

THE GLOBAL FINANCIAL CRISIS AND ECONOMIC INTEGRATION: EVIDENCE ON ASEAN-5 COUNTRIES¹

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Abstract

The ASEAN Charter has been ratified by the ten member countries of ASEAN in 2008. This is to reaffirm the commitment of the member countries to the establishment of the ASEAN free trade area by 2015. The ASEAN members must prepare themselves with the economic and non economics aspects to be ready facing this era. Nevertheless, the global financial crisis could be a major hindrance to the implementation of the ASEAN free trade area. In this study, we attempt to determine how the global financial crisis could possibly affect the creation of the regional economic integration among ASEAN countries.

The study based on Newtonian paradigm on economic regional or namely the gravity model. Gravity model explored the economic relation of the many regions or countries. The core properties of gravity model are export, GDP, population and distance inters countries. This followed by the analysis of the possibility of the economics integration using the core gravity model. Next, we will incorporate the Exchange Market Pressure (EMP) as the financial crisis index to the core gravity model, to determine the influence of financial crisis in ASEAN-5's economic integration. We will use the panel data method to execute the model. The result indicates EMP giving negative effect on ASEAN-5's economic integration. In overall result reported here indicate that economic integration is possible to implement on ASEAN-5 countries. But, the global financial crisis will be threat implementation of the economic integration.

Keywords: *economic integration, gravity model, global financial crisis.*

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