Material Interests and Social Norms: Regional Economic Integration in Southeast Asia

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Ever since the early 1990s, the members of the Association of Southeast Asian Nations (ASEAN) have deepened regional economic integration, advancing the main programs from the creation of an ASEAN Free Trade Area (AFTA) to the formation of the ASEAN Economic Community (AEC). This article identifies underpinning factors that have qualified ASEAN's such efforts for regional economic integration. In particular, it highlights the evolving perception of material interests due to external environments and socially shared norms as factors influencing ASEAN's efforts to promote economic integration. I argue that external threats deriving from moves towards stronger regionalism in other parts of the world or the rapid economic growth of the neighboring countries induced ASEAN members to strengthen their own regional economic cohesion. In addition, ASEAN's particular set of norms, such as consensus-building, flexible incrementalism, and informality, were effective in drawing willingness from members with diverse differences to participate in cooperative programs. However, in the process of shifting from AFTA to the AEC, ASEAN members reconsidered some of these norms by adopting more formal implementation methods, including stronger dispute settlement mechanisms.

Keywords: ASEAN, neorealism, constructivism, AFTA, ASEAN Economic Community (AEC)

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I. INTRODUCTION

Regionalism and economic integration have been one of the most outstanding phenomena in the current international scene. Various regions in the world promote free trade agreements (FTAs) and other forms of cooperative regional arrangements. Moves towards regional collaboration initiatives made progress in North America and Europe since the 1980s, but the moves have been slow in Asia. Southeast Asia was an exception in this context because the region strove to strengthen political cooperation and economic integration since the 1970s.

The five Southeast Asian countries founded the Association of Southeast Asian Nations (ASEAN) in 1967 with an eye at achieving regional peace, stability, and prosperity. ASEAN is a loose, consensus-based organization without any supranational agencies. Partly because of this organizational character, major initiatives in promoting economic integration until the 1980s produced modest progress, being plagued by slowness, internal division, and meager economic benefits. Since the early 1990s, economic integration has been a major policy agenda for ASEAN countries. In 1992, the members launched an initiative for creating an ASEAN Free Trade Area (AFTA) by 2008. Afterwards, they accelerated the schedule of trade liberalization for AFTA and expanded the scope of market integration, targeting investment areas, services sectors and procedures for goods movement. With AFTA virtually in place, ASEAN members decided to create a common market with a free flow of goods, services, capital, and labor.

This article examines ASEAN's attempts to develop economic integration initiatives since the early 1990s, and identify underpinning factors that qualified such attempts. It seeks to address three questions. The first is how changes in external environments have influenced ASEAN's efforts to promote regional integration. The second is how ASEAN's common norms in managing inter-state relations and institution-building influenced the process and progress of ASEAN's regional economic integration. The third and more theoretical question is how material interests and socially shared norms have been transformed into ASEAN's initiatives and policies for achieving stronger economic cohesion.

Before delving into ASEAN's commitments to economic integration and cooperation, the following section overviews theoretical literature regarding regional integration in order to draw an analytical framework for this study.

II. MATERIAL INTERESTS, SOCIAL NORMS, AND REGIONAL INTEGRATION

The main interest of this article is why and how Southeast Asian countries have accelerated economic integration since the early 1990s. Among various perspectives of international relations theory pertinent to regionalism, neo-realist and constructivist

perspectives seem to be of great relevance in addressing this question.

According to the neorealist perspective, the relative distribution of power among states in a certain region provides the most crucial explanatory variable for the development of regionalism. In some cases, the presence of a dominant power that has the will and capabilities to supply public goods constitutes the precondition for the construction of a regional institution (Gilpin 1987; Lake 1988). Under such circumstances, smaller and weaker states that lack the capacity to play a managerial role in the international scene bandwagon the dominant power's behavior. In other cases, smaller states seek to develop a regional framework as an attempt to balance power in a certain region. These states seek to constrain the potentially disruptive effects deriving from the free exercise of hegemonic power by way of the formation of a regional institution (Hurrell 1995, 50-51).

The neorealist approach, which regards the state as a coherent unit and its preferences and beliefs persistent, has strength in its parsimony. This approach is useful in explaining broad policy outcomes across time in different countries or general trends in the overall international economic system. Yet, it cannot account adequately for why a particular type of policy was adapted within a state or a region. For instance, it provides no explanation of why and how states develop particular preferences regarding regional integration. This problem stems largely from its negligence of domestic political factors, such as the role of political leadership or interactions among various political and societal actors.

This article considers external threats resulting from the evolving regional distribution of power and critical changes in the international system as the first set of variables that condition ASEAN's commitments to regional economic cooperation. However, this article does not posit that changes in international and regional environments lead in a straightforward way to the state's initiatives and actions. When policymakers and political leaders perceive external threats as critical forces affecting states' material interests, they are likely to formulate and propel particular initiatives and policies designed to respond to them. Accordingly, I will consider preferences and initiatives of policymakers and political leaders as intervening variables linking external threats with policies for regional integration.

The second theoretical perspective that is pertinent to regional integration is constructivism. The constructivist school, which holds that states' identities and interests are inter-subjectively constructed through norms, rules, and institutions, contrasts with rationalist theories of international relations. Indeed, all rationalist theories are opposed to constructivism. For instance, the English school, represented by Hedley Bull and Martin Wight, stressed inter-subjective practices through which international society is constituted and the formation of state identity on cultural bases (Dunne 1995). However, most rationalist theories, including neorealism and neoliberalism, assume that the state's identity can be held constant, and its interests are stable and exogenous to interaction (Powell 1994).

Constructivists claim that the international structure and the state as an agent

within it are mutually constitutive. Whereas the international structure constrains the state, the state maintains the legitimacy and stability of the international structure through its self-understanding and international behavior (Hasenclever, Mayer and Rittberger 1997, 188). According to the constructivist perspective, international relations are shaped not just by material forces such as power and wealth, but also by the interplay of inter-subjective factors (Wendt 1992). Elements such as identity, ideas, and norms do matter in constructing the international system socially. Therefore, regional integration emerges and develops when collective identity or regional awareness is socially constructed among the states in a certain region.

Some scholars criticize that the constructivist arguments about the importance of identity or ideas risk being too empirically thin and analytically malleable. Identity and ideas are tenuous concepts that are less likely to link with distinctive testable hypotheses (Moravcsik 1999, 670-74). It is difficult to measure precisely to what extent identity or ideas influences actors' preferences and behavior. Moreover, constructivists have not shown what agents (states) or what kinds of structures will be important in analyzing a particular phenomenon of international politics (Haggard 1991, 414-15).

Given the above criticisms, it is risky to regard the constructivist perspective as the single variable to explain inter-state relations or state behavior. Yet, it would be useful to consider common norms and identity as supplementary factors explaining inter-state relations in a region where shared norms and identity have played a distinctive role. In this context, the constructivist perspective matters in evaluating ASEAN's commitments to regionalism because ASEAN members have developed, through diplomatic interactions and practices, the so-called "ASEAN way". The ASEAN way is a set of norms that include the non-interference principle, informal consultation, pragmatic expediency, consensus-building, and flexible incrementalism (Acharya 1997, 329-33; Lin 2003, 20-22). The ASEAN way, characterized by the rejection of legalism and its emphasis on informal flexibility and consensus-building, is not compatible with the neoliberal paradigm, which stresses universalism on a legal and institutional basis.

The ASEAN way has often enabled the states to produce the smooth formulation of cooperation because it can draw political willingness by increasing "the 'level of comfort' among the participants and create a flexible decision-making environment which would allow room for mutual accommodation amongst national bargaining positions" (Acharya 1998, 58). At the same time, the ASEAN way has been thought to impede the development of substantial cooperation because it tends to filter out or exclude contentious issues from the formal multilateral agenda, and to buy more time in reaching a final agreement (Thambipillai and Saravanmuttu 1985).

A noteworthy question is how the ASEAN way has qualified ASEAN's commitments to regional economic integration in the evolving regional and global environments. Since the ASEAN way is a set of norms that provides standard guidelines for behavior, it incorporates the character of immutability or durability. However, dynamic

evolutions might have gradually changed the application of norms at first, and then transformed the norms themselves. Particularly important issues are in what ways changes in norms took place and how such changes can be confirmed. This article highlights preferences of ASEAN's policymakers for major norms in the ASEAN way, and examines preference changes.

Thus, this article explores the causes and major characteristics of ASEAN's initiatives for stronger economic integration since the early 1990s by combining the neo-realist and constructivist perspectives. The independent variables include: 1) material interests that ASEAN states seek to secure in the evolving international and regional settings; and 2) a set of norms that ASEAN members have socially accepted in their diplomatic relations. The dependent variables are ASEAN's initiatives in and actions for promoting closer economic integration through market liberalization. The intervening variables that link the independent and dependent variables are preferences of policymakers and political leaders.

In the following section, I will trace the development process of ASEAN's commitments to stronger and closer regional integration. I employ a process-tracing approach to illustrate how external threats and regionally shared norms influence the progress of market liberalization and regional integration at different junctures. The process is divided into two parts: 1) the 1990s, when ASEAN members made efforts to AFTA-based market integration; and 2) the new millennium, when they launched new programs to create a common market.

III. INITIATIVES FOR DEEPER AND LARGER INTEGRATION IN THE 1990S

1. The Initiation of AFTA

Economic cooperation was long given low priority after ASEAN was founded in 1967. Although preferential trade arrangements and industrial complementation schemes were launched in the late 1970s and early 1980s, they produced meager outcomes.¹ Judging from past achievement, a milestone in ASEAN's attempt to promote economic cooperation was AFTA. At the fourth summit in January 1992, ASEAN leaders agreed to establish a free trade area by 2008 by signing the Framework Agreement on Enhancing ASEAN Economic Cooperation. Under the Common Effective Preferential Tariff (CEPT) Scheme, the main mechanism for achieving AFTA, existing tariffs on manufactured goods and processed agricultural products would lower to between 0 to 5% and quantitative restrictions and other non-tariff barriers would be eliminated. ASEAN leaders also agreed to set up the AFTA Council, a ministerial body to supervise, coordinate and review the implementation of CEPT.

A plan to establish a free trade area among ASEAN members was first articulated

by Thai Prime Minister Anand Panyarachun. Anand revealed this idea when Singaporean Prime Minister Goh Chok Tong visited Thailand in June 1991 (Stubbs 2000, 304). The Thai government pushed forward this idea at various opportunities, including an ASEAN Ministerial Meeting (AMM) in July 1991 and the twenty-third ASEAN Economic Ministerial Meeting (AEM) in October of the same year. The idea to form AFTA was swiftly approved together with CEPT.

Importantly, an idea to create a free trade area under the ASEAN framework was considered from the early 1980s. ASEAN ministers commissioned a taskforce to review and give recommendations on economic cooperation in ASEAN (Nagai 2002, 5). Headed by Anand, the taskforce issued a report in 1982, which referred to the formation of a free trade area (Yamakage 1997, 206-7). At the 1992 summit, Anand made efforts to promote AFTA, proposing that Thailand would reduce all tariffs on imports from ASEAN countries to a maximum of 30% by the beginning of 1993 (Akrananee and Stifel 1992, 43-44). Anand originally presented a ten-year timeframe for the realization of AFTA, but the time frame was extended to fifteen years after taking account objections from Indonesia and the Philippines (Nesaduarai 2003, 54). Thus, not only did Anand and the Thai government initiate AFTA, they also attempted to push forward its accelerated realization.

Compared with economic integration initiatives of the past, the AFTA proposal was realized smoothly. Why did ASEAN members agree to form AFTA without serious objections or reservations? Several explanations have been presented. First, AFTA was utilized to overshadow the East Asian Economic Grouping (EAEG). In December 1990, Malaysian Prime Minister Mahathir proposed the EAEG concept when Chinese Premier Li Pang visited Kuala Lumpur. The group comprises only Asian members, including ASEAN countries, China, Japan, and South Korea, and excludes the United States and Australia. ASEAN members, heavily reliant on the US and European markets for their exports, were reluctant to approve the closed concept of the EAEG. The AFTA and CEPT were presented as alternatives to the EAEG (Yamakage 1997, 143; Sato 2003, 116-17). Second, AFTA was an appropriate way of maintaining the *raison d'être* of ASEAN, which needed a renewed sense of purpose and direction in the early 1990s. The end of the Cold War and Indochina conflicts reduced the strategic importance of the association as an ally to the capitalist bloc and undermined the utility of the association to its own members. AFTA was regarded as a significant instrument to maintain ASEAN's identity as a purposeful and viable organization (Ravenhill 1995, 854; Beeson 2002, 190).

In addition to the above reasons, a critical factor prompting AFTA initiatives was the threat of isolation due to rising moves towards regionalism in major parts of the world. Given that the General Agreement on Tariffs and Trade (GATT) Uruguay Round was facing a deadlock, major European countries and United States intensified regional initiatives. European countries were deepening integrative programs by forming the European Single Market in 1992. The United States already

agreed on the US Canada FTA in 1987 and began negotiations over the formation of a comprehensive FTA with Mexico in June 1990. The North American Free Trade Area (NAFTA) of the United States, Canada, and Mexico was signed in August 1992. NAFTA's formation was expected to lead to trade and investment diversion from ASEAN to Mexico (Muro 1997, 38). ASEAN members feared that moves towards regionalism would lead to more protectionist and inward-looking trade measures, threatening their traditional export markets as well as their position as major investment recipients. AFTA would create an integrated regional market of over 400 million people, a combined purchasing power of over US\$400 billion growing at 6-8% annually and a wide range of resource endowments and skills (Chia 1998, 218).

AFTA promoters strongly perceived the threat imposed by increasing regionalism. Anand stressed the need of AFTA in reference to regionalism in other areas as follows: given that integration and protectionist moves are accelerating in Europe, America, and Japan, where ASEAN countries depended on trade and investment, it is necessary to integrate the internal market of six countries in order to win in fierce competition for acquiring foreign capital.² Singaporean Prime Minister Goh also commented that "unless ASEAN can match the other regions in attractiveness both as a base for investments and as a market for their products, investments by multinational companies are likely to flow away from our part of the world to the S[ingle] E[uropean] M[arket] and NAFTA."³

The AFTA initiation clearly followed the ASEAN way: "agree first, talk after." The AFTA agreement was reached within ten months after its initial proposal. The AFTA document of fifteen pages contrasts sharply with other regional FTAs, such as NAFTA's 1000-plus-page agreement (Ravenhill 1995, 859). The CEPT simply provided some guidelines to tariff cuts and allowed for enormous flexibility in the implementation process. Although some members with fragile state capacities were reluctant to join AFTA, the vaguely stipulated agreements made all members, including reluctant ones, feel comfortable joining the program. Informality allowed AFTA to move forward at a pace with which all governments felt comfortable, while flexibility enabled member governments to seek ways to deal with domestic opposition to AFTA (Stubbs 2000, 312-4).

2. The Acceleration of AFTA

The agreement to create AFTA was reached within ten months after its initial proposal. Accordingly, the agreement did not include details for implementation, and backsliding moves immediately emerged. At the third AFTA Council in December 1992, each member state revealed the CEPT plan. But there were variations in the time to begin trade liberalization: Singapore from January 1993; Malaysia from 1993; Brunei from 1994; Thailand and Indonesia from 1995; and the Philippines from 1996 (Yamakage 1997, 199). The diversity in implementation became apparent

only one year after the conclusion of the agreement.

However, ASEAN members made bold decisions in 1994 on accelerating AFTA. At the twenty-sixth AEM in September 1994, the Ministers decided to shorten the timeframe for free trade completion, from fifteen to ten years, to extend sectoral coverage to unprocessed agricultural goods, and to eliminate the temporary exclusion list within five years, instead of a review at the end of eight years. As a consequence, AFTA would be realized by 2003 instead of 2008, and the whole agricultural sector would automatically be included in the CEPT scheme. At the fifth summit in December 1995, ASEAN leaders agreed to further accelerate progress towards the actualization of AFTA before the target date of year 2003. Member countries would maximize the number of items with tariffs reduced to 0-5% and expand the number of products with tariffs reduced to 0% by the year 2000. Leaders also agreed to remove all quantitative restrictions and non-tariff barriers with the process beginning in January 1996.

Several governments promoted the new initiatives. The Thai government pushed the 1994 achievement forward. When Deputy Prime Minister Supachai Panitchpakdi attended a Pacific Economic Council Conference (PECC) meeting in March 1994, he enthusiastically demanded the early realization of AFTA, proposing to shorten its schedule for tariff reductions from fifteen to ten years and to put agricultural goods and petrochemicals on the list for tariff cuts.⁴ In August 1994, Supachai confirmed Thailand's basic position at a meeting of economic ministers in the cabinet, that the government would encourage AFTA implementation and economic cooperation among ASEAN members in areas such as the services sectors and unprocessed agricultural products (Nagai 2002, 6-7). These proposals were brought to an AEM in September 1994.

The decision to shorten AFTA's timeframe only a few years after the initial decision was influenced by changes in external environments. The GATT Uruguay Round was completed in December 1993, and all ASEAN members ratified the Uruguay Round Agreements. Moreover, the Asia-Pacific Economic Cooperation (APEC) gained momentum by holding its summit meetings in Seattle in November 1993 and in Bogor one year later. In Bogor, APEC members agreed to accomplish pan-regional free trade by the year 2010 for developed country members and 2020 for developing country members. APEC's development raised the sense of crisis among ASEAN policymakers, both because they felt more vulnerable to pressure from larger APEC countries and because they feared that ASEAN itself would be overshadowed or even pre-empted by the larger grouping (Lim 1996, 22).

Several policymakers explicitly expressed concerns deriving from external changes. For instance, at the fifth ASEAN summit in December 1995, Singaporean Prime Minister Goh stated, "Under the Uruguay Round, countries have agreed to bind their tariffs for both industrial and agriculture goods and to reduce them over next five to ten years. The EU common market is embracing eastern and central Europe, and goods are traded within the EU tariff-free."⁵

3. Difficulties in Consolidating Integration Initiatives

While ASEAN's policymakers were serious about promoting market integration, actual processes for this objective were not steady. Two incidents gave vital challenges to AFTA's credibility. The first was disputes over agricultural products between Indonesia and Thailand. In early 1995, the Indonesian government transferred fifteen unprocessed agricultural products from the Temporary Exclusion List to the Sensitive List under CEPT. This move provoked a sharp response from Thailand, a major exporter, and its government threatened to withdraw forty-four agricultural products from CEPT in retaliation. This incident ended with a compromise: ASEAN members agreed to allow Indonesia to finalize CEPT liberalization of agricultural products until 2010 (Nesadurai 2003, 155). Member governments attempted to tighten rules and procedures to avoid loopholes in the treatment of agricultural products. In September 1999, the Protocol on Sensitive and Highly Sensitive Products was adopted.

The second incident occurred over the treatment of auto-related products. At an AEM in May 2000, Malaysia requested for a delay until 2005 in transferring 218 tariff lines of complete knocked-down (CKD) and complete built-up (CBU) automobile products from its Temporary Exclusion List to the Inclusion List. Originally, Malaysia was to start the transfer in 2000 and in effect bring down the import tariffs of automobile-related products to 20% or less, and gradually to 0-5% by the year 2003. Thailand, the major automobile producer country in Southeast Asia, opposed Malaysia's policy, threatening to delay import tariff reduction on palm oils, the main Malaysian export item. This issue was settled at the thirty-second AEM meeting in November 2000 with the adoption of the Protocol Regarding the Interpretation of the CEPT Scheme Temporary Exclusion List.⁶

The above two incidents indicated ASEAN's failure to secure the original commitments to market liberalization. The non-binding, flexible character of AFTA allowed member states to deviate from original commitments when was forced to protect the interests of major domestic industries. Other members were unable to block such moves, being forced to adopt the downward revision of commitments from those previously agreed upon.

The 1992 CEPT Agreement did not include a mechanism for dispute settlement. It only stipulated in Article 8 that member states should try to amicably settle any disputes arising from AFTA implementation through consultation. In April 1995, Thailand proposed a dispute-settlement mechanism, and the Protocol on Dispute Settlement Mechanism (DSM) was signed at an AEM in November 1996. According to the protocol, when no amicable settlement could be reached through bilateral consultation and negotiations, a dispute can be referred to a senior officials meeting (SEOM), which will convene a panel of experts to assist the SEOM to make a ruling. Importantly, decisions on a dispute in the panel and in the SEOM will be taken on the basis of a simple majority. If the ruling by the SEOM is found to be unsatisfactory, a party to the dispute can appeal to the AEM, which

would also make decisions based on a single majority. The AEM's decision on the appeal shall be final and binding (A8 of the Protocol). The use of the single majority vote was a departure from the ASEAN way of making decision by consensus (Kehler 2000, 567).

Although the DSM had a significant implication in ASEAN's decision-making, it did not work effectively. The mechanism did not provide sufficient regulations to implement a final ruling. A member state that fails to comply with the ruling faces no punitive measures, but shall enter into negotiations with any party involved the dispute settlement procedures with a view to developing mutually acceptable compensation (Hund 2002, 108). Furthermore, member countries did not heavily utilize the DSM. ASEAN members gave more respect to conflict avoidance than conflict resolution.

The agreement's lukewarm implementation was seen in the liberalization of the services sector. In December 1995, ASEAN leaders signed the ASEAN Framework Agreement on Services (AFAS). The AFAS aimed at eliminating restrictions to trade in services so as to improve the efficiency and competitiveness of services suppliers in the region. Under the AFAS, initial negotiations focused on five areas: 1) financial services; 2) transport; 3) telecommunications; 4) tourism; and 5) professional business services. However, an analysis of the sectors indicates that little progress was achieved during the first several years of negotiations (Stephenson and Nikomborirak 2001; Rajan and Sen 2002). The causes of this lay in such factors as the lack of tight negotiation frameworks and weak political will to open up the services market (Stephenson and Nikomborirak 2001, 7-10).

In the second half of the 1990s, complicated moves were seen with regard to the AFTA implementation and relevant policies. Some countries keen to protect the domestic industry's interests made reservations in market liberalization under theCEPT schedule, and the flexibility of the agreement allowed for such a loophole. At the same time, given the growing needs of more efficient and tight policy formation and implementation, ASEAN leaders adopted new agreements and mechanisms that had the potential to accelerate market integration by revising some of the basic norms of the ASEAN way. Yet, these agreements and mechanisms were not forcefully implemented and had meager effects on the actual integration process. This implies that external pressure gradually changed ASEAN leaders' perception of ASEAN norms, but practical moves did not follow such changes.

IV. FURTHER COMMITMENTS TO ECONOMIC INTEGRATION IN THE NEW MILLENNIUM

1. New Initiatives for Stronger Integration and ASEAN Norms

In the new millennium, ASEAN members sought to further advance the integration

process by adopting new initiatives. At the fourth informal summit in November 2000, ASEAN leaders endorsed the Initiative for ASEAN Integration (IAI). This initiative aimed at assisting new ASEAN members (Cambodia, Laos, Myanmar, and Vietnam) to keep up with former members in regional integration efforts and narrow the development divide between the two groups.⁷ In order to implement this initiative, ASEAN leaders approved the IAI Work Plan for Narrowing the Development Gap within ASEAN at the eighth summit in November 2002. Concrete projects under the six-year Work Plan focused on four major areas: 1) development in infrastructure; 2) human resources development; 3) information and communication technology; and 4) capacity-building for regional economic integration.⁸

The IAI was crucial in enabling the steady progress of market liberalization and regional integration. There was a large gap between old and new ASEAN members. In 2003, per capita gross domestic product (GDP) of the richest, Singapore (US\$20,987), was 117 times larger than the poorest, Myanmar (US\$179). The gap in economic development naturally affected the progress of market liberalization. While old members achieved 99.5% of the 0-5% tariff range by 2004, the four new members reached 65.7%.⁹

Noteworthy moves were seen in trade liberalization in services. In 2002, ASEAN members decided to adopt two measures in service trade liberalization. The first was the modified common sub-sector approach. Under this approach, a particular sub-sector would be identified as a common sub-sector if three or more countries make commitments in this sector under the General Agreement on Trade in Services (GATS) or the AFAS. The identified common sub-sector would be subject to the removal of all limitations for modes one (cross-border supply) and two (consumption abroad) and to progressive liberalization for mode three (commercial presence) and mode four (presence of natural person). The second was the application of the ASEAN-x formula. Under this formula, two or more countries may conduct negotiations and agree to liberalize trade in services for specific sectors, while others could accede at a later stage. At the thirty-fourth AEM meeting in September 2002, the ministers endorsed the set of parameters to guide the implementation of the ASEAN-x formula under the AFAS, and signed the Protocol to Amend the AFAS, enabling the application of the ASEAN-x formula to members' service commitments.

A more ambitious initiative for regional economic integration was launched in 2003. At the ninth summit at Bali in October 2003, ASEAN leaders agreed to establish an ASEAN Economic Community (AEC).¹⁰ The objective of the AEC was to set up a single market and production base with a free flow of goods, services, investment, capital, and skilled labor. Singaporean Prime Minister Goh first articulated the formation of the AEC at the previous summit. Afterwards, ASEAN members asked the Institute of Southeast Asian Studies (ISEAS) to produce a concept paper on the AEC, and exchanged views with the ASEAN Institute of Strategic and International Studies (ASEAN-ISIS) over the paper.¹¹ The AEM set up the High-Level Task Force (HLTF) on ASEAN Economic Integration, the

latter's mission to explore the AEC concept and other ideas on intensifying ASEAN economic cooperation and deepening market integration.

At the second informal summit in December 1997, ASEAN leaders endorsed the ASEAN Vision 2020. But this vision only aimed to establish an ASEAN economic region. The AEC intended to transform ASEAN into a common market by 2020 along the lines of the European Economic Community. In order to accelerate the liberalization process, ASEAN members decided on the fast track eleven priority sectors where a single market would be formed by 2010.¹² Measures for these sectors included zero tariffs, removal of non-tariff barriers, faster harmonization of product standards, mutual recognition of test reports and certification, faster customs clearance, and simplified customs procedures.

ASEAN members strengthened the AEC further in the following year. In November 2004 at the tenth summit, ASEAN leaders launched the Vientiane Action Program (VAP). The VAP was the second mid-term (2005-2010) plan, succeeding the Hanoi Plan of Action that ended in 2004.¹³ The program contained clearer goals and strategies for realizing the AEC: integration completion in the eleven priority sectors before 2010; tariff elimination for products by 2010 for old ASEAN members and 2015 for new ASEAN members.

The new initiatives launched after 2000 were accompanied by the transformation of ASEAN norms. This was the case in service trade liberalization. Both the modified common sub-sector approach and the ASEAN-x formula implied a departure from the consensus principle. The former enabled some members to promote liberalization in sectors that were more rapidly growing and less affected by national interests. The latter allowed ready and willing members to expand and deepen negotiations in all sectors. Under these new approaches, joint collaboration in an undertaking could proceed without full consensus, but begin with a coalition of willing countries until the others are able to join. The approaches had the potential of enhancing ASEAN's efficiency by averting the possibility of inaction due to the absence of consensus. Moreover, the demonstration effects were expected to encourage non-participant members to join a successful undertaking (Hernandez 2001, 117).

The AEC and relevant initiatives were accompanied by proposals that departed from ASEAN norms. First, the AEC contained concrete and institutionalized measures designed to form an economic community. As already explained, there was a tendency for ASEAN members to decide on the framework agreement first and then substantiate the content at a later stage. This incremental and flexible approach took time in conceptualizing the substance and transferring to practical actions. As for the AEC, ASEAN leaders immediately commissioned the ISEAS to formulate a concept paper to achieve the objective, and the paper contained concrete, substantial measures.

Second, ASEAN members prepared more formal and institutionalized mechanisms to ensure the proper implementation of all economic agreements and the expeditious resolution of any disputes. At the thirty-sixth AEM in September 2004, the ministers

agreed to set up three new mechanisms. The first was a legal unit within the ASEAN Secretariat. This unit aimed to provide governments with legal advice on trade disputes. The second was the ASEAN Consultation to Solve Trade and Investment Issues (ACT). The ACT was a network of government focal points where private sector complaints and operational problems in implementation could be channelled for speedy resolution. The third was the ASEAN Compliance Body (ACB). The body performs a quasi-judicial function by reviewing a trade dispute and issuing a judgement that is not legally binding, but can be used to take steps to settle the disputes. Importantly, these mechanisms were modelled from the EU and World Trade Organization (WTO). Whereas the ACT imitated the example of the EU Solvit mechanism, the ACB was modelled after the WTO Textile Monitoring Body.

The ministers also agreed to replace the 1996 Protocol on DSM with the ASEAN Protocol on Enhanced Dispute Settlement Mechanism. The new protocol strengthened the DSM system in various ways. First, the new protocol reduced ambiguity. While the old protocol had only twelve articles with short passages, the new protocol had twenty-one articles with substantial passages. Second, the new protocol stipulated the establishment of the Appellate Body. The body, comprised of independent and experienced professionals, makes judgements on a legal basis. Third, the new protocol provided procedures for the surveillance of implementation. While the new protocol still admitted strong involvement of SEOM, an inter-governmental body, it established a tighter dispute settlement mechanism following the WTO's Dispute Settlement Understanding.

Third, the AEC contained further measures to draw away from consensus-driven decision-making. In formulating the AEC, ASEAN leaders agreed on the adoption of a "2+x" approach at the 2003 Bali summit. In the 2+x approach, two able countries are allowed to liberalize certain sectors bilaterally without pursuing an agreement from all members. Those who are not ready will be able to join at the latter stage. Singaporean Prime Minister Goh explained the implications of the adoption as follows: "in the past, nothing moves unless all ten countries agreed to an idea. So now we turned it around to say 'two plus x.' So any two countries that have an idea can present their idea to the ASEAN leaders and the two countries alone can carry on, but they must be open to other members who wish to sign up on a reciprocal basis.¹⁴" Under this approach, Singapore and Thailand liberalized air cargo service sectors, and Brunei, Cambodia, and the Philippines asked to join in this scheme.

Thus, in the new millennium, ASEAN members committed to further market integration by launching new initiatives. The initiatives designed to achieve an effective and deepened integration, accompanied by the modification of ASEAN norms such as consensus-building and informal incrementalism. Members sought to overcome the stalemate in the late 1990s by revising the application of ASEAN norms.

2. Market Integration and External Threats

Why did ASEAN members launch new programs for market integration in the new millennium? Integration measures were reactions to changes in the surrounding environment, relations with China and India in particular. ASEAN's economic position vis-à-vis China declined further in the new millennium, and China has been the primary recipient of foreign direct investment (FDI) among developing countries since 1992. FDI into ASEAN increased from US\$15 billion in 2002 to US\$19 billion in 2003, but the 2003 figure was still less than 40% of China's corresponding figure of US\$54 billion (UNCTAD 2004, 50). There was a growing perception that China's rapidly expanding economy would further divert FDI inflows away from ASEAN. In addition, China's economic presence gradually increased in the Southeast Asian market. China expanded exports of relatively high-end products to Southeast Asian countries. For instance, Chinese motorbikes and electronic products, including refrigerators, washing machines, and air-conditioners, have found their way into Indonesia, Vietnam, and the Philippines. Some Chinese electronics firms began local production in Indonesia and Vietnam. While TCL started operations of a TV plant in Vietnam in 1999, Changhong and Konka opened a TV plant in Indonesia in 2000 (Maruya and Abe 2002, 20). In addition to China, another neighboring country has emerged as a serious rival to ASEAN. India raised its presence in the world economy by developing global outsourcing linkages in information and computer technology. Major information technology companies such as General Electric, Microsoft, Intel, and Cisco expanded investment in the country. The pool of English-speaking human resources for computer software is expected to raise the country's economic potential.

Confronted with China and India's growing influence, some ASEAN leaders deepened their anxiety about the relative decline of Southeast Asia as a growth pole in Asia. This concern was revealed in their desire for accelerated internal market integration. At an AEM in September 2003, the ministers agreed on the 2020 timeframe for the AEC completion, accepting some countries' reservations about opening the market too hastily.¹⁵ Thai Prime Minister Thaksin Shinawatra and Singaporean Prime Minister Goh considered that the 2020 might be too late, hoping to see an earlier completion date. At the 2003 Bali summit, Thaksin argued that the AEC should be formed by 2012 to prevent such a goal becoming obsolete. He feared that if ASEAN's integration moved slower than that date, outside forces would undermine the internal integration process as ASEAN would forge FTAs with China by 2010, India by 2011, and Japan by 2012. Thaksin stated, "here's acute awareness now that if you don't hang together, you're going to hang separately, given the competition from China and, later on, India".¹⁶

While China's looming economic expansion posed a serious challenge to ASEAN members, the growing Chinese market provided them with chances for business expansion. In order to change China's economic growth from threat to opportunity,

ASEAN members needed to improve the competitiveness of local industries and firms. Before the launching of the AEC, the AEM commissioned a consultant company, McKinsey and Company, to conduct an *ASEAN Competitiveness Study* in 2001. The study examines and identifies measures for maximizing specific industrial potential, creating opportunities for faster growth, undertaking regional initiatives, and enabling measures to boost international trade and investment. The AEC contained measures for trade facilitation in addition to trade liberalization. Trade facilitation measures, such as faster customs clearance and the harmonization of product standards and technical regulations, were indispensable in taking advantage of regional diversities to further specialize, and realizing economies of scale through reduced transaction costs. ASEAN members hoped to promote commercial cooperation and synergistic integration among local firms, some of which would develop the potential of becoming regional multinational enterprises. Firms with larger economies of scale on their home ground (Southeast Asia) were expected to advance into the Chinese market and compete outright with rival firms there.

Importantly, ASEAN governments attempted to strengthen linkages with the business community in order to prop up improvement in the competitiveness of local firms and industries. In 2000, the ASEAN Secretariat began to issue a bulletin, *Business ASEAN*. This quarterly bulletin aims to deliver information about ASEAN's policy and up-to-date business activities in Southeast Asia to business circles. The seventh summit in 2001 approved an initiative to launch the ASEAN Business Advisory Council (ASEAN-BAC) and the ABAC held the inaugural meeting in April 2003. The council, whose thirty members were nominated by their representative governments, was expected to provide ASEAN leaders with advice on the future direction of ASEAN's economic integration and industrial competitiveness (Nesadurai 2004, 14-17). The ASEAN-BAC delivers requests and preferences of the private sector to the policymaking process by publishing a report directly reached to ASEAN leaders, as well as by organizing the annual ASEAN Business and Investment Summit back to back with the ASEAN leaders' summit. Ideas and requests from the private sector are incorporated into concrete programs. For instance, in deciding on priority in integration sectors for the AEC, each government convened consultative meetings with industrial representatives.¹⁷ Many AEC initiatives were formulated with due consideration to business interests.

Nesadurai (2003) argues that some ASEAN members pursued the "developmental regionalism" in AFTA development by giving privileges to local firms. ASEAN members still chased developmental regionalism in the new millennium, but the manner in achieving this objective changed. That of the 1990s was inward looking, protecting the domestic market from foreign competition, while that of the new millennium became outward-oriented, pursuing the formation of regional economies of scale to enable local firms to become multinational. To this end, member governments tried to strengthen institutional linkages with the private sector and paid due consideration to their interests and requests.

In brief, external threats deriving from the rapid growth of the Chinese and Indian economies induced ASEAN policymakers to promote further regional market integration. They sought to compete with China and India by fostering local firms with an ability to become multinational. To do this, ASEAN governments tightened linkages with the business sector and sought to reflect its interests and demands in actual integration policies.

V. CONCLUSION

This article examined the evolution of ASEAN's attempts to promote closer economic integration since the early 1990s. Member countries advanced formal integration programs from the AFTA initiative in 1992 to the AEC in 2003. In this process, perceived external threats played a pivotal role in prompting ASEAN countries to have positive stances regarding economic integration. At first, threats from moves in broad areas, such as intensive moves towards regionalism in North America and Europe and market liberalization under APEC, induced ASEAN countries to advance the formation of a regional free trade area.

In the new millennium, ASEAN countries were confronted with direct threats from neighboring countries. In particular, they felt serious threats from China's rapid economic growth. Not only did China attract huge FDI, but its products and firms also advanced into the Southeast Asian market. In order to respond to threats from the neighboring countries, ASEAN members pushed forward deeper and tighter regional linkages through the IAI and AEC. They aimed to foster capable local firms with the potential of becoming multinational enterprises. Thus, the securing of material interests from external economic threats was an underpinning force in ASEAN's efforts to promote market integration.

ASEAN members, through diplomatic practices, developed a particular set of norms that includes consensus-building, flexible incrementalism, and informality. While these norms were effective in drawing willingness from a diverse member group to participate in cooperative programs, the changing environment forced ASEAN members to reconsider some of them. Through the second half of the 1990s, ASEAN countries sought to shift from loose to tight cooperation based on more formal mechanisms. To this end, they adopted the DSM. They also promoted less undifferentiated liberalization by broadening the scope of liberalization and imposing strict timeframes. However, these commitments did not produce expected results. The DSM was not heavily utilized and action plans for tighter enforcement were not formulated in many areas. Furthermore, a flexible process was adopted in the liberalization process as seen by the revision of original commitments.

In the new millennium, ASEAN members launched new initiatives for promoting market integration. In particular, the AEC aimed to create a single market characterized by a free flow of goods, services, and skilled labor. ASEAN members departed

from the basic norms of the ASEAN way in order to implement programs for creating the integrative market more quickly and effectively. They sought to promote integration among members who were ready and willing, thus transforming consensus-based decision-making. They also adopted more formal, tighter implementation methods, including stronger dispute settlement mechanisms. Thus, external economic threats forced major political leaders to make more decisive efforts to promote market integration. In this process, they transformed the perception of shared norms that had led ASEAN's diplomatic relations.

It is useful to apply some implications of this study to regional cooperation in the broader East Asia region. In East Asia, external economic threats became an impetus in promoting regional cooperation. The development of the cooperative APT framework was triggered by the Asian financial crisis in 1997-98. While the region's major economies recovered from the crisis, they are facing the threats (and opportunities) of globalization. Discovering how to cope with globalization will be key in promoting regional cooperation and integration. Norms and ideas pertinent to East Asia will likely have a critical influence on the evolution of regional cooperation. In East Asia, the formation of a supranational agency, which was a key factor in Europe's successful integration, is not thinkable for the time being. In this context, taking advantage of specific norms and ideas will be critical in leading to successful regional cooperation.

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ENDNOTES

- ¹ ASEAN countries formed and implemented various types of industrial and trade cooperation: the Preferential Trade Arrangement (PTA, 1977); ASEAN Industrial Project (AIP, 1977); ASEAN Industrial Complementarity (AIC, 1981); and ASEAN Industrial Joint Venture (AIJV, 1983). These schemes, by and large, produced meager outcomes because of diverse interests among the countries.
- ² *Nation*, January 30, 1992 cited in Sato (2003, 112).
- ³ *Straits Times*, January 28, 1992 cited in Bowles (1997, 224).
- ⁴ *Bangkok Post*, March 25, 1994.
- ⁵ Opening Statement His Excellency Mr. Goh Chok Tong Prime Minister of the Republic of Singapore at the fifth ASEAN summit, Bangkok, December 1995, [<http://www.aseansec.org/5151.htm>].
- ⁶ The protocol may be invoked by member countries that face problems in meeting their CEPT obligations, and allows countries to temporarily delay the transfer of a product from the TEL into the IL or to temporarily suspend its concession on a product already transferred into the IL. The protocol also provides for compensation and retaliation that were envisaged to inject tight discipline. This protocol

was considered with Article 28 of GATT 1994, and provided a transparent process for countries to modify their concession with compensation under a system of checks and balances.

In 1995, Vietnam became a member of the association. ASEAN members invited the heads of Myanmar, Cambodia, and Laos to the fifth ASEAN summit in December 1995. Subsequently, the admission of Myanmar and Laos was formally agreed at an ASEAN Foreign Ministers' meeting in May 1997, and they became official members two months later. Cambodia's accession was deferred until 1999 due to the country's troublesome rapturous domestic affairs.

⁸ The initial number of projects in the Work Plan was forty-eight. As of May 2005, one-hundred projects were at various stages of implementation. Funding was secured for eighty projects (80%), of which forty-four projects were complete, twenty-one projects were implemented; fifteen projects secured firm funding and in the planning stage. 'IAJ Work Plan for the CLMV Countries: Progress Report as at 15 May 2004,' [<http://www.ascansec.org/pdf/IAI-Article.pdf>].

⁹ *ASEAN Annual Report 2003-2004*, 17.

¹⁰ The AEC is one of three pillars that make up the ASEAN Community, as declared by ASEAN leaders in the Bali Concord II. The concord was an accord agreed upon at the ninth summit in October 2003. The other two pillars are the ASEAN Security Community and the ASEAN Socio-Cultural Community. The Bali Concord II was the new ASEAN vision, twenty-seven years after the first Bali Concord was signed by the then ASEAN-5.

¹¹ According to Hew and Soesastro (2003), ISEAS suggested the "FTA-plus approach," while the ASEAN-ISIS proposed a "common market minus approach." Although both research institutes recommended the creation of suitable supranational institutions to facilitate economic integration, the HUIF did not adopt this idea.

¹² The eleven priority sectors are as follows: 1) automotives; 2) wood-based products; 3) rubber-based products; 4) textiles and apparels; 5) agro-based products; 6) fisheries; 7) electronics; 8) air travel; 9) tourism; 10) e-ASEAN; and 11) healthcare.

¹³ The Hanoi Plan of Action, launched in December 1998, was the first of several action plans designed to realize the goals of the ASEAN Vision 2020.

¹⁴ *Far Eastern Economic Review*, October 23, 2003, 17.

¹⁵ *The Nation*, October, 8, 2003.

¹⁶ *Far Eastern Economic Review*, October, 23, 2003, 16.

¹⁷ The Joint Media Statement, the Thirty Fifth ASEAN Economic Ministers Meeting, 2 September 2003, Phnom Penh, Cambodia, [<http://www.ascansec.org/15065.htm>].