

whoever occupies central authority is willing to decentralize violence to secure ruling class predations. The state and the other primed and purposeful groups belong to a constellation of armed actors in a seemingly endless dance of peace and violence while the international community is off-and-on invited to intermissions of gunless dialogues. Meanwhile, the public struggles hard to interpret their motions on the daily news with the hope of finding meaning to it all.

There might yet be another possibility—that the affected publics might reject the engagement as an elite spectacle as they wait until the moment is ripe to make better sense of their lives. In the concluding chapter, the authors suggest the possibility of positive outcomes outside the peace process but not necessarily in the theater of war.—ED QUITORIANO, CONSULTANT, RISKASIA CONSULTING, INC.

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**Plummer, Michael G., and Chia Siow Yue, eds. 2009. *Realizing the ASEAN Economic Community: A Comprehensive Assessment*. Singapore: Institute of Southeast Asian Studies. 252 pp.**

The nations of the Association of Southeast Asian Nations (ASEAN) are challenged to form an economic community, much like the European Economic Community, after forming a free trade area. The ASEAN rose to the challenge. At the Twelfth ASEAN Summit in Cebu in January 2007, the ASEAN decided that it will create the ASEAN Economic Community (AEC) by 2015. The AEC will create an opportunity for the region to enhance its competitiveness through economic liberalization, reform, and cooperation.

*Realizing the ASEAN Economic Community: A Comprehensive Assessment* is edited by Michael G. Plummer and Chia Siow Yue. The former is Eni Professor of International Economics at The John Hopkins University, School of Advanced International Studies-Bologna and former Senior Fellow at the East-West Center; his main academic interests are international trade, international finance, and economic integration, especially in the Asian context. The latter is a Senior Research Fellow at the Singapore Institute of International Affairs. Her main areas of research are development economics and international economics, with a focus on Southeast Asian economics, especially Singapore.

The introduction written by Plummer and Siow Yue assesses ASEAN economic growth and performance: a) while economic

performance varies greatly, growth rates are increasingly correlated since the Asian Financial Crisis; b) rapid structural change is due to ASEAN's outward orientation; c) international trade has been the driving force of structural adjustment; and d) the current economic crisis will mostly likely cause a decrease in intraregional trade in absolute and relative terms. The editors say that it will be difficult to implement the program of building an economic community both technically and politically. There will be costs, it is true, but the benefits accrue to all ASEAN member states and stakeholders. The rest of the chapters present quantitative estimates and qualitative analyses of such gains.

Chapter two, penned by Zakariah Rashid, Fan Zhai, Peter A. Petri, Michael G. Plummer, and Chia Siow Yue, is titled "Regional Market for Goods, Services, and Skilled Labor." The computational general equilibrium (CGE) model of the AEC incorporates the recent heterogeneous firms trade theory and features intraindustry heterogeneity in productivity and fixed cost of exporting. The model is calibrated to the Global Trade Analysis Project global database, uses 2004 as the base year, and includes twenty-two country/regions, including all ASEAN countries, and twenty-one sectors. The results show an overall increase in ASEAN real income, the potential gains of all member states from the AEC, and considerable gains by extending the AEC to include ASEAN's East Asian partners as well as the United States and the European Union. ASEAN trade is expected to boom, both at the AEC level and the sectoral level. The modeling exercise also notes the importance of the "hub and spoke" system, with ASEAN as the hub. Flows of skilled workers will likely increase significantly in ASEAN. In this regard, policies for increased worker mobility must be set in place.

Chapter three is about "Competition Policy, Infrastructure, and Intellectual Property Rights," written by Wisarn Pupphavesa, Santi Chairisawatsuk, Sasatra Sudsawasd, and Sumet Ongkittikul, based on the AEC Blueprint, which envisions a "competitive economic region" by 2015. Their analysis argues strongly "that effective implementation of measures already stipulated in the AEC Blueprint—and related measures that might be considered in the future—will generate significant economic gains to ASEAN in general and to its less-developed members in particular." Improving intellectual property rights laws and implementing these will help stimulate innovation and attract foreign direct investments (FDI). In their empirical estimation of the impact of several AEC-related policies on economic growth and

FDI inflows, developing countries of ASEAN will benefit the most from increases in competition and infrastructure development. In addition, the share of FDI inflows as a percent of gross domestic product (GDP) is expected to increase with the improvement of “price controls.”

What is the impact of AEC on FDI inflows? This is answered by chapter four, entitled “The AEC and Investment and Capital Flows,” authored by Rafaelita M. Aldaba, Josef T. Yap, and Peter A. Petri. The approach used here is that of asking how ASEAN compares to “frontier” FDI levels—that is, to FDI levels that prevail in the world’s most successful FDI-attracting economies. In order to make the concept of “frontier” operational, they estimated three different measures of performance, all expressed in terms of FDI stock/GDP ratio:

1. The average of the three highest years of FDI/GDP ratios experienced by a particular economy in the past;
2. The seventy-fifth percentile of the global distribution of FDI/GDP ratios; and
3. The point halfway between the economy’s current ratio and the ninetieth percentile of global distribution.

The results indicate all economies, except Singapore under certain measures, gain FDI by moving to the frontier, as its inward FDI stocks are already near to top of the global distribution. What would be the welfare gains associated with such increases in FDI stocks? Overall, a rough estimate shows that host economy benefits amount to an annual 5 percent return of FDI socks or the annual USD6-13 billion range, or from 0.5-1 percent of annual ASEAN GDP. Policies will differ according to the member state. On the impact of ASEAN Investment Area (AIA), the authors, citing Plummer, conclude that AIA has had a generally positive effect, has reduced barriers to investment while opening up sectors. The authors also cite literature to suggest the need to develop a “new scheme” to promote the region’s dynamic involvement in regional and international production networks.

What is the effect of forming an economic community on the development gap between the older members of ASEAN and the ones that joined ASEAN in the 1990s, i.e., Cambodia, Laos, Myanmar, and Vietnam (CLMV)? What conditions or policies should be set in place to narrow the development gap? There is an attempt to answer these

questions in chapter five, “Narrowing the Development Gap” by Dionisius Narjoko, Pratiwi Kartika, and Teguh Wicaksono. They start by noting the income differences across ASEAN countries, the average being ten times that of CLV (Myanmar is absent from the analysis). This is due to the disparities in income of the first six members of the ASEAN, particularly Singapore and Brunei. In fact, the data they present show that the 2006 USD purchasing power parity of Brunei and Singapore were 21 and 18 percent times that of the gross national product of Vietnam, which tops that of Lao People’s Democratic Republic and Cambodia. Income differences can be in part explained by income difference *within* member states, so that policies that focus on income distribution *within* countries can help reduce income gaps *across* countries. Another way in which integration can help is through a unified market that will benefit poor countries the most by deepening the involvement of small and medium enterprises in regional production chains and international production networks. However, this measure is fraught with difficulties, because of the weak infrastructure of ASEAN and the “universal lack of initiative in harmonizing regulations.” This points out the policies that are needed by the member states. Finally, the authors deplore the lack of necessary political will to create a special fund to launch a program to narrow the gap, a way that has been proposed in the Eminent Persons Group (EPG) report. An alternative approach they propose is “a more systematic and focused program in developing institutions and soft-infrastructure.”

What policies are needed to make ASEAN more competitive? This is tackled in chapter six, “Competition and Leverage,” by Peter A. Petri. China, India, and the CLMV countries are fast gaining on ASEAN’s established exporters. Moreover, the destination of exports from the world’s most developed economies is shifting to the region’s emerging markets. ASEAN’s exports have also been focused on Asian markets, and have indeed managed to keep pace. Likewise, production networks are becoming the engine of regional integration and comparative advantage. One other major trend is that governments are turning to “regional and bilateral (rather than global) solutions to address international trade and monetary objectives.” Asia is also experiencing a lot of free trade agreements in its bosom, the implication being that “ASEAN needs sophisticated ability to manage multiple tracks of economic policy.” Priority must be given to making ASEAN a major hub for trade agreements because it brings substantial benefits—as

much as 10 percent of ASEAN income. The following obstacles need to be addressed:

1. Members should not only free up trade but pursue “deeper integration of markets and production systems,” i.e., national reforms well beyond trade liberalization;
2. Members should adopt a strategy for making regional integration compatible with international integration, i.e., “policies that incorporate the requirements of global markets into the regional policy agenda,” because the gains will not happen automatically; and
3. Members must forge coherent positions in international economic decisions.

Finally, the benefits of the ASEAN Economic Community are laid out in a final chapter by Michael Plummer and Chia Siow Yue. CGE estimates show that: 1) the AEC would lead to substantial gains or a 5.3 percent increase in economic welfare relative to the baseline; 2) all ASEAN member states should gain from the AEC “even if different measures affect member states differently;” and 3) a wide range of stakeholders will gain from the AEC.

The book is a comprehensive assessment of the ASEAN as an economic community, as requested by the ASEAN Secretariat and responded to by the United States Agency for International Development and the ASEAN-US Technical Assistance and Training Facility sponsored by the US State Department. It is authored by a number of well-known and dyed-in-the-wool Asian experts whose main interest is regional integration. It does not mince words on the need for national policies for forming an economic community that succeeds. It not only offers statistics for practitioners but offers a well-thought out, sober, and enlightening assessment of the economic community that is the ASEAN. How I wish it were read by scholars and the man-in-the-street—if it is not too daunting—to start a debate on the auspiciousness of the ASEAN Economic Community.—GWENDOLYN TECSON, PROFESSOR, SCHOOL OF ECONOMICS, UNIVERSITY OF THE PHILIPPINES-DILIMAN