Geneva  
Tel. +41 (0)22 869 1212, Fax +41 (0)22 786 2744, <http://www.weforum.org>