



# ASEAN FINANCIAL INTEGRATION

Group 1

# OUTLINE

1. Macro economic situation
2. ASEAN vs EU
3. Main benefits and challenges
4. Recommendations



# 1. MACRO ECONOMIC SITUATION

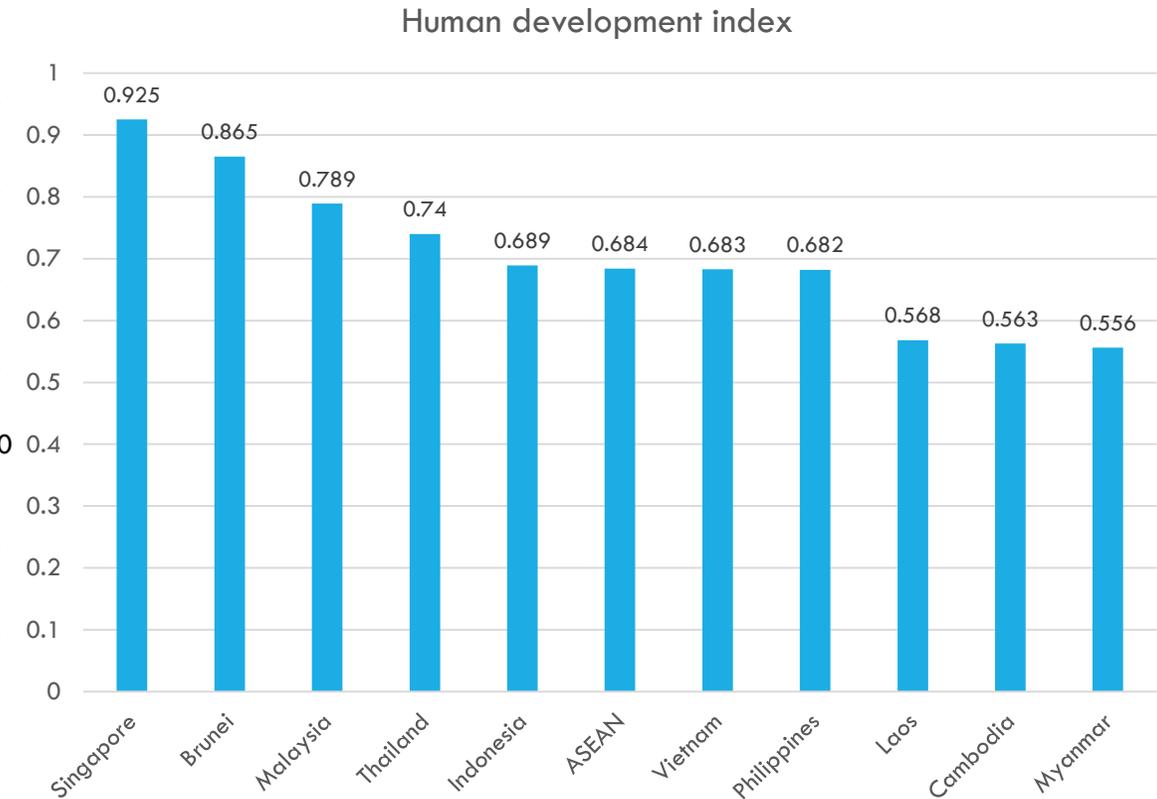
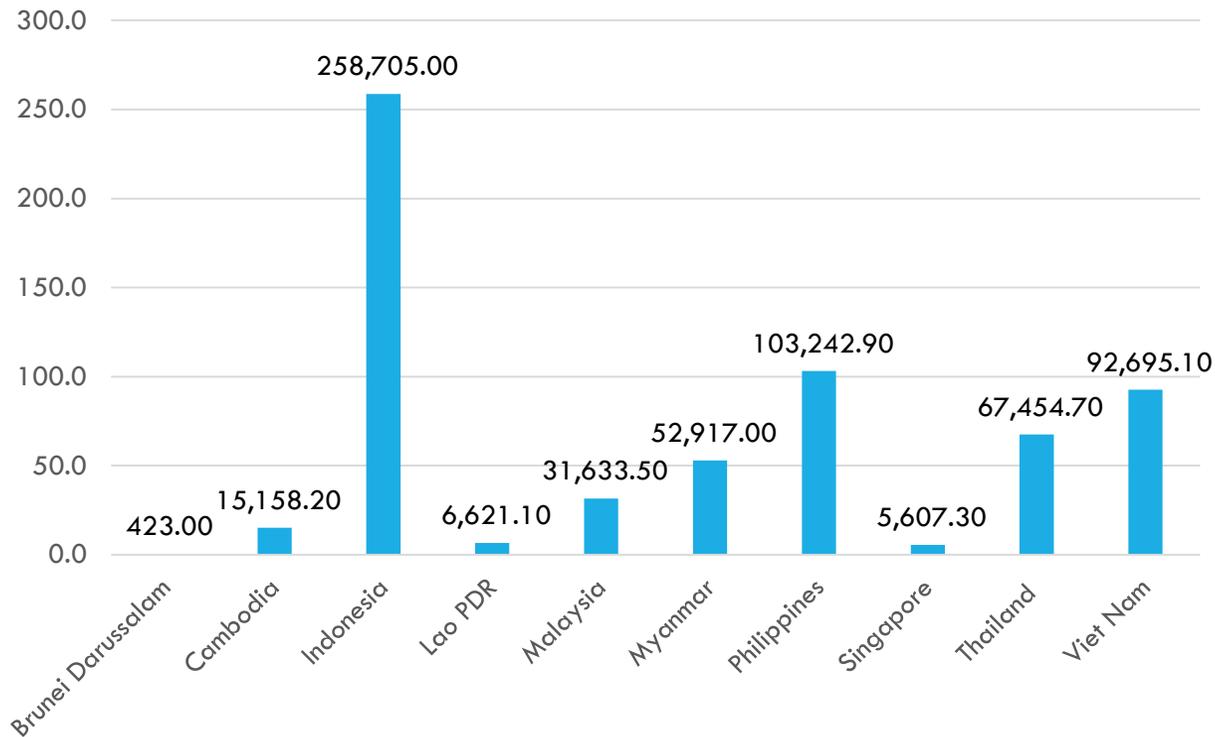
# KEY FACTS

**Founded:** August 8, 1967

Indicators	Unit	2017 <sup>P/</sup>
Total land area	km2	4,490,212
Total population	million	642.4
Gross domestic product at current prices	US\$ billion	2,766
GDP growth <sup>1)</sup>	percent	5.3
Gross domestic product per capita at current prices	US\$	4,305
International merchandise trade, total	US\$ billion	2,555.1
- Export	US\$ billion	1,313.6
- Import	US\$ billion	1,241.5
Foreign direct investments inflow	US\$ billion	137.0

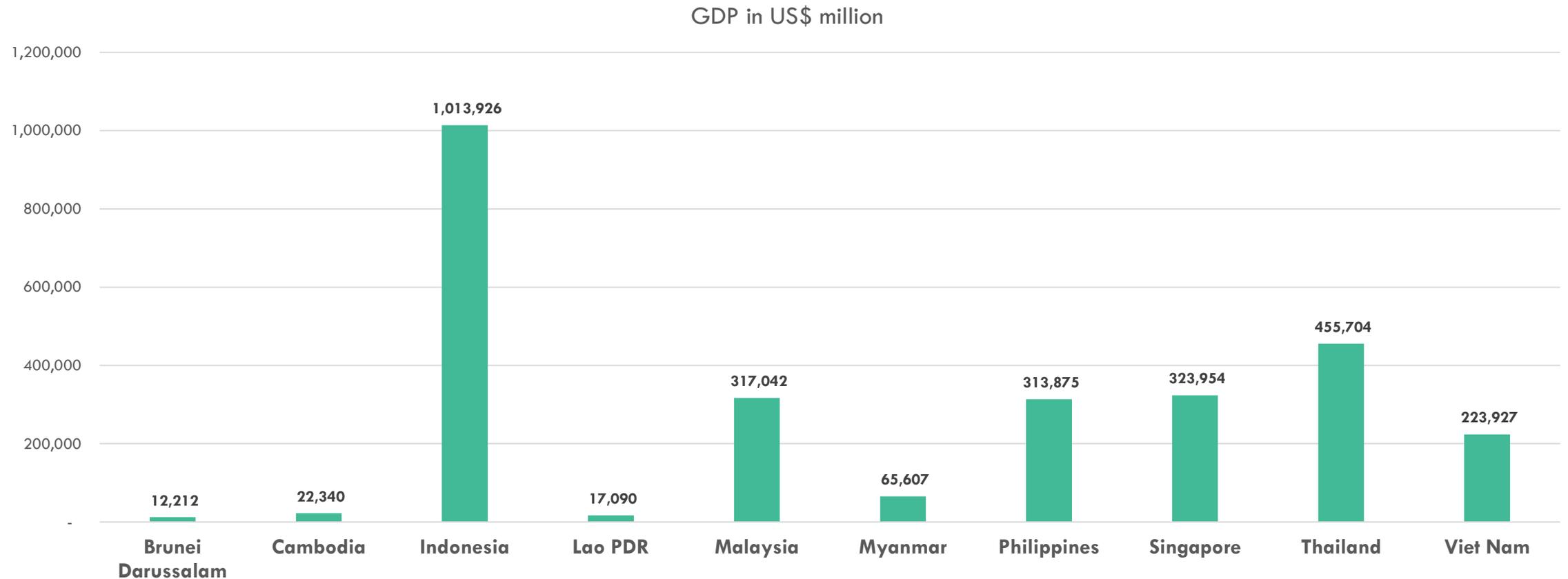


# POPULATION



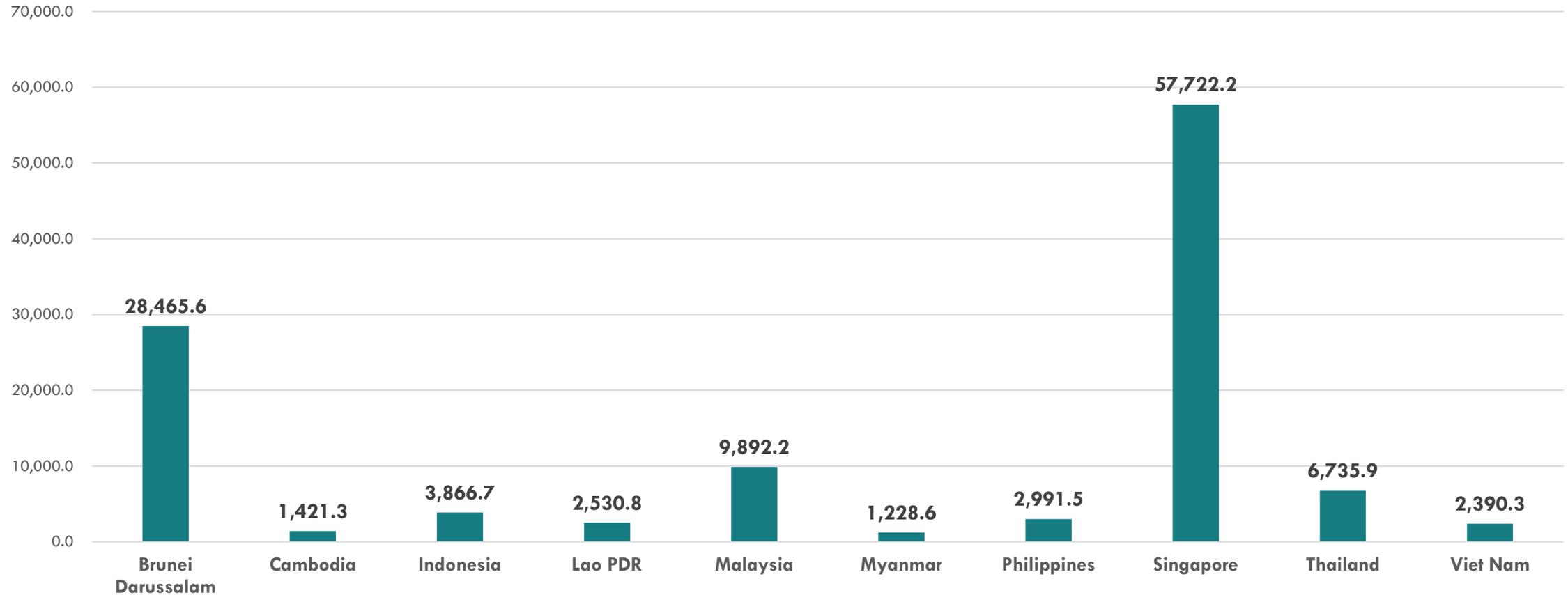
In 2017, ASEAN's population reached 642 million persons and was the third largest in the world, after China and India. Indonesia's population accounted for about 40.8% of the region's total population.

# SIZE OF GDP



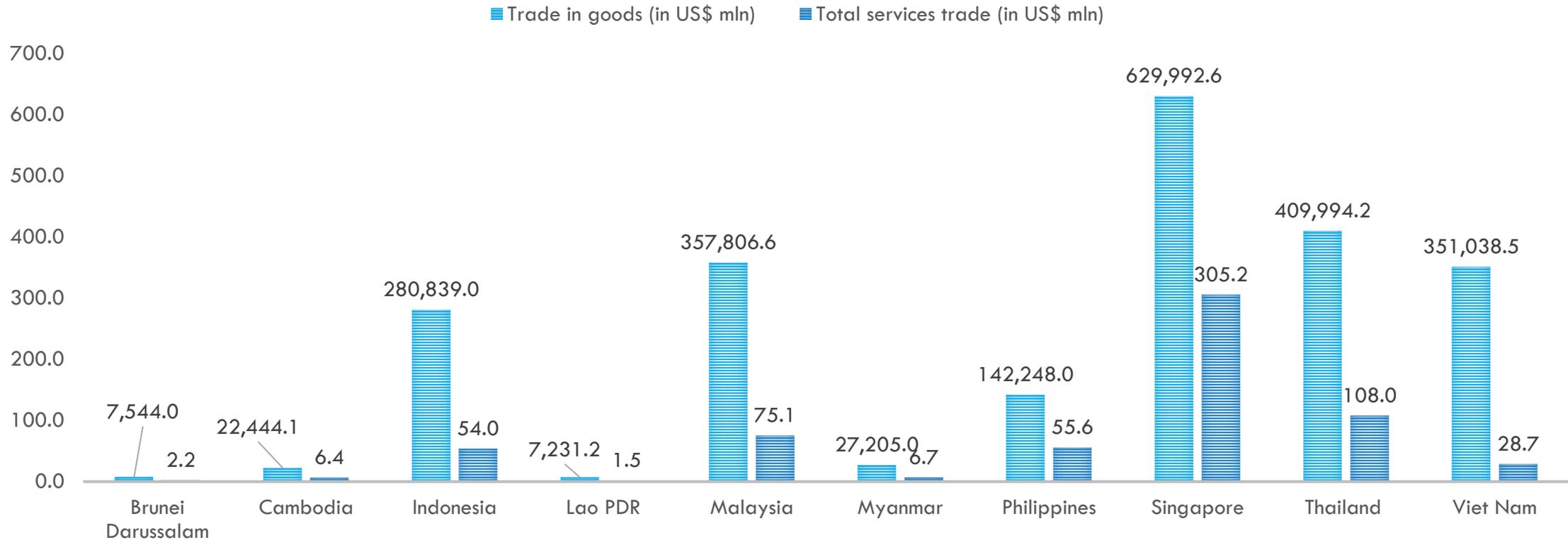
In 2017, ASEAN remained as the sixth richest economy in the world. ASEAN was also third among the Asian countries, after China and Japan. GDP is grew by 5.1 percent in 2017

# GDP PER CAPITA IN USD



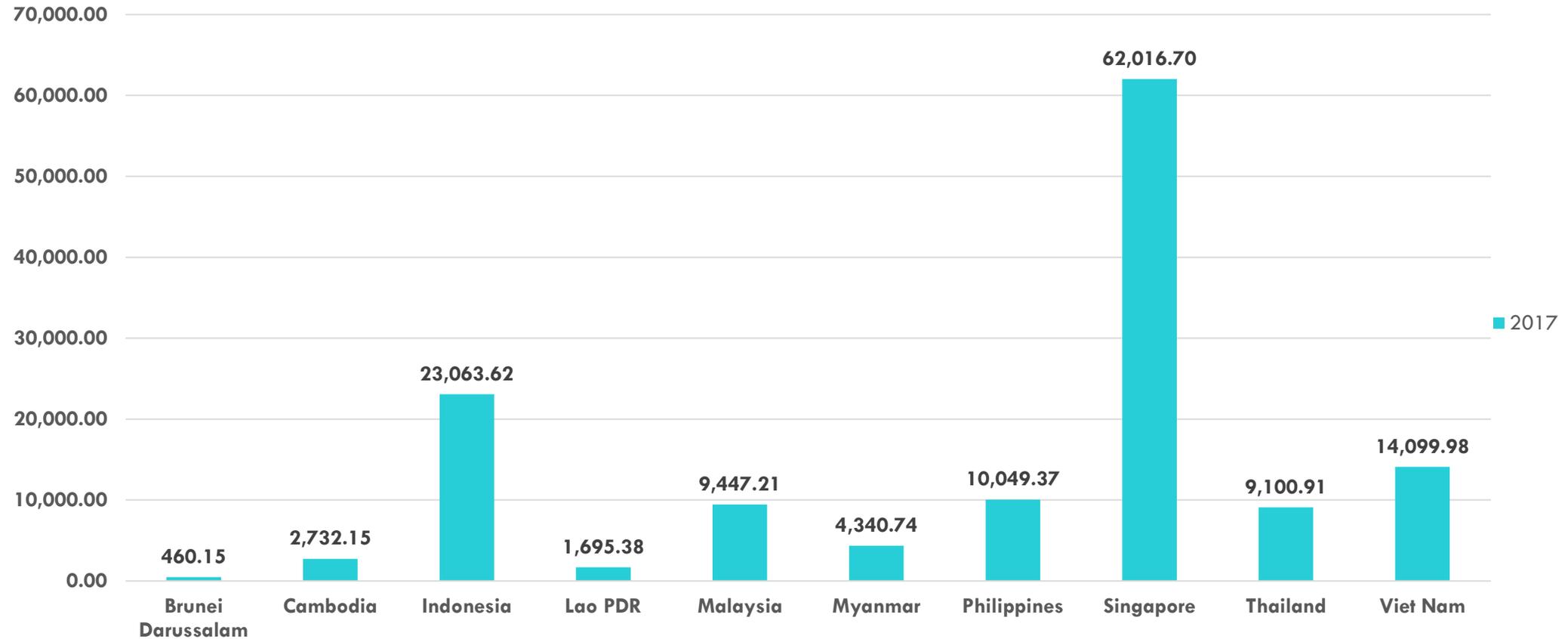
ASEAN GDP per capita increased by 86% from US\$2,373 in 2007 to US\$4,305 in 2017. Singapore was one of the top ten countries with the highest GDP per capita in the world.

# TRADE IN GOODS AND SERVICES



In 2017, ASEAN's total trade stood at US\$2.2 trillion, accounting for 6.9% share of the world's total trade, positioning it at the fourth position after China (11.5%), USA (11.5%) and Germany (7.4%).

# FOREIGN DIRECT INVESTMENT



In 2016, ASEAN with a share of 5.6% to the world total FDI inward flows was the fifth biggest recipient of FDI in the world after USA (22.4%), United Kingdom (14.5%), China (7.7%) and Hong Kong (6.2%).



## **2. ASEAN AND THE EU: SIMILARITIES, DIFFERENCES & CHALLENGES**



# ASEAN (ASSOCIATION OF SOUTHEAST ASIAN NATIONS)

## 10 Member States

**Brunei Darussalam** *(7 January 1984)*

**Cambodia** *(30 April 1999)*

**Indonesia** *(8 August 1967)*

**Lao PDR** *(23 July 1997)*

**Malaysia** *(8 August 1967)*

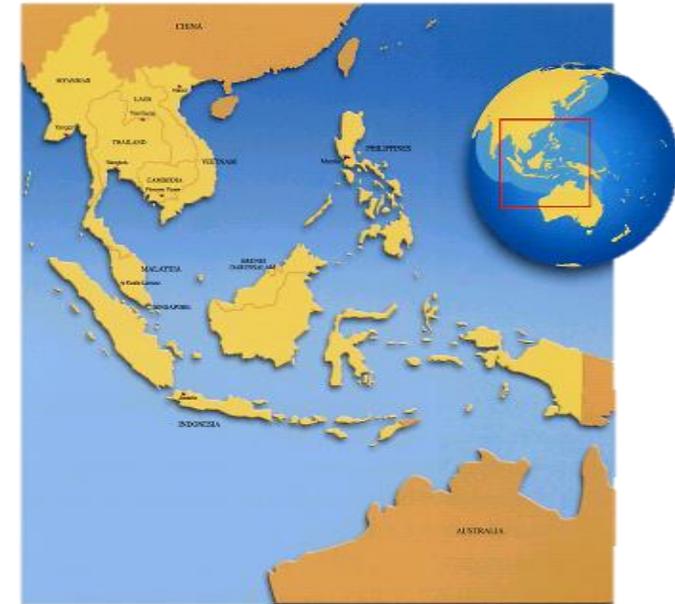
**Myanmar** *(23 July 1997)*

**Philippines** *(8 August 1967)*

**Singapore** *(8 August 1967)*

**Thailand** *(8 August 1967)*

**Viet Nam** *(28 July 1995)*



# EU



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The protocol order of the Member States is based on the alphabetical order of their geographical names in the original language.

# SIMILARITIES

**The first similarity** is that both are regional organizations with legal personalities. The EU has 28 members and will have 27 in March 2019. ASEAN has 10 members, with Timor Leste knocking on the door

**The second similarity** is that both were founded to promote peace. The EU was founded, after two disastrous world wars, to prevent the recurrence of war in Europe and to institutionalize peace through economic integration. ASEAN was founded to create a peaceful environment in South-east Asia so that the ASEAN countries could focus their energies on their economic development.

**The third similarity** is that both seek to integrate the economies of their member states into a single market and production platform.

In the case of the EU, there is freedom of movement of goods, services, capital and labor.

In the case of Asean, the movement of labor is not free. The Asean Charter obliges the member states only to facilitate the movement of business persons, professionals, talents and labor. This is a major difference between Asean and the EU.

# SIMILARITIES . . .

**The fourth similarity** is that both organizations share a commitment to human rights. The EU has a Charter of Fundamental Rights and ASEAN has a Declaration of Human Rights.

**The fifth similarity** is that both ASEAN and the EU have concluded many free trade agreements or comprehensive economic partnership agreements with other countries. For example, the EU and Singapore have concluded a free trade agreement which is pending ratification. ASEAN has concluded such agreements with China, Japan, South Korea, India, Australia and New Zealand but not with the EU.

**The sixth similarity** is that both ASEAN and the EU hold regular political and economic dialogues with important external partners. The EU holds annual summits with, among others, the United States, China, Japan and Russia.

ASEAN has created three forums to engage its external partners, namely, the ASEAN Regional Forum, ASEAN Plus Three and the East Asia Summit. In addition, ASEAN holds bilateral dialogues with its 10 dialogue partners. Finally, ASEAN holds an annual summit with the US, China, India, Japan and South Korea.

# DIFFERENCES

**The first difference** is that ASEAN is an inter-governmental organization. The EU, in contrast, is a supranational organization in which its member states have agreed, in certain areas, such as trade, to pool their sovereignties. In other words, the member states have voluntarily agreed to give up part of their sovereignty. The pooled sovereignty is exercised by the European Commission on behalf of the member states.

**The second difference** is that the EU has a common currency called the euro. Only 19 of the EU's 28 members are members of the euro zone

ASEAN does not have a common currency and has no plans to have one. However, in the aftermath of the 1997 Asian Financial Crisis, Asean, together with China, Japan and South Korea, launched the so called Chiang Mai Initiative. The project brings together the 13 finance ministers and central bank governors. Their agenda is to promote greater financial cooperation among the 13 countries.

**The third difference** is that the EU has a Parliament and ASEAN does not. The European Parliament has the power to legislate, as well as the power to veto budgets and appointments. ASEAN has the ASEAN Inter Parliamentary Assembly which has only the power of moral suasion.

# DIFFERENCES...

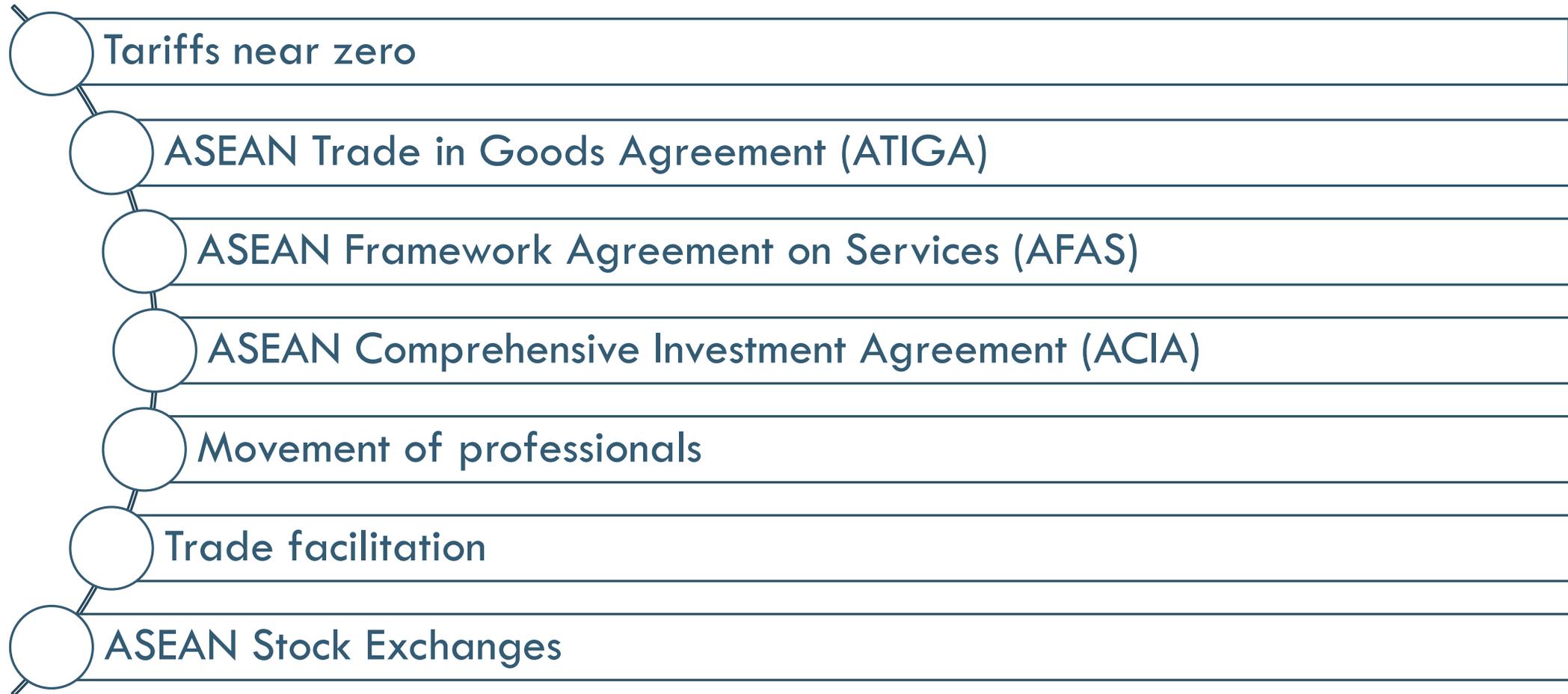
**The fourth difference** is that the EU has a very powerful secretariat called the European Commission and ASEAN has a relatively small and weak secretariat.

**The fifth difference** is in the decision-making process. ASEAN takes all its decisions by consensus. The EU can decide by taking votes. There is a system of weighted voting, with different countries being given different numbers of votes. However, in the area of common foreign and security policy, decisions are based on unanimity.

In ASEAN 's case, there is an exception to the consensus rule: economic agreements can be adopted by a majority, using the " ASEAN minus X" formula. The logic is that the majority can proceed first and the minority will catch up later.

**The sixth difference** is on language policy. The EU has 23 official languages. In the case of ASEAN , English is used as the sole medium for meetings and communications.

# STRATEGIC PLAN 2016-2025 YEARS MILESTONES



# BENEFITS OF ENGAGING WITH ASEAN COMMUNITY

- Opportunities from the 3<sup>rd</sup> largest consumer market in the world (measured by population).
- Opportunities from a population of 622 million, 53% of which are below 30 years old.
- Opportunities from a highly connected region, conducive to trade and investment.
- Opportunities from a vibrant economy (GDP growth projected at 4.9% in 2015 and 5.3% in 2016).
- Opportunities from rich cultural diversity.
- Regional partner in the promotion of peace and security, SDGs, and in addressing transnational threats and challenges.

# BENEFITS

- Increased capital flows (FDI, FII)
- Reduce transaction costs and facilitate trade of goods and services;
- Increase competitiveness and advantages of member countries
- Create more employment
- Promote economic development
- Greater economies of scale and scope will also make it more feasible for financial institutions to invest in talent and more advanced technology and systems, to support business development and risk management

# CHALLENGES

- Big gap between member countries
- Enforcement and dealing with conflict between member countries
- Financial stability – after integration as the result of contagion
- Existing capital controls
- Various differing settlement and payment systems...

# BARRIERS AND SITUATION IN INTEGRATION

- ASEAN is known for its reluctance to create a regional body because ASEAN member states are hesitant to give up their individual national sovereignty over such matters...
- In fact, the Eurozone crisis has proven that it was a mistake to not establish a European financial supervisory authority and only rely on national supervision in each country as there was a problem of lack of cooperation among them. Therefore, there is a need for more closer coordination and harmonization of national financial regulations in order to guard the single financial & banking market
- The challenge deals with the different banking regulations across the region. In the case of deposit insurance, some ASEAN member states have higher maximum payout. For example, Singapore's deposit protection limit is capped at S\$50,000 (US\$36,000). Other ASEAN countries have lower ceiling. Through its Deposit Insurance Corporation (Lembaga Penjamin Simpanan/LPS), Indonesia only guarantees up to Rp 2 billion (US\$148,000). So, different regulations might slow down the process of banking integration so they merit further scrutiny...

# BARRIERS AND SITUATION IN INTEGRATION

- The integration of the banking industry will undoubtedly face many challenges. The first challenge relates to the different stages of the banking sector development within ASEAN. The differences are not only between the ASEAN Five and the BCLMV countries but also within each group. For example, the cost-to-income ratio differs widely among ASEAN's banking industry.
- The difficulties in access to financing are compounded by underdeveloped financial systems, the need to manage multiple banking relationships across different markets, and a lack of coordinated financial advisory support to help businesses navigate the regulatory and business environment in different jurisdictions.
- Financial institutions will also need to meet higher standards in how they manage risk and govern their operations. To some extent, this will be driven by regulatory efforts to elevate prudential and business conduct standards

# SOME KEY INDICATORS TO IMPLEMENT FOR FINANCIAL INTEGRATION

- **Following the establishment of AEC 2015**, the AEC Blueprint 2025 has been developed as ASEAN's new master plan for economic integration for the next 10 years. Charting the region's trajectory over the next decade, institutions will be strengthened, commitments followed through with implementation, and monitoring and evaluation enhanced. Unique, dynamic and brimming with potential

- **Under the AEC Blueprint 2025:**

- Financial sectors aim to strengthen financial integration aimed at facilitating intra-ASEAN trade and investment will be implemented through increasing the role of ASEAN indigenous banks.
- Promoting financial inclusion will be done through the delivery of financial products and services to a wider community that remain underserved, including micro, small and medium enterprises (MSMEs).
- Financial stability will be ensured through the continuous strengthening of regional infrastructure, particularly in times of regional stress.

# THE SPECIFIC AREAS OF FINANCIAL INTEGRATION & HOW WILL THESE BE ACHIEVED UNDER THE AEC?

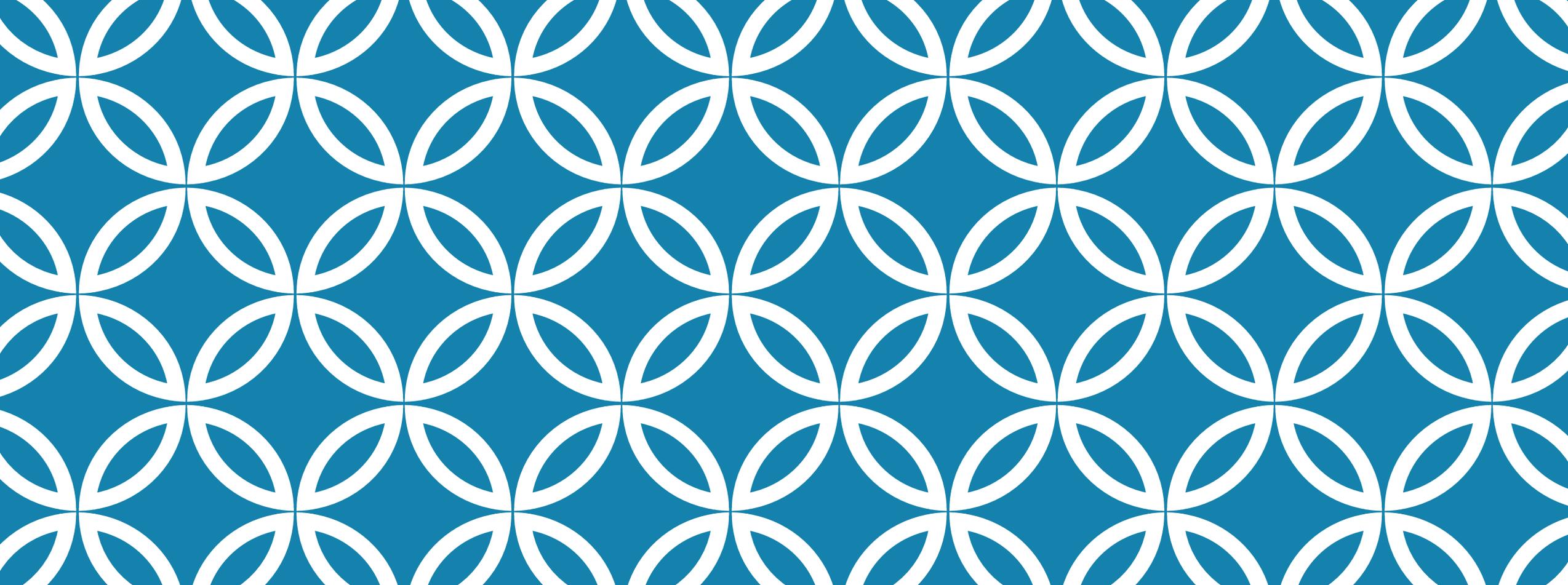
- **Financial Services Liberalization (FSL)**, including Banking Integration...
- **Capital Account Liberalization.** ASEAN aims to achieve freer flow of capital by gradually removing restrictions on foreign exchange transactions such as those in the current account (CA), foreign direct investments (FDIs), portfolio investments (PIs) and other flows (OFs), while imposing adequate safeguards.
- **Capital Market Development (CMD).** This will be implemented through harmonization of domestic laws and regulations and linkage of market infrastructure.
- **Harmonized Payments and Settlement Systems (PSS).** ASEAN aims to establish an ASEAN payment system that is safe, innovative, efficient and more interconnected.
- **Financial Inclusion (FINC).** ASEAN deliberates policy options, engage stakeholders and coordinate collective actions by member countries to enhance financial inclusion in ASEAN in the areas of financial intermediaries and distribution channels, financial education, and consumer protection.
- **Capacity Building.** ASEAN recognizes the need to provide necessary capacity building and other initiatives to narrow the development gaps among ASEAN economies and bring all AMS to fully participate in the ongoing integration efforts



## **4. RECOMMENDATIONS**

# RECOMMENDATIONS

- ❑ Establishing ASEAN court of justice for resolving potential conflicts
- ❑ Establishing Financial Stability mechanism (it can be contingent)
- ❑ Establishing ASEAN Banking Authority, similar to EBA of EU
- ❑ Removing capital controls, trade barriers and capital account liberalization



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**HAVE A SAFE TRIP** |