

India-ASEAN-5 Economic Integration: Impact of Liberalization

Huay-Huay Lee, Hock-Ann Lee** and Venus Khim-Sen Liew****

Understanding the degree of integration between India and the Association of Southeast Asian Nations (ASEAN) is important to measure the impact of the proposed India-ASEAN Free Trade Area (FTA). If both India and ASEAN are well integrated, the impact of such liberalization will be small and vice versa. The Augmented Dickey-Fuller (ADF) and Phillips and Perron (PP) test results indicate that India and ASEAN are relatively integrated with respect to goods and services markets, but the Purchasing Power Parity (PPP) evidence is comparatively still a weaker one. Financial market integration, however, remains significantly incomplete. The main implication of this finding is that the impact of future liberalization will be great on financial markets. Due to the weak PPP evidence, the goods and services markets will also receive substantial impact from future liberalization. This suggests that the two regions could further exploit their partnership in FTA in their complementary areas, both in goods and services markets, and financial markets, in particular.

Introduction

India-ASEAN relations, as they exist today, are in some ways a reconfiguration of the age-old ties that go back by nearly 2000 years in history. Somehow the modes of trade have changed. Countries now use technology-oriented routes to link up instead of the silk route. ASEAN,¹ the current version of the Asian trade network that started ages ago, is a joint effort to establish cooperation in the economic, social, cultural, technical, educational and other fields among its member countries.

ASEAN countries are far more integrated with the world economy than India. This is indicated by the much higher trade to GDP ratio and greater dependence on external sources of capital, technology, external borrowings and manpower. The ratio of trade to

* Lecturer, Labuan School of International Business and Finance, Universiti Malaysia Sabah, Labuan, Malaysia.
E-mail: leehuay2@yahoo.com

** Lecturer, Labuan School of International Business and Finance, Universiti Malaysia Sabah, Labuan, Malaysia.
He is the corresponding author. E-mail: hockannlee@yahoo.com

*** Lecturer, Labuan School of International Business and Finance, Universiti Malaysia Sabah, Labuan, Malaysia.
E-mail: venusliew@yahoo.com

¹ ASEAN consists of ten countries including Brunei, Cambodia, Laos, Malaysia, Myanmar, Indonesia, Philippines, Singapore, Thailand and Vietnam.