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Modeling a Scenario of Asian Integration: An Economic Approach[1]

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I. Concept of Economic Integration

Economic regionalism has been broadly defined as a preferential trade agreement among a subset of nations (Bhagwati, 1992). The establishment of the European Free Trade Area in 1959 has ushered the initial stage of regional cooperation and integration. The second stage was brought about by the transformation of Western Europe into a single market along with the active participation of the United States in regionalism with the formation of the North America Free Trade Agreement (NAFTA). The Asia-Pacific soon caught up in 1992 with the formation of the ASEAN Free Trade Area (AFTA).

However, there are major differences in these two of regionalism in terms of scope and focus. The first stage stressed on tariff reductions and preferential treatment of member countries while the second phase was focused on the outward-looking orientation beyond tariff reductions which has a deeper impact on regional integration (Austria, 2003).

Over the years three major forces have been identified that facilitated the regional cooperation and integration in Southeast and East Asia: (1) market factors, (2) institutional factors, and (3) regional public goods. Market factors refer to the expansion of trade, capital, and human resources flows in the region, including the pressures of globalization toward a competitive environment and the economic vibrancy of the region. Institutional factors refer to the formation of mechanisms, organizations, and institutions within the region that makes it possible for the constituent countries to cooperate. Regional public goods refer to cross border concerns that have common impact and have to be resolved at the regional level (Tullao, 2007).

The literature on regional economic integration started with the seminar paper by Viner (1950) analyzing the merits and costs of removing tariffs among member countries in terms of trade creation and trade diversion effects. The removal of customs tariffs can lead to a trade creation effect by moving resources within the union where cost of production is most efficient. On the other hand, a trade diversion effect is the displacement of the most efficient producer which is not part of the regional trade accord.

There are certain conditions for maximizing the net benefits of a customs union including the competitiveness of the products being traded, the level of tariffs before the integration, the role of intra-regional trade, and the similarity of the level of development of member countries. Competitive products have greater trade creation effects than complementary products that are traded regionally because the former give rise to a wider reallocation of resources based on spatial differences in production costs. In terms of the tariff criterion, if pre-integration tariffs are high, there would be greater net benefits from regional trade liberalization than if pre-customs union tariffs are low since greater reallocation of resources results from drastic changes in the cost as a consequence of wider tariff reduction or elimination. Lastly, the more the economies in the region trade with each other a customs union among these economies would lead to greater net benefits than if their share of global trade is higher than intra-regional trade. This is because any reallocation of resources resulting from liberalization measures will be confined within the community and not dissipated outside the region.

II. Economic, social and demographic differences: basis of East Asian integration

The East and Southeast Asian region is probably the most economically dynamic region in the world today. It has a number of economies that has been significantly transformed in the last three decades including Japan, South Korea, Singapore, Hong Kong and Taiwan. China, on the other hand, has emerged from the lethargy of inward-looking economic policies of the past and is considered one of the fastest growing economies in the world today. On the other extreme, included in the region are some of the poorest nations in the world like Laos, Myanmar, Cambodia, East Timor and North Korea. In the middle of these extreme economies are emerging economies including Thailand, Malaysia, Indonesia, Philippines, and Vietnam with sustained economic growth, relatively stable macroeconomic fundamentals, improving infrastructure that has attracted foreign direct investments. However, in spite of the relative performance of these economies, a sizable portion of their population is still poor (Tullao, 2007).

Table 1: ASEAN+3 per capita GDP in USD

Country	2001	2004	2005
Brunei Darussalam(a)	12,121	14,404	16,882
Cambodia(a)	288	362	404
Indonesia(a)	790	1,159	1,275
Lao PDR(a)	326	418	623
Malaysia(a)	3,689	4,625	5,001
Myanmar(a)	162	166	106
Philippines(a)	924	1,042	1,160
Singapore(a)	20,918	25,366	26,821
Thailand(a)	1,837	2,519	2,726
Vietnam(a)	415	553	635
China(b)	-	1,486	1,742
Japan(c)	26,149	29,173	-
South Korea(b)	-	15,674	16,644
Sources:			
(a)	Asean Statiscal Pocketbook 2006		
(b)	ADB Country statistical profile 2007		
(c)	OECD country statistical profile of Japan		

Because of the diversity of the socioeconomic and demographic make-up of the region, regional cooperation and integration is being pursued along the complementarities among the economies. In trade, because of the mixed level of economic development countries the pattern of trade is not founded on the similarity of products but on product complementation as shown by the significant increase in intra-regional trade brought about by intra-firm trade and the rise of the region as a hub for regional production networks (RPN).

Table 2: ASEAN Exports to Major Trading Partners for 1993 and 2006 (In Million USD)

Trading Partner	1993 Exports	% Share to Total	2006 Exports	% Share to Total
European Union[1]	31,391.5	16.8	94,471.8	12.6

Japan	30,952.2	16.5	81,284.9	10.8
United States	42,008.2	22.4	96,943.5	12.9
ASEAN	43,681.1	23.3	189,176.8	25.2
Rest of the World				
China			65,010.3	8.7
South Korea			25,670.0	3.4
Australia			23,148.5	3.1
India	39,261.0	21.0	18,928.1	2.5
Canada			3,916.4	0.5
Russia			1,583.0	0.2
New Zealand			3,018.6	0.4
Pakistan			2,986.2	0.4
Total Selected Partner Countries / Regions	**187,294.0**	**100**	**606,138.2**	**80.7**
Others[2]	-	-	144,569.6	19.3
TOTAL	**187,294.0**	**100**	**750,707.8**	**100**

[1] Includes Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, and United Kingdom
[2] Includes trade of all other countries and those that could not be attributed to specific countries
Some figures may not sum up to totals due to rounding off errors

Source: ASEAN Trade Database (compiled from data submission and/or websites of ASEAN Member Countries' national statistics offices and other relevant government agencies)

Intra-regional trade among East Asian countries has expanded significantly in recent years. In the 1980s, only a third of the region's total trade has been accounted by intra-regional trade while this share has grown beyond 50 percent in 2006. One of the major conditions for effective regional integration is the significant share of intra-regional trade. The success of the European Union economic integration is largely due to intra-regional trade. While the basis of European intra-regional trade is the production and demand for differentiated products, the basis for intra-regional trade in Southeast and East Asia is product complementation.

Table 3: ASEAN Imports to Major Trading Partners for 1993 and 2006
(In Million USD)

Trading Partner	1993 Imports	% Share to Total	2006 Imports	% Share to Total
European Union[1]	39,291.5	18.0	66,118.1	10.1
Japan	55,702.9	25.5	80,495.6	12.3
United States	33,712.7	15.5	64,252.5	9.8
ASEAN	38,763.3	17.8	163,594.5	25.0
Rest of the World				
China			74,950.9	11.5
South Korea			26,849.7	4.1
Australia	50,488.5	23.2	13,262.8	2.0
India			9,774.6	1.5
Canada			2,970.3	0.5
Russia			2,841.1	0.4
New Zealand			1,531.2	0.2

Pakistan			296.1	-
Total Selected Partner Countries / Regions	**217,958.9**	**100**	**506,937.5**	**77.5**
Others[2]	-	-	147,160.4	22.5
TOTAL	**217,958.9**	**100**	**654,097.8**	**100**

[1] – Includes Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, and United Kingdom
[2] – Includes trade of all other countries and those that could not be attributed to specific countries
Some figures may not sum up to totals due to rounding off errors

Source: ASEAN Trade Database (compiled from data submission and/or websites of ASEAN Member Countries' national statistics offices and other relevant government agencies)

The significant rise in intra-regional trade has been attributed mainly to intra-firm trade and the rise of the region as a hub for Global Production Networks (GPN). GPNs are interconnected production plants where the component parts of a manufactured good are produced in various localities based on the cost and location advantage of this site. To take advantage of the location edge of various countries in Southeast Asia, component parts of automobile of many branded Japanese cars have been produced in many capitals of the region. Similarly various components of electronic machines and garments are produced in the region and traded among firms which are parts of the network.

The surge of Regional Production Networks (RPN) in Southeast Asia was made possible through rapid liberalization mechanisms in trade and investment of the receiving countries, one hand, as well as the increasing production cost in Japan and South Korea, on the other hand. The liberalization measures have brought about convergence in the tariff rates as well as in the investment climate in the region. Likewise, availability of hard and soft infrastructure in information and communication technology facilitated the growth of RPN in the region. The combination of liberalization measures and information, communication technology (ICT) infrastructure created competitive and strategic advantage for various countries that made them popular destinations of FDI including GPN (Tullao, Conchada, and Aguinaldo, 2005).

In the area of macroeconomics, the complementation is likewise shown on how the funds from surplus countries are being channeled to funds-deficient countries. Because of the unevenness in the level of financial development in various countries, overseas development assistance and foreign direct investments are being used as avenues for funds intermediation instead of the capital market.

With the huge savings generated by countries like China, Japan, South Korea, Singapore, Brunei and to some extent Malaysia, these funds could be channeled to the low and middle income countries in the region that are in need of funds to finance various development efforts. This is only possible if a system of financial intermediation in the region is well developed. With the economic dynamism of the region and the availability of a large pool of savings, East Asia could support large and efficient regional bond markets that may be as competitive as global bond markets.

However, the development of an efficient regional bond market is difficult to pursue for various reasons. Although there are benefits to a regional bond market as a response to the asymmetry in resource mobilization, there are limitations as well in such regional effort mainly arising from its efficiency and competitiveness relative with the global financial market. Any informational advantage of a regional bond market over global financial market can be dissipated by access to information due to disclosure, advancement in technology and improvement in governance.

Moreover, the main weakness of the financial sector in the region is the diversity in financial development among countries which in turn hampers the development of a regional bond market. Because of the lack of financial sector convergence in the region the surplus funds are not being channeled through the regional capital markets for use of countries and companies with deficient funds. Instead of using financial intermediaries the imbalances in regional funds are being addressed through the flows overseas development assistance (ODA) by the public sector and foreign direct investments (FDI) by the private sector. There is nothing wrong with ODA and FDI flows within the region but these flows are mainly determined by the motivations of the source countries. Unlike in an efficient regional capital market, the regional flows of funds would be influenced by the needs of sectors and firms in both fund-deficient and fund-surplus countries.

The movement of human resources across the region is likewise a respond primarily to the regional labor and demographic asymmetries. The exhaustion of the labor reserves of Japan, South Korea, Hong Kong and Taiwan is met by importing labor from neighboring Southeast Asian countries with less dynamic economies but with abundant labor supply (Abella, 2004).

Table 4: Approximate Number of Legal and Illegal Migrants, Approximate Share of Work Force (%), and Main Countries of Origin For the year 2000

Country	Migrant numbers (000)		Approximate share of the work force(%)	Main countries of origin
	Legal	*Illegal*		
Japan	1,300 - 1,500	250	1 - 2	Korea, China, Philippine, Iran
Hong Kong	240 - 250	10 - 20	5 - 7	Philippines (± 60%), Indonesia, China
Singapore	530	<10	25 - 27	Malaysia (± 40%), Philippines, Thailand
Taiwan	300	<20	1 - 2	Thailand (± 35%), Philippines, Indonesia
Korea	90 - 100	166	1	China, Philippines
Peninsular Malaysia	700	500 - 1,000	10 - 15	Indonesia (±70%), Philippines, Bangladesh
Thailand	110	500 - 750	1 - 2	Burmese (±70%), Cambodia, Laos

Source: Manning (2000)

The analysis of the movement of human resources stems from the responses of individuals and countries to regional economic and demographic asymmetries that produce differential impact on the labor markets in various countries.

From the sending countries side, lethargic economic performance and rapid population growth can create an excess supply of labor. To mitigate the growing internal underutilization of labor, the international market and overseas employment can serve as a vent for excess labor. From the receiving countries side, rapid economic growth, slow population growth and other effects of the demographic dividend create an excess demand for labor. One response to this critical labor market disequilibrium is sourcing labor from overseas (Tullao and Cortez, 2006).

In the provision of regional public goods (RPG), complementation surfaces again because of differences in the valuation of regional public goods resulting from the unevenness in economic development among countries in the region.

Common concerns have pressured countries in Southeast and East Asia to cooperate. Due to globalization and economic progress, the movements of goods, services, people, capital, information, pollution, and even crimes across national borders have expanded. Because the production and consumption of RPGs are not confined within the same national territory, there are positive as well as negative externalities with these spillovers. On the one hand, if the externalities are positive, there will be an underproduction of the good given the features of non-exclusion and non-rivalry inherent in public goods. On the other hand, negative externalities may result in overproduction because the producer is unable to internalize the entire cost of production. Given such an environment, there is a need for supranational bodies that will regulate the provision of regional public goods to attain the optimal level of regional public goods by maximizing the benefits from these cross-border flows and mitigating their negative spillover effects (Tullao, 2007).

The financial crisis together with environmental concerns, the spread of avian flu and more recently, cross-border crimes and international terrorism have emphasized the need to join forces and a have common stand on these cross-border issues and problems.

However, fostering cooperation among countries on the provision of regional public goods is rather difficult because of a problem of valuation. Countries of different economic development may value the benefits of cooperation and public goods differently, which makes it difficult to coordinate the production of these cross border goods (Ferroni, 2004). Instead of treating RPG as common concerns and sharing the burden of cost, there is unevenness in the cost sharing resulting from the problem of valuation. If all the burden of providing regional public goods will be shouldered by the advanced countries, however, the problem of a free rider may occur. On the other hand, if these developed countries would insist on equality in cost sharing, it may result in the underproduction of regional public goods.

III. The need for regional efforts towards socio-economic convergence

Southeast Asia together with East Asia is an extremely diverse region in terms of income levels, living standards, cultures, governments, and overall socio-economic conditions. Although these various socio-economic, cultural and demographic asymmetries are being utilized currently for regional interaction these same differences are restricting the region in maximizing the potential gains it could reap from regional integration and cooperation.

Problems besetting current regional cooperation have contributed to the sub-optimal gains from regional integration. In stabilizing the macro-economy, coordination of monetary policies are making it more difficult to attain because of the diversity of the policy goals extending beyond economic stability being pursued by many low and middle income countries. In addition, the reluctance of low income countries to trade liberalization may stem from their apprehension on the employment, income dislocation and other structural adjustment costs of key economic sectors that would result from a more open and liberal trading regime. In the promotion of public goods particularly environment, it may be difficult to convince developing countries in the region to actively pursue and participate in achieving regional goals since the level of economic development dictates to a great extent the countries preference for these long-term and cross border goals.

Given that complementary relations among nations shapes the current direction for regional cooperation and integration, there is need to address socio-economic disparities and move towards regional convergence since uneven economic development has the potential of impeding regional integration and cooperation. To deepen regional cooperation and integration the countries in East and Southeast Asia should go beyond exploiting the opportunities of various socio-economic and demographic asymmetries and focus their efforts towards socio-economic convergence.

In the area of trade and investment particularly regional production networks, if regional integration will proceed along existing asymmetry in production cost, poorer and middle countries may become prone to vulnerability as production sites may shift because of changes in location advantages. To prevent such vulnerability, local suppliers and sub-contractors should be given a chance to graduate from being mere assemblers based on low labor cost to high-tiered local suppliers and subsequently become contract manufacturers based on highly specialized human capital. This can only occur if the brand leaders in these regional production networks will transfer technology to the local sub-contractors in middle income countries.

However, there are two major issues on the diffusion of knowledge from the global flagship to local suppliers. Brand leaders in the network are reluctant to freely transfer technology and improve the technical capacity of the local supplier on the fear that these local suppliers once they attain a certain degree of technical competence may transfer to other networks. The second issue is the capacity of the local suppliers to absorb the technology being transferred. More often, the local manufacturers do not have the capacity to absorb the technology being transferred because of limited human capital base in countries participating in the regional production networks.

Thus, a successful mechanism for regional integration along this line will require a move towards regional human resource cooperation meant towards convergence in the level and quality of human capital. At the macro level, there is a need for the more advanced countries in the region to support the development of education and other human capital enhancing programs in the developing countries of the region. In particular, the leading universities in the region should assist the developing countries in the region to make them establish at least two research universities. These research universities in each country can serve as links between the global research universities in the region and the other institutions of higher learning in the country. Massive cooperation not only in human resource upgrading but also in improving the research capacity of these institutions is required. With a massive human resource development at the national level, it will be easier for flagships in the region to transfer technology to the local suppliers since their absorptive capacity has been enhanced through cooperative measures in higher education.

In addressing macro-economic stability, there is a need to develop the financial system and institutions as well as the regulatory framework and institutions in poorer countries so that they can easily participate in regional undertakings in stabilizing the economy and the establishment of an efficient regional capital market. Low-income countries must strengthen the structural, institutional foundations of their economic systems through building both hard infrastructure such as transportation and telecommunications facilities and soft infrastructure such as legal, judicial and governance systems and develop skilled human resources (Kawai and Wignaraja, 2007).

With such institutions developed, then a more efficient resource mobilization within the region can occur. Instead of relying on ODA and FDI flows, firms in the funds deficient countries can have wider options to choose from while the development needs of these countries are being addressed. We know that overseas development assistance (ODA), although transferring funds regionally, is meant primarily to answer the political, economic and strategic interests of the donor countries. In addition, it may not be efficient in identifying the projects and activities that may usher the development of the recipient country. There are also criticisms on the impact of ODA in enhancing consumption rather savings and in promoting governments that are reluctant to undertake major structural changes.

Another route for the regional flows of funds is made possible through foreign direct investment (FDI). However, FDI flows are likewise influenced by the interests of firms in the source countries. These funds move across the region and establish commercial presence primarily to seek raw materials, penetrate the domestic market protected by high tariff walls, harness the low production cost in recipient countries and organize a network of production bases for transnational corporations. The issues of diffusion of knowledge and the vulnerability discussed earlier on regional production networks can make FDI an inefficient avenue for regional flows of funds that would address the development needs of the recipient countries.

However, if there are efficient regional institutions on financial intermediation the problems associated with ODA and FDI flows are then addressed.

If the region would like to expand intra-regional trade and investment, there is a need for policy coordination to stabilize intra-regional exchange rates of East Asian currencies and hopefully become the basis for the establishment of a monetary union in the future. The interest in monetary cooperation in East Asia stems primarily from the search for an optimal exchange rate regime. A regional monetary union could be an alternative to both fixed and flexible regimes at the national level. Usually developed countries are willing to join a regional monetary union because they are confident enough to surrender their monetary independence in order to reap the stability benefits of a regional monetary union. However, for developing countries the monetary policy is meant not only to stabilize prices but also used as an instrument for achieving other economic goals. As a consequence, these poorer countries may be reluctant to yield their monetary independence.

Moreover, Ryou and Wang (2003) have enumerated problems of establishing an Asian regional currency including the diverse levels of economic development and stages of economic growth. This will make it difficult for East Asian economies to agree on a common policy goal for monetary coordination.

Moreover, the fragmentation of regional financial markets is another obstacle to regional integration. Accounting standards, prudential ratios, tax rules, corporate governance standards and other core aspects of regulatory regimes are inconsistent and often inadequate. The East Asian region lacks the harmonized and robust financial infrastructure to support cross – border investments in financial institutions and to facilitate the growth of regional financial service providers (Akhtar, 2004).

Financial and economic convergence is the key in answering regional macro-economic stability and the establishment ultimately of a regional monetary union. As long as these diverse stages of economic development and financial development persist among the countries in the region it would be very difficult to attain the efficient functioning of regional financial intermediation and macroeconomic coordination.

In the area of movement of human resources, the diversities in demographic and economic development dictate motivations of such movement for both sending and recipient countries. The overall objectives of temporary labor migration differ from the views of sending countries from the receiving countries. Many of the sending countries use overseas employment to address growing unemployment domestically, provide an alternative of improving the standard of living for their citizens, and generate foreign exchange. On the other hand, for receiving countries, their objectives include addressing the shortages in the labor market, mitigate the impact of uncontrolled inflows of temporary workers especially the unskilled ones, and support the skilled human resource requirements of FDIs.

Usually demographic asymmetry among countries results in massive movement of human resources regionally. Higher wages and income in developed countries have attracted huge number of unemployed workers from developing countries that in turn has caused problems for both receiving and sending countries in the region.

However, because of the positive contributions and negative consequences of the temporary movement of workers there is a need to manage such movement. In managing the temporary movement of workers the economic and social impact of overseas employment should also be considered. The effects and issues of temporary labor migration differ whether a country is sending or receiving. For sending countries, the issue of exploitation of workers, high cost of migration, protection, brain drain and transfer of technology are very prominent. On the receiving countries, the issue of dependence on foreign workers, the economic and social impact of unskilled workers and irregular migrants, and the displacement of local workers and professionals are some of the reasons why these countries are imposing strict rules and regulations on the entry of foreign workers. The issue of transfer of technology also emanates from the economic and educational asymmetry.

These problems surface mainly because of the unevenness in economic and demographic structure within the region. Workers coming from developing countries are often subject to abuse and exploitation in receiving countries because they are unskilled and with limited education. Brain drain occurs because highly skilled and educated professionals from developing countries are attracted to higher wages and good working conditions in recipient countries. This wage differential is a reflection of the economic gap between sending and receiving countries.

From the receiving countries, the dependence on foreign workers and the social and economic impact of irregular migrants stem from the massive flow of workers to the receiving country because of huge gap in economic and social development. The dislocation of local workers and dampening of the wage structure again is due to the massive flows brought about by the attraction of the receiving country due to the socio-economic disparity.

To mitigate these problems many receiving countries have adopted and established regulatory measures to limit the movement of workers including nationality and residency requirements (Mashayekshi, 2000). They have also established market access barriers that restrict the application of movement of natural person as a mode of supply of service like the requirement for an economic needs test as a condition for accepting foreigners to render service in a host country.

Furthermore, to temper the massive movement of workers recipient countries impose national treatment barriers. These are national treatment limitations that include the requirement that sectors and the practice of professions are open only to citizens of the country. Immigration policies are also considered a hindrance to regional movement of workers. The limitation of stay, non-extendable visa, the cost of visas, the long processing periods are some examples that can make movement across boundaries of natural persons costly and may impair economic integration.

Many recipient countries also impose pre-employment requirements that a foreign applicant needs to consider before procuring a work permit in a receiving country. These include drug test, police and security clearance, reference checks and medical requirements.

For the sending countries they have initiated seminar programs to orient workers on the working and living conditions in workers' country of deployment. To protect their overseas workers they have established bilateral agreements with the receiving countries covering terms of employment, compensation and protection. Some countries have also changed the composition of deployed workers by discouraging workers prone to abuse and exploitation and promoting the deployment of skilled workers

Beyond mitigating the negative consequences of massive movement of workers due to demographic asymmetry, there is a need for regional cooperation to enhance the regional flow of workers in order to realize the positive contributions of movement of foreign workers on regional output and employment. For example, the loss of manpower can be addressed through appropriate diffusion of knowledge. Transfer of technology to migrant workers can proceed if foreign trainees are encouraged to return to their home countries after their stints in developed countries. In the field of education cooperation, transfer of technology and convergence may bring about the return of recipients of educational scholarships to their home countries and contribute to the human resource development particularly in education of their home countries and participate in regional efforts in understanding and studying regional concerns.

As convergence proceeds, the massive dislocations brought about by migration of professionals and other highly skilled laborers from low and middle income countries may be mitigated. If ever, any labor dislocation brought about by the regional flow of human resources will be insignificant and temporary. It can be argued as economic convergence proceeds, the wage and income differentials among countries are substantially narrowed. As this occurs, flows of human resources across the region may still continue but not in the same scale that is based on labor, demographic and economic asymmetries. It is no longer higher wages that would attract the massive flow of resources but the tastes of individual workers. Thus, brain drain will no longer be an issue. The displacement of workers and the socio-economic impact of irregular workers will also become a non-issue since the root cause of these problems is the economic unevenness among countries in the region. Once this disparity is addressed we will also find addressing the problems accompanying the massive flows of human resources.

In the provision of regional public goods, the current basis for participation and cost sharing is the state of economic development of countries. Although countries in the region are willing to cooperate to prevent the recurrence of the financial crisis the growing relevance and relative success of ASEAN+3 is mainly due to the financial support that developed countries have infused in this regional undertaking. In the same manner, ASEAN Haze Agreement meant to control cross border pollution caused by forest fires and other environmental concerns will only succeed if all countries will bear the cost of its implementation. In addressing the avian flu and other health issues, cross – border crimes and international terrorism as common concerns, usually it is the richer countries that make a difference in the implementation of these regional undertakings.

However, greater cooperation in regional public goods is beset by the interest, participation and funding of countries in the region. The issue of valuation and the level of economic development can make low income countries reluctant to participate as they should in addressing regional public goods. It can be argued that the preference of these poorer countries for long-term goods may not be as high as their immediate concern in addressing poverty and the provision of employment opportunities for its citizens. Moreover, given the public character of these goods, there may be a tendency for these countries to take a free rider position and let other countries, particularly the more advanced ones to take the lead and finance various programs meant to produce regional public goods.

However, a free rider option may not be a choice open to member countries since non-cooperation and non-participation of a single member may unduly comprise the provision of regional public goods. In the provision of regional public goods there is a need to separate participation from shouldering the cost of participation since all members are required to participate. If differences in valuation of regional public goods and level of economic development are preventing some members not to participate, they should be given incentives to participate in these regional efforts since universal participation is a must. One incentive that can be devised is the granting of assistance to poorer countries in financing their participation in efforts in providing regional public goods. Another is a compensation package to poorer countries for the loss in income, employment and other forms of displacement as a result of their participation in regional efforts in the provision of regional public goods.

Preference for regional public goods is largely dependent on the state of economic development of the country. Although developing and developed countries share borders and common concerns, their valuation on these regional public goods may not be the same. As a result, participation, interest and funding in these common goods are asymmetrical. But once this unevenness is addressed, the common concerns become common indeed in valuating these regional concerns. Currently, this can only be done by leadership and funding from developed countries in the region.

IV. Conclusion

Although economic, demographic and social disparities in the region have been utilized to promote regional cooperation and integration through trade, investments, movement of capital and human resources, these widening gaps are becoming a threat for a greater and deeper regional integration.

The more immediate concern in strengthening regional integration in East and Southeast Asia is to address socioeconomic and demographic asymmetries and work toward regional convergence. There is a need for developed economies in the region to take an active role in financing, through overseas development assistance, technology transfer, institutional support and development and other programs and projects that would narrow the socio-economic and demographic gaps among the diverse countries in the region. With these convergences, the problems of vulnerability and diffusion of knowledge among local suppliers in global production networks is addressed; the development of a financial institutions ready for a regional capital market and the establishment of a regional monetary union. With higher levels of income and same level of development, migration flows with the dislocations and disruptions to both sending and receiving countries since they are not as massive. Problems associated in the production of regional public goods are likewise mitigated by the narrowing of economic gaps among countries in the region.

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