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Southeast Asia Is Cautious on Economic Ties

Some Leaders Urge Caution in More Closely Linking Southeast Asia's Economies as the Euro Zone Teeters

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By GILLIAN TAN

KUALA LUMPUR, Malaysia—Southeast Asian leaders are making progress toward creating a more integrated regional economy, but the effort faces a new challenge: The best-known model for integration, the euro zone, is threatening to come apart at the seams.

Southeast Asian nations have long hoped to create a more closely linked economy that leverages its consumer and labor market—with some 600 million people across 10 countries—to boost the region's importance in global economic and political affairs. Although details of the effort are still being worked out, it is expected to include lower trade barriers, streamlined customs procedures, closer integration of regional financial markets and freer flows of labor. Southeast Asian leaders say they aim to implement those and other steps by 2015, with some of the goals—such as trade reforms—already partially achieved.

But officials say it is becoming clearer they shouldn't be too ambitious and push ideas such as merging the region's stock exchanges or developing a common currency given the recent troubles in Europe, which have underscored how hard it is to stitch together diverse economies without strict central supervision. Although some regional leaders have played down ideas such as a common currency or regional financial market for Southeast Asia, other leaders and investors still hope they can become reality someday.

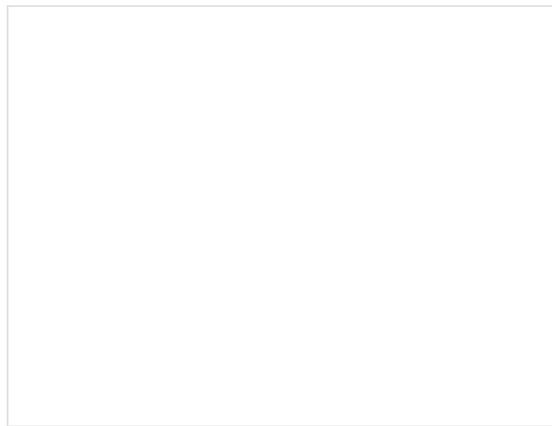
On the issue of a common stock exchange, for instance, Bursa Malaysia Bhd. Chief Executive Tajuddin Atan said on Wednesday that the creation of an Asean Trading Link—a cross-border electronic-trading collaboration among the stock exchanges of Malaysia, Singapore and Thailand—would suffice. Those exchanges combined contribute around 70% of Southeast Asia's total market capitalization, which sits at \$2 trillion.

Other countries could join later, he said at a conference on the future of the Association of Southeast Asian Nations sponsored by Malaysian bank CIMB Group Holding Bhd. in Kuala Lumpur.

Indonesian President Susilo Bambang Yudhoyono said in a recent interview that the problems now unfolding in Europe should serve as a warning to Asian leaders not to go too far in contemplating a regional currency. During past financial crises, hard-hit countries were able to devalue their currencies to boost exports and grow their way out of trouble. That isn't possible in the euro zone, with its reliance on a common currency.

"I have a strong belief that we shouldn't and we cannot imitate this structure, the character, of the European Union," he said.

Skeptics of a more-integrated Southeast Asian economy fear it will be difficult, if not impossible, for countries as diverse as underdeveloped Laos and ultrarich Singapore to agree on common standards for labor laws, agricultural products and intellectual property. Many of the countries have a history of squabbling, such as Thailand and



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Cambodia, whose fights over border delineations have left several people dead in recent years.

Many Southeast Asian companies, however, continue to push the idea, as they believe a more-integrated region will lead to more business opportunities and drive down the costs of operating across borders.

Supporters include CIMB Group, which has been trying to position itself as a leading regional bank with operations beyond Malaysia. CIMB CEO Nazir Razak said Wednesday that export-heavy Southeast Asian nations need to secure new levers for growth in the face of stalling demand from the likes of the U.S., Europe, China and India by focusing on increasing regional activity.

To achieve that, he said the region needs to keep reducing trade barriers and to begin coordinating financial policy more closely.

"I would like to see agreement on an Asean banking framework, the creation of a single Asean stock exchange and greater regional collaboration to strengthen domestic-currency bond markets," Mr. Razak said at the conference.

Whatever happens, "2015 is a very tight timetable," said Sanjay Mathur, a Singapore-based analyst at Royal Bank of Scotland. "Malaysia and Thailand are somewhat close to each other in terms of development, but the others are behind, so the whole fiscal monetary mix is significantly different and will be difficult."

Write to Gillian Tan at gillian.tan@wsj.com

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