

# ASEAN Integration: Future Powerhouse or Toothless Tiger?

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An Analysis of the Economic and Political Factors affecting Regional Integration

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## Abstract

The incredible growth figures that many Asian countries have realized in the later part of the 20<sup>th</sup> century, and the growing amount of political power that accompanies it, are unprecedented. This is particularly the case in the ten states that constitute the Association of Southeast Asian Nations (ASEAN), which managed to achieve economic success and peaceful environment in a region characterized by a wide variation of ethnicities with different norms, values, languages and religious beliefs. Indeed, despite the initial scepticism on its durability and ability to play a significant role in shaping the region, ASEAN has proved to be able to adapt to changing conditions in geopolitics and economics, become a stabilizing force in promoting security and peace, and facilitate economic growth amongst its members. The end of 2015 will see the next major landmark in ASEAN integration by initiating the start of the ASEAN Community. However, challenges remain. This paper has found strong support that ASEAN integration has primarily been driven by the desire of state regimes to satisfy political self-interests such as state security, sovereignty and regime survival, influenced by developments in the external environment, which have caused political cooperation to push economic integration in order to ensure economic growth and political stability. These interests have played an important role in ASEAN integration throughout its history, by pushing for integration that is deeper and broader, but also by limiting the progress of region to become larger than the sum of its parts. In order for the relatively small Southeast Asian countries to develop and gain more economic and political influence on the world stage, creating an integrated region is crucial, but the desire to uphold regime survival makes the future of ASEAN unclear. The principle of conflict avoidance has created stability in the short term, but the lack of cohesiveness and unresolved conflicts between the members are able to undermine integration in the future and prevent the Association from gaining a stronger position in the world arena. The reiterated importance of the principles of the ASEAN Way in regional decision-making and the lack of commitment of governments to increase the level of institutionalization show that the willingness to move ASEAN forward is missing. These findings indicate that ASEAN's character is unique and distinctive from regional integration schemes such as the EU, and imply that comparisons with these other schemes have limitations to predict ASEAN's future.

# 1. Introduction

When describing the re-emergence of Asia as the midpoint of economic, political, social, and cultural activities in the world, the term 'Asian Century' is often used these days, as George Yeo, former Singaporean minister of foreign affairs, argues that "Asians are discovering their own past and deriving inspirations from it for the future".<sup>1</sup> The incredible growth figures that many Asian countries, especially in the South and the East, have realized in the later part of the 20<sup>th</sup> century, and the growing amount of political power that accompanies it, are unprecedented. It therefore comes as no surprise that Goldman Sachs, one of the world's leading investment banks, has predicted that three out of the four biggest economic powers in 2050 will be Asian, in the following sequence: China, United States, India, and Japan.<sup>2</sup>

Within the continent, inhabited by a wide variation of ethnicities with different norms, values, languages and religious beliefs, Southeast Asia's economic success and peaceful environment as a region consisting of small- and medium-sized economies is particularly remarkable. After a wave of decolonization in the years following the end of the Second World War, in which most Southeast Asian countries gained independency from their former rulers, several attempts were made to create a community in which these new countries would seek security through cooperation. However, these early integration schemes, such as the Association of Southeast Asia (ASA, established by Malaysia, Thailand, and Philippines) in 1961, and the Greater Malayan Confederation (MAPHILINDO, established by Malaysia (which at the time included Singapore), Philippines, and Indonesia) in 1963, either proved to be of insignificant influence or actually aggravated inter-state conflict, and were dismantled shortly after their establishment.<sup>3</sup>

Eventually, one community emerged that would last for the decades that followed. In 1967, as the Vietnam War was raging and the United States (US) and the Soviet Union were in the midst of the Cold War, Indonesia, Singapore, Malaysia, Philippines and Thailand agreed to set up the Association of Southeast Asian Nations (ASEAN) in search of protection for their young, fragile states.<sup>4</sup> Its goal, as defined in its founding document the Bangkok Declaration, was to create a "prosperous and peaceful community of Southeast Asian nations".<sup>5</sup> Despite the initial scepticism on its durability and ability to play a role in shaping the region, ASEAN proved to be able to adapt to changing conditions

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<sup>1</sup> Pitsuwan, F. (2011). "ASEAN in the Asian Century." Retrieved from: <http://thediplomat.com/2011/10/asean-in-the-asian-century/> on 02-05-2015.

<sup>2</sup> Mahbubani, K. (2009). *The new Asian hemisphere: the irresistible shift of global power to the East*. Public Affairs, p. 66.

<sup>3</sup> Asian Development Bank Institute (2014). "ASEAN 2030: Toward a Borderless Economic Community", p. 202.

<sup>4</sup> Cockerham, G. B. (2010). Regional integration in ASEAN: institutional design and the ASEAN way. *East Asia*, p. 170.

<sup>5</sup> Kim, M. H. (2014). Integration Theory and ASEAN Integration. *Pacific Focus*, p. 377.

in geopolitics and economics, become a stabilizing force in security and peace, and facilitate economic growth amongst its members.<sup>6</sup>

Indeed, in the decades that followed, ASEAN managed to prevent any major inter-state conflicts in a time of geopolitical tension, set up a Secretariat with supporting staff to coordinate its activities, and expand its member base with the accession of Brunei Darussalam in January 1984, which had gained full independence from the United Kingdom (UK) only one week before. Its significance grew in the years after the Cold War ended, as the Association started to sign an increasing number of agreements on economic policies, turning ASEAN into a free trade area. The movement towards broader and deeper integration within ASEAN accelerated in the second half of the nineties, which saw the accession of Viet Nam in 1995, Lao People's Democratic Republic (PDR) and Myanmar in 1997, and Cambodia in 1999. It was a significant step for the Association, since most of the new members had provided the major communist threat throughout the first two decades of ASEAN's existence and were economically weaker than the six existing members.<sup>7</sup> As a result, the ten members are vastly different in terms of size and wealth (figure 1).

Member	Total Land Area	Total Population	Total Nominal GDP	GDP per Capita	Year of Accession
	in km <sup>2</sup>	in thousands	in US\$ million	in US\$	
Brunei	5,769	406.2	16,117.5	39,678.7	1984
Cambodia	181,035	14,962.6	15,511.1	1,036.7	1999
Indonesia	1,860,360	248,818.1	860,849.5	3,459.8	Founding member
Lao PDR	236,800	6,644.0	10,283.2	1,547.7	1997
Malaysia	330,290	29,948.0	312,071.6	10,420.5	Founding member
Myanmar	676,577	61,568.0	54,661.2	887.8	1997
Philippines	300,000	99,384.5	269,024.0	2,706.9	Founding member
Singapore	716	5,399.2	279,941.3	55,182.5	Founding member
Thailand	513,120	68,251.0	387,573.8	5,678.7	Founding member
Viet Nam	330,951	89,708.9	171,219.3	1,908.6	1995
<b>ASEAN</b>	<b>4,435,618</b>	<b>625,090.5</b>	<b>2,395,252.5</b>	<b>3,831.8</b>	

Figure 1: Comparison of ASEAN members on selected indicators, using data from 2013.

(Source: ASEAN Secretariat, 2014)

Efforts are made by other East Asian nations, in particularly China and Japan, to broaden the integration scheme, most notably through the establishment of the Asian Pacific Economic Forum (APEC) in 1989, the ASEAN Regional Forum (ARF) in 1994, the ASEAN Plus Three (APT) in 1997 and the East Asia Summit (EAS) in 2005, but due to different reasons these initiatives have so far failed to play a significant role in East Asian regionalism.<sup>8</sup> Scholars therefore argue that ASEAN is the most

<sup>6</sup> Asian Development Bank Institute, op. cit., p. 202.

<sup>7</sup> Cockerham, op. cit., pp. 173-174.

<sup>8</sup> Kim, op. cit., p. 375

prominent and developed regional integration scheme in East Asia up-to-date, proving to be a durable organization with an expanding scope.<sup>9</sup> It remains to be the only regional scheme with explicit geographic boundaries (e.g. Southeast Asia) and a Secretariat which employs professional staff, and has more recently gained a legislative body in the form of a constitution called the ASEAN Charter, signed by all ten members in 2008.<sup>10</sup>

The year 2015 will see the next major landmark in ASEAN integration: as of December 31<sup>st</sup>, the ASEAN Economic Community (AEC), the ASEAN Political-Security Community (APSC), and the ASEAN Socio-Cultural Community (ASCC) will be established. These constitute the three pillars which should eventually create the ASEAN Community by 2020, which envisions an outward-looking region “living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies.”<sup>11</sup> Of the three pillars, the AEC has received the most attention. According to its official Blueprint, signed by all members in 2007, the AEC will establish ASEAN as a single market and production base making ASEAN more dynamic and competitive with new mechanisms and measures to strengthen the implementation of its existing economic initiatives; accelerating regional integration in the priority sectors; facilitating movement of business persons, skilled labour and talents; and strengthening the institutional mechanisms of ASEAN by the end of 2015.<sup>12</sup> According to Umezaki (2012), it will be a very significant step for ASEAN in the sense that it will transform economic integration of ASEAN from a *de facto* process to a *de jure* integration with clearly defined end goals and timelines.<sup>13</sup>

Nevertheless, despite these accomplishments, ASEAN integration is received by many scholars, businessmen and politicians with a lot of criticism. A survey by the American Malaysian Chamber of Commerce (AMCHAM) in 2014 showed that more than half of the respondents -executives from small, medium and large US businesses in Southeast Asia- believe that ASEAN will not reach the goals of the AEC until 2020 or later, pointing at its problematic preparations, which have been characterized by years of discussion, consensus-building, lack of leadership and postponed deadlines, as proof that the ASEAN members are not ready yet for this step.<sup>14</sup> Scholars, such as David

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<sup>9</sup> Cockerham, op. cit., p. 165

<sup>10</sup> Kim, op. cit., pp. 375-376.

<sup>11</sup> ASEAN (1997). “Vision 2020 Statement.” Retrieved from <http://www.asean.org/news/item/asean-vision-2020> on 04-05-2015.

<sup>12</sup> ASEAN (2007). “ASEAN Economic Community Blueprint”, p. 6.

<sup>13</sup> Umezaki, S. (2012). Building the ASEAN Economic Community: Challenges and Opportunities for Myanmar. *Economic Reforms in Myanmar: Pathways and Prospects*, Bangkok: Bangkok Research Center, IDE-JETRO, p. 305.

<sup>14</sup> The Star (2014). “Survey AEC Goals Will Not Be Met Until 2020 Or Later.” Retrieved from <http://www.thestar.com.my/Business/Business-News/2014/09/09/Survey-AEC-goals-will-not-be-met-until-2020-or-later/?style=biz> on 29-04-2015.

Jones and Michael Smith, see this public mistrust in ASEAN capabilities as an outflow of the view that the Association is an 'illusionary community', which is used to distract attention from the self-interested foreign policies of its individual members.<sup>15</sup> Often, the direct comparison is made with integration in the European Union (EU), which then usually ends up in classifying ASEAN as 'immaturity', without taking into account the distinctiveness of the region.<sup>16</sup>

However, when the distinctive characteristics of the region are taken into consideration, it seems that regional integration in ASEAN has been unique and shaped by many factors in different points in time. Whereas in the early decades of its existence security appeared to be a key incentive for members to seek closer cooperation, more recently, economics have started to play a more important role in the integration process<sup>17</sup>, eventually leading up to the long-awaited commencement of the AEC by the end of 2015. As the region is in pole position for achieving economic success in the Asian Century, challenges remain. The ten members are vastly different in terms of economic structures and political regimes, and geographically squeezed in between emerging world powers China and India, while Japan maintains its presence in the region. Therefore, the purpose of this paper is to analyse the role of these economic and political forces in ASEAN integration, to examine whether the Southeast Asian region is able to emerge as a future economic and political powerhouse on the world stage, or end up as a toothless tiger which fails to fully capture its potential. The outcomes will be useful in examining the development process within the ASEAN members individually, as well as the motives for integration in other developing regions, such as South America and Africa.

This paper is structured as follows. The first section will describe the methodology and theoretical background. ASEAN integration will be analysed using a number of rationalist theories, which suggest that the Association is a result of a pursuit of its members to satisfy their interests. The second section will analyse these interests from an economic point-of-view, particularly paying attention to the wide differences in structures, size, and competence, and the degree of interdependency, both intra- and extra-regional. The political interests will be discussed in the third section, thereby emphasizing the influence of the various political regimes, the importance of sovereignty, and the role of ASEAN's institutions. Lastly, a discussion and conclusion will sum up the paper's findings.

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<sup>15</sup> Jones and Smith in Jetschke, A. (2009). Institutionalizing ASEAN: celebrating Europe through network governance. *Cambridge Review of International Affairs*, 22(3), p. 408.

<sup>16</sup> Katzenstein and Shiraishi in Jetschke, op. cit., p. 409.

<sup>17</sup> Cockerham, op. cit., p. 166.

## 2. Methodology

I chose to discuss the problem statement of this paper as I believe that the debate on the applicability of rationalist theories on Southeast Asian integration needs to be updated in the wake of the ASEAN Community, which will commence on the 31<sup>st</sup> of December 2015. Although I am aware that ideational theories, such as Constructivism, can also be used to explain integration in the ASEAN, I believe that more research is needed to fill the gap within popular rationalist theories in explaining the integration process outside its most discussed region, the EU. Many scholars have used EU integration as a 'blueprint' or end-goal for integration in other regions, which I believe is inevitable with the EU being the deepest regionally integrated area in the international system. However, I sense that too much emphasis is being put on ASEAN's failure to re-create the process of the EU by the regional integration theories that have been developed to explain it, thereby neglecting to go deeper into the significant differences between ASEAN's members and its location next to Japan, China and India. In this paper, I wish to overcome these flaws and propose a different perspective on Southeast Asian integration which incorporates the strengths of each theory and which is more in line with the region's distinct character. I will claim that, rather than aiming to re-create the integration process of the EU, ASEAN has embarked on a path of its own in order to meet its goals and overcome its challenges.

During my internships in Indonesia and Malaysia, I became intrigued by the economic, political and social aspects of life in these two Southeast Asian countries. At the time, Indonesia was dealing with political unrest after the 2014 elections, which saw the election of President Joko Widodo ('Jokowi') as the new hope for the country's future. A few months after he took office in October 2014, however, the initial optimism surrounding his election made way for some disappointing voices of the Indonesian people, who did not feel that their high expectations for change had been met by his decisions so far. Corruption within the National Police Department, inadequate performance of his ministers, and pressures in the world political arena in regard to the executions of foreign drug traffickers that sparked feelings of Indonesian nationalism, have put Jokowi already under enormous pressure while having to lead his country towards the AEC.

In the meantime, across the Malacca Strait, Malaysia took over the role from Myanmar as Chairman of the ASEAN for 2015. Although the country has been performing stable both politically and economically over the past years, following a governmental strategy that aims to make the country a high-income country by 2020, Malaysia, too, has had its domestic issues. Politically, the imprisonment of long-term opposition leader Anwar Ibrahim after allegations of sodomy has led to



social protests for his release.<sup>18</sup> Furthermore, the national currency (Ringgit) has been one of the worst performing currencies in Asia over the past few months, threatening the entire national economy.

These rapidly changing economic and political developments show the distinct character of two of ASEANs founding members, not only in comparison to Europe but also between themselves. My experiences in Indonesia and Malaysia have given me the opportunity to talk directly to businessmen, governmental officials, and local citizens to gain insights on their view of Southeast Asia as a quickly developing and relatively slowly integrating region. With this paper, I hope to both enlarge my own understanding of the integration process in the region and gain knowledge on how Southeast Asia is likely to develop in the near future.

The analysis in this paper will test the discussed IR theories by using both qualitative and quantitative data from a wide range of sources. A qualitative academic literature review will reflect the views of different scholars on how IR theory explains the developments in Southeast Asia and to which extent the ASEAN integration process confirms or rejects the mainstream regional integration theories that are discussed in this paper. In addition, my internship in Malaysia gives me the opportunity to visit ASEAN-related conferences and events in Kuala Lumpur, such as the ASEAN Business Summit (March 12<sup>th</sup> 2015) hosted by the governmental agency Malaysia External Trade Development Corporation (MATRADE), the Growth, Innovation and Leadership event (April 14<sup>th</sup> 2015), organized by global market researchers Frost & Sullivan, and the EU-Malaysia Trade and Investment Forum “Meeting Challenges for Growth in ASEAN” (April 16<sup>th</sup> 2015), organized by the EU-Malaysia Chamber of Commerce and Industry (EUMCCI). Statements from governmental officials, businessmen and other experts at these events are used in this paper to indicate how various stakeholders see the benefits and challenges of the ASEAN integration process from their perspective, thereby taking the limitations on generalizing these statements carefully in mind.

Other sources that are being tapped include (online) publications in magazines and newspapers and statements from governmental ministries, the ASEAN Secretariat and other international organizations to shine a light on the political and social perspectives of the different ASEAN members in the regional integration process, assess the performance of the ASEAN Secretariat as a supranational institution, and include the latest news in the developments surrounding the AEC.

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<sup>18</sup> The Malay Mail Online (2015). “Protestors Kick Off Hunger Strike to Demand Anwar’s Freedom.” Retrieved from <http://www.themalaymailonline.com/malaysia/article/protesters-kick-off-hunger-strike-to-demand-anwars-freedom> on 25-03-2015.

Quantitative data in the form of economic performance indicators from the World Bank, the United Nations Statistics Division, the ASEAN Secretariat and the Asian Development Bank (ADB) will be used to analyse the economic situation and interests of all the ASEAN member states from an historical and current perspective, and discuss in which ways closer economic integration and a higher level of interdependence have affected the economic liberalization process, pushed integration in other sectors, and influenced political decision-making.

### 3. Theoretical Background

In this paper, the integration process in Southeast Asia will be explained by using a number of IR theories from a positivist, rationalistic theoretical perspective. By contrasting the different paradigms originating from the traditional assumptions of Liberalism and Realism, this paper will discuss to which extent these theories are applicable and able to explain the integration process between the ASEAN members, and to which extent the situation in Southeast Asia rejects these theories and requires a different theoretical perspective on regional integration.

#### 3.1. Regional Integration and International Relations

Within the study of international relations, the concept of regional integration has been largely influenced by developments in Europe, where six nations, damaged by the Second World War, initially agreed to pool their coal and steel resources to constrain members of re-building a war economy and ease tension through cooperation in the early 1950s.<sup>19</sup> Using the core assumptions of rationalist thinking, new theories emerged to explain these developments through the rational choice theory of agent behaviour. According to Fjäder (2012), this theory argues that agents, being rational, choose a course of action that is mainly based either on geostrategic interests or economic interests to produce the best-conceived outcome.<sup>20</sup>

This debate characterizes the traditional debate between Realist theorists, who argue that states cooperate in order to satisfy geostrategic interests for national security, and Liberalists, who state that increased cooperation is a result of the preference to satisfy economic interests for wealth creation. More specifically, the debate divides scholars on the nature of integration, the primary actors in the process, and the role of regional institutions. Furthermore, other theories have emerged that are specifically aimed to explain the factors of regional integrations, of which Neofunctionalism and Intergovernmentalism are amongst the most popular. Rather than placing themselves under one of the grand IR theories, their main thinkers saw these theories as separate paradigms, drawing from both Liberalism and Realism and focusing more in-depth on the drivers of economic and political integration.

In order to differentiate between regional cooperation and regional integration, and to be able to analyse the level of economic and political integration within a community, a staged manner will be used as presented by Dosenrode (2010), who draws heavily upon the work of the late Béla Belassa,

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<sup>19</sup> Hanmo, Y., (2013). The Achievability of an “ASEAN Community” through Regional Integration – In Comparison with the European Union, p. 3.

<sup>20</sup> Fjäder, C., (2012). Regionalism in Asia and Europe in a Theoretical Perspective: ‘Rationalist’ and ‘Ideational’ Approaches. *Asia-Pacific Journal of EU Studies*, 10(1), p. 74.

former consultant for the World Bank. The widely understood stages of economic regional integration are:

1. Ad-hoc cooperation, for example in the form of economic assistance.
2. PTAs and FTAs. Existing barriers to trade amongst members, such as import tariffs or quotas, are being lowered or fully eliminated. In order to resolve trade disputes and keep the actions of members in line with the mutually signed agreement, a formal institution may be set up, but this is not necessary.
3. Customs Union, which is an extended form of a region linked through FTAs. External trade policies of its members are harmonized, and a uniform external tariff is imposed on imports from non-members. It does not require its members to operate a free movement of labor and capital. Again, it is not necessary for a supranational organization to be in place, as intra-state issues can still be handled through intergovernmental decision-making structures.
4. Common market. This is the first significant stage in integration as members now facilitate free movement of capital and labor. More extensive policy harmonization is required due to pressures of economic interdependence, and members have less freedom to follow their own independent economic policies.
5. Partial integration or Economic Union. In this stage, key policy areas are harmonized, and supranational institutions are needed to regulate business within its region to ensure common application of the rules.
6. Full integration, in which member states hand over (almost) all of their economic decision-making power to a new state.<sup>21</sup>

It has to be noted that stage 1 and 2 have to be passed in order to reach one of the latter four stages. For example, it is possible to move from stage 2 directly to stage 4, thereby skipping stage 3. Furthermore, the integration scheme may not completely fall within one stage, but can have characteristics of multiple stages at the same time, and can see either one of the stages 3 to 6 as its 'end station'. Nevertheless, the stages-model provides a good overview of the different levels of integration.<sup>22</sup>

As for political regional integration, its stages are less commonly agreed upon. One way of categorizing the phases, proposed by Dosenrode (2010), is:

1. Ad-hoc cooperation, such as intergovernmental mediation between conflicting powers, which are not necessarily part of the region.

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<sup>21</sup> Dosenrode, S. (2010). Federalism Theory and Neo-Functionalism: Elements for an analytical framework. *Perspectives on Federalism*, 2(3), pp. 6-7.

<sup>22</sup> Dosenrode. *Ibid.*, pp. 5-6.

2. Institutionalized Intergovernmental Cooperation, in which an institution is created which shapes behavior, limits state activity, and creates expectations on how members should behave.
3. Institutionalized Intergovernmental Coordination. This stage differentiates itself from the previous stage by adding synchronization to state activities through in a more coordinated setting. However, the specific differences remain controversial.
4. Supra-nationalized integration, in which a supranational institution has been created which has obtained autonomy and decision-making power as states have voluntarily passed a part of their sovereignty to the institution. The institution may follow policies independent of its member state governments.
5. Full integration, in which member states hand over almost all of their sovereignty to a new state.<sup>23</sup>

In contrast to the stages of economic integration, it seems less likely that one or more stages of political integration can be skipped before moving on to a next stage. Furthermore, to grasp why these different stages of political integration are not widely agreed upon, one needs to understand the underlying assumptions and differences within rational theories that aim to explain the integration process. Therefore, a closer look will be taken on these aspects with regard to Liberalism, Realism, Neofunctionalism and Intergovernmentalism.

### 3.2. Liberalism

The academic approach to regional cooperation and integration has come mainly from the liberal field of IR.<sup>24</sup> Early studies of liberalism, which were labelled as utopian idealism, argued that human beings are rational and are able to set up organizations for the benefit of all when they apply their reason to international relations. Later, as interdependence increased between different (mostly Western democratic) countries due to increased travel, communication, trade and investment, liberalists argued that states prefer to satisfy economic interests through political cooperation in a positive sum game in which collective benefits are possible.

Neoliberalism emerged in the 1980s in an attempt to explain these new developments, get rid of the flaws of utopianism and provide an answer to realist thinkers in a decade dominated by Cold War tensions. The theory emphasized economic interests, being national preferences, as the main driver of cooperation. Economic interdependence became more important for wealth maximization as markets became more and more liberalized and barriers to trade were reduced. International

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<sup>23</sup> Dosenrode. Ibid., pp. 8-9.

<sup>24</sup> Santos, S. C., (2009). Regional Integration Theories: The Suitability of a Constructivist Approach (at least, in the case of South America), p. 4.

economic order, neoliberalists argued, is then maintained by regimes based on the goal of free markets, free trade and minimal state intervention.<sup>25</sup>

The notion of plurality to define the main actors in the integration process, leads Liberalists to not only focus on states but also other interest-groups, such as transnational societal elites. According to Neoliberal Institutionalists such as Robert Keohane, these interest-groups prefer an international institution to maximize wealth creation.<sup>26</sup> These institutions are able provide information and aid cooperation to build trust and reduce uncertainty between state governments. They can then influence states to choose future benefits over short-term gains by providing information opportunities to reduce transaction costs by enforcing agreements, thereby creating capabilities for states to cooperate in mutually beneficial ways and create collective gains. Rather than superimposing themselves on its member states, well-established institutions, Keohane (1998) argues, reinforce practices of reciprocity which provide governments with an incentive to stick with their commitments and make sure others do as well, making the behaviour of other states more predictable.<sup>27</sup>

In addition, Kim (2011) argues that undisputed regional leadership is another important factors to strengthen the role of institutions and deepen the process of integration. Integration, he states, does not only need demand from market actors to be successful, but also supply from political actors in the form of commitment and leadership within the institutional setting.<sup>28</sup>

### 3.3. Realism

Although Liberalism has been the dominant paradigm regarding regional integration, Realism is most commonly recognized as the main paradigm to explain intra-state relations within the Southeast Asian region.<sup>29</sup> Realists are rather sceptical on the integration process in general, and particularly on its deepening process.<sup>30</sup> By obtaining and utilizing national capabilities, realists argue, national elites are able to pursue geostrategic, national interests in an anarchic international environment. These national interests are static and defined by the nation's political elites (who have the authority to do so). Realist theorists' main arguments are centred on the idea that sovereign states, being the main actors in the process, are self-interested and mainly focused on the balance of power in a relative sum game. In contrast to liberalists, who argue inter-state decision are made on the basis of gaining

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<sup>25</sup> Kim, M. H. (2011). Theorizing ASEAN integration. *Asian Perspective*, 35(3), p. 413.

<sup>26</sup> Fjäder, op. cit., p. 92.

<sup>27</sup> Keohane, R. O. (1998). International institutions: Can interdependence work? *Foreign Policy*, p. 83.

<sup>28</sup> Kim, op. cit., p. 413.

<sup>29</sup> Weatherbee, D. E. (2014). *International relations in Southeast Asia: the struggle for autonomy*. Rowman & Littlefield, pp. 19-22.

<sup>30</sup> Kim, op. Cit., p. 411.

collective benefits, realists such as Kenneth Waltz state that states are concerned with the relative gains, in which some gain more than others.<sup>31</sup> Furthermore, rather than on economic interests, realist arguments are centred on security interests, which are defined as state sovereignty, territorial integrity and survival and maintenance of the national political system.<sup>32</sup>

When applied to regional integration, realists argue that individual state benefits are maximized through ensuring security and maintaining national values in a regional bloc that is able to withstand pressures from other powerful players in the competitive, international system.<sup>33</sup> Within this regional bloc, there will be a struggle for power between supranational, authority-seeking institutions and individual member state governments to pursue their own interests. Politically, Realism has a very sceptical view towards deepening regional integration where states are pooling their national sovereignty (and thus giving up a part of their own national sovereignty and ability to exercise power)<sup>34</sup>, and sees integration merely as a means to satisfy national interests in which the power of the supranational institution is marginal and determined by national preferences.<sup>35</sup>

Liberalism and Realism have so far focused on explaining cooperation and discussing regionalism in relation to their more general assumptions regarding international relations. Two main regional integration theories that elaborate on the interests of actors to move from cooperation to integration are Neofunctionalism and Intergovernmentalism.<sup>36</sup> Rather than Realists and Liberal Institutionalists, who view state interests as exogenous in which state behaviour depends on systemic variables, these theories see integration as a rational process in which state behaviour is also determined by “calculating anticipated returns from various alternative strategies of participation in regional cooperation and decision-making”, while conceding that shared history and values are able to strengthen the process.<sup>37</sup>

### 3.4. Neofunctionalism

Noticing the increased level of interdependence between states and building on the assumptions of David Mittrany's Functionalism theory of the 1940's, Ernest Haas developed a first theoretical attempt to explain integration and explicitly challenge realism and idealism as the two dominant IR theories in the mid-1950s called 'Neofunctionalism' that gained widespread recognition in the

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<sup>31</sup> Weatherbe, op. cit., pp. 19-22.

<sup>32</sup> Weatherbe. Ibid., pp. 19-22.

<sup>33</sup> Santos, op. Cit., p. 13.

<sup>34</sup> Kim, op. Cit., p. 411.

<sup>35</sup> Santos, op. Cit., p. 10.

<sup>36</sup> Santos. Ibid., p. 4.

<sup>37</sup> Fjäder, op. cit., p. 90.

1950's due to developments in the EU.<sup>38</sup> The high and growing level of interdependence between the European states and the need for a supranational institution, Haas argued, led to an inevitable process of integration (the 'logic of integration') that will eventually lead to political integration as a result of spill-over effects.<sup>39</sup> Spill-overs are a central concept in the theory and defined as a "situation in which a given action related to a specific goal, creates a situation in which the original goal can be assured only by taking further actions, which in turn create a further condition and a need for more action."<sup>40</sup> Neofunctionalism claims that an agreement on integration in a certain economic area causes other areas related to economic policy to integrate as well to reap the benefits of integration in the first area. Eventually, integration would thus become a higher political concern.<sup>41</sup>

Neofunctionalism identifies two types of spill-overs, which significance depends on the ability and commitment to change loyalties and attitudes amongst the members.<sup>42</sup> The first types are technical (or functional) spill-overs, which are created when small steps in the integration process bring along new problems in other areas, leading to a demand in more integration steps. The second types are political (or cultivated) spill-overs, enforced by the existence of supranational institutions, which create a self-reinforcing process of institution-building across different areas.<sup>43</sup> According to Haas, political integration is then the process in which the actors are persuaded to give up parts of their responsibilities towards a new centre, whose institutions are able influence jurisdiction over national states.<sup>44</sup> Thus, in managing complex interdependencies between different countries, Neofunctionalist theorists argue that technocrats and supranational institutions are superior to intergovernmental decision-making.<sup>45</sup> The final result is a new political community, which is superimposed over the pre-existing ones.<sup>46</sup>

Thus, according to Neofunctionalism, economic integration in 'low politics' (which are not crucial to state survival) will eventually create a need for more political integration in 'high politics' (which regard national and international security concerns) as an inevitable outcome of the increased economies ties. Furthermore, Haas states that political activism is required to give a 'push' in the right direction, to make the spill-overs more apparent and help the supranational institution

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<sup>38</sup> Santos, op. Cit., p. 4-5.

<sup>39</sup> Fjäder, op. Cit., p. 91.

<sup>40</sup> Bulut, E. A. (2012). Community-Building in ASEAN? A Theoretical Approach to Regional Institutionalisation in Southeast Asia. *Turkish Journal of Politics*, 3(1), p. 60.

<sup>41</sup> Dosenrode, op. Cit., p. 22

<sup>42</sup> Santos, op. Cit., p. 6.

<sup>43</sup> Fjäder, op. Cit., p. 92.

<sup>44</sup> Dosenrode, op. Cit., p. 22.

<sup>45</sup> Fjäder, op. Cit., p. 92.

<sup>46</sup> Dosenrode, op. Cit., p. 4.



undergo an integration process that is both wider and deeper.<sup>47</sup> It is then the task of the institution to protect the regional community's interest as a whole, instead of looking after the interests of individual member states. The driving force of integration would thus be the pursuit of the politicians' interests.<sup>48</sup>

According to Tranholm-Mikkelsen (1991), criticism on Neofunctionalism has been coming from two camps. Firstly, interdependence theorists agree with Neofunctionalists on the notion of a plurality of actors, but criticize the theory for lacking a global applicability (due to its focus on developed, pluralistic democracies) and seeing interdependence as a process towards a supranational institutional outcome. Instead, it sees interdependence as a condition for, but which does not necessarily imply, integration.<sup>49</sup> As Keohane and Nye (1987) state in their book *Power and Interdependence Revisited*, increased interdependence between states reduces chance of engaging into conflict, without implying increased integration.<sup>50</sup> A second source of criticism initially comes from Stanley Hoffman, who developed a theory in the 1960's called 'Intergovernmentalism', which is essentially a realist perception of IR to the EU.<sup>51</sup>

### 3.5. Intergovernmentalism

Intergovernmentalist theorists reject the concept of 'spill-overs' as the main driver of the integration process and take factors into account that can limit the 'logic of integration', such as nationalism expressed by political leaders and sensitivity surrounding state sovereignty. Member states are willing to hand-over control of 'low politics' to regional technocrats, but once integration hits 'high politics' and becomes an issue that is more related to national strategic interests, the logic of integration would turn to a logic of disintegration due to the unwillingness of state politicians to pool sovereignty on defence and foreign policy.<sup>52</sup>

Indeed, Intergovernmentalism sees governmental preferences as the key factors in the integration process, as they are able to enforce integration during times of converging governmental interests and inhibit integration during times of divergence of interests. Thus, in accordance to realist theories, Intergovernmentalism places more emphasis on the role of states and their governments in particular<sup>53</sup>, in the sense that all important decisions are taken directly by the heads of state or

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<sup>47</sup> Bulut, op. Cit., pp. 58-59.

<sup>48</sup> Dosenrode, op. Cit., p. 22.

<sup>49</sup> Tranholm-Mikkelsen, J. (1991). Neo-functionalism: Obstinate or Obsolete? A Reappraisal in the Light of the New Dynamism of the EC. *Millennium-Journal of International Studies*, 20(1), p. 8.

<sup>50</sup> Keohane, R. O., & Nye, J. S. (1987). Power and Interdependence revisited. *International Organization*, 41(4), p. 727.

<sup>51</sup> Tranholm-Mikkelsen, op. Cit., p. 8.

<sup>52</sup> Tranholm-Mikkelsen. Ibid., p. 8.

<sup>53</sup> Hanmo, op. Cit., p. 7.

ministers. Furthermore, national preferences are not static (as realists argue) but dependent on domestic politics.<sup>54</sup>

Another difference with Realism is the Intergovernmentalist view of the significant role of supranational institutions. Within institutions where the sovereignty of states is balanced, these states can either join the community or take back authority according to their preferences. Thus, although Intergovernmentalists argue that a supranational institution is needed to be able to keep the community together as a whole; its functions are only aimed at assisting and facilitating the interaction between its members and running daily affairs.<sup>55</sup> Furthermore, Hoffman argued that Neofunctionalism neglects the external environment. Pressures coming from this external environment would pressure members to diverse responses, which would provoke disintegrative forces.<sup>56</sup>

Liberal intergovernmentalism, which was developed by Andrew Moravcsik, elaborates on Hoffman's assumptions and argues that regional integration has three bases: firstly, states act rational and are aware when initiating a process of integration to reach its goals. Secondly, national preferences are defined by domestic politics and indirectly conditioned by economic interdependence. Lastly, state governments are the prime actors in the process and therefore limit the possibility of supranationality when politics are not subordinated to intergovernmental necessities.<sup>57</sup>

### 3.6. Comparison of Theories

In sum, although the discussed theories share a notion of rational agents as the prime actors in the regional integration process that engage in rational decision-making and bargaining for some form of material interests<sup>58</sup>, many differences on various other factors remain (figure 2). The conclusion should find to which extent cooperation in ASEAN is driven Liberalist or Realist assumptions on cooperation, and to which extent ASEAN's integration scheme confirms Neofunctionalist and Intergovernmentalist assumption on drivers of integration.

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<sup>54</sup> Santos, op. Cit., p. 5.

<sup>55</sup> Hanmo, op. Cit., p. 8.

<sup>56</sup> Transholm-Mikkelsen, op. Cit., p. 8.

<sup>57</sup> Santos, op. Cit., p. 13.

<sup>58</sup> Fjäder, op. Cit., p. 90.

Theory	Regional integration			
	Objective	Drivers	Prime Actors	Role of Supranational Institutions
Liberalism	Wealth maximization through collective gains and economic interdependence	Economic interests	Plurality of actors, not only states, but also other interest groups	Significant, as it builds trust and between members and commitment to the agreements
Realism	State security through relative gains and balance of power	Geostrategic interest	States	Marginal, as states are reluctant to voluntarily give-up their sovereignty
Neo-functionalism	Welfare maximization in a political community	Logic of integration: spill-over effects cause self-enforcing integration process to move from 'low' to 'high' politics	Plurality of actors, not only states, but also other interest groups	Significant, as they are a result of political spill-overs
Intergovernmentalism	Pursuing own national interests	National preferences, decided in relation with domestic politics and indirectly conditioned by economic interdependence	State governments	Dependent on intergovernmental necessities, but needed to keep community together

Figure 2: Comparison of theories.

When applying Neofunctionalism and Intergovernmentalism ASEAN, one must keep in mind the original background conditions of these regional integration theories, which prescribe that the member states should be substantially economic and industrial developed economies with similar political system (democracy). Failure to do so created an over-application of these theories on the region where integration is most developed (EU), and problems occur when trying to explain regionalism with a world dimension. Moreover, in relation to Neoliberal Institutionalism, whereas integration in Europe was driven by a highly institutional setting through a set of binding agreements enforced by bureaucracy, regionalism in Southeast Asia seems to be less determined by supranational institutions, which appear to be weak.<sup>59</sup>

Testing the applicability of these theoretical paradigms to ASEAN may therefore provide new insights on their global applicability in a region with vast economic, political and cultural differences. At the same time, the conclusions based on these theories are able to predict the course of ASEAN and the strategic preferences of its members in the future. Therefore, this paper will test the theories in relation to:

<sup>59</sup> Fjäder, op. Cit., p. 75.

- The economic development gap within ASEAN members, in particular between the founding (ASEAN-5) and more recently admitted (CLMV) members;
- The differences in political systems and domestic interests, both on national and regional level;
- The effect of weak institutionalism of the ASEAN Secretariat on the regional integration process, along with the lack of a regionally undisputed leader within the ASEAN community to serve as a focal point in the coordination of rules and regulations;
- The effect of external economic and political forces in the external environment, in particular the rise of China as the region's powerful neighbor.

## 4. Economic Development, Liberalization and Protectionism

In theory, Umezaki (2012) claims, one expects economic integration to increase the economic welfare of the members through facilitating the efficient use of production factors (goods, services, labour and capital) based on the member's comparative advantage. In today's globalized world with higher levels of interdependence and regional production networks, this would imply that, in accordance with liberal economic theory, increased liberalization in goods, services, labour and capital would be the key drivers towards the economic integration process, and thus, economic welfare, which is most commonly measured in higher GDP and GDP per capita levels.<sup>60</sup> To understand why the economic integration process in ASEAN is so unique, it first needs to be viewed from a historical perspective.

### 4.1. Economic Integration and the Road to Vision 2020

ASEAN's first efforts create an integrated economic region go back to its very establishment in 1967 (figure 3), when the Bangkok Declaration defined that the Association's main goal was to create a "accelerate the economic growth (...) in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations".<sup>61</sup> As the founding members' import-substitution strategy had failed in the early years of independence, most of the ASEAN-5 decided to become more focused on export-driven growth in the late 1960s and 1970s, welcoming foreign trade and investment. Ad-hoc economic cooperation existed between the member states, mainly in order to maintain friendly relationships<sup>62</sup>, but it would take until 1977 before the ASEAN Preferential Trade Agreement (APTA) was signed, the Association's first agreement on a regional economic policy. The APTA aimed to create a larger regional market by facilitating trade and reducing import tariffs.<sup>63</sup> It can be considered as the Association's first step towards economic integration, and indicates the initial move from the first to the second stage in Dosenrode's stages of economic integration.

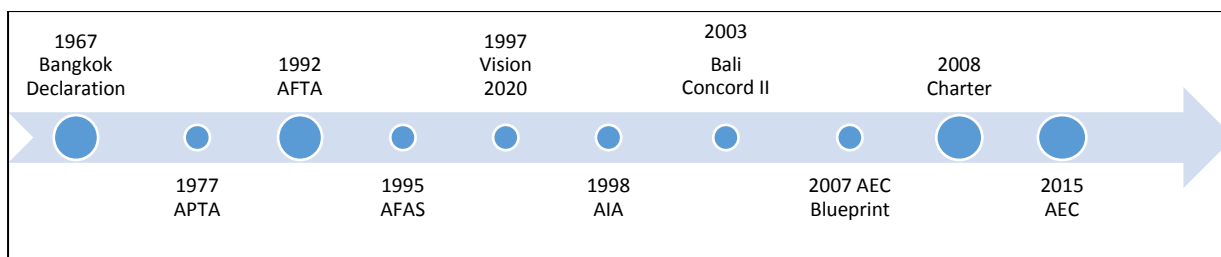
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<sup>60</sup> Umezaki, op. Cit., pp. 307-308.

<sup>61</sup> ASEAN Secretariat (1988). ASEAN Documents Series 1967-1988, Third Edition, Jakarta, pp. 27-28.

<sup>62</sup> Shimizu, K. (2004). The Origin of Intra-ASEAN Economic Cooperation. *Economic Journal of Hokkaido University*, 33, p. 115.

<sup>63</sup> ADBI, op Cit., p. 5.



*Figure 3: Timeline of significant economic agreements in ASEAN integration.  
(Source: ASEAN Secretariat, 2015)*

However, economic integration would remain limited to the APTA in the next years as, according to Kim (2014), developments in the global political arena were of a higher priority for the Southeast Asian nations due to the rivalry between the US and the Soviet Union over the sphere of influence in the region. During the Cold War, he argues, the ASEAN states were focused on maintaining security and regional stability through nation-building projects and pursuing their national economic development goals, without the willingness to create a regionally integrated market.<sup>64</sup> Indeed, Cockerham (2009), claims that the depth of regional integration was strategically kept limited at this time, as the members produced similar products which made their economies incompatible for free trade due to the lack of a comparative advantage. This was especially the case in Indonesia, which was strongly pressing against trade liberalization.<sup>65</sup> As the Cold War came to an end and the effects of the globalization process became more visible, ASEAN states were pressured to re-structure their economies for global production networks and increasingly shift focus towards regional trade liberalization.<sup>66</sup> Additionally, the emergence of other regional trade blocs, such as the APEC (1989), MERCOSUR (1991), and NAFTA (1994), along with developments in China, where Deng Xiaoping was successfully transforming the country into a more liberalized market economy and a competitor for FDI, proposed serious threats to ASEAN's attractiveness for foreign businesses and, thus, economic growth.<sup>67</sup>

In a response to the internal pressures of switching to more outward-looking development strategies and the external pressures coming from increased economic power of other regions in the global economy, the six ASEAN member countries agreed to create the ASEAN Free Trade Area (AFTA) by signing a free trade agreement in 1992: a landmark in the ASEAN integration process.<sup>68</sup> In order to take intra-regional trade a step further, the AFTA pressured the members to drastically

<sup>64</sup> Kim, op. Cit., p. 377.

<sup>65</sup> Cockerham, op. Cit., p. 182.

<sup>66</sup> Kim, op. Cit., p. 377.

<sup>67</sup> Cockerham, op. Cit., p. 173.

<sup>68</sup> Kim, op. Cit., p. 377.

lower intra-ASEAN tariff rates through the Common Effective Preferential Tariff (CEPT)-scheme<sup>69</sup> to protect economic interests and stimulate growth by making ASEAN more competitive as an economic region for the world economy.<sup>70</sup> It was agreed upon that to reach this goal, ASEAN's advantageous position as a production base needed to be strengthened and attract a higher amount of FDI.<sup>71</sup> Scholars saw it as a ground-breaking achievement in an area where regional integration before the agreement had been very limited. Kim (2011), for example, viewed the AFTA as a symbol of the desire of the members to unite the region through an increased emphasis on economic integration.<sup>72</sup> Others, such as Chia (2013), saw it primarily as a mandatory answer to external pressures from the world economy to effectively compete for worldwide markets and investments.<sup>73</sup>

During the nineties, the AFTA was complemented with the ASEAN Framework Agreement on Services (AFAS) in 1995 and the Framework Agreement on the ASEAN Investment Area (AIA) in 1998 to create a common market and further increase the region's competitiveness in the global economy.<sup>74</sup> Around the same time, the ASEAN-6 joined the World Trade Organization (WTO) at its establishment in 1995 and decided to expand the Association by approving the application of Viet Nam (1995), Lao and Myanmar (1997) and Cambodia (1999). Despite being a former threat in the protection against the spread of communism, these new members had in previous years shown to be opening their economies, and would make the Association more inclusive and attractive as a region for trade and investment.<sup>75</sup> It was during this period that the members enjoyed rapid economic growth, until the Asian Financial Crisis (AFC) hit in 1997, causing an economic decline in Indonesia, Thailand and the Philippines.

In the middle of the AFC, however, the members made some bold moves by deciding to bring forward the implementation date of the AFTA from 2008 to 2003, while efforts were made to intensify ties with China, Japan and South-Korea through the creation of the ASEAN+3 (APT) Cooperation Plan. Furthermore, an ambitious plan was presented named 'Vision 2020', which the Asian Development Bank Institute (ADBI) refers to as "a major commitment to regional cohesion"<sup>76</sup>

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<sup>69</sup> In ASEAN's CEPT-Scheme, each member is allowed to impose tariffs on goods entering from outside ASEAN based on its national schedules. A common external tariff on important goods does not apply. However, for goods coming from within ASEAN, the members are to apply a tariff rate of 0-5%, although each member holds the option to exclude certain products.

<sup>70</sup> Kim, op. Cit., p. 419.

<sup>71</sup> Chia, op. Cit., p. 10.

<sup>72</sup> Kim, op. Cit., p. 409.

<sup>73</sup> Chia, op. Cit., p. 7.

<sup>74</sup> Chia. Ibid., p. 7.

<sup>75</sup> Cockerham, op. Cit., p. 174.

<sup>76</sup> ADBI, op. Cit., p. xxiii.

and envisages ASEAN as a region of peace, stability and prosperity by 2020.<sup>77</sup> The plan was further elaborated at the Bali Concord II in 2003, in which the members' political leaders signed an agreement to further intensify economic integration by transforming the region from a free trade area to a single market in order to protect their economies from crises like the AFC in future.

As one of the pillars of the Vision 2020, the plan for an ASEAN Economic Community (AEC) was created, initially aiming to create a single market by 2020 (but this was later brought forward to 2015 during the 38<sup>th</sup> Economic Ministers Meeting in 2006). An AEC Blueprint was published in 2007 to communicate the community's economic goals.<sup>78</sup> In 2008, the ASEAN Charter was signed to serve as the constitution of ASEAN, giving the Association a legal basis and providing members with a stronger institutional framework to cooperate on a more rules-based level with improved compliance and decision-making mechanisms.<sup>79</sup>

Nowadays, although ASEAN managed to recover from the AFC and realize rapid economic growth continued, even after a short slowdown during the Global Financial Crisis (GFC) in 2007, with annual GDP growth rates of around 5% a year since 2010, well above other blocs such as MERCOSUR (2%) and the EU (1%)<sup>80</sup>, the region is still far behind on other trade blocs in terms of GDP (figure 4). For the period between 2015 and 2019, the Organisation for Economic Co-operation and Development (OECD) predicts ASEAN's GDP to grow 5.6%, below the predicted growth of 6.8% and 6.7% for China and India, respectively, in the same period.<sup>81</sup> Furthermore, FDI inflows even levelled China in 2013, although ASEAN's role as an economic player is still limited in terms of share in world GDP and world trade (figure 5).

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<sup>77</sup> ASEAN Vision 2020 Statement, (1997). Retrieved from <http://www.asean.org/news/item/asean-vision-2020> on 19-04-2015.

<sup>78</sup> Kim, op. Cit., p. 409.

<sup>79</sup> Kim. Ibid., pp. 409-410.

<sup>80</sup> UN Statistics Division (2015). Retrieved from <http://unctadstat.unctad.org/wds/TableView/tableView.aspx?ReportId=24397> on 15-05-2015.

<sup>81</sup> OECD (2014). Emerging Asia to see healthy medium-term growth but institutional reforms will be critical for future. Retrieved from <http://www.oecd.org/dev/asia-pacific/saao2015-press-release.htm> on 20-03-2015.



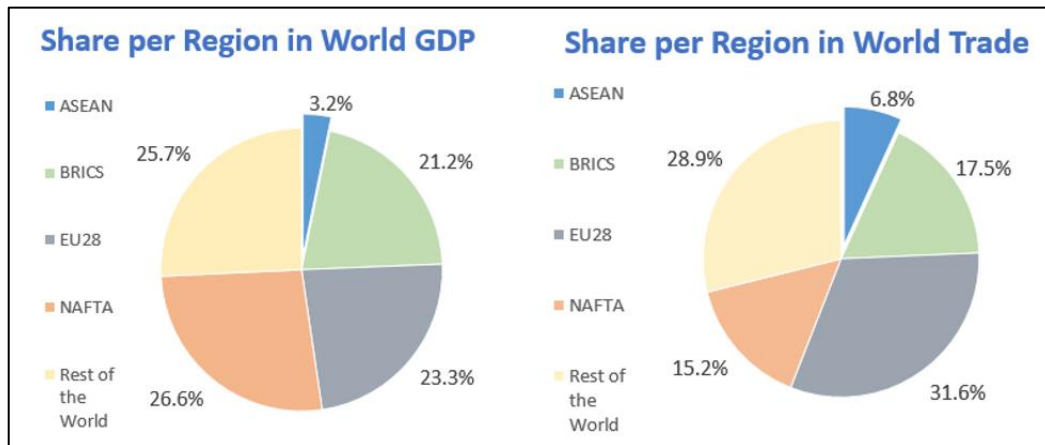


Figure 4: Share of ASEAN in world GDP and world trade in 2013. (Source: UN Stats, 2014)

Trade Bloc	Population in million	Nominal GDP in US\$ billion	Total Trade in Goods in US\$ billion	Total FDI inflows in US\$ billion
ASEAN	625	2.4	2,512.6	122.4
EU	450	17.4	11,661.2	246.2
MERCOSUR	270	3.4	818.4	83.3
NAFTA	500	19.9	5,589.7	288.1
BRICs	2,800	15.8	6,455.2	303.6
China	1,340	9.2	4,160.6	123.9
India	1,250	1.9	780.7	28.2

Figure 5: Comparison of ASEAN economic indicators with other trade blocs in 2013. (Sources: ASEAN Secretariat and UN Stats, 2014)

For the near future, the end goal of ASEAN Vision 2020 is “to transform ASEAN into a stable, prosperous, and highly competitive region with equitable economic development, and reduced poverty and socio-economic disparities amongst its members by the year 2020.” This has to be realized through three pillars including the AEC, which envisages four key characteristics: creating a single market and production base, a highly competitive economic region, a region of equitable economic development and a region that is fully integrated into the global economy. According to its Blueprint, these characteristics are based on a convergence of interests of the members to both deepen and broaden economic integration by specifying existing and new initiatives with a clear timeline, accelerating regional integration in priority sectors, facilitating movement of talent and skilled labour, and strengthening ASEAN’s institutional mechanisms.<sup>82</sup>

When these developments are applied to Dosenrode’s stages of integration, one could argue that, at the moment, ASEAN fits mostly into the second stage of economic integration. The AFTA, AFAS and AIA have accomplished a reduction of internal tariff barriers, as well as a freer flow of production

<sup>82</sup> ASEAN (2007), op. Cit., p.1.

factors such as services, capital and labour.<sup>83</sup> However, it is too early to suggest that ASEAN has already moved to the third stage, as its economic integration process comprises of significant differences in regard to Dosenrode's described characteristics of a customs union. Despite its claims to become a single market by the end of 2015, each member still maintains their own tariff scheme against non-members.<sup>84</sup> Moreover, signs of removing physical barriers such as long and complex customs procedures remain limited to the plan of implementing the ASEAN Single Window<sup>85</sup>, while technical barriers remain as national economic policies between the members states are not yet fully harmonized, and fiscal barriers in the form of different, complicated tax structures continue to form a major challenge to businesses moving abroad.<sup>86</sup> As such, free trade of goods and services has still not been accomplished in all sectors, and although the AEC can be seen as a move of ASEAN to a next stage in terms of a freer flow of trade and investment, the continuous presence of intra-regional barriers to trade and the lack of a uniform external tariff rate on non-members will (for now) prevent ASEAN from moving out of Dosenrode's second stage of economic integration.

The fact that ASEAN still has not become a customs union almost fifty years since its establishment, has led some scholars to indicate that the Association has achieved little accomplishment<sup>87</sup> and that its integration process is slow<sup>88</sup>, or even a "failure".<sup>89</sup> When comparing ASEAN to other schemes such as the EU (which became a customs union in 1958, seven years after its establishment) and MERCOSUR (at the same date of its establishment in 1991), one could find motives to justify this argument. However, a better understanding is needed of why ASEAN's integration process is so unique. It has chosen its own path, which makes it important to highlight the region's rapid growth and the differences in economic structures, size, and openness to international trade and investment of the member states that play a role in different perceptions to the benefits and costs of integration.

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<sup>83</sup> Chia, op Cit., pp. 17-21.

<sup>84</sup> Kim, op. Cit., p. 411

<sup>85</sup> The ASEAN Single Window aims to improve customs clearance between ASEAN members by improving secure IT and legal structure to lower transportation costs and boost cross-border trade.

<sup>86</sup> Frost & Sullivan (2015). Presented by Mr. Nitin Bhat at the Growth, Innovation and Leadership (GIL) conference in Kuala Lumpur, Malaysia, on April 14<sup>th</sup> 2015.

<sup>87</sup> Raj, R., & Calimag, J. M. (2011). ASEAN Dilemma and the Missing Link, p. 198.

<sup>88</sup> Kim, op. Cit., p. 407.

<sup>89</sup> Rojanaphruk, P. (2013). "ASEAN as a grouping is a failure, academics insist." Retrieved from <http://www.nationmultimedia.com/national/Asean-as-a-grouping-is-a-failure-academic-insists-30213347.html> on 19-04-2015.

## 4.2 Differences in Wealth, Economic Structures, and Industrial Competence

The wide differences in level of wealth, economic structures, and size between ASEAN members (figure 6) that make the region unique compared to other blocs have implications on the applicability of mainstream integration theories to ASEAN. For a closer look at these differences the members can be divided into four categories (using the classification of the World Bank<sup>90</sup>) by ranking them by GDP per capita.

### 1. High-income economies: Singapore and Brunei Darussalam

ASEAN's wealthiest members in terms of GDP per capita are Singapore and Brunei, but their sheer size in terms of land area and population is one of the few similarities they share. Their economic structures in terms of availability of natural resources, important trade commodities and main trade partners, are vastly different.

Under the late Lee Kuan Yew, Singapore successfully grew from a small, underdeveloped colony to an economic powerhouse. It took full advantage of its geographical location at the mouth of the Malacca Strait, one of the world's most important trade routes. After its accession from Malaysia in 1967, Lee understood that the only way Singapore could survive as a small state in the world system, was to make it a favourable destination for foreign trade and investment with a small, effective government.<sup>91</sup> As a result, the city-state with a population of 5.5 million managed to realize unprecedented high GDP growth figures over decades, resulting into one of the highest GDP per capita in the world and becoming ASEAN's forth biggest economy in terms of nominal GDP in 2013. As a small island without natural resources, the country largely relies on providing services and producing high-value manufacturing products.<sup>92</sup>

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<sup>90</sup> World Bank, (n.d.). Countries and Economies. Retrieved from <http://data.worldbank.org/country> on 20-03-2015.

<sup>91</sup> The Economist (2015). Why Singapore became an economic success. Retrieved from <http://www.economist.com/blogs/economist-explains/2015/03/economist-explains-23> on 27-03-2015.

<sup>92</sup> CIMB ASEAN Research Institute (n.d.). Economic Profiles. Retrieved from <http://www.cariasean.org/asean/economy-profiles/> on 17-03-2015.

Member	Total Population	Total Nominal GDP	GDP per Capita	Total Exports	Total Imports	Total Trade	Total FDI Inflows
	in thousands	in US\$ million	in US\$	in US\$ million	in US\$ million	in US\$ million	in US\$ million
Brunei	406.2	16,117.5	39,678.7	11,445.4	3,611.8	15,057.2	908.4
Cambodia	14,962.6	15,511.1	1,036.7	9,148.2	9,176.0	18,324.2	1,274.9
Indonesia	248,818.1	860,849.5	3,459.8	182,551.8	186,628.7	369,180.5	18,443.8
Lao PDR	6,644.0	10,283.2	1,547.7	2,592.8	3,292.0	5,884.9	426.7
Malaysia	29,948.0	312,071.6	10,420.5	228,331.3	205,897.4	434,288.7	12,297.4
Myanmar	61,568.0	54,661.2	887.8	11,436.3	12,009.1	23,445.4	2,620.9
Philippines	99,384.5	269,024.0	2,706.9	53,978.3	65,130.6	119,108.9	3,859.8
Singapore	5,399.2	279,941.3	55,182.5	410,249.7	373,015.8	783,265.5	60,644.9
Thailand	68,251.0	387,573.8	5,678.7	228,730.2	249,517.1	478,247.3	12,999.8
Viet Nam	89,708.9	171,219.3	1,908.6	132,664.1	132,109.9	264,774.0	8,900.0
ASEAN	625,090.5	2,395,252.5	3,831.8	1,271,128.1	1,240,388.4	2,511,516.5	122,376.5

Figure 6: Comparison of ASEAN's economies. (Source: ASEAN Secretariat, 2014)

The dependency on trade as one of the country's main sources of wealth is shown by its high total foreign trade portion as a part of GDP: 262.9% in 2013.<sup>93</sup> It confirms Singapore's role as ASEAN's trading hub, with external major trade partners being China and Hong Kong.<sup>94</sup> Furthermore, in 2013, FDI inflows came for more than 90% from outside the ASEAN.<sup>95</sup> This high level of integration in the world economy makes Singapore vulnerable during times of economic crisis. Indeed, the country was hit hard by the AFC and GFC, but managed to bounce back with impressive growth rates.<sup>96</sup> With strong domestic industries and an attractive environment for foreign business and investors, Singapore has an advantageous competitive position in the region over other members and can enjoy great economic benefits through increased integration.

In contrast to Singapore, Brunei has become rich primarily by relying on oil and gas exports. After gaining independence from the UK in 1984, the Sultanate of Brunei became a sovereign country with the population size of a medium-sized city, benefitting from the wide availability of oil and gas fields. Indeed, the contribution of oil and gas to Brunei's GDP is considerably higher compared other members. The external trade balance made up the majority of the country's total income (44%). Its trade-driven economy exports oil and gas products (90% of exports), primarily to Japan and South-Korea. FDI is mostly coming from outside the ASEAN and going to oil and gas sector.<sup>97</sup> Its reliance on this sector makes protecting the oil and gas industry Brunei's main economic objective.

## 2. Upper middle-income economies: Malaysia and Thailand

Behind Singapore and Brunei, two larger countries have emerged over the years in which rapid economic development has moved them up to the World Bank's upper middle-income group. Malaysia has a rapidly growing middle class, as the country is targeting to become the next service-oriented, high-income ASEAN economy by 2020. The country was significantly hit by the AFC and the

<sup>93</sup> ASEAN Statistics (2014). Basic Indicators. Retrieved from <http://www.asean.org/news/item/selected-key-indicators> on 23-04-2015.

<sup>94</sup> ASEAN (2014). *ASEAN Community In Figures Special Edition 2014*, pp. 17-20.

<sup>95</sup> CIMB ASEAN Research Institute, op. Cit.

<sup>96</sup> CIMB ASEAN Research Institute. Ibid.

<sup>97</sup> CIMB ASEAN Research Institute. Ibid.

GFC, but has generally shown steady growth rates of around 6%, with services (50%) and manufacturing (24%) being the major contributing sectors. Within the region, Malaysia has always had a strong trade link with close neighbour and former federal territory Singapore. Outside ASEAN, China, Japan, and the EU are the biggest trading partners. Malaysia's exports largely depend on manufacturing sector, such as electrical and electronic devices.<sup>98</sup>

Whereas Malaysia has set a clear step forward in the past years, Thailand is experiencing a time of natural disasters and political unrest, which also results into an unstable economic performance. After the GFC, economic growth has been volatile due to severe flooding and a military coup. Like Malaysia, the country has a developed manufacturing sector, which traditionally constitutes a big part of GDP. Thailand is a world leader in exporting electronics and automotive products, and trades mostly with China and Japan. FDI inflows have been largely reliant on the country's political situation, with Japan being its largest foreign investor.<sup>99</sup> Its strategically beneficial location connecting the richer part of Malaysia and Singapore with the rapidly growing Myanmar, Lao and Cambodia, provides Thailand with a healthy economic outlook for the future if it manages to curtail political instability.

### 3. Lower middle-income economies: Indonesia, Philippines, Viet Nam, and Lao PDR

In the lower middle-income group, agriculture starts to become a more important sector in the countries' economies, and industrial competence becomes weaker. Indonesia is one of the leading emerging economies in the world, and the largest in Southeast Asia in terms of nominal GDP, but structural economic problems such as weak financial institutions, red-tape bureaucracy and inefficient government, and corruption have hampered growth.<sup>100</sup> Agriculture is still an important contributor to GDP, but as manufacturing is currently the most popular sector FDI, it is expected that the latter sector will grow larger in the near future. Furthermore, Japan is Indonesia's most important trading partner, followed by China.<sup>101</sup> SOEs play an important role in the national economy, especially in financial services, oil and gas, telecommunications and transportation. The country was hit hardest by the AFC in 1997, revealing its structural economic weaknesses under the crony capitalism-era of former leader Suharto.<sup>102</sup> Indonesia has the economic potential to become regional leader, but many challenges, such as weak domestic industries, corruption, and a lack of infrastructure, remain.

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<sup>98</sup> CIMB ASEAN Research Institute. Ibid.

<sup>99</sup> CIMB ASEAN Research Institute. Ibid.

<sup>100</sup> Radelet, S., & Sachs, J. (1998). *The onset of the East Asian financial crisis*. National bureau of economic research, pp. 21-23.

<sup>101</sup> CIMB ASEAN Research Institute, op. Cit.

<sup>102</sup> Radelet, op. Cit., pp. 21-23.

The Philippines is one of the weaker economies of the original ASEAN-5, but has been one of ASEANs faster growing economies, with GDP growth rates between 6-8% in the last years. The country mainly trades in manufacturing goods, and has one of lowest dependencies on or intra-ASEAN trade and investment due to strong trade links with Japan and the US.<sup>103</sup>

Viet Nam is the biggest economy of the more agriculture-oriented CLMV members in terms of nominal GDP and GDP per capita. In the past years, GDP growth has generally fluctuated between 5-7%. Trade with world economy has quadrupled between 2005 and 2013. Exports are mainly directed to the US and EU, while imports were largely coming from China. Manufacturing and agriculture account for the largest part of exports. The country has the lowest share of intra-ASEAN trade, while FDI inflows are also largely coming from outside ASEAN.<sup>104</sup>

Lao only recently made it into the World Bank's low-middle income group, mainly due to strong exports and large infrastructure projects that have doubled the country's GDP from 2008 to 2013, as shown in domestic investments making up a high proportion of GDP in 2013. The country remains to be a largely agricultural society and is the only landlocked country in ASEAN, which made the country relatively isolated to world trade in economic terms. As an advantage, Lao is less vulnerable to global crises, as shown by its growth of around 7.5% during the GFC. The country has the highest intra-ASEAN trade share (63%), while the only significant external trade partner is northern neighbour China.<sup>105</sup>

#### 4. Low-income economies: Cambodia and Myanmar

Shortly behind Lao, two ASEAN economies fall into World Bank's lowest category in terms of GDP per capita. Cambodia is one of these resource-based societies, in which agriculture remains a significant contributor to the national GDP. The country was hit hard by the GFC, since its exports are mainly directed to the EU and the US.<sup>106</sup> The least wealthy ASEAN economy in terms of GDP per capita is Myanmar, which has transformed itself since 2011 to a more democratic nation with liberal economic policies, such as the introduction of the revised Foreign Investment Law in 2012.<sup>107</sup> This has led to becoming opened up to world economy, after sanctions from the West have been gradually reduced. However, Myanmar's political situation remains to be unstable and is adding to economic uncertainty. Historically, the nation has been economically isolated due to weak industries and infrastructure<sup>108</sup>, but its strategic location through which the country shares borders with both

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<sup>103</sup> CIMB ASEAN Research Institute, op. Cit.

<sup>104</sup> CIMB ASEAN Research Institute. Ibid.

<sup>105</sup> CIMB ASEAN Research Institute. Ibid.

<sup>106</sup> CIMB ASEAN Research Institute. Ibid.

<sup>107</sup> Umezaki, op. Cit., p. 303.

<sup>108</sup> Umezaki. Ibid, p. 317.

India and China offers opportunities. Currently, Myanmar has started a number of infrastructural initiatives, as country seeks to end the civil war between ethnic minorities.<sup>109</sup>

Based on these findings, it is apparent that the ASEAN members are vastly different in terms of their economic size, development level, and focus areas. Wealth is created in different ways, causing different economic interests and different perceptions of the potential gains of integration, particularly between the more and lesser developed countries. Indeed, when a look is taken at the members' levels of wealth in terms of GDP per capita, one can conclude that economic development has not been truly equitable for all. A so-called 'development gap' exists between ASEAN-6 and CLMV, which divides the ASEAN members into two groups in terms of a number of factors. This gap plays a significant role in explaining ASEAN's relatively slow integration process, and is a possible factor to underpin the process in the near future.

### 4.3. The Development Gap

According to Alavi and Ramadan (2008), development gaps arise when there are differences in development levels between regions, countries, and districts. It comprises both social disparities and unequal economic development, and is generally measured by assessing the differences in GDP per capita and Human Development Index (HDI) levels. Besides the major differences between (and within) the ASEAN countries themselves (as was shown in figure 6, Singapore's GDP per capita was almost 70 times that of Myanmar in 2013), the ASEAN Development Gap is most commonly referred to as the gap in GDP per capita levels between the ASEAN-6 and CLMV.<sup>110</sup> Overall, although the differences in GDP per capita between ASEAN-6 and CLMV have been slightly reduced and narrowing down the development divide, the CLMV remain to be lower developed economies with lesser industrial competence than the ASEAN-6.

The gap is a problem as it hampers the integration process both in depth and speed.<sup>111</sup> Many of the agreements signed after the accession of the CLMV imposed less restrictive requirements on the four newer members, or granted them time extension, such as with the reduction of tariffs in the AFTA<sup>112</sup> and the elimination of import duties and NTBs in the AEC.<sup>113</sup> In explaining these developments, Uzemaki (2012) claims that CLMV's important domestic industries, such as financial institutions, have never experienced foreign competition due to their long-term limited inclusion in

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<sup>109</sup> Umezaki. Ibid, p. 321.

<sup>110</sup> Alavi, R., & Ramadan, A. (2008). Narrowing development gaps in ASEAN. *Journal of Economic Cooperation*, 29(1), p. 31.

<sup>111</sup> Wu, D. (2013). Rethinking the Development Gap: ASEAN's Inclusive Growth Imperative. Retrieved from <http://thediplomat.com/2013/05/rethinking-the-development-gap-aseans-inclusive-growth-imperative/> on 07-04-2015.

<sup>112</sup> Cockerham, op. Cit., p. 174.

<sup>113</sup> ASEAN (2007), op. Cit., p. 3.

world trade and are therefore afraid to collapse once these countries liberalize their economic structure. Furthermore, certain legal frameworks are absent or ineffective. Myanmar adopted a revised Foreign Investment Law in 2012 and faces many issues in revising it to meet the requirements of the AEC, even though it was granted exceptions.<sup>114</sup> In addition, Cockerham (2010) claims that implementing more liberalized measures would harm the interests of its elitist groups, which control the SOE's, and thus national interests.<sup>115</sup> Therefore, these groups are consciously hampering the speed and depth of integration process.

Although a wide range of initiatives from the AEC, mostly regarding services liberalization and customs modernization, have already been implemented, around 50 to 60% of the initiatives remain pending according to estimations from market researchers Frost & Sullivan.<sup>116</sup> As some countries have already indicated not to be able to meet certain deadlines of the AEC, the members, in line with the ASEAN Way of decision-making, have agreed upon a 'customized' integration process, in which the ASEAN-6 members are required to meet the deadlines before the end of 2015, while the CLMV have a few years extra.<sup>117</sup> This is in line with the so-called ASEAN-X formula, which has been used in ASEAN decision-making to allow members that are ready to liberalize can go ahead to do so, while others are given more time.<sup>118</sup>

The primary issues in CLMV's implementation of the AEC appear in trade facilitation (e.g. customs clearance, missing transportation links)<sup>119</sup>, liberalization in services trade and investment (e.g. underdeveloped and inefficient financial markets, fear that liberalization and increased competition from foreign banks destroys domestic financial markets)<sup>120</sup>, and regulations regarding investment (e.g. ineffective or inexistence of FDI laws).<sup>121</sup> In general, the limitations in capacity of the CLMV in terms of finances, technology, institutions, infrastructure and human resources create different perceptions on the potential opportunities of increased integration within the ASEAN compared to other members.<sup>122</sup>

Therefore, further integration is not without its risks. Indeed, Wu (2013) argues that in case the policies under the AEC deliver an unequal distribution of opportunities, the development gap becomes wider and perceptions of unequal access to gains "could undermine regional solidarity and

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<sup>114</sup> Umezaki, op. Cit., pp. 313-314.

<sup>115</sup> Cockerham, op. Cit., p. 325.

<sup>116</sup> Frost & Sullivan, op. Cit.

<sup>117</sup> ASEAN (2007), op Cit., p. 3.

<sup>118</sup> Umezaki, op. Cit., p. 312.

<sup>119</sup> Frost & Sullivan, op. Cit.

<sup>120</sup> EUMCCI (2015). Presented at the Trade and Investment Forum Panel Discussion in Kuala Lumpur, Malaysia, on April 16<sup>th</sup> 2015.

<sup>121</sup> Umezaki, op. Cit., p. 314.

<sup>122</sup> Umezaki. Ibid., p. 325.



create misguided perceptions of both political and economic opportunity costs to further ASEAN cooperation.”<sup>123</sup> To overcome the major challenges towards regional economic integration, ASEAN first has to overcome a major challenge within. As the more developed members are pushing their companies to achieve economies of scale, attract foreign investment and strengthen their competitive advantages the risk of an unequal distribution of opportunities awaits, as some countries are higher up the value chain than others.<sup>124</sup>

Thus, the development gap has a limiting effect on the speed and depth of the integration process, and holds a potential threat to meet AEC’s goal of achieving equitable economic development. The question remains what the effects of the members’ economic differences, not only between the ASEAN-6 and CLMV, but also between each country separately, have had on the integration process up to now, and will be in the future. It seems obvious that in some member economies, certain important sectors are more competitive than sectors in other member countries, with more to gain by liberalization, some have to protect weak industries against flow of cheap products and large international MNEs. Since a strong, central institution with a long history of integration (like in the EU, where the lesser developed Eastern European economies joined in the nineties and beginning of the 21<sup>st</sup> century, while the EU had been a customs union since 1957) is lacking, a look has to be taken at the level of economic interdependence of the ASEAN members, both within the region and with its major external trade and investment partners to see how these factors affect the integration process.

#### **4.4. Economic Interdependence within ASEAN**

According to many mainstream IR theories, increased economic interdependence is a main driver for integration, and cooperation in general. Indeed, Liberalists argue that states prefer to satisfy their economic interests through cooperation in a positive sum game in which collective benefits are possible. Economic interdependence became increasingly important for wealth maximization as markets became more and more liberalized and barriers to trade were reduced. Neofunctionalism argues that growing level of interdependence led to an inevitable process of integration (the ‘logic of integration’) as a result of spill-over effects. Intergovernmentalism sees governmental preferences that arise from increased interdependence as the key factors in the integration process, as they are able to enforce integration during times of converging governmental interests and inhibit integration during times of divergence of interests. Pressures coming from the external environment would pressure members to diverse responses, which would provoke disintegrative forces. In short, these theories imply the primary role of economic factors in ASEAN integration.

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<sup>123</sup> Wu, op. Cit.

<sup>124</sup> Frost & Sullivan, op. Cit.

In certain aspects, members have shown dedication to increase intra-ASEAN interdependence since the early nineties. For example, an extensive FTA network has been set up between the members, through which intra-ASEAN import tariffs, have been reduced in the last decade through the Common Effective Preferential Tariff (CEPT) scheme for the AFTA. Figure 7 shows that since 2003, shortly after the implementation of the AFTA, average tariff rates on intra-ASEAN trade has gradually been reduced, and progress has been made in reducing the tariffs to zero in a number of agreed commodities.<sup>125</sup> However, when the level of interdependence in terms of intra-regional trade and investment is analysed over the last two decades, it can be concluded that, despite the member's geographical proximity, interdependence has only marginally increased, and remains to be regionally limited in comparison to other regional trade blocs (figure 8). At the same time, the FTA's within the ASEAN are considered uncomprehensive and vague in content by ASEAN businesses in many sectors.<sup>126</sup>

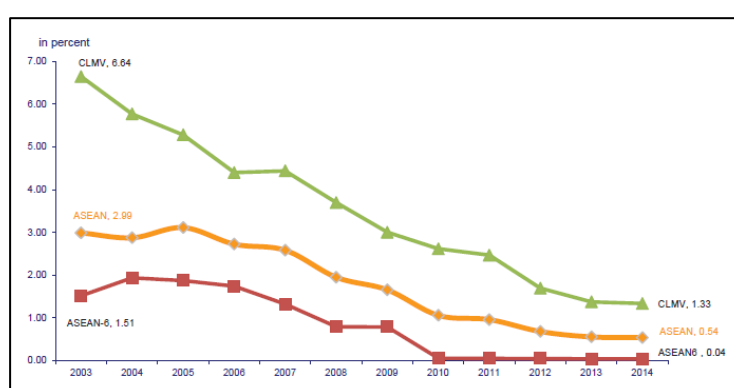


Figure 7: Tariff rates on intra-ASEAN trade.  
(Source: ASEAN Chartbook in Figures 2014)

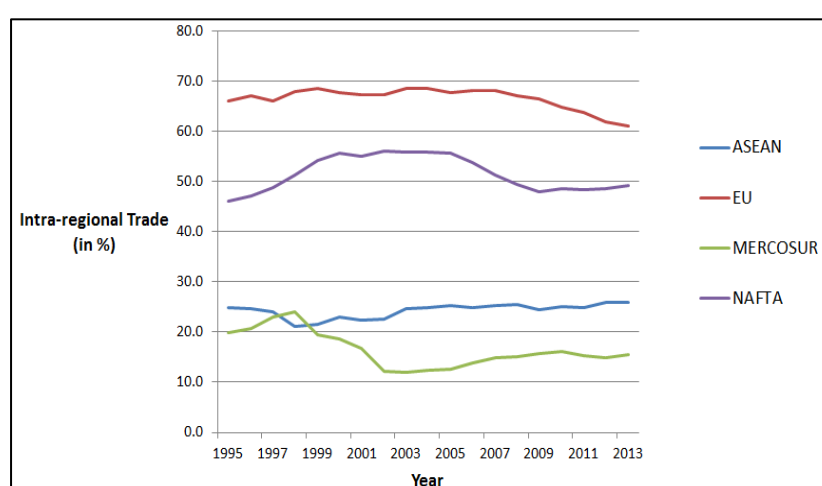


Figure 8: Intra-regional trade within ASEAN members compared to other trade blocs between 1995 and 2013, in percentage. (Source: UNCTAD, 2015)

<sup>125</sup> ASEAN (2014). ASEAN Economic Community Chartbook 2014, p. 15.

<sup>126</sup> Frost & Sullivan, op. Cit.

In attempts to explain why intra-ASEAN trade links remained to be relatively weak, scholars have come up with a few reasons. According to Kim (2011), the ASEAN members do not share a long and extensive history of heavy intra-regional trade, especially compared to the EU. Instead, as an outflow of their colonial ties, they maintained traditionally strong trade and investment ties with developed countries in the West.<sup>127</sup> Indeed, data figure 8 shows that intra-regional trade since 1995 did never add up to more than 26% of the region's total trade. With the exception of Singapore, most exports were related to low-value products, especially in CLMV.<sup>128</sup> Even after the AFTA, intra-ASEAN trade remains fairly limited and is exceeded by extra-ASEAN trade for about three times,<sup>129</sup> with the Malaysia – Singapore link remaining to be the only one of significance.<sup>130</sup> Indeed, figure 9 shows that, with the exception of Lao, all member states trade more with the rest of the world than within themselves.

A second reason for the limited levels of intra-ASEAN trade that has been playing for a long time is the members' concerns about regional competitiveness, resulting in national protectionism.<sup>131</sup> According to Chia (2013), ASEAN's similar production and export structures initially had a hampering effect on the region's integration process. Intra-ASEAN trade has been limited by the fact that its members were for a long time exporting similar natural resources products. They competed with each other for exports with the developed countries. Although economic complementarity has been growing in the last two decades due to globalization and a growth in intra-industrial trade of

Member	Intra-ASEAN Trade		Extra-ASEAN Trade	
	in US\$ million	in % of national trade	in US\$ million	in % of national trade
Brunei	4,488.0	29.8	10,569.2	70.2
Cambodia	4,119.1	22.5	14,205.0	77.5
Indonesia	94,661.8	25.6	274,518.7	74.4
Lao DPR	3,729.3	63.4	2,155.6	36.6
Malaysia	119,032.2	27.4	315,196.5	72.6
Myanmar	9,869.0	42.1	13,576.5	57.9
Philippines	22,786.2	19.1	96,322.7	80.9
Singapore	206,672.3	26.4	576,593.2	73.6
Thailand	103,668.6	21.7	374,578.7	78.3
Viet Nam	39,531.9	14.9	225,242.1	85.1
<b>ASEAN</b>	<b>608,558.3</b>	<b>24.2</b>	<b>1,902,958.2</b>	<b>75.8</b>

Figure 9: Intra- and extra-ASEAN trade in 2013. (Source: ASEAN Secretariat, 2014)

<sup>127</sup> Kim, op. Cit., p. 418.

<sup>128</sup> Chia, op. Cit., p. 6.

<sup>129</sup> Kim, op. Cit., p. 418.

<sup>130</sup> Potts, M. (2015). ASEAN Is Not a Security Community (Yet). Retrieved from <http://thediomat.com/2015/03/asean-is-not-a-security-community-yet/> on 11-04-2015.

<sup>131</sup> Frost & Sullivan, op. Cit.

components and parts in the manufacturing industry<sup>132</sup>, fears for the negative impacts of foreign competition remain.

These fears are visible in the methods of protectionism that have been used. Especially in the manufacturing sector, which has become a big driver of economic growth, countries want to protect their domestic industries.<sup>133</sup> The vast differences in economic structures between countries and the development gap, create diverging economic interests and perceptions of costs and benefits of integration.<sup>134</sup> There is a significant difference in external tariff rates for non-members, ranging from 0.1% for Singapore to 43.2% in Thailand, which, according to Kim (2011), can be explained by the fear of some members that reduced external tariff rates might hurt domestic competitiveness. Indonesia, for example, is afraid that lower external tariffs lead to the influx of cheap regional products. Due to their different levels of economic development, the lesser developed members fear that that opening up their markets will wipe out their own domestic industries, which have lower industrial competence as they are economically less competent and unexperienced with foreign competition and regional coordinating institutions.<sup>135</sup>

Therefore, there are no signs of ASEAN moving towards a customs union. According to Frost & Sullivan, dominant rent-seekers are indeed a main challenge to integration, as large SOEs and politically linked private businesses strongly pressured for protection from their government (which is most commonly seen in Philippines, Indonesia, Thailand, and Viet Nam). At the same time, governments tend to focus on domestic short-term interests while fearing increased unemployment from wiped out industries, which might possibly harm the popularity of their regimes.<sup>136</sup> Furthermore, tariffs are a major source of income for certain members, such as Cambodia.<sup>137</sup> Hence, protectionism still occurs, for example in Indonesia's sugar industry, Viet Nam's import duties on iron ore, and Malaysia's export subsidies.<sup>138</sup>

As such, since members are pressured to reduce or eliminate tariff barriers, a second protectionist strategy is often used in the form of non-trade barriers (NTBs), which include import quotas, anti-dumping mechanisms, and strict quality regulations. Where tariff barrier are easy to measure and eliminate, progress to reduce NTBs has been slow and complicated.<sup>139</sup> Indeed, the mechanisms to

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<sup>132</sup> Chia, op. Cit., p. 6.

<sup>133</sup> Wignaraja, G. (2013). "Indonesia: faltering growth and a hint of protectionism?" Retrieved from <http://www.eastasiaforum.org/2013/02/27/indonesia-faltering-growth-and-a-hint-of-protectionism/>.

<sup>134</sup> Chia, op. Cit., p. 6.

<sup>135</sup> Kim, op. Cit., p. 424.

<sup>136</sup> Frost & Sullivan, op. Cit.

<sup>137</sup> Kim, op. Cit., p. 424.

<sup>138</sup> Frost & Sullivan, op. Cit.

<sup>139</sup> Chia, op. Cit., pp. 14-15.

check to progress of the elimination of trade barriers seem to be absent, or are not transparent for the general public. The progress is monitored by national governments, without any accountability.<sup>140</sup> According to estimations by Frost & Sullivan, only 50 to 60 percent of the measures have been completed for the free flow of goods, services and investment at the start of 2015, less than a year before the AEC. The deadline for eliminating NTB's for all members is set for 2018, as competition policies and consumer protection are amongst the key methods that are being developed at the moment.<sup>141</sup>

An example of a sector in which competition is tough and differences in potential gains between members is huge, is the financial services sector. Whereas Singapore and Malaysia have stronger financial institutions, which would benefit more of services liberalization across ASEAN, other members, such as Indonesia and CLMV, are afraid that opening up their fragmented banking sector would weaken their smaller, domestic banks.<sup>142</sup> For example, ASEAN's biggest bank DBS (based in Singapore) holds more assets than Philippines' total banking sector altogether.<sup>143</sup> Other forms of protectionism have been identified in important sectors such as aviation and agriculture.<sup>144</sup> By using legal methods, for example in foreign ownership regulations, domestic sectors are protected from competition.<sup>145</sup> Hence, the hurdles to implement the ASEAN Blueprint are significantly lower for a country like Singapore than for Myanmar, as the scope of necessary reforms for Singapore is smaller and institutions which are helpful in designing effective policy measures are stronger.<sup>146</sup>

The low degree of interdependence between the ASEAN members also creates complications when trying to apply institutionalism of European integration on ASEAN. Kim (2014) argues that, in contrast to Europe where the growing share of intra-regional economic interdependence created a higher demand for a legislative supranational body, the demand for a stronger role in the economic decision-making process of an ASEAN institution to handle increased economic interdependence has been low. Thus, this assumption of Neofunctionalism does as of yet not hold for ASEAN integration. As will be discussed in later sections, decision-making on major economic issues has up to now primarily been made in an intergovernmental structure.<sup>147</sup>

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<sup>140</sup> Frost & Sullivan, op. Cit.

<sup>141</sup> Frost & Sullivan. Ibid.

<sup>142</sup> Free Malaysia Today (2013). "Protectionism a stumbling bloc." Retrieved from <http://www.freemalaysiatoday.com/category/business/2013/11/29/asean-%E2%80%98protectionism-a-stumbling-block%E2%80%99/> on 17-03-2015.

<sup>143</sup> Frost & Sullivan, op. Cit.

<sup>144</sup> Frost & Sullivan, Ibid.

<sup>145</sup> Free Malaysia Today (2013), op. Cit.

<sup>146</sup> Umezaki, op. Cit., p. 325.

<sup>147</sup> Kim, op. Cit., p. 381.

Furthermore, integration without a high degree of interdependence generates discussion on the significance of spill-over effects in the process. According to Bulut (2012), several pushes can be identified in recent years that make the influence of spill-overs more apparent. As one of the examples, he mentions the ASEAN Single Window to facilitate cross-border trade as one of the initiatives that proves that the spill-over effects are in progress.<sup>148</sup> However, Kim (2014) claims that although many agreements have been signed and initiatives have been taken up within the ASEAN framework that appear to indicate spill-overs in certain sectors, these efforts have up to now not led to integration into another technically related sector or a growing need to turn ASEAN into a customs union.<sup>149</sup> This is also in line with Cockerham's (2010) argument that although many agreements have been signed within the ASEAN framework, they tend to be limited to technical areas, with low levels of transparency and delegation.<sup>150</sup> They indicate that in contrast to the Neofunctionalist logic of integration, technical spill-over have not (yet) moved up to political spill-overs.<sup>151</sup> Therefore, Kim (2014) argues that the Neofunctionalist assumption that economics drives politics seems to have severe limitations in ASEAN integration. Indeed, efforts to stimulate ASEAN integration through the AFTA and AEC appear to primarily result from political forces, such as the end of the Cold War, the rise of regionalism in other parts of the world, and the AFC.<sup>152</sup>

Thus, according to Kim (2014), these developments show that the low level of interdependence between ASEAN members with diverse economic interests creates less need on speeding up a deeper integration process. The degree of intra-regional interdependence, he claims, is not significant enough (yet) to be a main driver in the process.<sup>153</sup> Furthermore, he argues that the low degree of intra-ASEAN trade explains limited role of institution. According to Kim (2011), members will favour a deeper form of integration in case this degree is high, as it will require more common rules and harmonization of policies in order to regulate the increasing amount of intra-regional economic transactions.<sup>154</sup> As this is not the case yet, the role of ASEAN as an institution in facilitating intra-ASEAN economic interdependence has been kept minimal.<sup>155</sup>

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<sup>148</sup> Bulut, op. Cit., p. 59.

<sup>149</sup> Kim, op. Cit., p. 382.

<sup>150</sup> Cockerham, op. Cit., p. 165.

<sup>151</sup> Cockerham, op. Cit., p. 165 and Kim, op. Cit., p. 382.

<sup>152</sup> Kim, op. Cit., pp. 381-382.

<sup>153</sup> Kim. Ibid, p. 384 .

<sup>154</sup> Kim, op Cit., p. 415.

<sup>155</sup> Kim, op Cit., p. 387.

#### 4.5. Interdependence with the Global Economy

Despite the moves towards the AFTA and the AEC, ASEAN states (with the exception of Lao) thus continue to trade more with the rest of the world than with themselves. Ever since Southeast Asia's former colonies became independent, national trade links with major external trade partners, such as the US, Europe, Japan and later China, remained to be important to the ASEAN states. This does not necessarily imply a negative trend: in fact, one of AEC's four pillars is to further integrate ASEAN in the global economy.<sup>156</sup>

Therefore, Bulut (2012) argues that steps in ASEAN's integration process, such as the AFTA and the decision at the Bali Concord II to create an ASEAN Community with a single market by 2020, and move towards deeper and wider integration to create a stable, competitive and prosperous region, cannot be explained without taking the rapid developments in the external environment into account. One of these external factors, he claims, are the rising pressures from globalization to create global production networks, which has increased interaction between countries all over the world, and is stimulated by institutions such as the World Trade Organization (WTO).<sup>157</sup> Secondly, the AFC had a crushing impact on many ASEAN economies, in particular Thailand and Indonesia. Cockerham (2010) argues that as ASEAN proved to be very ineffective and slow to react, its main response to the crisis was to initiate a change in policy that would protect them to shocks coming from the external environment by strengthening the economic cooperation within the region and accelerate the implementation of the AFTA and AIA to facilitate faster economic recovery.<sup>158</sup> Thirdly, the rise of China in the last decades as a powerful economic neighbour through increased production and exports has increased competition for foreign investments. Furthermore, the country has positioned itself in some countries as one of the most important trading partners, overtaking the EU, Japan and US, while India will emerge as another economic power in the future. The number of reactive agreements and declarations that have been signed after these developments in the external environment, provide a clear argument that these externalities have had significantly pushed ASEAN economic integration forward.

Indeed, ASEAN members have since then followed a strategy of 'open regionalism', participating in a number of regional organizations and actively engaging in the Asian region, initially in the APEC (which includes all members except Myanmar, Lao and Cambodia) and later in the APT with the ASEAN+3. Nowadays, ASEAN has established FTAs with its most important trade partners, the ASEAN+6: China, Japan, South Korea, India, Australia, and New Zealand. Furthermore, Singapore has concluded an FTA with the EU in 2014, and other individual members (Viet Nam, Thailand and

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<sup>156</sup> ASEAN (2007), op. Cit., p. 5.

<sup>157</sup> Bulut, op. Cit., p. 56.

<sup>158</sup> Cockerham, op. Cit, p. 175.

Malaysia) are still in the negotiation process. Eventually, the EU hopes to conclude a region-to-regional agreement in the upcoming years.<sup>159</sup> The US and Russia were recently admitted into the East Asian Summit (EAS), which further consists of the ASEAN+6. For future, four members (Singapore, Malaysia, Brunei and Viet Nam) have started negotiations on the Trans-Pacific Partnership (TPP).

According to Nesadurai (2003), a region's main driver for open regionalism is to ensure economic growth through wealth creating activities on a global level. The term can be interpreted in two ways. From an economic liberalist perspective, open regionalism aims to strengthen the competitive position of businesses in global competition. From an economic realist perspective, however, it is the goal of open regionalism to attract higher levels of FDI for wealth-creation in the midst of competition of other regions for it.<sup>160</sup> In the case of ASEAN, it seems clear that the latter viewpoint has been a stronger force in its regionalism, as FDI has always been a main contributor to the rapid economic growth of the members, and has been threatened by the rising attractiveness of China as a destination for FDI. At the same time, the wide use of protectionism in most member states indicates that domestic businesses are more concerned with maintaining their position in the domestic markets once they are open to stronger players from foreign competition.

Thus, in addition to the national interests, economic integration in Southeast Asia has primarily been driven by global, rather than regional, market forces.<sup>161</sup> Trade links with the West and Japan have always been strong due to trade in complementary products. While the ASEAN members initially exported natural resources and later low-cost manufacturing products and components, high-value technologies, such as heavy machinery, were imported from the more developed countries.<sup>162</sup> As globalization created international production networks, most ASEAN members positioned themselves as the ideal location for low-cost manufacturing, creating competition both between themselves and with China.<sup>163</sup> In recent years, however, trade with China has grown rapidly, due to China's thirst for resources, increased consumption levels, and its massive population.<sup>164</sup> The growing economic presence of China in Southeast Asia (figures 10 and 11), along with the interest of

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<sup>159</sup> EU Commission (n.d.). Retrieved from <http://ec.europa.eu/trade/policy/countries-and-regions/regions/asean/> on 22-05-2015.

<sup>160</sup> Nesadurai, H. E. (2003). Attempting developmental regionalism through AFTA: the domestic sources of regional governance. *Third world quarterly*, 24(2), p. 239.

<sup>161</sup> Ravenhill, J. (2010). The 'new East Asian regionalism': A political domino effect. *Review of International Political Economy*, 17(2), p. 181.

<sup>162</sup> Gugler, P., & Chaisse, J. (Eds.). (2010). Competitiveness of the ASEAN countries: Corporate and regulatory drivers. Edward Elgar Publishing. p. 198-199

<sup>163</sup> Chia, op. Cit., p. 6.

<sup>164</sup> The Economist. (2014) Retrieved from <http://www.economist.com/news/special-report/21631799-asia-has-built-web-economic-interdependence-which-china-would-be-ill-advised> on 12-05-2015.



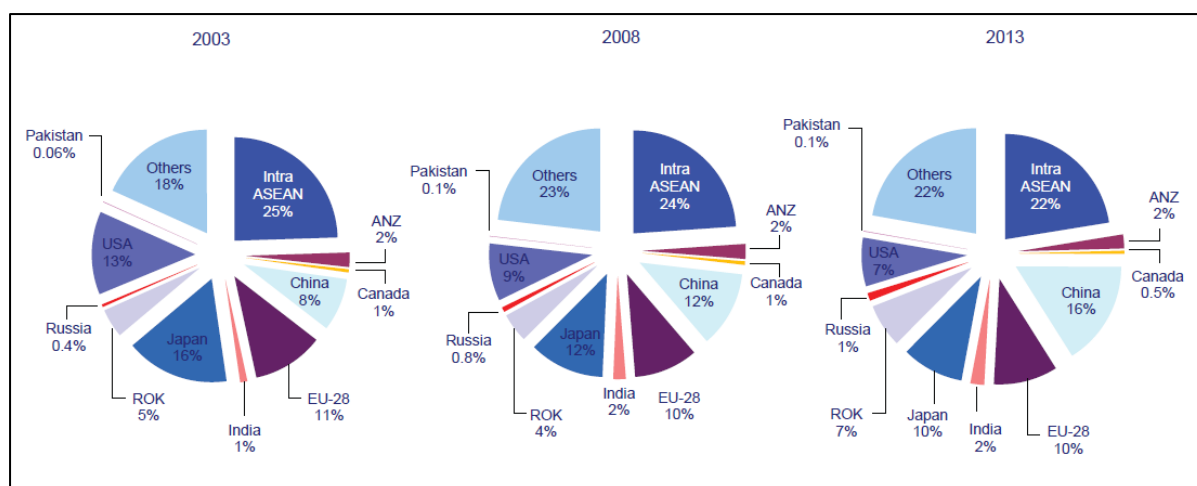


Figure 10: ASEAN's major import partners. (Source: ASEAN Community Chartbook 2014)

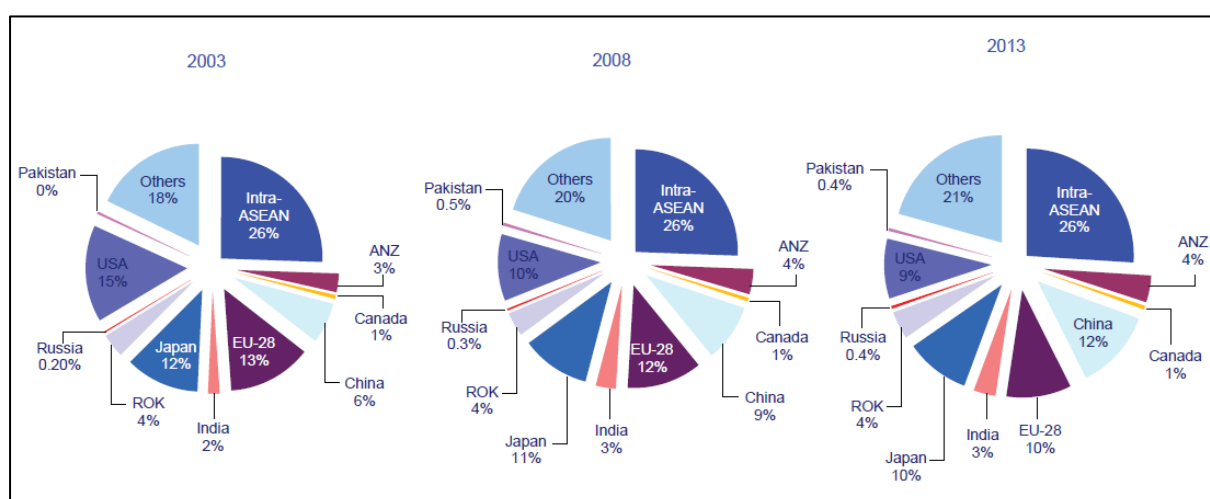


Fig. 11: ASEAN's major export partners. (Source: ASEAN Community Chartbook 2014)

Japan in low-cost manufacturing in the region<sup>165</sup> and the emergence of India as a powerful economic player in the future, are likely to keep ASEAN's outward-looking for trade and investment, which in turn will keep intra-ASEAN trade low.

#### 4.6. ASEAN Economic Integration and Theory

Based on these findings, a number of conclusions can be drawn in relation to theories of integration. Firstly, ASEAN is characterized by rapid economic growth, and there is no doubt that wealth has been created. However, economic development has not been equitable for all, leading to a high level of diversity between its members, especially in the development gap, which results into a difference in economic interests. Secondly, it seems that economic interests have become increasingly more important in driving ASEAN integration since the early 1990s, due to developments in the region's external environment. Thirdly, efforts to deepen economic integration

<sup>165</sup> Keck, Z. (2013). "The Battle for influence in Southeast Asia." Retrieved from <http://thediplomat.com/2013/10/the-battle-for-influence-in-southeast-asia/> on 12-05-2015.

through a number of agreements have been made primarily on an intergovernmental level between leaders of the state and economic ministers, while keeping the decision-making power of regional institutions limited. Fourthly, intra-regional interdependence has increased in terms of a reduction in tariff barriers and through a number of agreements, but intra-ASEAN trade remains to constitute only a limited share of the region's total trade value. Instead, for most members, trade links with external partners (China and Japan in particular) remains to be strongest. Finally, protectionism remains to be a strategy which is still used in certain sectors to protect important domestic industries.

These findings confirm the limited extend of the discussed theories to explain ASEAN integration. In accordance to liberalism, strong economic growth and has been realized for all members in a cooperative environment. However, growth mostly created through relations with extra-ASEAN partners, instead of building on intra-ASEAN interdependency. Furthermore, the effect of trade liberalization through FTA agreements has not significantly increased intra-ASEAN trade and investments flows, but instead created wealth by strengthening ASEAN's competitive position in the world economy for extra-ASEAN trade and investment. At the same time, the decision-making process appears to be driven by governments and there is no existence of any transnational interest groups that stimulate the process.

Realism's assumption that ASEAN formed a regional bloc to resists external pressures from environment, such as crises and growing power from China, Japan, emerging India, seems to be more relevant to ASEAN. Moreover, although a positive sum game is created in ASEAN in the form of rapid economic growth for all members, states have purposely slowed down integration, most visibly through protectionism to protect local businesses in domestic industries. Furthermore, up to now, the role of institutions remain marginal compared to state governments, although the ASEAN Charter has given the Secretariat a stronger legal basis to operate. However, in contrast to Realist assumptions, interests of states have not been static but instead shifted from a more geostrategic perspective to economics throughout the decades.

Neofunctionalism argues that a community is created to reap full economic benefits of integration and facilitate 'snowball'-effect with a new supranational centre to defend region's interests. For ASEAN, the first part of the argument seems true. The ASEAN Community was created to increase economic benefits, which would probably not have been created if the members would have acted alone. However, developments in ASEAN seem to reject the latter side of the argument. Arguments have been signed that would indicate spill-overs, but they only apply to technical areas in low

political fields. Moreover, up to now, ASEAN rejects the assumption that a supranational centre has played an important role in the process.

Instead, decision-making on economic issues has been more in line with Intergovernmentalist's assumptions that the integration process can be accelerated or slowed down, depending on converging and diverging interests of politicians. Also, all decisions regarding economic integration are made on intergovernmental level, indicating that domestic politics are an important factor in the process. However, Intergovernmentalism also has its shortcomings in being a theory of ASEAN integration. Like Neofunctionalism, Intergovernmentalism is a theory based on the assumption that integration was largely driven by economics instead of politics. This appears to not be the case in ASEAN, where many examples of protectionism show that economic gains seem to not be the only important role in the decision-making process. Furthermore, in contrast to Intergovernmentalist theorists' claims, low levels of economic interdependence within ASEAN does suggest that interdependence seems to be the member's main motive to further drive integration.

Thus, ASEAN's integration process cannot be fully explained by the discussed integration theories on basis of the region's economic developments. Indeed, Ravenhill (2010) claims that if the argument holds that economics drive politics and would be the dominant factor in intra-regional decision making, ASEAN regionalism would be a response to increased intra-regional interdependence, collaboration between governments would focus on relationships that offer the greatest potential benefit in economic terms, and a mechanism would exist that would translate the costs of interdependence into policy outputs.<sup>166</sup> Since these assumptions are not (or only partially) the case in ASEAN, a deeper look has to be taken into the political drivers of integration.

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<sup>166</sup> Ravenhill 2009 p. 179

## 5. Security, Sovereignty and Regime Survival

There is no doubt that economic interests have played an important role in ASEAN's integration process. However, many theories and scholars seem to either overemphasize this role, or neglect the political pressures that shape the economic interests. As Kim (2011) argues, it is political interests in the form of preserving sovereignty and ensuring domestic regime survival, which often trump economic interests in shaping the path of integration chosen by the members.<sup>167</sup> Additionally, Ravenhill (2010) claims that economic factors have been less important than the use of economic instruments by the members to pursue their political goals.<sup>168</sup> This is especially true in ASEAN, which is mostly composed of developing, authoritarian states.

### 5.1. Integration and Political Development

Since the wave of independence after the Second World War, Southeast Asia has been facing domestic and external threats, not only to its economic growth, but also to its national sovereignty and regime survival.<sup>169</sup> Indeed, several countries have both experienced domestic social uprisings that have challenged national regimes, in some cases leading to the fall of long-term authoritarian rulers (such as the fall of Suharto, president of Indonesia since 1967, after the Asian Financial Crisis in 1997), and international pressures, such as the rise of Japan and China, as powerful political players in the Asian region.<sup>170</sup>

Despite these threats, ASEAN has effectively managed to maintain peace (or prevented a major war, depending on one's view) amongst its members and their neighbors ever since the Association's very founding.<sup>171</sup> However, although there has never been a real war between the members, this does not mean that there has not been political tension throughout ASEAN's history. A number of disputes that have occurred over the years which are still ongoing, such as the territorial disputes between Thailand and Cambodia and the maritime disputes in the South China Sea, which show that, in spite of the reiterated words by national leaders who re-iterate their wishes for increased collaboration in their speeches, the governments tend to be the major source of the problem towards creating regional stability and security.<sup>172</sup> Rather than solving disputes through settlement mechanisms, they have been avoided time and time again. Raj argues that although this conflict

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<sup>167</sup> Kim, op. Cit., p. 417.

<sup>168</sup> Ravenhill, op. Cit., p. 179.

<sup>169</sup> Raj, op Cit., p. 203.

<sup>170</sup> Raj. Ibid., p. 203.

<sup>171</sup> Potts, op. Cit.

<sup>172</sup> Haug, T. (2010). "ASEAN's problems with Democracy." Retrieved from <http://dailysignal.com/2010/07/28/asean%E2%80%99s-problem-with-democracy/> on 02-05-2015.

avoidance has been a good strategy to maintain a stable, peaceful region without harming trade interests, it also poses problems for future ASEAN integration.<sup>173</sup>

ASEAN was initially formed on the principle of cooperation, Raj claims, to preserve national sovereignty, non-interference in other member's domestic politics, and guarantee state survival. Seen from this perspective, ASEAN has been a success. Its original goals of creating a stable environment for nation-building and economic development, curbing the spread of communism, and limiting the influence of power-seeking Indonesia as a hegemon, have all been accomplished.<sup>174</sup> In 1976, shortly after the end of the Vietnam War and nine years after ASEAN's establishment, the member made a first move towards political cooperation by signing the Treaty of Amity and Cooperation in Southeast Asia (TAC). It was a binding agreement that served as a non-aggression pact in which the members agreed to not interfere in each other's internal affairs, renounce the use of force, and settle disputes by peaceful means. At the same time, the ASEAN Secretariat was established to provide the Association with a more organizational structure. It was composed by a Secretary-General, who was responsible for facilitating and monitoring ASEAN activities and assisted by a small staff.<sup>175</sup>

The signing of the TAC, Kim (2014) claims, fits in ASEAN initial strategy of focusing on securing regional stability in which its members could focus on their own nation-building projects during the Cold War<sup>176</sup>, while creating an attractive environment for foreign trade and investment to increase economic growth.<sup>177</sup> Although security was not named in the main part of the Bangkok Declaration, security was main factor in establishing ASEAN to act as an anti-communist coalition.<sup>178</sup> There was no political will to create a regionally integrated market, which is another difference compared to Europe, where the NATO provided security against the Soviet Union so that EU members could focus on economic integration. Such a similar, strong security institution was missing in Southeast Asia.<sup>179</sup> As economics started to become more important in ASEAN integration after the end of the Cold War, the Association made a remarkable move to allow the accession of Vietnam in 1995. Remarkable, since security against the communists in Vietnam had been the very reason for ASEAN's establishment and had determined ASEAN's integration path in the following years. Vietnam's accession was quickly followed by Lao, Myanmar and Cambodia, of which the inclusion of Myanmar

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<sup>173</sup> Raj, op Cit., p. 202.

<sup>174</sup> Raj. Ibid., p. 198.

<sup>175</sup> Cockerham, op. Cit., p. 171.

<sup>176</sup> Kim, op. Cit., p. 377.

<sup>177</sup> Potts, op. Cit.

<sup>178</sup> Cockerham, op. Cit., p. 170.

<sup>179</sup> Kim, op. Cit., p. 377.

in 1997 was controversial in particular, as it was the country with the only remaining military dictatorship in the region.<sup>180</sup>

At first sight, it seems logical that the AFTA was designed for the economic motivation of increasing competitiveness in the world economy and attracting higher amounts of foreign trade and investments. However, Nesadurai (2003) argues that although the AFTA was indeed initially designed as a response to the external pressures of globalization, the AFTA was also used to protect the interests of important politically linked business, by opting to grant market access privileges to ASEAN investors ten years earlier than non-ASEAN investors.<sup>181</sup> Although this decision was reversed later, it shows that a clear distinction was being made between domestic and foreign (non-ASEAN) businesses.

At the Bali Concord II meeting in 2003, it was decided that one of the three pillars of the ASEAN Community would, along with the AEC, be the ASEAN Political-Security Community (APSC). Aim of the APSC is to “ensure that countries in the region live at peace with one another and with the world in a just, democratic and harmonious environment” by the end of 2015.<sup>182</sup> Reviewing the ASEAN today, it can be concluded that a lot of work needs to be done to reach this goal. First of all, the political systems of the ASEAN members are, like their economic structures, very different and everything but fully just and democratic. Secondly, although the members have been able to maintain peace with each other, political tension remains which, according to Raj (2011), could lead to escalation in the future.<sup>183</sup> Lastly, the human rights crisis in Myanmar and the South China Sea disputes show that a harmonious environment has not yet been achieved.

The signing of the Charter as the Association’s constitution in 2007, which was created to facilitate ASEAN integration by providing ASEAN with a legal status and an institutional framework allowing members to coordinate in many areas of cooperation in a more rule-based environment.<sup>184</sup> It also codified ASEAN norms, rules and values, and presented clear target-setting, accountability and compliance.<sup>185</sup> In contrast to other regional integration schemes, this basic document was not created when ASEAN was established, but signed at its 40<sup>th</sup> anniversary.<sup>186</sup> Although the Charter mostly reaffirms the principles and objectives of all previous ASEAN agreements, it is a significant

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<sup>180</sup> Cockerham, op. Cit., p. 174.

<sup>181</sup> Nesadurai, op. Cit., p. 2.

<sup>182</sup> ASEAN (2007). ASEAN Political Security Community Blueprint, p. 5.

<sup>183</sup> Raj, op. Cit., p. 199.

<sup>184</sup> Kim, op. Cit., p. 378.

<sup>185</sup> ASEAN (n.d.). Retrieved from <http://www.asean.org/asean/about-asean> on 20-05-2015.

<sup>186</sup> National University of Singapore (n.d.). An introduction to ASEAN. Retrieved from <http://cil.nus.edu.sg/an-introduction-to-asean/> on 20-05-2015.

document as it will provide the ASEAN organization with a legal personality of its own, separable from its individual members.<sup>187</sup>

When ASEAN's current situation is applied to Dosenrode's stages of political integration, complications arise. The First ASEAN Summit and the establishment of the ASEAN Secretariat in 1976 indicate the move of ASEAN from ad-hoc cooperation towards a region with institutionalized, intergovernmental cooperation, in which expectations on state behavior are shaped towards creating a stable and prosperous Southeast Asian region. However, the emphasis on the principle of non-interference in domestic politics of other members in the TAC indicates that limitations on state activity are minimal. In this light, it is hard to find support that the ASEAN Charter, which reaffirms this principle, would indicate the move of ASEAN from the second to the third stage, in which state activities are synchronized in a more coordinated setting, also because the clear boundaries between the stages are vague and therefore subjective.

Thus, although one could argue that that maintaining peace in the region has been ASEAN's greatest success, the level of political integration remains low. While efforts have been made in recent years to deepen economic integration, political cohesiveness appears to be lacking as tensions remain. To determine to which extent politics influence integration and whether economics drive politics or vice versa, a deeper look needs to be taken at the differences in political structures, the ASEAN way, the role of ASEAN institutions, and the geopolitical environment.

## **5.2. A Diverse Political Landscape lacking Democracy and Pluralism**

ASEAN has always been characterized by a low level of democracy in its domestic political systems: people have been unable to articulate their interests in the regional decision-making process as their governments maintain restrictions on political and civil rights, to different extents.<sup>188</sup> At the time of ASEAN's establishment, all ASEAN-5 were ruled by authoritarian leaders. Since then, only Indonesia, Philippines, and Thailand have at one point transformed into a (weak) democracy with an electoral system. Additionally, all of the newer members are known for having authoritarian regimes which are even less open to democratic values. The low level of democracy and lack of pluralism therefore give these regimes the freedom to pursue the policy objectives that would primarily satisfy the interests of the ruling elites, which has its implications for ASEAN integration.

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<sup>187</sup> Jones, D. (2008). Security and democracy: the ASEAN charter and the dilemmas of regionalism in South-East Asia. *International Affairs*, 84(4), p. 736.

<sup>188</sup> Umar, A. (n.d.). "Making ASEAN Democratic." Retrieved from <http://asc.fisipol.ugm.ac.id/making-asean-democratic/> on 10-05-2015.

In determining the level of democracy on national level, scholars often use data from the Freedom House (figure 12).<sup>189</sup> From this data, a number of observations can be made. Firstly, the figure shows that none of the members are classified by the Freedom House as ‘free’ (which requires an average score between 1 and 2 on political and civil rights), while five members are classified as ‘not free’. Secondly, the scores in political freedom between the members is varies widely, from 2 in the more democratic Indonesia to 7 in the hard authoritarian Viet Nam and Lao. Lastly, when the average scores from 2014 are compared with the scores from 2005, it can be concluded that the level of freedom has only slightly improved in three members, while the scores of two members have declined, and the scores of five members have remained unchanged.

As of 2015, of all ASEAN members, only Indonesia and the Philippines are considered as democracies. Since the fall of Suharto’s New Order regime, which had ruled the Indonesia from 1966 to 1998, the country’s political system has become an electoral democracy. However, the country’s path towards building an effective, stable democracy has been rough. Multiparty elections are held and civil liberties have improved since 2005, but the quality of democracy is low due to the lack of adequate politicians and a culture of self-enrichment and corruption, leading to a low level of trust of society in politics.<sup>190</sup> In the Philippines, the democratic system that had been set up after the fall of former leader Ferdinand Marcos in 1986 remains fragile and tumultuous due to tensions between

Member	Freedom Status	Political Rights	Civil Rights	Change in Score (2005 average)
Indonesia	Partly Free	2	4	Improvement (3.5)
Philippines	Partly Free	3	3	Decline (2.5)
Malaysia	Partly Free	4	4	No Change
Singapore	Partly Free	4	4	No Change
Brunei	Partly Free	6	5	No Change
Thailand	Not Free	6	5	Decline (2.5)
Cambodia	Not Free	6	5	No Change
Myanmar	Not Free	6	6	Improvement (7)
Viet Nam	Not Free	7	5	Improvement (6.5)
Lao PDR	Not Free	7	6	No Change

Figure 12: Freedom in the World Ranking of ASEAN members in 2015, ranked from most to least free. (Source: Freedom House, 2015)

<sup>189</sup> The Freedom House is an independent American watchdog dedicated to the expansion of freedom around the world. The annual “Freedom around the World”-guide, is one of their flagship publications. The “Freedom around the World” Ranking 2015 evaluated the state of freedom in 195 countries and 15 territories during 2014. Each country and territory is assigned two numerical ratings—from 1 to 7—for political rights and civil liberties, with 1 representing the most free and 7 the least free. The two ratings are based on scores assigned to 25 more detailed indicators. The average of a country or territory’s political rights and civil liberties ratings determines whether it is ‘Free’, ‘Partly Free’, or ‘Not Free’. Retrieved from <https://freedomhouse.org/report/freedom-world/freedom-world-2015#.VVrxNfmqqkp> on 12-04-2015.

<sup>190</sup> Konrad Adenauer Stiftung. (2010). “A Future for Democracy”, p. 60.



Christians and Muslims, coups, and impeachments against elected leaders.<sup>191</sup> Nevertheless, these two fragile political systems have been able to sustain their democracies. The other eight members are characterized by different forms of hard and soft authoritarianism, where demand for political and civil rights from society are suppressed by the ruling elites (military elites in particular) in the form of a single-party dominance and state patronage.<sup>192</sup>

The scores of Malaysia and Singapore, the only two members who uninterruptedly enjoyed civilian rule<sup>193</sup>, in 2014 remained unchanged compared to 2005. For both countries, it seems that formal democratic institutions are able to coexist with authoritarian political practices.<sup>194</sup> In Malaysia, the long-ruling Barisan Nasional-coalition has formed a stable, two-party system.<sup>195</sup> However, according to the Freedom House, Malaysia is in a downward trend due to the increased intimidation of political opponents and introducing laws to silence critical voices.<sup>196</sup> The coalition has been amending the constitution on average, twice a year,<sup>197</sup> while suppressing opposition such as the imprisonment of long-time opposition leader Anwar Ibrahim, who was alleged of sodomy, in 2014.<sup>198</sup> Singapore, meanwhile, maintained a soft form of authoritarianism after Lee Kuan Yew, who ruled the city-state since its independence from Malaysia to 1990. Elections are a formality, since the People's Action Party faces no opposition.<sup>199</sup> Despite this form of single-party authoritarianism, Singapore ranks top of the region regarding regulatory quality, government effectiveness, rule of law and corruption control, according to the World Bank.<sup>200</sup> In addition to Singapore and Malaysia, Brunei is also considered as a strong state with good governance, despite being ruled by a Sultan in an absolute monarch, in which multi-party elections are absent.<sup>201</sup>

A few years ago, Thailand would have been categorized as a partially free, democratic country. In 2014, however, the country faced its second military coup in less than a decade, ending a shaky democratic system and resulting in a sharp decline in the Freedom House's score. The 2007 constitution was abolished last year, and severe restrictions on speech and assembly were

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<sup>191</sup> Jones, D. (2008). Security and democracy: the ASEAN charter and the dilemmas of regionalism in South-East Asia. *International Affairs*, 84(4), p. 747.

<sup>192</sup> Kim, op. Cit., pp. 380-381.

<sup>193</sup> Konrad Adenauer Stiftung, op. Cit, p. 81.

<sup>194</sup> Konrad Adenauer Stiftung, op. Cit, p. 23.

<sup>195</sup> Kurlantzick, J. (2014). "Thailand's Coup Just One Sign of Southeast Asia's Regression From Democracy". Retrieved from <http://thediplomat.com/2014/05/thailands-coup-just-one-sign-of-southeast-asias-regression-from-democracy/> on 15-05-2015.

<sup>196</sup> The Freedom House (2015). "Freedom in the World Ranking 2015", p. 11.

<sup>197</sup> Konrad Adenauer Stiftung, op. Cit, p. 82.

<sup>198</sup> The Malay Mail Online, op. Cit.

<sup>199</sup> Konrad Adenauer Stiftung, op. Cit, p. 23.

<sup>200</sup> Konrad Adenauer Stiftung. Ibid, p. 30.

<sup>201</sup> Konrad Adenauer Stiftung, Ibid, p. 62

imposed.<sup>202</sup> The lack of democracy is even more visible in the CLMV countries. In Cambodia, although the first competitive elections were held in 1993<sup>203</sup>, the People's Party has been ruling the country since 1979. As a result, state capabilities are weak and bureaucratic quality is low, according to a study by the World Bank.<sup>204</sup> In 2010, Myanmar implemented a number of political reforms which reduced the military's role in politics and allowing the main opposition party to run in the elections.<sup>205</sup> However, the State Peace and Development Council (SPDC), the country's military regime, remains to have a strong presence in politics. In 2015, the Freedom House identified restrictions on media freedom and imprisonment of journalists and reduced Myanmar's score.<sup>206</sup> The developments in Myanmar have until now not yet triggered political change in Viet Nam and Lao, who have been ruled by communist single-party governments since their independence (and unity, in the case of Viet Nam) and are known for having a lack of institutional capacity and administrative capability that keeps the likelihood of creating a stable, democratic political system.<sup>207</sup>

In general, the resistance to democracy of the ruling elites has yet to be overcome by the increased pressures for democracy that have emerged since the end of the Cold War.<sup>208</sup> The political differences and their shortage of democratic levels create problems in pursuing ASEAN's ultimate political goal to "strengthen democracy, enhance good governance and the rule of law, and to promote and protect human rights and fundamental freedoms."<sup>209</sup> Indeed, when looking at the wide variation of political systems in ASEAN, it seems that the objectives of the ASEAN Charter and ASEAN Political-Security Community to promote democracy in the region, while upholding the principle of non-interference in the domestic politics of others, are ambivalent.<sup>210</sup> Even though leaders have reiterated their 'wish' to create a people-centered ASEAN in the ASEAN Charter, the Charter makes no effort to include the participation of civil society in ASEAN's state-centered, elitist decision-making process, and was signed, ironically, during the military coupe in Thailand and the brutal crackdown against opposition of the SPDC-regime in Myanmar.<sup>211</sup>

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<sup>202</sup> The Freedom House, op. Cit., p. 11.

<sup>203</sup> Konrad Adenauer Stiftung, op. Cit, p. 20.

<sup>204</sup> Konrad Adenauer Stiftung. Ibid, p. 30.

<sup>205</sup> Keck, op. Cit.

<sup>206</sup> The Freedom House, op. Cit., p. 11.

<sup>207</sup> Konrad Adenauer Stiftung, op. Cit, p. 33.

<sup>208</sup> Kim, op Cit., p. 381.

<sup>209</sup> ASEAN Vision 2020 Statement, (1997). Retrieved from <http://www.asean.org/news/item/asean-vision-2020> on 19-04-2015.

<sup>210</sup> Jones, op Cit., p. 744.

<sup>211</sup> Jones. Ibid., p. 752.

Therefore, the different political systems in ASEAN also have implications for the assumption of pluralism. Pluralism, as defined by the Encyclopædia Britannica, is the view that “in liberal democracies, power is (or should be) dispersed among a variety of economic and ideological pressure groups and is not (or should not be) held by a single elite or group of elites.” It assumes that society will benefit from diversity of power when a wide variety of societal groups, such as trade unions, businesses, and ethnic minorities, enjoy a certain level of autonomy.<sup>212</sup> As the influence of non-governmental groups in most ASEAN members is kept little, especially in the more authoritarian governments, this implies that pluralism in ASEAN states is weak.

Indeed, Ravenhill (2010) claims that ASEAN state governments enjoy substantial autonomy from the interests of society, for example in determining foreign economic policies.<sup>213</sup> According to Kim (2011), the strong links of the governments, not only with SOE’s but also with other closely connected private businesses, shape the economic policies that these governments pursue on regional level. As the support of these clientelist business elites is critical for regime survival, particularly in the more developed ASEAN member states, governments aim to maximize these business’ interests by formulating policies such as protectionism to reduce competition in domestic industries or satisfy export interests.<sup>214</sup> In the end, both Ravenhill (2010) and Kim (2011) conclude that the policy formulation process for ASEAN integration has been a primarily state-led process, in which the influence of social actors has been very marginal. As Liberalism and Neofunctionalism emphasize the role of interest-groups and other social actors by pressuring governments for integration, these findings thus suggest that these conclusions have limitations in explaining ASEAN integration. In contrast to Europe, non-state interest groups in ASEAN are disorganized and weak compared to state governments.<sup>215</sup> Therefore, ASEAN seems to better fit to Realist and Intergovernmental theories which emphasize the role of the state governments.

### **5.3 Domestic Interests: Securing Sovereignty and Ensuring Regime Survival**

The power of the ruling elites due to low levels of democracy and weak pluralism, in combination with the region’s colonial history, make concerns regarding national sovereignty and regime survival a top priority for the ASEAN members in making decision on regional integration.<sup>216</sup> It implies that even if the expected economic gains from closer integration are high, ruling elites would often

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<sup>212</sup> Encyclopædia Britannica (n.d.). Retrieved from <http://global.britannica.com/EBchecked/topic/465174/pluralism> on 12-05-2015.

<sup>213</sup> Ravenhill, op. Cit., pp. 187-188.

<sup>214</sup> Kim, op. Cit., p. 424.

<sup>215</sup> Kim, op. Cit., p. 383.

<sup>216</sup> Kim, op. Cit., p. 416.

sacrifice them if new policies are perceived as a threat to their sovereignty.<sup>217</sup> This would provide another explanation of the use of protectionism against foreign ownership in key industries.

Concerns for the loss of sovereignty can be shown by the under-allocation of resources to the ASEAN's day-to-day coordinating body, the Secretariat, the lack of support for a dispute settlement mechanism, and the repeated affirmations of the principles of the ASEAN Way in attempts to build an ASEAN Community. These actions illustrate that instead of willing to pool their sovereignty, ASEAN members are unwilling to compromise their sovereignty for economic interests through regional integration if the interests are not critical for regime survival. According to Kim (2011), regional integration for the members is therefore seen by members as a way to secure, rather than pool, national sovereignty by gaining more economic and political power in an interdependent world.<sup>218</sup> These findings also led Cockerham (2010) to conclude that a strong concern for national sovereignty and self-interests amongst members play a main role in ASEAN's regionalism,<sup>219</sup> as can be seen in ASEAN's course of history.

The ASEAN regimes were able to maintain stability through most of the 1970s and 1980s, but were challenged during the Asian Financial Crisis, as social uproars in a number of states caused a threat the survival of long-lasting or weak political regimes. One of world's longest lasting regimes, Suharto's New Order in Indonesia, did not manage to survive the protests and collapsed. The same happened to the Chavalit government in Thailand. In Malaysia, the dominant UMNO<sup>220</sup> party of Mahathir managed to remain their regime. Many other ASEAN regimes felt threatened and therefore decided to create an economic community to avoid a similar crisis in the future that would challenge their authority. Hence, in contrast to what many thought, the AFC intensified the efforts of the governments to deepen the economic integration process by advancing the deadline for the AFTA with one year to 2002.<sup>221</sup>

Furthermore, the ASEAN governments saw the implementation of the AFTA and AEC not only as a way to strengthen their economic position with the major trade partners in the world, but also attract higher amounts of trade and investments to sustain economic growth. This would provide the regimes with the legitimacy needed to continue their policies, while maintaining stability and containing tensions from minorities.<sup>222</sup> These positive expectations about the beneficial effects of

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<sup>217</sup> Kim, *Ibid.*, p. 422.

<sup>218</sup> Kim, *Ibid.*, p. 422.

<sup>219</sup> Cockerham, *op. Cit.*, p. 166.

<sup>220</sup> United Malays National Organization, formerly known as the Malaysian Union.

<sup>221</sup> Kim, *op Cit.*, p. 426.

<sup>222</sup> Ferguson in Kim, *op. Cit.*, p. 427.

regional integration caused the governments to move integration forward.<sup>223</sup> According to Raj (2011), these domestic political interests of individual governments cause the states to not act cohesively with a common identity, but rather behave more on individualistic basis in which they pursue their own interests. As a result, they seem more concerned with the short-term economic gains of integration than with the long-term benefits. It explains the use of protectionism, and indirectly puts limitations on the ability to advance integration towards a model like the EU, as Raj claims.<sup>224</sup> This provides support for the argument that ASEAN follows a more realist view of cooperation.

ASEAN governments thus had incentives to push integration in the nineties, which is shown by designing the AFTA and bringing the forward its deadlines. As a result, economic growth and regime survival was ensured by satisfying the masses and the supporting the ruling elites. The incentive of ensuring economic growth appears to be same in the case of the upcoming AEC. However, as the clientelist regime-support networks prefer only incremental and selective liberalization to strengthen their domestic-owned businesses against foreign competition, the ASEAN governments either cannot afford or are unwilling to push for radical liberal economic reforms.<sup>225</sup> Therefore, deeper integration through the aim of the AEC to create a single market could potentially threaten regime survival in the future.

#### 5.4. The ASEAN Way

So far, this section has focused on pursuing interests on national level. As powerful governments are able to formulate their preferred foreign policies without much opposition from the population, protecting domestic interests in an interregional context, in which political power is evenly balanced between all members, is more complicated. Therefore, the members adopted a way to cooperate and reach agreements without feeling that their sovereignty is being affected and taking into account the strong senses of nationalism derived from their colonial history. This way, the so-called 'ASEAN Way', was first defined in the TAC in 1976 and implied that ASEAN cooperation would be based on "mutual respect for sovereignty, non-interference, consensus-style decision-making based on tolerance and equality, and a preference for an informal barely institutionalized environment."<sup>226</sup> It emphasizes the role of norms, including the informal ASEAN norms of *mufakat* (consensus) and *musjawarah* (consultation)<sup>227</sup>, practices such as an avoidance of controversial issues, and a common

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<sup>223</sup> Kim. Ibid., p. 427.

<sup>224</sup> Raj, op. Cit., p. 209.

<sup>225</sup> Kim, op Cit., p. 422.

<sup>226</sup> Potts, op. Cit.

<sup>227</sup> Cockerham, op. Cit., p. 167.

identity in ASEAN's integration process.<sup>228</sup> Seen in the background of Asia's profound cultures, the ASEAN Way is all about avoiding a 'loss of face'<sup>229</sup> for the national governments.

As Bulut (2012) claims, the ASEAN Way was necessary to ensure ASEAN's survival in the early years. Around the Association's establishment, some of the original five members had just resolved some territorial issues, such as the Malaysia-Singapore conflict and the 'Konfrontasi'.<sup>230</sup> The ASEAN Way thus played a crucial role in continuing ASEAN's existence, as the ASEAN-5 were looking for a way to respect the sovereignty, territorial integrity, national identity and independence of all members. To maintain national existence and avoid domination, they should therefore be free from external interferences in their domestic affairs and policies, which were initially formalized in the TAC's binding set of principles<sup>231</sup>, and later repeated in every agreement and declaration.

However, although these principles were initially crucial to ensure regional peace and security, they are now a source of the challenges in broadening and deepening ASEAN integration.<sup>232</sup> Ever since the late 1990s, scholars claimed that the principle of non-interference has hampered efforts on improving human rights, such as in the case of Myanmar. At the same time, the consensus-based approach in which all members have to agree on a decision leads to the fact that every member has a veto and the content of the decisions have little significance, as they are reduced to the lowest common denominator. According to Raj (2011), many international observers see ASEAN therefore as a "talk shop", in which the organization is "big in words but small on action."<sup>233</sup> Thus, this gap between rhetoric and practice is one of ASEAN's key problems in promoting future cooperation.<sup>234</sup> The problem is acknowledged by the Eminent Persons Group<sup>235</sup> on the ASEAN Charter, who concluded in a report from 2006 that the continued use of non-binding consensus will hinder cohesion and effectiveness in decision-making<sup>236</sup>, and therefore also limits integration in the longer term.

These principles also led to ASEAN's habit of conflict avoidance. Although conflict avoidance has proven to play a key role in maintaining regional peace and stability, scholars, such as Raj, claim that

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<sup>228</sup> Kim, op. Cit., p. 414.

<sup>229</sup> Kivimäki, T. (2014). *The long peace of ASEAN*, Ashgate Publishing Limited, Surrey, p. 72.

<sup>230</sup> Indonesian-Malaysian 'Konfrontasi' was a violent conflict from 1963–66 on Borneo that stemmed from Indonesia's opposition to the creation of Malaysia.

<sup>231</sup> Bulut, op. Cit., pp. 55-56.

<sup>232</sup> Raj, op. Cit., p. 208

<sup>233</sup> Raj, Ibid., p. 199

<sup>234</sup> Kim, op. Cit., p. 390

<sup>235</sup> The ASEAN Eminent Persons Group (EPG) was a group of prominent citizens from the Association of Southeast Asian Nations (ASEAN) member countries, tasked to create the ASEAN Charter. The group was formed on 12 December 2005 via the 11th ASEAN Summit Declaration in Malaysia.

<sup>236</sup> Jones, op. Cit., p. 737

it is only a temporary solution which carries negative long-term consequences. Unresolved conflicts create mistrust and misperceptions between member states, which eventually hurt diplomatic relations, hamper cooperation and limit the development of ASEAN of an economic and political bloc.<sup>237</sup> As states remain to show sensitivity to sovereignty, Kim predicts that in spite of ASEAN's goal to create the ASEAN Community by 2015, the ASEAN Way will continue to be the main mode of cooperation in the near future.<sup>238</sup> Furthermore, the preference of the ASEAN Way for an informal, barely institutionalized environment<sup>239</sup>, means that the role of ASEAN institutions will remain marginal.

### 5.5. Weak Institutionalism

ASEAN as an institution comprises of a number of different structures, the most important ones being the bi-annual ASEAN Summit, the ASEAN Ministerial Councils, and the ASEAN Secretariat. The Summit is ASEAN's supreme policy making body since 1976, comprising the heads of governments of all ten member states. It is ASEAN's highest level of authority, setting the direction for ASEAN policies and goals. All major agreements and declarations in ASEAN's history have been signed by the leaders at the Summit, making it the structure which signifies the highest level of commitment. It functions as the final decision-making body, the highest level of dispute settlement in case disputes cannot be resolved through other ASEAN mechanisms, and takes place twice a year under the Charter.<sup>240</sup>

To support the Summit, the Charter created four key Ministerial bodies: the ASEAN Coordinating Council (ACC, which previously was the ASEAN Ministerial Meetings), the AEC Council, the APSC Council, and the ASSC Council. The councils oversee the implementation and coordination of the ASEAN Community and together supervise ASEAN's sectorial activities.<sup>241</sup> Another body is the ASEAN Secretariat, based in Jakarta, Indonesia, which provides administrative support. Although established in 1976, the role of the Secretariat remained limited to day-to-day coordinating activities without significant decision-making power. It operates within a small budget, is staffed by nationals from all member states and headed by a Secretary-General who, after the ASEAN Charter, now enjoys the same rank and status as the ministers.<sup>242</sup>

It can be said that ASEAN as an organization has been designed and used to protect the national interests of the individual member states, in particular their sovereignty. In result, Cockerham (2010)

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<sup>237</sup> Raj, op. Cit., p. 208.

<sup>238</sup> Kim, op. Cit., p. 391.

<sup>239</sup> Potts, op. Cit.

<sup>240</sup> National University of Singapore, op. Cit.

<sup>241</sup> National University of Singapore. Ibid.

<sup>242</sup> National University of Singapore. Ibid.

claims it has therefore remained a weak institution that “does not tend to go beyond the agenda of its members”.<sup>243</sup> Ravenhill (2010) agrees and argues that Southeast Asian regionalism is distinctive from other regions, since the efforts in economic integration has mainly occurred on national and global level, with regional institutions such as ASEAN only playing a negligible role.<sup>244</sup> Scholars have found a number of reasons for ASEAN’s weak institutionalism.

Firstly, as members are very sensitive to the issue of sovereignty on national level, the same applies for sovereignty on regional level. Since they favour the preservation of sovereignty instead of surrendering it to any regional, supranational institution, the political will to deepen regional integration through a supranational institution appears to be absent.<sup>245</sup> This implies that the members only want to move to deeper integration when it is not perceived as a threat to their sovereignty and regime survival.<sup>246</sup> As a matter of fact, Kim (2011) finds that the pooling of policy autonomy to a supranational institution is regarded as harmful by most ASEAN ruling elites. In spite of the fact that deepening integration may improve regional security by following Liberal Interdependency theorists’ argument that increased economic interdependence raises the opportunity costs of war, Kim (2011) claims that the ruling elites in ASEAN perceive the allocation of power to a supranational institution might form a threat to national cohesion and political stability,<sup>247</sup> by providing these institutions with the ability to impose rules on society and elites from a regional level. Thus, Kim (2011) concludes, in the case of regional integration, ASEAN’s national governments do not only base their decisions on the balance between regional economic integration and global economic integration, but also between regional security and domestic regime survival.<sup>248</sup>

Chen (n.d.) also identified the low level of political commitment towards, and claims that the Association is currently pursuing economic integration and political cohesion as different aims, without understanding the interrelationship between the two. It takes more political will and commitment than signing frameworks and action plans, Chen (n.d.) argues, to make further progress on economic integration. A crucial role herein should be reserved for the Secretariat.<sup>249</sup> Additionally, the power of authoritarian governments to use ASEAN as an institution to protect the interests of the ruling elites also leads to a weak linkage between civil society and ASEAN as the supranational

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<sup>243</sup> Cockerham, op. Cit., p. 168.

<sup>244</sup> Ravenhill, op. Cit., p. 181

<sup>245</sup> Kim, op. Cit., pp. 421-422.

<sup>246</sup> Kim. Ibid, p. 416.

<sup>247</sup> Kim. Ibid, p. 423.

<sup>248</sup> Kim. Ibid, p. 423.

<sup>249</sup> Chen, op Cit., p. 3.



organization remains to be very weak. Civil society in Southeast Asia does not have the power to use ASEAN as an external constraint on curb their government's policies.<sup>250</sup>

In addition to the reluctance of politicians to pool their sovereignty, the ASEAN values of non-interference and conflict avoidance weaken the institutional framework and significance of the agreements signed.<sup>251</sup> The ASEAN Charter, for example, which supposed to strengthen ASEAN's institutional framework, lacks any provisions for sanctioning in disputes.<sup>252</sup> According to Raj (2011), an example of the inability of ASEAN as an organization to solve internal disputes is the long-term conflict over a number of small islands in the Singapore Strait between Malaysia and Singapore, which was eventually resolved through a third-party outsider, the International Court of Justice (ICJ), in 2008. Although there is nothing wrong with seeking help from an outsider, he argues, it was an embarrassment for the ASEAN, only reaffirming the "question of legitimacy of the Association as a group moving forward as one".<sup>253</sup> It shows the ineffectiveness of ASEAN's institutions, particularly the ASEAN Summit, to resolve conflicts.

Thirdly, the principles of non-interference and conflict avoidance also led to the notion that there is no clear leader within ASEAN, for example to act as a negotiator when to parties are in conflict.<sup>254</sup> The lack of leadership on other regional issues, such as the human rights violations in Myanmar and the migrant flows into certain countries, also leaves political questions unanswered.<sup>255</sup> The absence of a regional leader, like Germany is in the EU, is a significant factor in the ASEAN's slow integration process and makes scholars pessimistic about the ability of ASEAN's institutions to become more effective, act in unity, and respond to issues quicker in the future.<sup>256</sup>

Weak institutionalism and lack of political commitment can also be identified in the institution's efforts to narrow the development gap. According to the ASEAN Secretariat, "narrowing the development gap implies reducing various forms of disparities among and within member states where some pockets of underdevelopment persists".<sup>257</sup> It should be overcome by accelerating growth in CLMV through a number of initiatives, but, according to the ADB, the reality is that these

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<sup>250</sup> Kim, *op. Cit.*, p. 381.

<sup>251</sup> Raj, *op. Cit.*, p. 210.

<sup>252</sup> Cockerham, *op. Cit.*, p. 181.

<sup>253</sup> Raj, *op. Cit.*, p. 209.

<sup>254</sup> Raj. *Ibid*, p. 204.

<sup>255</sup> Chen, *op. Cit.*, p. 2.

<sup>256</sup> Kim, *op. Cit.*, p. 413.

<sup>257</sup> ASEAN (n.d.) Initiative for ASEAN integration and narrowing the development gap. Retrieved from <http://www.asean.org/communities/asean-economic-community/category/initiative-for-asean-integration-and-narrowing-the-development-gap> on 12-05-2015.

initiatives neither will have “the resources, or the ability, to address the development divide. While aid can play a part, the solution must come from the countries themselves.”<sup>258</sup> Indeed, Alavi (2008) argues that funding is a major problem, as ASEAN projects to overcome the gap rely on external development funding agencies who usually failed to pay out their promises. The lack of political will to implement the proposed plans and strategies, they argue, is ASEAN’s serious weakness in addressing the gap.<sup>259</sup>

From these findings, it can be concluded that political spill-overs have, up to now, not occurred. To use Ernest Haas’ terms of ‘loyalty transfer’ and ‘identity shift’, there is no evidence that these have ever taken place in a significant way for ASEAN.<sup>260</sup> There is no commitment from members to pool sovereignty by transferring loyalty to ASEAN institutions. So far, it appears that Neofunctionalism’s emphasis on the role of supranational institutions as a driver of integration can be rejected in the case of ASEAN, in favour of Intergovernmentalist theory that the individual state governments have played a far more central role.<sup>261</sup> This is shown in ASEAN’s most important regional policy-making institutional body, the bi-annual ASEAN Summit. The fact that the Summit consists of the heads of states clearly indicates an intergovernmental approach driven by ruling elites.<sup>262</sup> In contrast to Europe, where distinct governance structures were established at a regional level, this process cannot be identified in ASEAN where institutions remain very weak. Sovereignty, which decreases for individual governments as resources and power is pooled within in central institution, has been and maintains to be a significant factor in the integration process.

Neoliberal institutionalists, such as Keohane, have argued that supranational institutions are important as they can aid cooperation to build trust and reduce uncertainty between the state governments. Although mutual trust is established in ASEAN, Raj (2011) claims that this trust only exists at a low level.<sup>263</sup> Furthermore, the absence of non-governmental interest groups in ASEAN’s institutions limits these institutions’ ability to influence state behaviour in choosing future benefits over short-term gains. Instead, since decision-making in institutional bodies such as the Summit and Coordinating Councils is done by the heads and ministers of mostly authoritarian states, the short-term interests (e.g. regime survival and protection of domestic businesses) of the ruling elites are the main determinants of state behaviour. Furthermore, most decisions and commitments made in

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<sup>258</sup> Menon, J. (2013). Narrowing the development divide in ASEAN: the role of policy. *Asian-Pacific Economic Literature*, 27 (2), p. 25.

<sup>259</sup> Alavi, op. Cit., p. 55.

<sup>260</sup> Kim, op. Cit. p. 382.

<sup>261</sup> Cockerham, op. Cit., p. 180.

<sup>262</sup> Cockerham. Ibid., p. 181.

<sup>263</sup> Raj, op. Cit., p. 205.

ASEAN's institutions are determined by the lowest common denominator and non-binding. Since this shows that regional integration in ASEAN has so far been based on informality and minimal institutionalization, while decision-making is mainly done on intergovernmental level between governmental representatives without the presence of other interest groups, the European approach towards institutionalism cannot easily be replicated in Southeast Asia. Ultimately, the development of ASEAN's institutions appears to be determined by the mutual desire for economic benefits through cooperation, and state sovereignty.<sup>264</sup>

## 5.6. The External Environment as a Source of Uncertainty

A final major political factor in ASEAN's integration process is its geopolitical environment. The region's location in between India, China, and Japan, has had an influence throughout its integration process, and continues to be in the near future. This paper has argued that the initial reasons for cooperation came from the external environment, initially during the Vietnam War and the spread of communism in Indochina (which comprises Lao, Cambodia and Viet Nam) and later by the rise of China as an economic competitor for foreign trade and investment, and the new wave of regionalism throughout the world (e.g. APEC, MERCOSUR, and NAFTA) which caused the ASEAN members to establish the AFTA.

The external environment remains to be a source of geopolitical uncertainty. Particularly, the rise of China, who, like the other post-communist countries in the region, adapted to the consensual and non-binding style of ASEAN, causes issues. The basis for cooperation was reflected in a 2002 Declaration on the Conduct of Parties in the South China Sea, which aimed to resolve any disputes on maritime claims.<sup>265</sup> Nonetheless, despite the good intentions of the Declaration, disputes in the South China Sea, where overlapping territorial claims on strategically positioned and resource-rich islands have caused tension both between ASEAN members and with China. Where China wants to deal with problems on bilateral level instead, the conflicts have created tension between ASEAN members who have not been able to raise a united voice. In 2012, for example, the host of the ASEAN Summit Cambodia (a member with strong links to China) issued a statement that ASEAN had agreed not to internationalize the territorial disputes. This was then publicly refuted by the Philippines, long-term ally of US and strongest-voiced opponent against Chinese claims, whose president Benigno Aquino stated that there was no consensus at all and that the conflict should be resolved on multi-lateral level involving all of ASEAN.<sup>266</sup> It created a divide between the less

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<sup>264</sup> Cockerham, op Cit., pp. 183-184.

<sup>265</sup> Jones, op Cit., p. 753.

<sup>266</sup> Ortigas, M. (2012). The end of the 'ASEAN Way'. Retrieved from <http://www.aljazeera.com/blogs/asia/2012/11/51391.html> on 20-05-2015.

developed states, in which China's economic influence is rising by financing major infrastructural projects and its foreign policy of non-interference as the basis of good being a good neighbour is attractive to the authoritarian leaders, and the more developed states, in which China's presence is less significant.

A number of initiatives have been set up to improve political cooperation in the East Asian region to overcome external challenges like the in the South China Sea. The First ASEAN Regional Forum, held in 1994, was attended by all ASEAN members and ten dialogue partners<sup>267</sup> to foster an annual dialogue on political and security issues of common interests. It aims to contribute "to efforts towards community building and preventive diplomacy in the Asia-Pacific region."<sup>268</sup> According to Jho and Chae (2014) the Forum was set up by ASEAN to check China's growing hegemonic power in the East Asian region, while maintaining the security interests of the US. However, the South China Sea disputes proof that the Forum has not been able to make significant contributions to regional conflict resolution. Its role in mediating in disputes is inconsistent, with the final outcomes "depending greatly upon on the two superpowers' participation strategies, both set according to their interests".<sup>269</sup> As the battle for influence in the region between China and the US goes on, the ARF will remain to be a mechanism used by the major powers, rather than ASEAN, to pursue their national interests.

A second initiative was the establishment of the ASEAN Plus Three in 1997, which comprises the ten ASEAN members and China, Japan, and South Korea. Aimed at broadening and deepening economic political cooperation in areas such as trade and finance, poverty alleviation, environmental development, and transnational crime, Ravenhill (2010) contends that although a large number of projects have been launched, these projects have usually been initiated and financed by one of the countries, with little input from the others. This has resulted in a number of bilateral, rather than multilateral, projects, which often leads to two members proposing rival projects to address the same issues. An example is the rivalry between China and Japan for regional cooperation in the Mekong Delta.<sup>270</sup> Although not long after the creation of the APT, negotiations between ASEAN and China, Japan and South-Korea started to create bilateral agreements, focused on increasing economic cooperation, which came into effect between 2009 and 2010.<sup>271</sup> However, although

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<sup>267</sup> The ten ASEAN dialogue partners are Australia, Canada, China, the European Union, India, Japan, New Zealand, Republic of Korea, Russia and the United States.

<sup>268</sup> ASEAN (n.d.). ASEAN Regional Forum. Retrieved from <http://www.asean.org/communities/asean-political-security-community/category/overview-6> on 20-05-2015.

<sup>269</sup> Jho, W., & Chae, S. A. (2014). Hegemonic Disputes and the Limits of the ASEAN Regional Forum. *Pacific Focus*, 29(2), p. 254.

<sup>270</sup> Ravenhill, op. Cit., p. 201

<sup>271</sup> Jones, op. Cit., p. 736.

focused on economics, Ravenhill (2010) argues that these PTAs that ASEAN negotiated have primarily been driven by diplomatic-strategic concerns of these external partners rather than economic issues, or lobbying efforts by the business community.<sup>272</sup>

Therefore, Ravenhill (2010) claims that the shallow political cooperation in East Asia proves the primacy of political interest in forming inter-governmental agreements on trade and investment.<sup>273</sup> Furthermore, to lack of strong institution prevents ASEAN from addressing challenges in unity. In the case of the South China Sea disputes, for example, the Association cannot seem to deal with the external problems as one bloc. The rising influence of China and India, are therefore likely to strongly affect the ASEAN integration path in the future.

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<sup>272</sup> Ravenhill, op. Cit., p. 190.

<sup>273</sup> Ravenhill. Ibid, p. 201.

## 6. Conclusion

The purpose of this paper is to analyse how economic and political forces have shaped ASEAN integration in the past, and how it is likely to shape regional integration in the future. This paper has found strong support that ASEAN integration has primarily been driven by the desire of state regimes to satisfy political self-interests such as state security, sovereignty and regime survival, influenced by developments in the external environment, which have caused political cooperation to push economic integration in order to ensure economic growth and political stability. These interests have played an important role for ASEAN integration through different points in time, either by accelerating integration or hampering it.

The paper claims that cooperation within the Association in its early years was, in line with Realism, mainly driven by security concerns and focused on geostrategic interests about territorial integrity for the young, fragile states. Moreover, the communist threat during the Vietnam and Cold War created a common need to ensure state security, regime survival for the authoritarian governments and to create an environment for nation-building and stable economic growth. Therefore, the members agreed that regional cooperation would be based on the principles of the 'ASEAN Way', which comprise consultation and consensus-reaching in decision-making, conflict avoidance, and non-interference in the domestic politics of other members. Adhering to these principles ensured that ASEAN reached its initial goal of maintaining peace and stability in the Southeast Asian region.

In economic terms, cooperation was initially confined to an ASEAN Preferential Trade Agreement (APTA, signed in 1977), which aimed to reduce tariff barriers in a number of sectors, due to a fear of the members for foreign competition in important domestic industries. Economic integration became a higher priority after the end of the Cold War, when the communist threat was removed and ASEAN governments started to put more focus on cooperation to ensure economic growth. Furthermore, globalization pressured the ASEAN economies to become more outward-looking, as production networks shifted across multiple lower-wage countries in East Asia. In 1992, along with the rise of China as a competitor for foreign trade and investment inflows, these factors resulted in the need for closer and deeper integration, which led to the decision to establish the ASEAN Free Trade Area (AFTA). The AFTA set higher targets for the reduction and elimination of tariff barriers than the APTA through the Common Effective Preferential Tariff (CEPT)-scheme and aimed to increase trade networks within the region thus creating a more attractive region for trade and investment in the world economy.

These motives also led to the enlargement of the Association with Viet Nam, Lao DPR, Myanmar and Cambodia: countries which were lesser developed in terms of economic structure and industrial

competence than the incumbent members, but would make ASEAN more inclusive and comprehensive. The Asian Financial Crisis (AFC) of 1997, which led to sudden economic decline, social unrest, and political instability threatening long-term governmental regimes in most ASEAN economies, returned the focus of the members on integration initiatives to satisfy political interests, such as the decision of the heads of government to accelerate the implementation of the AFTA, and to establish a ASEAN Community with a single market by 2015. The goal of these initiatives was to create economic growth and protect the economies from crises in the near future, which would ensure political stability by satisfying the masses in the more liberal, developed countries, and the dominant politically-linked businesses and ruling elites to justify political status quo.

Although ASEAN can be praised for these achievements in maintaining peace and facilitating rapid economic growth in a region characterized by many different ethnicities, cultures, languages, political regimes and economic structures, this paper has highlighted a number of factors that have proven to be hampering ASEAN integration and are able to undermine the integration process in the near future. The major differences in economic and political structures between member states show the complexity in making ASEAN move forward as one. In economic terms, the Development Gap between the ASEAN-6 and CLMV members, and the wide differences in terms of industrial competence between the members have led to postponements in the implementation of regional economic policies and the use of protectionism in the form of non-tariff barriers to trade to protect domestic industries from foreign competition. Furthermore, strong trade links with major external powers such as China, Japan, and the West have kept levels of intra-ASEAN interdependence low and reduce the willingness and commitment of the members to accelerate economic integration within the Association. As a result, the single market with a free flow of production factors envisioned in the ASEAN Economic Community, which is planned to be in place by the end of 2015, is still far from being achieved.

In political terms, the ASEAN regimes vary from fragile democracies to soft and hard authoritarian governments, in which ruling elites remain to have access to high levels of power and key resources. For these elites, maintaining power and securing sovereignty over these resources are a top priority. These findings indicate that ASEAN integration has been primarily a state-led process, in which the level of democracy is low and pluralism is weak. Therefore, ASEAN provides support for the Realist and Intergovernmentalist assumptions that state governments are the primary actors in integration, due to the low level of democracy within the member countries, the prevention of ruling elites to allow a strong civil society, and the weak links between society and ASEAN's supranational institutions. Although business elites in the more developed ASEAN states have been able to play a

minor role in decision-making on ASEAN integration, this has mostly led to disintegrative forces such as protectionism in order to protect their strong position in the domestic industries they operate in.

The desire to retain sovereignty, rather than to pool it into a supranational centre, has also kept ASEAN's supranational institutions weak, without the ability to build trust and commitment amongst the members and play a significant role in integration. Regional decision-making is done mainly on intergovernmental level at the bi-annual ASEAN Summit by the heads of governments and the Coordinating Councils of economic and foreign ministers. The effectiveness and significance of these meetings are limited by the ASEAN Way of consultation and consensus-building, as sensitive issues and conflicts are being avoided or played down, leaving them unresolved. This is further enforced by the fact that dispute settlement or sanctioning mechanisms have been absent or barely used. The ASEAN Secretariat would be a suitable institutional body to overcome these issues, but remains to be short of budget and decision-making power to act as a coordinating and settlement mechanism, although its position has slightly improved after the signing of the ASEAN Charter in 2007 which improved the position of the Secretary-General, who since then has the same rank and status as the ministers.

Thus, this paper concludes that the power of civil society and supranational institutions are purposely kept limited by the national governments in ASEAN, in order for the ruling elites to protect their interests of sovereignty and regime survival while having a mutual desire for economic benefits of cooperation. It prevents the ASEAN from being able to raise a strong, united voice and address issues such as the growing political influence of China in the region, which has divided members and caused tensions on security and territorial integrity.

These findings indicate that ASEAN's character is unique and distinctive from regional integration schemes such as the EU, and imply that comparisons with these other schemes have limitations to predict ASEAN's future. For example, it is highly unlikely that ASEAN will create a 'fortress Southeast Asia', such as in Europe, as the political will and commitment to move the Association forward is missing. Furthermore, EU integration is driven by intra-regional trade and investment between liberal democracies with strong, developed industries, whereas ASEAN integration is taking place in a mostly authoritarian political environment, in which intra-regional trade is low and markets are underdeveloped. However, since both schemes are pursuing similar goals of regional peace, stability, and economic growth, ASEAN could draw lessons from EU's integration process, most notably in the aspect of EU's strong and effective institutional framework. At the same time, the findings in this paper can be useful in examining the integration process in other developing regions in which



politics appear to be an important driver of economic cooperation, such as South America and Africa.

These arguments also imply that the use of Neofunctionalism and, to a lesser extent, Intergovernmentalism to explain ASEAN integration has its complications, as these theories assume integration to take place in a democratic, economically developed region with a similar cultural background. Indeed, ASEAN rejects the 'logic of integration' of Neofunctionalism, as there have been no spill-over effects created which would cause a self-enforcing integration process from low to high politics. Furthermore, ASEAN is characterized by weak pluralism in which the influence of non-state interest groups in the regional decision-making process is very limited and weak institutions which have not been able to play a significant role in the integration process as political spill-overs have been absent. In the case of Intergovernmentalism, although this paper argues that ASEAN integration finds strong support for the significant role of state governments as main actors, the outcomes indicate that Intergovernmentalism neglects the significance of the interests of unchallenged ruling elites.

In order for the relatively small Southeast Asian countries, to develop and gain more economic and political influence on the world stage, creating an integrated region is crucial. However, the desire to uphold regime survival makes the future of ASEAN unclear. The principle of conflict avoidance has created stability in the short term, but the lack of cohesiveness between the members and unresolved conflicts are able to undermine integration in the future and prevent the Association from gaining a strong position in the world arena. The reiterated importance of the principles of the ASEAN Way in regional decision-making and the lack of commitment of governments to increase the level of institutionalization show that the willingness to move ASEAN forward is missing. In case ASEAN manages to overcome these limiting factors and set out its own path, it could capture its enormous potential and turn the region into a future powerhouse in the Asian Century. Otherwise, ASEAN will remain a toothless tiger: powerful in sight, but ineffective to lead up to its appearance.

In conducting the research to come to these conclusions, this paper has crossed upon a few limitations. First of all, the findings in this paper have been applied to a selected number of theories. Future studies could test other rationalist theories, such as Transactionalism, New Regionalism, and Structuralism, to find a wider range of motives for ASEAN integration or examine to which extent ASEAN is a coherent region that can collectively react to external pressures, challenges and tensions. Secondly, this study assumes that all actors are rational agents and make decisions based on their interests. However, in order to examine how behaviour and the norms and values in Southeast Asia have shaped the integration process, other scholars could focus on behaviourist theories, such as

Constructivism. This paper did not use Constructivism as Constructivism looks at how states interact within a community, while this paper argues that ASEAN is not a community with a common identity yet. Finally, even though the paper has attempted to highlight the vast differences between members, more elaborate research on each of the member countries is needed to analyse the interaction between economics and politics regarding integration on national level and provide a more detailed analysis of the different economic and political drivers of the members individually.

## 7. Abbreviations

ACC	ASEAN Coordinating Council
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AFC	Asian Financial Crisis
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
AMCHAM	American Malaysia Chamber of Commerce
APEC	Asian-Pacific Economic Cooperation
APSC	ASEAN Political-Security Community
APT	ASEAN Plus Three
APTA	ASEAN Preferential Trade Agreement
ARF	ASEAN Regional Forum
ASA	Association of Southeast Asia
ASCC	ASEAN Socio-Cultural Community
ASEAN	Association of Southeast Asian Nations
ASEAN-5	ASEAN's founding members Indonesia, Singapore, Malaysia, Philippines and Thailand
ASEAN-6	ASEAN's founding members + Brunei
ASEAN+3	ASEAN + China, Japan, South Korea
ASEAN+6	ASEAN + China, Japan, South Korea, India, Australia, New Zealand
BRIC	Brazil, Russia, India, China
CEPT	Common Effective Preferential Tariff
CLMV	Cambodia, Lao PDR, Myanmar, Viet Nam
EAS	East Asia Summit
EU	European Union
EUMCCI	EU-Malaysia Chamber of Commerce and Industry
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HDI	Human Development Index
ICJ	International Court of Justice
IMF	International Monetary Fund

IMT	International Merchandise Trade
IR	International Relations
PTA	Preferential Trade Agreement
Lao PDR	Lao People's Democratic Republic
MAPHILINDO	Greater Malayan Confederation of Malaysia, Philippines and Indonesia
MERCOSUR	Southern Common Market (Argentina, Brazil, Paraguay, Uruguay and Venezuela)
MNE	Multinational Enterprise
NAFTA	North American Free Trade Agreement (Canada, US and Mexico)
NATO	North Atlantic Treaty Organization
NTB	Non-tariff barrier
OECD	Organisation for Economic Co-operation and Development
SOE	State-owned Enterprise
SPDC	State Peace and Development Council
TAC	Treaty of Amity and Cooperation in Southeast Asia
TPP	Trans-Pacific Partnership
UK	United Kingdom
UMNO	United Malays National Organization (formerly known as the Malaysian Union)
UN	United Nations
US	United States of America
WTO	World Trade Organization

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