

CONTRASTING THE EUROPEAN UNION AND ASEAN INTEGRATION AND SOLIDARITY

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1. Introduction

The purpose of the present paper is to compare and contrast integration processes in the European Union and ASEAN, in the light of explicit, implied and built-in solidarity mechanisms. When countries of various development levels agree to integrate their economies, a discussion is needed and institutional mechanisms need to be designed in order to cope with divergence between the countries involved, as well as within the countries. Some of these solidarity mechanisms will be particularly suited for the type of economic integration envisaged, others can be more generally applied. For instance, one of the so-called dynamic effects of economic integration is that it will spur domestic investment, but its geographical localisation in each country, as well as within the group of countries, will be shifting towards the strongest markets, i.e. away from the more peripheral areas. In addition, due to the so-called trade diversion effect – i.e. goods and services formerly produced within a country, be it at a rather uncompetitive cost, will be replaced by imports of these goods and services from the more competitive partner countries – there will be disinvestment in some industries, leading to new regional disparities (see e.g. Kindleberger, 1973, p.180). Among economists there is no discussion whether these tendencies exist. Discussion is rather on the issue how important these are.

In a first section we will give a brief overview of the types of economic integration and discuss some of the reasons behind choosing one type over another, as far as these reasons will appear later to be relevant for the issue of solidarity. The next section deals with the issue of convergence between integrating economies and how this process can be supported by regional policies. The third section will give some clue on the relationship between exchange rate systems and solidarity mechanisms. Last but not least social policies in a group of integrating economies will be dealt with.

1. Types of regional economic integration : an overview.

Generally speaking, four types of regional economic integration can be distinguished. The lowest level of economic integration is reached when countries agree on the creation of a free trade area (FTA). In an FTA import tariffs on each other's products are removed, but the member countries retain their own systems of tariff duties on products from non-member countries. The second level of economic integration is a customs union, in which case free trade applies to each other's products, but also a common external tariff system is adopted with respect to non-members. In addition, the group is acting as one body in all matters relating to international trade agreements with non-members. A third level consists of a common market, which is one important step further than the customs union. Among the members of a common market there is free trade and they have a common external tariff system, but also all barriers to factor movements (labour and capital) are removed. The highest level of regional economic integration is reached when an economic union is established, which has the characteristics of a common market, but also brings about the unification of economic institutions and the co-ordination of economic policies throughout the member countries.

In terms of this scheme, the European Union (EU) is not a full-fledged economic union, in spite of being a monetary union since 2000, as sovereignty of the member states over quite a number of policies still holds fully or partly. The EU is somewhat more than halfway between a common market and an economic union.

ASEAN has become an FTA with some measures to liberalise intra-regional investment flows. With the aim of the liberalisation of intra-ASEAN trade, but according to key witnesses even more to stimulate investment in the region, the AFTA agreement was concluded in January 1992 (see e.g. Cuyvers and Puppavesa, 1996) to bring down intra-ASEAN tariffs to 0-5 % by 2003.

In the 1990s, the AFTA programme of tariff reductions was broadened and accelerated, and a host of "AFTA Plus" activities were initiated, including efforts to eliminate non-tariff barriers and quantitative restrictions, and harmonize customs nomenclature, valuation, and procedures, and develop common product certification standards. In addition, the ASEAN member countries signed framework agreements for the intra-regional liberalisation of trade in services, and for regional IPR cooperation. An industrial complementation scheme designed to encourage intra-regional investment was approved, and discussions were held on creating a free investment area within the region. During the Asian crisis of 1997-1999, ASEAN reaffirmed its commitment to AFTA, and as part of a series of "bold measures," agreed that the original six AFTA signatories would accelerate many planned tariff cuts by one year, to 2002 from 2003.

Although AFTA belongs to the lowest level of regional economic integration, its commitments have also to be interpreted from a much broader perspective of the "open regionalism" approach as adopted by the Asia Pacific Economic Co-operation (APEC). Trade and investment liberalisation within the Asia-Pacific region is seen as of paramount importance. However, there is still a very long way ahead. The issue is whether there is a need to follow the path leading from FTA and customs union, to common market and economic union. In other words: can AFTA as an FTA go together with intra-ASEAN free movement of capital and labour, without the creation of supra-national authority?

The type of economic integration that countries are opting for are very much determined by each country's foreign policy stance, to be more precise, the preference for a national or a supra-national approach. We define the national approach as the situation when countries while agreeing on some type of economic integration, refuse to give up national sovereignty and to delegate some aspects of it to a supra-national body. The supra-national approach is adopted when supra-national institutions and mechanisms are created. It is generally believed and argued that the larger and more powerful countries are more in favour of the national approach of economic integration, whereas the smaller countries favour more the supra-national approach of economic integration.

In a free trade agreement the national approach is dominant. The countries involved only grant to each other duty-free market access, but their trade policies vis-à-vis the rest of the world fully remain under national authority. No common external tariff system is established. In a customs union, however, the national authority about the external tariff system is delegated by the countries to a supra-national body.

It will therefore also hold, that in weaker types of economic integration such as a free trade agreement, there also exist weaker possibilities for influencing income disparities between nations. Regional policies have to be covered by additional agreements and have to be financed by the national budgets on a much less structural basis. In economic integration initiatives where integration is deeper special institutional and structural mechanisms are created to develop, implement and finance structural policies at the supra-national level. The next section provides a broad comparison of regional policies in the EU and ASEAN.

2. Convergence and regional policies in economic integration.

In the European Union reducing regional disparities between member states and future member states is aimed at by using policy instruments such as the Structural Funds.

Four types of Structural Funds have been introduced over the years, as the process of building Europe has progressed:

1. The European Regional Development Fund (ERDF) contributes mainly to assisting the regions whose development is lagging behind and those undergoing economic conversion or experiencing structural difficulties;
2. the European Social Fund (ESF) mainly provides assistance under the European Employment Strategy;
3. the European Agricultural Guidance and Guarantee Fund (EAGGF) Guidance Section helps in both the development and the structural adjustment of rural areas whose development is lagging behind, by improving the efficiency of their structures for the production, processing and marketing of agricultural and forest products;
4. the Financial Instrument for Fisheries Guidance (FIFG) provides finance for the fisheries sector.¹

To improve the effectiveness of structural measures, Regulation (EC) No 1260/1999 reduces the number of objectives from seven during the previous period (1994-1999) down to three for 2000-2006:

1. Objective 1 promotes the development and structural adjustment of regions whose development is lagging behind, i.e. whose average per capita GDP is less than 75% of the European Union average. This new Objective also covers the most remote regions (the French overseas departments, the Azores, Madeira and the Canary Islands) as well as the areas with low population density (created by the Act of Accession of Austria, Finland and Sweden). As before, two thirds of Structural Fund operations concentrate on Objective 1 and almost 20% of the Union' s total population should benefit from the measures taken under this Objective.
2. Objective 2 contributes to the economic and social conversion of regions in structural difficulties other than those eligible for the new Objective 1. Overall it will cover areas undergoing economic change, declining rural areas, depressed areas dependent on fisheries and urban areas in difficulty. No more than 18% of the Union' s population will be covered by this Objective.
3. Objective 3 gathers together all the measures for human resource development outside the regions eligible for Objective 1. It is the reference framework for all the measures taken under the new Title on employment inserted in the EC Treaty by the Treaty of Amsterdam and under the European Employment Strategy .

It is important to stress the so-called "additionality" principle is applied, which requires Community assistance to be additional to national funding and not to replace it. For each Objective the Member States must maintain their own public expenditure at least at the level it was at in the preceding period.

1. ¹ The European Social Fund will be dealt with later in this paper in section 4. The European Agricultural Guidance and Guarantee Fund and the Financial Instrument for Fisheries Guidance is not covered.

In the past, new member countries such as Spain, Portugal and Ireland have received large amounts of structural funds. The accession of the 13 candidate countries of Central and Eastern Europe (the CEECs) is a major challenge for the Union' s policy for economic and social cohesion. Enlargement will in fact create within the Community a new group of countries with an income of less than 40% of the EU average. The principles of solidarity require European structural policies to concentrate on the less developed regions of those countries, i.e. virtually the whole of the areas concerned. However, existing disparities in the 15 will not have vanished and regional policy will have to continue to take them into account.

The average GDP of the CEECs is still well below that of the present EU Member States. The area and population of the Union will increase by one third but its GDP by only 5%. Of the 105 million people living in these countries, over 98 million live in regions where per capita GDP is less than 75% of the average in the enlarged Community. In addition, implementation of a regional development policy is something new for the authorities of the candidate countries. The management of the Structural Funds, to which they will soon be entitled, implies far-reaching changes in the practices and operations of all levels of the administration to comply with the legal framework of regulations on which structural assistance is based.

The EU has adopted a pre-accession strategy. To meet the needs of the candidate countries, two specific instruments were created:

- the pre-accession structural instrument (ISPA), with a budget of 1 040 million € a year from 2000, which is mainly used to support infrastructure investments in the environment and transport sectors;
- the pre-accession agricultural instrument (SAPARD) with a budget of 520 million € a year, which has been deployed in priority fields such as the improvement of processing structures, marketing channels and food quality control..

The Commission set out two ways of working to implement the Structural Funds and the Cohesion Fund effectively in these countries once they become members and before the forthcoming reform of the Structural Funds comes into effect:

- implementation of a system of ' phasing in ' , entailing gradual increases in Structural Fund transfers;
- allocation of a substantial share of the available resources of the Cohesion Fund, the management of which would be facilitated by the experience acquired under ISPA

Apart from the Structural Funds, also a Cohesion Fund was established in 1994 in the fields of the environment and transport infrastructure of common interest, in order to promote economic and social cohesion and solidarity between member states. Eligibility is restricted to Member States whose per capita gross national product (GNP) is less than 90% of the Community average and which have a programme designed to achieve the conditions of economic convergence as set out in Article 104 of the Treaty establishing the European Community. At the moment Greece, Spain, Ireland and Portugal are eligible to benefit from the Cohesion Fund.

The possibility, mentioned above, that investment in remote and backward areas of Europe will decline as the result of integration (Kindleberger, 1973, p. 180), as well as the accession of new members, has led to the establishment of the European Investment Bank, one of the institutions of the European Union. The task of the European Investment Bank, the European Union' s financing institution was created by the Treaty of Rome (1957), in order to contribute towards the integration, balanced development and economic and social cohesion of the Member Countries. To this end, it raises on the markets substantial volumes of funds

which it directs on the most favourable terms towards financing capital projects according with the objectives of the Union.

In ASEAN the major instrument for convergence and "sub-regional" development is sub-regional co-operation. The aim is to narrow the gap in the levels of development among member states and to reduce poverty and socio-economic disparities in the region, and for this reason, ASEAN supports the implementation and further development of growth areas. These areas are the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT), the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), and the inter-state areas along the West-East Corridor (WEC) of the Mekong Basin in Vietnam, Laos, Cambodia and North-eastern Thailand within the ASEAN Mekong Basin Development Cooperation scheme.

In sub-regional co-operation, ASEAN and the respective countries involved in the co-operation are actively supported both technically and financially by the Asian Development Bank (ADB). ADB is of course no financial institution created by ASEAN, comparable to the European Investment Bank, but a development bank created within the United Nations system with members from Asia and the industrial countries. The fact that ASEAN regional development and convergence is to a considerable extent relying on a non-ASEAN institution reflects the national rather than the supra-national approach to which the member countries of ASEAN adhere, as well as to the level of economic development of most of the member countries.

In 1992, for instance, with the assistance of ADB, the countries of the Greater Mekong Sub-region (GMS)² entered into a programme of sub-regional economic cooperation, designed to enhance economic relations among the countries. The programme has contributed to the development of infrastructure to enable the development and sharing of the resource base, and promote the freer flow of goods and people in the sub-region. It has also led to the international recognition of the sub-region as a growth area.

The goal of the GMS Programme is to promote economic and social development by strengthening economic linkages. More specifically, the Programme seeks to

- realize and enhance development opportunities
- encourage trade and investment among GMS countries
- resolve or mitigate cross-border problems
- meet common resource and policy needs

The GMS Programme started as a pragmatic, activity-driven, and results-oriented initiative. It has largely been informal and guided only by a general set of principles and institutional arrangements. The GMS Programme covers both "hard" and "soft" aspects of cooperation. The sectors covered under the Programme are energy, environment and natural resources management, human resource development, investment, tourism, telecommunications, transport, and trade. The GMS countries have identified and prioritized almost 100 projects in these eight sectors.

As a facilitator of the GMS Programme, the Asian Development Bank (ADB) provides technical, administrative, and logistical support to the GMS Programme institutional mechanisms. The GMS countries have agreed that ADB should continue to perform a key coordinating and facilitating role in sub-regional cooperation among the GMS countries. They have also agreed that, as and when required, ADB should play a coordinating role on behalf of the GMS countries with respect to other GMS-related initiatives.

² The GMS comprises Cambodia, the People's Republic of China (Yunnan Province), Lao People's Democratic Republic, Myanmar, Thailand and Vietnam.

A Basic Framework of ASEAN-Mekong Basin Development Cooperation was signed in 1996 in Kuala Lumpur between Brunei Darussalam, Cambodia, China, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. This Framework states that cooperation between the Mekong countries complements the national development plans, as well as complementing cooperation initiatives undertaken by the Mekong River Commission, donor countries and other multilateral agencies.

4. Exchange rate systems and solidarity.

An important institutional *datum* which has considerable impact on the capacity of countries to evolve solidarity mechanisms, and which is often unduly neglected in the literature, is the exchange rate system. Prior to the break-down of the Bretton Woods system in the early 1970s, many economists had become convinced that flexible exchange rates among countries will insulate each country from external shocks. It is not the place here to develop the argument. It will suffice to stress that by insulating countries, also the need to coordinate macro-economic policies will be felt much less, if at all.

It thus can be argued that a system of fixed (but adjustable) exchange rates is favouring solidarity between the nations that are part of such a system. If a country of the group - particularly a small open economy - is confronted with increasing unemployment, an expansionist macro-economic policy mix can be adopted. Whatever will be the impact of the exchange rate, the other countries of the group will take steps to keep it within the intervention bands agreed, thus supporting the expansion in the former country. It follows, however, that the broader the intervention bands the less will be the institutional solidarity mechanisms that the agreed fixed exchange rate system entail. Floating exchange rates don't create such a built-in mechanism of solidarity between countries (see Cuyvers, 1988).

It can also be shown that floating exchange rates have had devastating consequences for the social attainments of the post-war period in the industrial countries and for the regulation mechanism of the "Fordist accumulation". Wage indexing systems, e.g. will come under high pressure once imported inflation as a result of currency depreciation, which will accompany unilateral expansion policies. This inflation will feed back into systematic nominal wage increases. In order to restore profit margins and competitiveness, and to divert the risk of further currency depreciation, the wage indexing mechanism will be abandoned, permanently or temporarily (see also Boyer, 1981). Also the possibilities in each country to concede justified claims of organised labour, when not in line with the "social standards" in the rest of the industrialised world, are much smaller. In open economies, the governments will seek to control the exchange rate and, therefore, will desperately try to invoke forces which could lead to exchange rate adjustments. More than under fixed exchange rates, employment and social security will be sacrificed to the exchange rate.

In the European Union, monetary integration has evolved from the "currency snake" system, created in 1972 among the six countries of the European Community at that time, to the European Monetary System (EMS), created in 1979 among the nine countries of the Community. In both systems, exchange rate fluctuations were limited to 2.25 % and with the EMS the European Currency Unit was launched, consisting as a weighted average of the national currencies of the nine countries, to serve as unit of account.

As pointed out above, solidarity mechanism under fixed exchange rate regimes crucially depend on the currency intervention margins agreed and on financing arrangements for "inter-marginal intervention", i.e. intervention in the currency market before a currency is reaching the upper or lower target rate. It has appeared that the EMS, though a system of fixed, but adjustable, exchange rates, has shown in practice similar consequences as floating exchange rates, for two reasons. First, the EMS members were each still facing the floating exchange rates of their currencies with the other industrial countries. Second, the EMS was

dominated by the *Deutsche Bundesbank* which was not obliged to defend the other EMS currencies when moving inside the margins (Cuyvers, 1988).

Since 1999 eleven EU member countries established the European Monetary Union (EMU), to which a twelfth country acceded in 2001.³ For accession, strict criteria relating to inflation, interest rates and budget deficits, were applied, which were agreed in the Maastricht Treaty (December 1991). Since early 2002 the Euro was introduced as common currency in the EMU countries. As a result of the "Maastricht criteria", the countries which became EMU member showed macro-economic convergence in the period 1991-2000. It can also be argued that the EMU has important beneficial economic effects (see e.g. Baldwin, 1991). However, the creation of the European Monetary Union, through the mandate given to the European Central Bank, has eroded the macroeconomic solidarity mechanisms between the members. Of course, due to the convergence between the EMU countries in the 1990s – a result of their application of the "Maastricht criteria" – there is much less need for macro-economic solidarity. But the European Central Bank is only responsible for price stability, not for combating economic downturns and unemployment. The previous macro-economic solidarity mechanisms of the EMS, although weak, have vanished.

What is the status of monetary integration and co-operation among the ASEAN countries ? In order to avert currency speculation against the currencies of ASEAN, a modest \$200 million currency swap agreement existed among the big five ASEAN economies. As it appeared this agreement did not lead to anywhere when the Asian crisis (1997-1999) wreaked havoc, ASEAN could not coordinate its members' responses to the regional difficulties.

Then, Japan came with the proposal of establishing an Asian Monetary Fund (AMF) which would operate \$100 billion. Although the proposal was shelved due to opposition from the USA, the International Monetary Fund and China, it resurfaced later in the context of the "ASEAN Plus Three" meetings.

An AMF could serve evidently many purposes, but in the context of our argument it could protect regional currencies under attack from speculators, provided its members give access to a large pool of funds in a similar way as the IMF is doing. By functioning in this way, and supporting realistic exchange rate parities within the region, an AMF could in an important way also contribute to the development of the solidarity mechanisms which we outlined above.

The most notable agreement to come out of the 33rd Annual Meeting of the Board of Governors of the Asian Development Bank meetings (May 2000) was formulated on the sidelines, when the finance ministers of the "ASEAN+3" countries concluded an agreement called the "Chiang Mai Initiative" (CMI). Although it was by many observers considered as a much diluted version of Japan's Asian Monetary Fund (AMF) proposal, later developments seem to create a new momentum in monetary co-operation in ASEAN. As a follow-up on the CMI, in 2002 an ASEAN Central Banks Forum took place in Brunei and Kuala Lumpur. The 10 monetary authorities of ASEAN then agreed to expand the size of the multilateral currency swap facility among the member countries from \$200 million to \$1 trillion (Liu, 2002)

The signatory "ASEAN+3" governments of the CMI also agreed to contribute \$40 million each to a common fund, which will allow them to swap each other' s currencies. Still to be resolved are the details of the "swap" mechanism, and exchange rates. The plan is to build up a \$20 billion "war chest".

5. Economic integration, social policies and social co-operation.

³ The twelve member countries are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.

The Treaty of Rome (1957) lists the aims of European economic integration, i.e. the creation of a common market, the gradual alignment of economic policies (Article 2), and more specifically in Article 3, the creation of a customs union, the creation of a European Social Fund, the establishment of a European Investment Bank, and others. The aim of the European Social Fund is the improvement of employment opportunities and the raising of living standards in the European Community. The European Social Fund is financed by contributions from the member states.

The European Social Fund (ESF) is one of the four EU Structural Funds. Their common goal is to reduce the differences in living standards between the people and regions of the EU. The current ESF programme of funding will be available during the period 2000 - 2006 and aims to support the following activities:

- active labour market policies
- equal opportunities for all and promoting social inclusion
- improving training and education and promoting lifelong learning
- adaptability and entrepreneurship
- improving the participation of women in the labour market

Before the Treaty of European Union (TEU) in 1992, social policy in the European integration was largely a subsidiary of the creation of the internal European market. Initiatives such as the European Social Fund (ESF) notwithstanding, most social measures in the European Community were usually justified on competition grounds. The Maastricht Treaty of 1992 declares in Article 2 that the Community shall promote "high levels of employment and of social protection ... the raising of standards of living and quality of life, and economic and social cohesion and solidarity amongst Member States". Article 3 of the TEU which lists the activities of the European Community, mentions areas of social policy, such as measures concerning the movement of persons, co-ordination of employment policies, the elimination of inequality and contributions to health, education and training. The TEU Agreement on Social Policy is now found in Articles 136-150, but there are other places in the Treaty where EC social policy as the power to act over social matters is stated, such as e.g. legislation on equality issues.

There seems to be agreement that unemployment is the most pressing social problem in the European Union. Therefore one should expect a focus in EC social policy on ending economic and social exclusion and tackling structural unemployment. However, as a Protocol attached to the Treaty of Amsterdam of 1997 reiterates, "subsidiarity" holds, which implies that where member states have their own spheres of competence, they should act, and not the European Union. Up to the present the EU member states have guarded their independence in areas of social policy fiercely, limiting EU action to funds.

In March 2000 under Portuguese Presidency of the EU Council, the so-called Lisbon Summit on employment, economic reform and social cohesion was held, where resolutions were taken by the heads of state, to set-up of a social agenda.

One issue which the European Council tried to tackle is the setting of concrete employment targets, believing that it should be possible to raise the employment rate in the EU from an average of 61% to 70% by 2010 and to increase the proportion of women in employment from an average of 51% to 60%, also by 2010. At the same time, however, acknowledging that Member States operate in different contexts, the Council suggested that national targets for increasing employment rates should be set. Whilst praising the "Luxembourg process" of annual Employment Guidelines and National Action Plans for helping to reduce unemployment substantially, the Council noted that the social partners need to be more actively involved in the drawing up, implementation and follow-up of the Employment Guidelines.

The aftermath of the Lisbon Summit, which was considered as a failure from the point of view of a concrete EU social policy, can be illustrated by the discussions of the May 2000 Lisbon Conference "The Future of Social Europe, Recasting Work and Welfare in the New Economy". For this Conference a report (Ferrera, Hemerijk and Rhodes, 2000) was prepared in the background of the reflection and debate on the future of the European Union social policy, notably in areas linked to employment and social inclusion, launched by the Portuguese Presidency, and the Lisbon Summit declarations. The authors recognise the existence of a "so-called" European social model based on employment and social inclusion, which has to be divided, however, in 4 welfare "regimes"⁴. In the light of this and a number of propositions, some institutional recommendations are formulated, aiming at maintaining the EU member states responsibility on social issues. According to Ferrera, Hemerijk and Rhodes (2000), "subsidiarity" is required in the framework of a developed exchange of "best practices" and "social benchmarking" at EU level. Thus it would mean that EU institutions (and probably social dialogue at EU level as well) should be confined to defining "soft laws", comparative analysis and recommendations on social matters. The main role should be let to member states, following the results of the analysis in four main different welfare regimes in Europe. At the Conference, their conclusions were contradicted by Mrs Odile Quintin (EC-DG Employment and Social Affairs), who stressed the European identity of the social system. Also, at the same Conference, the Belgian Ministry, Mr. Frank Vandebroucke, focused on the necessity to develop social policies as well as incentives for employment at the EU level. Indeed, European social policies should aim both at reducing the poverty rates and increasing the activity rates, therefore leading to higher social inclusion.

ASEAN cooperation on social affairs is implemented under a common slogan, namely "Sharing prosperity through human resources development, enhancing technological competitiveness and strengthening social cohesiveness".

The Asian crisis (1997-1999) has had direct impact on the socially vulnerable in the Asian countries, i.e. the poor, the elderly, women and children and the unemployed, and has come to threaten their very lives and ways of life. The crisis clearly showed to need for a "social safety net". ASEAN, therefore, is working out a plan to set up such a safety net in each member country, including social insurance policies, social assistance and social welfare for the disadvantaged.⁵

The six-year "Hanoi Plan of Action" (HPA) adopted at the 6th ASEAN Summit (December 1998) includes initiatives to hasten economic recovery, and more important for the issue that concerns us here, the section: "Promote social development and address the social impact of the financial and economic crisis" which in turn comprises the following actions:

1. Strive to mitigate the social impact of the regional financial and economic crisis;
2. Implement the ASEAN Plan of Action on Rural Development and Poverty Eradication and, in view of the financial and economic crisis, implement the ASEAN Action Plan on Social Safety Nets to ensure that measures are taken to protect the most vulnerable sectors; and
3. Support activities and social development programmes aimed at addressing issues of unequal economic development, poverty and socio-economic disparities.

After preparatory work by senior officials, The *ASEAN Action Plan on Social Safety Nets* was subsequently adopted by the Informal Meeting of ASEAN Ministers on Rural Development

⁴ The Scandinavian regime, the Anglo-Saxon model, the Continental model (France, Germany, Benelux) and the Southern model (Southern European countries).

⁵ For an overview of the pre-1997 social security regimes in Asia, see Tyabji (1993).

and Poverty Eradication held in December 1998 in Jakarta. The ASEAN Action Plan defines four priority areas as follows:

1. assessing and monitoring the social and economic impact of the crisis and identifying the target groups affected and their needs;
2. developing and implementing social safety net programmes for the disadvantaged and vulnerable;
3. monitoring and improving the effectiveness of economic and social services delivery;
4. promote public awareness of the impact of the crisis on the poor.

The following are priority project concepts adopted by the ASEAN Task Force on Social Safety Nets (SSN) which are developed for funding consideration:

1. Strengthening capacity of ASEAN Member Countries to design emergency social safety nets;
2. Increasing the capacity to design social protection/social security programmes based on a comparative understanding of best practices from ASEAN countries and elsewhere;
3. Improving the competency of facilitators to strengthen the ability of community organisations to develop technical and institutional capacity in microcredit management, the use of participatory approach to development and strategies on marketing of rural products;
4. Increasing awareness and understanding of GOs on strategies to forge partnerships with NGOs and the private/business sector in addressing the social impact of the crisis and in alleviating poverty in the ASEAN region;
5. Improving capacity building for civil society/people' s organisations to develop strategies to ensure appropriate delivery of social services to designated target groups;
6. Development of alternative strategies for financing social safety net activities; and
7. Sharing and exchange of experiences and best practices on enhancing accountability, transparency and effectiveness in the implementation of social safety net programmes.

The ASEAN countries are helped by multilateral agencies and donor countries in enhancing their levels of social development, by utilizing regional approaches where they are genuinely most efficient, not merely because they may seem more convenient than national or local level cooperation. In 1999, for instance, the United States launched a multi-year crisis response plan, administered by the U.S. Agency for International Development (AID), to complement programmes developed by the World Bank and Asian Development Bank. The US response plan focuses broadly on jobs creation, technical assistance for social safety net programmes, assistance in improving transparency and deterring corruption, and initiatives to promote regional economic recovery. Another donor country, Australia, for instance, has repeatedly voiced the view that the areas which lend themselves most readily to regional approaches include awareness raising, sharing information and experience, and developing and sharing good practices in policy development and programme implementation. Australia has introduced a \$5 million capacity building facility to help strengthen social protection capabilities in the region. One of the first initiatives under this facility was about exploring options for developing joint training programmes for practitioners in social monitoring,

programme design, implementation and management. The aim is to deliver programmes in-country, in local languages and which allow both exchange of relevant experience and tailoring to specific national circumstances. Australia is also two cooperative activities with ASEAN to help implement the ASEAN Action Plan on Social Safety Nets. These activities involve joint development and dissemination of techniques for social monitoring and analysis and identification of appropriate 'best practice' options for design of social safety net programmes.

At the intra-regional level, research is conducted to set up social safety nets between countries which are part of a "sub-regional" economic co-operation scheme. In order to illustrate the status of thinking we refer to, e.g., a Thai working group which produced in 2001 a working paper on comparative social safety nets in the Greater Mekong Sub-region (Working Group of Comparative Social Safety Nets, 2001). The report of the working group concluded that the structure of social safety nets should include:

1. Employment Security by adequacy of job opportunities; appropriated job skills; availability of employment information and services.
2. Social Risk Pooling Mechanisms based on the principles of social adequacy and individual equity across the life cycle; long-term care insurance should be implemented.
3. Social Assistance System: governments should issue policies contributing to basic human resource security, especially for those who cannot participate in the labour market. Programmes should include income support, price control, food subsidies, student loans, health care, etc.
4. Ancillary Social Service Provisions introducing tax credits and other fiscal measures to provide social security and long term care facilities for unpaid family workers, for the changing of family structure from extended to nuclear families.

6. Some conclusions

Comparing the EU and ASEAN with respect to the explicit institutional, as well as the implied and built-in solidarity mechanisms, it clearly appears from the outset that the EU, while delegating national sovereignty in some areas to the supra-national level, dispose of deeper and more powerful mechanisms of solidarity than ASEAN.

This is quite apparent if we look at regional policies at the EU level, which are based on well-defined policy targets and using EU policy instruments. In this respect the European Structural Funds have proved to be powerful in reducing disparities among the EU member countries, and between regions within the member countries to be more precise. This supra-national approach, particularly the interaction between the EU Council and the European Commission, has also allowed the adoption of an EU pre-accession strategy vis-à-vis the 13 candidate countries of Central and Eastern Europe. Also the role of the European Investment Bank, established as the EU's financing institution by the 1957 Treaty of Rome, is important to mention.

Contrary to the largely supra-national approach of the EU towards regional disparities, the ASEAN approach is that of "sub-regional co-operation", by agreeing on so-called growth areas, such as, e.g. the Greater Mekong Sub-region, in order to enhance economic relations between the countries in such a growth area. The sub-regional co-operation programmes are

largely informal, and are facilitated by the Asian Development Bank (ADB), which also provides technical, administrative and logistical support. ADB is not a supra-national body of ASEAN but a development bank within the UN system with Asian developing countries and industrial members.

In this paper, we have also contrasted solidarity mechanisms which are implied or triggered by institutional settings at the macro-economic level of co-operating countries. The institutional setting analysed was the impact of fixed vs. floating exchange rate systems on "macro-economic solidarity" between countries. It was argued that fixed but adjustable exchange rates, at least when referring to realistic exchange rate parities, are contributing to support of weaker countries by larger and growing countries. Floating exchange rates, however, do not easily lead to macro-economic policy co-ordination and have contributed to an erosion of social attainments in the industrial countries.

In the EU, monetary integration went from the establishment of a system of fixed but adjustable exchange rates among the six original members, to the creation of the European Monetary System in 1979 among nine EU members. However, it can be argued that this system was not very instrumental in creating "macro-economic solidarity" among the members, for reasons related *inter alia* to the conservative role of the *Deutsche Bundesbank*. And with the further European monetary integration which finally found an apotheosis in the creation of the European Monetary Union in 1999, "macro-economic solidarity" mechanisms among the countries involved seem in practice to have eroded further the earlier, albeit relatively weak, mechanisms, largely because of the "monetarist" mandate of the European Central Bank.

In ASEAN, "macro-economic solidarity" is even much weaker than in the EU. The original currency swap agreement among the "ASEAN-5" was too small compared to the monetary problems that the ASEAN countries were facing during the Asian crisis of 1997-1999. Japan's proposal of establishing an Asian Monetary Fund would contribute to the development of "macro-economic solidarity" mechanisms among the "ASEAN+3", especially through and after the "Chiang Mai Initiative" of the finance ministers of the "ASEAN+3". However, it did not go further than another currency swap facility, be it with a much larger pledged amount.

Regarding social policies, it remains a matter of discussion whether regional social policies are needed at all, in the face of different social systems among member countries of regional economic integration initiatives. It is our conviction that there is room for the development and adoption of social benchmarks and minimum standards at the supra-national level. However, even the road towards this minimalist approach seems to be difficult to take, both in the EU and ASEAN.

Regarding social policies and social co-operation in the European Union, the European Social Fund, another EU structural fund, has been instrumental. The ESF was created by the 1957 Treaty of Rome. It would, however, be wrong to say that an EU social policy has been financed by the ESF. Although the 1992 Treaty of the European Union mentions a number of social policy measures at the EU level, the "subsidiarity" principle is frantically guarded by the member states, limiting the EU actions to funds. The Lisbon Summit in March 2000 agreed to set up a social agenda, but in its aftermath not much concrete progress was achieved.

ASEAN being guided by a national rather than a supra-national approach of its members, is evidently even much further away from the development of social policies at the ASEAN level. We have to wait until the social devastations due to the Asian crisis, led the member countries to consider the need to address the common social issues. In 1998, the six-year "Hanoi Plan of Action" was adopted, which addresses, among others, poverty reduction

programmes, as well as aims at implementing the ASEAN Action Plan on Social Safety Nets. This Action Plan was finally adopted by the Informal Meeting of ASEAN Ministers on Rural Development and Poverty Eradication in the same year and a Task Force established. This Task Force, in turn, has formulated priority project concepts for multilateral and bilateral donor funding, which, however, are not going much further than awareness creation and capacity building to design social protection systems, studies, the sharing of experience and the formulation of alternative financing strategies.

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