

**THE IMPACT OF ASEAN ENLARGEMENT ON ECONOMIC  
INTEGRATION: SUCCESSES AND IMPEDIMENTS UNDER  
ASEAN POLITICAL INSTITUTION**

by

Sarinna Areethamsirikul

A dissertation submitted in partial fulfillment of  
the requirements for the degree of

Doctor of Philosophy

(Development Studies)

at the

**UNIVERSITY OF WISCONSIN-MADISON**

**2008**

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**A dissertation entitled**

THE IMPACT OF ASEAN ENLARGEMENT ON ECONOMIC  
INTEGRATION UNDER ASEAN POLITICAL INSTITUTIONS:  
SUCCESSSES AND IMPEDIMENTS

submitted to the Graduate School of the  
University of Wisconsin-Madison  
in partial fulfillment of the requirements for the  
degree of Doctor of Philosophy

by


SARINNA AREETHAMSIKUL

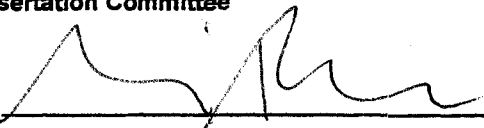
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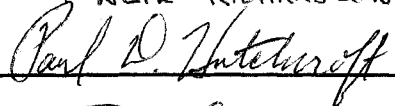
Month & Year Degree to be awarded: December


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NEIL RICHARDSON





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## Abstract

The Association of Southeast Asian Nations (ASEAN) expanded its membership to Cambodia, Laos, Myanmar, and Vietnam (CLMV) in the late 1990s. The enlargement does not mean only an increase in the number of ASEAN members, but also the ASEAN diversities in economics and politics. The process of ASEAN pre-membership did not require equalizing the differences between old and new members regarding the issues of economic development and political systems. CLMV's political systems vary from military, socialism, to authoritarian democracy, and their economies are placed under the low-income grouping. Vietnam started to gather lots of attention due to its substantial economic growth, and that meant more inclusion of Vietnam in the analysis of intra-ASEAN trade in academic research. However, it is rare that Cambodia, Laos, and Myanmar are considered in the analysis because their volumes of trade are small and perceived to be insignificant. The main purpose of this dissertation is to examine the impact of ASEAN enlargement on economic integration after accepting CLMV in both economic and political perspectives.

This research project provides two chief contributions to the existing literatures of ASEAN regionalism and institutionalism. First, the study statistically tested the impact of ASEAN enlargement on intra-ASEAN trade. The statistical results from the gravity model show that Vietnam has significantly participated in intra-ASEAN trade whereas Cambodia, Laos, and Myanmar have also illustrated their increasing role in intra-ASEAN trade. In the quantitative part, the study thus concludes that the late 1990s ASEAN enlargement has a significant impact on economic integration.

Second, the research goes beyond the limitations of the quantitative approach by including the political-institutional factor of economic integration in the second part of the dissertation. The qualitative approach is rooted in theories of liberal intergovernmentalism and neo-liberal

institutionalism. A regional institution has become the key variable in this analytical part for understanding the causes of weak policy coordination and the political impediments to economic integration in ASEAN. The research has framed three stages of the qualitative analysis: identifying the preferences of the new members, explaining the changes and continuities in ASEAN institution, and examining policy coordination under AFTA and AIA policies.

In the first stage, this analysis explains that the preferences of CLMV to join ASEAN are to (1) create legitimacy and diplomacy at the international level, (2) attract global trade and investment, and (3) preserve national sovereignty under the famous principles of the ASEAN Way and non-interference. In addition, the tension between domestic (maintaining authoritarian regimes) and international (pressurizing from international politics and trade liberalization) interactions has made CLMV countries to prefer a weak type of ASEAN institution. This is because it can function as a buffer zone and allow CLMV countries to preserve their national sovereignty, reduce pressure for political liberalization, and gain economic benefits at the same time. Considering the trend of legalizing ASEAN institution led by the six old members, the preferences of the new members in turn become a resistant factor to develop ASEAN institution.

In the second stage, the research sets out to concentrate on the key variable, which is the political-institutional factor by investigating its changes and continuities of development. The analysis suggests that ASEAN institution has not developed much since its inception due to the political blockade. The values of the ASEAN Way and non-interference have a long tradition in ASEAN state behaviors; and the new members consider these as an influencing factor in joining ASEAN. Therefore, it is not easy for CLMV countries to give up these values. Some parts of institutional structure have been changed and improved to become more sophisticated. But due to the political domination of the institution, those new mechanisms do not function well to manage regional activities, and are not trusted by members. The lack of a centralized body, a loose structure, a consensus decision-making method, a politically dominated DSM process, and political unwillingness

are the politico-institutional constraints. Therefore, the institution, to a great extent, still remains trapped in the transitional period.

In the third stage, policy coordination regarding negotiation, compliance, and conflict management is poor under the cases of AFTA and AIA. The negotiations start quickly, but with insufficient detail in the agreement. The compliance is flexible and loose because the policy outline is not clear. ASEAN does not have an authoritative body to oversee policy compliance, and the reward and punishment system remains ambiguous. The method to resolve conflict is subjugated by the political side in the Dispute Settlement Mechanism (DSM) process, which makes members lose confidence in the ASEAN-DSM process. The benefits of requesting the use of the DSM are not certain to the compliers.

In sum, this research study has attempted to balance the quantitative and qualitative analyses to explain two sides of economic integration. In terms of intra-ASEAN trade, ASEAN has improved its performance after the enlargement. On the other hand, ASEAN has remained inefficient in terms of policy coordination. This is a wake-up call for ASEAN to look at its institutional performance in order to facilitate higher economic integration in the long run. During the beginning stages of tariff reduction and trade liberalization, CLMV can enjoy a phenomenon of economic growth and a higher degree of regional trade, whereas the old members have also clearly amplified their economic activities with the new members. However, without the development of ASEAN institution, the significance of intra-ASEAN trade may not be sustained because there is no guarantee that members will keep their commitment to the AFTA scheme and other regional policies. Also, ASEAN will need a more sophisticated mechanism to deal with the future problems such as customs, standardization, harmonization, mutual recognition arrangements, and other non-tariff barriers. The institution will fail to function and facilitate economic integration when ASEAN trade relationship becomes more complex, which requires a formal mechanism to solve and provide a solution in technical and complicated problems. Most importantly, the official agenda of becoming a single

market and a regional production network announced by ASEAN will never happen under the existing weak institution.

This study suggests reshaping ASEAN institution to better respond to regional policy and cooperation. Six recommendations are addressed to amend ASEAN institution as follows:

- \* ASEAN needs to reduce and restrain the power of ASEAN Foreign Ministers. Political supremacy in economic affairs should be demolished in order to unlock information flows between economic and political sides, and create independent regional bodies.

- \* ASEAN needs to separate economic and political decision-making processes. This will allow the council of the ASEAN Economic Community to become independent and make decisions in their own affairs, with quicker and more efficient methods like voting.

- \* ASEAN needs to empower the independent ASEAN Secretariat and Secretary-General. They should be independent from the political pressures of ASEAN institution in order to make them an effective body to oversee policy compliance and initiate new projects.

- \* ASEAN needs to eliminate the power of senior officials in the DSM process. This change will help restore members' confidence in the ASEAN-DSM and eliminate the possibility of political intervention.

- \* ASEAN needs to increase participation of the private business groups including other civil society organizations in formulating regional policies and strategies. Their participation will help building up the holistic view of ASEAN institution to better respond to people's demands since ASEAN does not have an elected parliament.

- \* ASEAN needs to create a strategic plan and a connection among ASEAN policies such as AFTA, AIA, and IAI. Under the strategic plan, ASEAN can promote a regional production network by targeting specific industries and achieve higher economic integration.

By 2015, ASEAN aims to become an ASEAN community which includes three pillars—security, economic, and socio-culture. Without institutionalization, the ASEAN community can be



only a dream. The recent negotiations among ASEAN members to establish the ASEAN Charter is a new movement to develop ASEAN institution such as a suspension of membership, a sanction system, and a voting system. CLMV countries have in turn played a resisting role in the development of ASEAN institution. Despite their disagreement, the endorsement of the Charter was signed by all ASEAN members in November 2007. What to be considered in the Charter is the detail and conditions of the Charter, and its effect on changing the behaviors of ASEAN members. In other words, the successful endorsement of the ASEAN Charter will in fact not be the exact indicator of institutional development, but instead its effectiveness to improve ASEAN institution's performance and unify ASEAN members' behaviors will be more important. The assessment of the ASEAN institution in the period of the Charter should be examined in the future.

## Acknowledgements

I am finally done! and there are so many people whom I am indebted to and would like to dedicate this section in my dissertation to deeply thank them for their generosity, intelligence, and support. Without them, I know I would not have been able to earn this degree. First of all, I would like to thank God who led me to pursue and complete this degree. He gave me strength and confidence to overcome barriers. I am thankful to my family who tremendously shows me their unconditional love and gave me financial and psychological supports. In particular, my dad who could not physically celebrate this successful moment with me always encouraged me to follow my inspiration and believed in my decisions. He is truly the biggest role model for me.

This dissertation could not have been written without my advisor, Professor Neil Richardson. Through all five years, he had intelligently guided me from the first to the final stage of my dissertation process. I am also thankful to all committee members, Professor Ian Coxhead, Professor Paul Hutchcroft, Professor Kris Olds, and Professor Nils Ringe. I am grateful to their intelligent comments and suggestions to improve my research, write numerous letters of recommendation for my scholarship applications, and their bighearted support during my hardship.

At the Development Studies program, I thank Christine Elholm who is more than a secretary of the program, Professor Lydia Zepedia who believes in Development Studies program, and other program committee members. I also thank Margaret McLane, the Center for Southeast Asian Studies, the Scott Kloeck-Jenson Fellowship, and the Frank Educational Fund for their financial support. Larry Ashum and other librarians at UW who have heart to help UW students to succeed their academic goal.

Five years at the University of Wisconsin-Madison taught me so many things from academic to social life. It was wonderful to get to know several friends in Madison, especially Worawat

Margsiri, Thanapol Limapichart, Pishayasinee mulapruk, Kiriya Kulkolkarn, Prajak Kongkirati, Kym Leggett, and Nonglak Rojanasaeng. I appreciate their true friendships which we had shared in Madison and will continue in the future, and their intellectual thoughts in every kind of subjects. I am grateful to Yasumasa Komori. You are my love and angel who always supports me in any situation with your intelligence and biggest heart. My wonderful experience with these people will be always in my memory. I sincerely thank all of them.

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## CHAPTER ONE

### ASEAN ENLARGEMENT, POLITICAL INSTITUTION, AND ECONOMIC INTEGRATION: LITERATURE REVIEW AND THEORITICAL FRAMEWORK

The Association of Southeast Asian Nations (ASEAN) is a political and economic cooperative group, formed in 1967 by five founding states: Indonesia, Malaysia, the Philippines, Singapore, and Thailand. ASEAN expanded for the first time to admit Brunei as the sixth member in 1984. From 1995 to 1999 the old ASEAN members (ASEAN-6) decided to enlarge their association by accepting four of the least developed Southeast Asian countries: Cambodia, Laos, Myanmar, and Vietnam (CLMV). Vietnam was the first to receive a membership in 1995, followed by Laos and Myanmar in 1997. Cambodia was admitted as the last member of the association in 1999. As a result of the accessions, ASEAN has developed not two- but three-tiered regionalism due to the different levels of economic development and the different political systems among old and new members, as illustrated in Figure 1.1.

With per capita GDPs of over US\$15,000, Brunei and Singapore have joined the group of high-income countries, based on the World Bank economic measurement. On the other hand, Indonesia, Malaysia, the Philippines, and Thailand have been placed in the group of middle-income countries. Among them, Malaysia had the highest GDP per capita of around US\$9,500 in 2003, while Indonesia had the lowest GDP per capita of US\$3,300.<sup>1</sup> In terms of politics, among the old ASEAN members Brunei has been recognized for having no political freedom, measured by the

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<sup>1</sup> United Nations [The], *Human Development Report* (New York: Human Development Report Office, UNDP, 2003).

Freedom House Index (FHI).<sup>2</sup> The Indonesian FHI has been rapidly improved due to the better records of political rights and civil liberties after the collapse of the Suharto regime in the late 1990s; however, its freedom of politics is still ranked under a “partly free” status. Indonesia moved from “not free” to “partly free” in 1998, joining Malaysia and Singapore in this category. However, since 2000 Indonesia’s FHI has been ranked higher than Malaysia’s and Singapore’s. The Philippines is the only ASEAN member that has earned “freedom” status, measured by the FHI. Thailand had been placed in the same category as the Philippines until the military coup ousted the elected government in September 2006.<sup>3</sup>

Economic and political diversities have increased in ASEAN since the accessions of CLMV in the late 1990s. The four new ASEAN members have GDPs per capita between US\$1,000 and 2,500; Myanmar is the poorest and Vietnam is the richest among them.<sup>4</sup> The accessions of CLMV have transformed ASEAN from a group with a majority of middle-income economies to a group with a majority of low- and middle-income economies. According to the FHIs between 1974 and 2003, all new members have not exercised political freedom in their countries. As illustrated in Figure 1.1, the four new members are clustered at the top left corner of the diagram, which means low income and no freedom of politics. Now ASEAN members consist of five “no political freedom” countries, three “some political freedom” countries, one “high degree of political freedom” country, and one country (Thailand) in a transitional period. The above economic and political diversities raise the question of whether three-tiered regionalism can facilitate a higher level of economic integration in the region as the result of ASEAN enlargement.

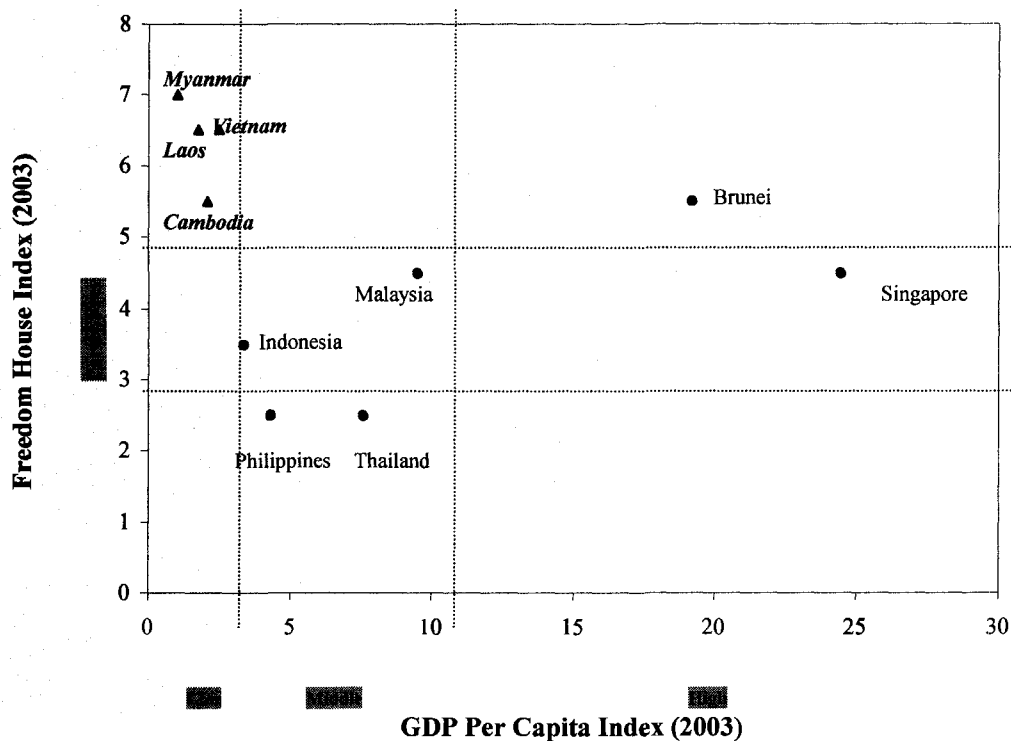
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<sup>2</sup> Freedom House Website, *Freedom House Index* (2003 [cited November 21 2005]); available from <http://www.freedomhouse.org>.

<sup>3</sup> At the time of writing this dissertation, Thailand is dominated by the military coup which expelled the Thaksin government in September 2006. The coup interim government has promised to return democracy to the Thai people and schedule a national election in 2007.

<sup>4</sup> United Nations [The], *Human Development Report*, United Nations [The], *Human Development Report* (New York: Human Development Report Office, UNDP, 2002).

**Figure 1.1: Economic and Political Diversities in ASEAN, 2003**



Source: UNDP (2000, 2003) and FHI (2003)

Note: - "Political rights and civil liberties are measured on a one-to-seven scale, with one representing the highest degree of freedom and seven the lowest" (FHI).

- Myanmar's GDP per capita is from 2000 because its 2003 data is not available.

According to Herman Joseph S. Kraft, the reasons for enlarging ASEAN membership were not clearly addressed by ASEAN.<sup>5</sup> However, other scholars have proposed that there may be many expected advantages as a result of the enlargement. First, it is economically advantageous for ASEAN to expand its market size from 370 to 530 million people. Second, a larger ASEAN could encourage more foreign investment in the region, which may increase intra-regional trade and accelerate economic development.<sup>6</sup> Third, the mounting pressure of losing market share to China,

<sup>5</sup> Herman Joseph S. Kraft, "ASEAN and Intra-ASEAN Relations: Weathering the Storm?," *The Pacific Review* 13, no. 3 (2000): 455.

<sup>6</sup> Kriengsak Chareonwongsak, "Lessons from ASEAN's Economic Integration," *ABAC Journal* 24, no. 2 (2004), Hadi Soesastro, "The ASEAN Free Trade Area: A Critical Assessment," *The Journal of East Asian Affairs* 16, no. 1 (2002).

growing trade blocs, and global regional unions compelled ASEAN to expand its boundaries.<sup>7</sup> Fourth, in addition to the fear of Chinese economic competition, ASEAN was also concerned about the very close economic and military relationship between China and Myanmar<sup>8</sup> and the tight economic relationship between China and Vietnam. Admitting Myanmar and Vietnam may to some extent weaken their connection with China. This could be an important reason for ASEAN to accept both countries, in addition to the economic benefits. On the other hand, many observers have pointed out that the accession of Myanmar may have an unpleasant impact on international relations for ASEAN, especially with the European Union (EU) and the United States.<sup>9</sup> Miles Kahler further expresses his concern that the ASEAN enlargement may not help ASEAN to easily develop the ASEAN institution due to the economic and political constraints of the new members. “[CLMV] have economies that are not fully market-oriented and demonstrate the greatest concern over sovereignty costs. They are likely to serve as a drag on future legalization within ASEAN.”<sup>10</sup>

Regarding the impact of the new members on regional economic integration, the overall trend of intra-ASEAN trade has been increasing since the 1990s; however, the rate of growth is low, with a proportionally small market growth share of the new members even after the enlargement. The lack of domestic infrastructure in the new members, the lack of domestic and transnational transportation within and between members, and the lack of regional standardization obviously pose barriers to economic integration. Additionally, tensions between these countries from historical conflicts, internal political instability, and different political systems are all potential obstacles to the success of

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<sup>7</sup> Teofilo C. Daquila, "ASEAN's Economic Performance: Reviewing the Past, Looking to the Future," *Harvard Asia Quarterly Online* Spring (2002).

<sup>8</sup> Han Feng, "ASEAN's Relations with Big Powers," in *Southeast Asia in the New Century: An Asian Perspective*, ed. Samuel C. Y. Ku (Taiwan: Center for Southeast Asian Studies, National Sun Yat-Sen University, 2002), Kraft, "ASEAN and Intra-ASEAN Relations: Weathering the Storm?."

<sup>9</sup> Eero Palmujoki, *Regionalism and Globalism in Southeast Asia* (New York: Palgrave, 2001), 48, Sukhumbhand Paribatra, "From ASEAN Six to ASEAN Ten: Issues and Prospects," *Contemporary Southeast Asia* 16, no. 3 (1994).

<sup>10</sup> Miles Kahler, "Legalization as Strategy: the Asia-Pacific Case," *International Organization* 54, no. 3 (2000): 569.

ASEAN integration.<sup>11</sup> In particular, the weak structure and institution of ASEAN regionalism itself may be one of the major obstacles to regional economic integration, creating ineffective integrative policies after the enlargement.<sup>12</sup>

The enlargement can be investigated from two angles: cause and effect. This study emphasizes the “effect” aspect—the impact of enlargement—and considers the causes of enlargement in the research analysis. The treatment of enlargement in recent ASEAN regionalism literature regarding institutionalism, political economy, and economic development has focused on history and descriptive research, lacking a systematic framework to look at the impact of enlargement on economic integration. The research on enlargement has been limited due to some pessimistic views of deepening integration in ASEAN and a crucial push to widen integration outside of ASEAN, which may consequently water down the significance of intra-regional integration. Jorn Dosch addresses this problem from an institutional perspective: “most Southeast Asians never really questioned the organization’s strategy of reaching the ASEAN-10 goal as quickly as possible.”<sup>13</sup> ASEAN should project a widening and deepening integration policy in order to expand economic opportunities outside of ASEAN and to increase economic activities within ASEAN at the same time. Moreover, internally it is essential to improve regional institutions in hopes of facilitating ASEAN members’ cooperation by producing policy to reduce the gap between the new and old members and to increase welfare for ASEAN people. Few Southeast Asian scholars have emphasized the need to deepen ASEAN in order to reduce the disparities among member countries and improve the ASEAN

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<sup>11</sup> Sukhumbhand Paribatra, "From ASEAN Six to ASEAN Ten: Issues and Prospects."

<sup>12</sup> H. W. Arndt, "AFTA and After," in *AFTA in the Changing International Economy*, ed. Joseph Tan (Singapore: Institute of Southeast Asian Studies, 1996), Jayant Menon, "The Expanding of AFTA: Widening and Deepening?," *Asian-Pacific Economic Literature* 12, no. 2 (1998): 14.

<sup>13</sup> Jorn Dosch, "The Post-Cold War Development of Regionalism in East Asia," in *Regionalism in East Asia: Paradigm Shifting?*, ed. Fu-Kuo Liu and Philippe Régnier (New York: RoutledgeCurzon, 2003), 40. 'ASEAN-10' refers to all ten members in ASEAN.



institution to offer better regional policy and management after the enlargement,<sup>14</sup> while several scholars pay attention to the widening relationship of ASEAN Plus Three (China, Japan, and South Korea).

This dissertation attempts to conduct research emphasizing the deepening integration after ASEAN enlargement. Three issues are essential to investigate: (1) the actual impact of ASEAN enlargement on economic integration in terms of intra-ASEAN trade and policy coordination, (2) the relationship between the impact of enlargement and policy coordination under the influence of the ASEAN political institution, and (3) the strategies to improve regional institution and policy coordination. These three missing points in the literature are transformed to two sets of research questions. The research aims at three things. First, this research project will fill the gap in ASEAN regionalism literature by investigating the relationships of enlargement, the ASEAN regional institution, and economic integration in a systematic framework. Second, the research will attempt to point out political and institutional factors that foster and deter the process of regional economic integration, and at last from this study the author will present policy recommendations to improve ASEAN economic integration through the role of the ASEAN institution. I divided my research into three parts. The first part is quantitative, focusing on the impact of ASEAN enlargement on intra-ASEAN trade. The research method in this part is a gravity model approach. The second part of my research study is qualitative, considering the ASEAN regional institution in the equation of the impact of ASEAN enlargement and policy coordination. The qualitative framework is based on institutionalism/regionalism and liberal intergovernmentalism theories. The third part is the

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<sup>14</sup> Chalongphob Sussangkarn, "The Emergence of China: Impacts of Thailand and ASEAN and the Role of Japan," (Tokyo: Tokyo Club Foundation for Global Studies, 2004), Hadi Soesastro, "ASEAN Economic Community: Concept, Costs, and Benefits," in *Roadmap to an ASEAN Economic Community*, ed. Denis Hew (Singapore: Institute of Southeast Asian Studies, 2005), Hadi Soesastro, "ASEAN in 2030: The Long View," in *Reinventing ASEAN*, ed. Simon S. C. Tay, Jesus P. Estanislao, and Hadi Soesastro (Singapore: Institute of Southeast Asian Studies, 2001), Simon S. C. Tay, "Institutions and Processes: Dilemmas and Possibilities " in *Reinventing ASEAN*, ed. Simon S. C. Tay, Jesus P. Estanislao, and Hadi Soesastro (Singapore: Institute of Southeast Asian Studies 2001).

discussion on ASEAN institution's problems and policy recommendations. The following sections of this chapter provide a literature review, research questions, a theoretical framework, and an explanation of research methodologies.

## **1. Literature Review**

### ***1.1. A Brief History of Regional Institution and Economic Cooperation in ASEAN***

At the beginning of the 1950s, Southeast Asia was not even considered a region. Nathaniel Peffer, former professor at Columbia University, did "not believe that there is such a thing as Southeast Asia."<sup>15</sup> Norman J. Padelford claimed that Southeast Asia did not fall into his definition of regionalism.<sup>16</sup> In addition, William Henderson explained that Southeast Asian countries possessed little fundamental unity due to geographic barriers, competitive instead of complementary economies, cultural differences—race, language, and religion—and historical conflicts.<sup>17</sup> A decade later, in 1967 the Association of South East Asian Nations (ASEAN) was established after several unsuccessful attempts to create regional cooperation and agreement. The five original member nations were Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The initial objective of ASEAN was to insure the security of the region against the spread of communism in the Asia Pacific region during the 1960s-70s. Besides the threat of communism, political instability and internal conflicts among Southeast Asian countries raised the need for cooperation. For a decade, ASEAN served its purpose solely as a political and security agreement.

In 1984, ASEAN accepted a new member for the first time. Brunei was accepted into the association after its territorial conflicts with Malaysia, Indonesia, and the Philippines had been eased. Singapore has always had a good political relationship with Brunei, and certainly the expected

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<sup>15</sup> Nathaniel Peffer, "Regional Security in Southeast Asia," *International Organization* 8, no. 3 (1954): 311.

<sup>16</sup> Norman J. Padelford, "Regional Organizations and the United Nations," *International Organization* 8, no. 2 (1954).

<sup>17</sup> William Henderson, "The Development of Regionalism in Southeast Asia," *International Organization* 9, no. 4 (1955).

benefits from oil trading were an important reason to support the accession.<sup>18</sup> Similarly, Thailand has been the biggest rice exporter to Brunei. Thus, the accession created a channel for expanding Thailand's business opportunities to another Southeast Asian country. Brunei expected two main benefits from the accession: regional security under the Treaty of Amity and Cooperation (TAC) and economic advantages under a Preferential Trade Agreement (PTA).

In the 1980s, regional economic cooperation among ASEAN countries was low, as shown by many failures of cooperative programs such as ASEAN Industrial Projects (AIPs), ASEAN Industrial Complementation (AIC), and ASEAN Industrial Joint Venture (AIJV). The lack of project preparation, sluggish bureaucracy, undeveloped common regional policy, and lack of private participation were barriers to cooperation. Prior to these regional projects, ASEAN had set up a PTA in 1976 at the first summit in Bali, which was also the first time that ASEAN members substantially discussed economic cooperation. However, under this policy, each country could set up its own PTA list, leading to ineffectiveness in creating regional trade cooperation because most of the products included in the individual PTA lists were not traded within the region. For example, the Philippines included snowplow equipment and Indonesia included nuclear power plants in their tariff offers.<sup>19</sup> Total trade under the PTA of Indonesia in 1984 accounted for only 0.04 percent of Indonesia's imports from the rest of ASEAN.<sup>20</sup> Moreover, approximately 16,000 items under the PTA from every country in the region amounted to less than one percent of intra-ASEAN trade at the end of the 1980s.<sup>21</sup>

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<sup>18</sup> Pisanu Suvanajata, *ASEAN in Three Decades [In Thai]* (Bangkok: The Thailand Research Fund 1997), 101.

<sup>19</sup> John Ravenhill, "Economic Cooperation in Southeast Asia: Changing Incentives," *Asian Survey* 25, no. 9 (1995).

<sup>20</sup> *Ibid.*: 853.

<sup>21</sup> Tan Kong Yam, Toh Mun Heng, and Linda Low, "ASEAN and Pacific Economic Cooperation," *ASEAN Economic Bulletin* 8, no. 3 (1992).

The economic cooperation among ASEAN countries was solidly emphasized again in the early 1990s due to global liberalization pressure and regionalism,<sup>22</sup> the collapse of the Cold War, a need for political cooperation to ease regional political conflicts,<sup>23</sup> a fear of growing Chinese trade and investment,<sup>24</sup> and domestic policy preferences to accentuate export-led growth. As a result, the ASEAN Free Trade Area (AFTA) was agreed upon in 1992 at the fourth ASEAN Summit in Singapore and implemented in January 1993. The first AFTA agreement was to phase down intra-regional tariffs to 0 to 5 percent over a period of fifteen years by replacing the PTA with the new mechanism for economic integration, called the Common Effective Preferential Tariffs (CEPT) and the classification of product lists: Inclusion List (IL), Sensitive List (SL), and General Exclusion List (EL). In 1995, "AFTA Plus" expanded the AFTA framework by including unprocessed agricultural products, which are considered a type of sensitive products, and creating a Temporary Exclusion List (TEL), allowing members to delay some products which are not ready to be liberalized. After the Asian financial crisis in 1997, targets for tariff reductions for all products on all lists were shortened from 15 to 10 years. However, in 2000 AFTA permitted members to delay reductions in tariffs under the Protocol Regarding the Implementation of the CEPT Scheme Temporary Exclusion List. Malaysia was the first country to use this protocol in order to delay tariff reduction and extend the production of its national automobile industry.<sup>25</sup> As a result, this protocol raises the concern of its

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<sup>22</sup> Paul Bowles, "ASEAN, AFTA and the 'New Regionalism'," *Pacific Affairs* 70, no. 2 (1997): 224, Ravenhill, "Economic Cooperation in Southeast Asia: Changing Incentives." Richard Stubbs, "Signing on to Liberalization: AFTA and the Politics of Regional Economic Cooperation," *The Pacific Review* 13, no. 2 (2000): 309.

<sup>23</sup> Leszek Buszynski, "Thailand's Foreign Policy: Management of a Regional Vision," *Asian Survey* 34, no. 8 (1994), Toh Mun Heng and Linda Low, "Is the ASEAN Free Trade Area a Second Best Option?," *Asian Economic Journal* 7, no. 3 (1993), Seiji Naya and Michael G. Plummer, "Economic Co-operation After 30 Years of ASEAN," *ASEAN Economic Bulletin* 14, no. 2 (1997), Richard Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," *Asian Survey* 42, no. 3 (2002).

<sup>24</sup> Mohamed Ariff, "Outlooks for ASEAN and NAFTA Externalities," in *Co-operation or Rivalry? Regional Integration in the Americas and the Pacific Rim*, ed. Shoji Nishijima and Peter H. Smith (Boulder: Westview, 1996), Bowles, "ASEAN, AFTA and the 'New Regionalism'." Ravenhill, "Economic Cooperation in Southeast Asia: Changing Incentives." Stubbs, "Signing on to Liberalization: AFTA and the Politics of Regional Economic Cooperation."

<sup>25</sup> Soesastro, "The ASEAN Free Trade Area: A Critical Assessment," 42.

impact on slowing down economic integration in ASEAN and an incentive for other members, especially new members, to slow down tariff reductions. Another important regional project under ASEAN institution is the ASEAN Investment Area (AIA), which was launched in October 1998 after the crisis in order to stimulate intra-regional investment among ASEAN members. The agreement aims to unlock all industries for investment by ASEAN investors by 2010 and by all investors by 2020 with some flexibility in its TEL and SL.

In 2003, ASEAN presented a regional concept of a single community under the slogan of "ASEAN Vision 2020." It represents the unity of an economic, security, and socio-cultural community in the Southeast Asian region with the target year of 2020. Later on, the target year was advanced to 2015. "ASEAN Vision 2020" itself was created with little detail and an unclear scope and outline of implementation. Nevertheless, AFTA and AIA are the two economic implementations to achieve the economic purpose of "ASEAN Vision 2020," while the Treaty of Amity and Cooperation (TAC) and the ASEAN Regional Forum (ARF) are served as a guarantee for security and peace in the Southeast Asian community.

### ***1.2. Existing ASEAN Enlargement and Integration Literature: Economics and Institution***

ASEAN enlargement and integration literature can be grouped into two broad categories: economics and politics. In the economics literature, ASEAN would be expected to achieve a higher degree of intra-regional trade as a result of expanding its membership to the CLMV economies.<sup>26</sup> Prior to the accession of CLMV, ASEAN-6 or the old members had traded among themselves, accounted for around 17.8 percent of ASEAN's total trade. The share of intra-ASEAN-6 trade has been increasing to 21.6 percent in 1996 and 25.4 percent in 2005. CLMV contributed around 1.7

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<sup>26</sup> Greg B. Felker, "Southeast Asian Industrialization and the Changing Global Production System," *Third World Quarterly* 24, no. 2 (2003), Emiko Fukase and Will Martin, *Free Trade Area Membership as a Stepping Stone to Development: The Case of ASEAN* (Washington, D.C.: World Bank, 2001), Emiko Fukase and Alan L. Winters, "Possible Dynamic Effects of AFTA for the New Member Countries," *The World Economy* 26, no. June (2003).

percent to the increase in intra-ASEAN trade, or around 7 percent to the share of the total intra-regional trade in 2005. Vietnam's participation has been more substantial than that of the other three new members. According to the United Nations COMTRADE database, Vietnam improved its share of trade with ASEAN from 2.8 percent in 1995 to 9.9 percent in 2003. The intra-trade share of the new members in Southeast Asia has risen from approximately 5 percent in 1995 to 11.7 percent in the 2003.

Even though these basic records point to a continuing growth of intra-ASEAN trade and an overall growing share of the new members in the regional trade, these trends do not explain the influence of ASEAN expansion on intra-ASEAN trade or economic integration in ASEAN. Jeffrey A. Frankel, Ernesto Stein, and Shang-Jin Wei have suggested from their study of regional trading blocs that an intra-regional trade share is an inadequate indicator for an intra-regional trade concentration because it misleadingly explains the level of regional trade and its rate of change.<sup>27</sup> In ASEAN, Frankel and Wei further stated that "if Indochina is also included in the grouping, then the recent increase in trade within Southeast Asia is *just* slightly greater."<sup>28</sup> Including an Indochina variable (CLV) in their gravity model, which used data from 1990, 1992, and 1994, showed a statistically significant negative relationship between the openness of the four new members (potential new members at that time) and their bilateral trades, and the coefficients of the dummy ASEAN variable (six old members) showed a slight, statistically insignificant decline. In other words, their study illustrated that the new members may not have contributed to the growth of intra-ASEAN trade *before* ASEAN expansion. However, it is still questionable how much the new members influence the growth of intra-ASEAN trade *after* ASEAN expansion. Later works on intra-ASEAN trade have not focused on or included the new members as an important factor in regional

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<sup>27</sup> Jeffrey A. Frankel, Ernesto Stein, and Shang-Jin Wei, *Regional Trading Blocs in the World Economic System* (Washington, DC: Institute for International Economics, 1997), Jeffrey A. Frankel and Shang-Jin Wei, *ASEAN in Regional Perspective, Working Paper PB96-02* (San Francisco: Center for Pacific Basin Monetary and Economic Studies, Federal Reserve Bank of San Francisco, 1996).

<sup>28</sup> Frankel and Wei, *ASEAN in Regional Perspective*, 4.

trade, which does not help to illuminate the impact of the new members on regional economic integration.<sup>29</sup> Some studies show the significant influence of the ASEAN bloc on intra-regional trade, including Elliott and Ikemoto (2004), Soloaga and Winters (2000), and Gilbert, Schollay, and Bora (2001).<sup>30</sup> However, the four new ASEAN members were not considered in these studies. Another study by Emiko Fukase and Will Martin used a Computable General Equilibrium (CGE) model to test the accessions of CLMV.<sup>31</sup> They found that under AFTA the new ASEAN members are likely to gain from trade creation. In the case of Vietnam and Cambodia, Fukase and Martin asserted that even though gain under AFTA is relatively small compared to gain from MFN basis, it is a momentous step to trade liberalization and WTO membership.<sup>32</sup> In this missing part of the literature, this research will fill the gap to find out how the new members significantly influence ASEAN economic integration in terms of intra-ASEAN trade by using a gravity model approach in Chapter Three.

Since ASEAN's establishment, many political scholars have tried to explain its regional economic cooperation from different perspectives. In neo-realism, power relation among states determines the formation and type of international cooperation and institution. In the aftermath of World War II, "[t]he United States attempted to create and organize both a North Atlantic and a

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<sup>29</sup> Robert J. R. Elliott and Kengo Ikemoto, "AFTA and the Asian Crisis: Help or Hindrance to ASEAN Intra-Regional Trade?," *Asian Economic Journal* 18, no. 1 (2004), John Gilbert, Robert Scollay, and Bijit Bora, "Assessing Regional Trading Arrangements in the Asia-Pacific, Policy Issues in International Trade and Commodities Study Series No. 15," (New York: The United Nations, 2001), Deng-Shing Huang, "Trading Blocs in East Asia: Empirical Evidence from the Gravity Model," in *The 14th Annual East Asian Seminar on Economics: International Trade* (Taipei, Taiwan: 2003), Chang-Soo Lee and Soon-Chan Park, "An Examination of the Formation of Natural Trading Blocs in East Asia," *Asian Economic Papers* 4, no. 1 (2006), Subhash C. Sharma and Soo Y. Chua, "ASEAN: Economic Integration and Intra-Regional Trade," *Applied Economics Letters* 7 (2000), Isidro Soloaga and Alan L. Winters, "Regional in Nineties: What Effect on Trade?," *North American Journal of Economics and Finance* 12, no. 1 (2000).

<sup>30</sup> Elliott and Ikemoto, "AFTA and the Asian Crisis: Help or Hindrance to ASEAN Intra-Regional Trade?," Gilbert, Scollay, and Bora, "Assessing Regional Trading Arrangements in the Asia-Pacific, Policy Issues in International Trade and Commodities Study Series No. 15," Soloaga and Winters, "Regional in Nineties: What Effect on Trade?."

<sup>31</sup> Felker, "Southeast Asian Industrialization and the Changing Global Production System," Fukase and Martin, *Free Trade Area Membership as a Stepping Stone to Development: The Case of ASEAN*, Fukase and Winters, "Possible Dynamic Effects of AFTA for the New Member Countries."

<sup>32</sup> Fukase and Martin, *Free Trade Area Membership as a Stepping Stone to Development: The Case of ASEAN*, Fukase and Winters, "Possible Dynamic Effects of AFTA for the New Member Countries."

Southeast Asian region.”<sup>33</sup> In the security domain, the U.S. foreign policy in the post-war era promoted multilateral cooperation in Europe by forming the North Atlantic Treaty Organization (NATO) and established “hub-and-spokes” bilateral relationships with many Asian countries with the United States at the center.<sup>34</sup> As Peter Katzenstein and Takashi Shiraishi argue, the U.S. promotion of bilateralism in Asia and multilateralism in Europe led to the differing settings of regionalism in Asia and Europe. As a result, Asian countries were strongly linked with the United States both strategically and economically, while the ties among themselves remained very weak. For small states like ASEAN members, gathering together in a regional grouping can create a unified voice and reinforce their bargaining power.

In constructivism, socialization of state behaviors cultivates the characteristics of cooperation and institution in ASEAN. Besides the role of the United States and other extra-regional actors, the internal contributions have notably supported the formation and continuation of ASEAN. ASEAN is to some extent considered a successful peace-keeping region in the view of constructivism, as demonstrated by Amitav Acharya and Shaun Narine in their studies, for example. Acharya, a leading ASEAN constructivist scholar, explains the successful regional peacekeeping of ASEAN as the reason for the norms of the “ASEAN Way” and non-interference. “The single most important principle underpinning ASEAN regionalism is the doctrine of non-interference in the international affairs of member states.”<sup>35</sup> By allowing the member states to control their own affairs without regional interference, good relationships are maintained between ASEAN members and this in turn keeps the peace in the region. ASEAN members are culturally socialized through interpersonal communication and mutual trust. The ASEAN institution thus operates under consultation and

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<sup>33</sup> Christopher Hemmer and Peter J. Katzenstein, “Why is There No NATO in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism” *International Organization* 56, no. 3 (2002): 575.

<sup>34</sup> Peter J. Katzenstein and Takashi Shiraishi, eds., *Network Power: Japan and Asia* (Ithaca, NY: Cornell University Press, 1997), 23.

<sup>35</sup> Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order, Politics in Asia Series* (New York: Routledge, 2001), 57.



consensus. The ASEAN Way seems to be a good way for regional peace; however, it has limitations in dealing with emergencies and conflicts.<sup>36</sup> The greatest challenge for ASEAN under the view of constructivism is that ASEAN socialization creates a high degree of preserving sovereignty and a low degree of collective identity. In other words, ASEAN socialization has favorably maintained a gap between members, rather than reducing it and contributing to greater integration. The challenges of ASEAN cooperation are attributed to different sources by the two schools of thought. Leifer's realist or neo-realist analysis views "power limitations" as a source for low integration. On the other hand, the "quality of socialization" among members is reflected by low integration, according to Acharya's constructivist notion.<sup>37</sup>

In a comparison to neo-realism and constructivism, institutionalism focuses on the role of institution as core. Institution is created by a cooperative agreement that comes from the collective interest of states that desire to find solutions for concerns and problems. First, neo-liberal institutionalist scholars<sup>38</sup> argue, institutions can develop principles, mechanisms, and decision-making methods that help to ease conflicts and also play an important role in solving cooperative problems such as trade, investment, and financial flows in the integration process. Second, institutions can reduce the deviating behaviors of members and enhance their converging behaviors under a systematic and formal structure. Third, institutions can improve the quantity and quality of information, reduce transaction costs, and increase an unswerving round-table for communications

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<sup>36</sup> Shaun Narine, *Explaining ASEAN: Regionalism in Southeast Asia* (Boulder, CO.: Lynne Rienner Publishers, 2002), 974.

<sup>37</sup> Amitav Acharya and Richard Stubbs, "Theorizing Southeast Asian Relations: An Introduction," *The Pacific Review* 19, no. 2 (2006): 131.

<sup>38</sup> Miles Kahler, *International Institutions and the Political Economy of Integration* (Washington, D.C.: Brookings Institution, 1995), Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984), Robert O. Keohane, *International Institutions and State Power: Essays in International Relation Theory* (Boulder, Co: Westview, 1989), Robert O. Keohane and Lisa L. Martin, "The Promise of Institutional Theory," *International Security* 20, no. 1 (1995), Lisa L. Martin and Beth A. Simmons, "Theories and Empirical Studies of International Institutions," *International Organization* 52, no. 4 (1998), Helen V. Milner, *Interests, Institutions, and Information: Domestic Politics and International Relations* (Princeton, N.J.: Princeton University Press, 1997), Jacques Pelkmans, "Institutional Requirements of ASEAN with Special Reference to AFTA," in *AFTA: The Way Ahead*, ed. Pearl Imada and Seiji Naya (Singapore: Institute of Southeast Asia Studies, 1992).

and negotiations, leading to the process of confidence building and trust. Fourth, institutions can contribute to an increase in integrated and interdependent behaviors in terms of policy coordination. Fifth, institutions can possess prominent status as important actors in managing international and regional affairs.

The analysis of institutionalism can be developed in both formation (source of cooperation) and performance (implementation and result of cooperation). In the aspect of formation, institutionalism can be seen as a theory of preference formation, commonly known as liberal intergovernmentalism, which focuses on domestic issues and factors.<sup>39</sup> Andrew Moravcsik has done substantial research on the preferences of European countries for the European Union.<sup>40</sup> The performance aspect focuses on management or compliance, which evaluates the results of cooperation and exemplifies the normative approach to improve the effectiveness of institutions. It says that an effective institution posits a rule-based institutional entity; devises the reward and penalty system; equips itself with an efficient decision-making method, a policy monitoring body, and a legal and transparent dispute settlement mechanism (DSM); and provides clear policy outlines, procedures, and enforcement of rules.<sup>41</sup> With these characteristics, institutions will be able to attain a higher level of integration. In terms of economics, "rule-based institutions are most likely to confirm cooperative bargains among states that are necessary for reducing barriers to trade and investment."<sup>42</sup>

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<sup>39</sup> Andrew Hurrell, "The Regional Dimension in International Relations Theory," in *Global Politics of Regionalism: Theory and Practice*, ed. Mary Farrell, Bjorn Hetne, and Luk Van Langenhove (Ann Arbor, MI: Pluto Press, 2005), 47.

<sup>40</sup> Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca, NY: Cornell University Press, 1998).

<sup>41</sup> Joseph M. Grieco, "Systemic Sources of Variation in Regional Institutionalization in Western Europe, East Asia, and the Americas" in *The Political Economy of Regionalism* ed. Edward D. Mansfield and Helen V. Milner (New York: Columbia University Press, 1997), Kahler, *International Institutions and the Political Economy of Integration*, Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables," in *International Regimes*, ed. Stephen D. Krasner (Ithaca: Cornell University Press, 1983), Pelkmans, "Institutional Requirements of ASEAN with Special Reference to AFTA."

<sup>42</sup> Kahler, *International Institutions and the Political Economy of Integration*, 132.

In ASEAN regionalism literature, Walter Mattli's explicit approach is shown in his book, *The Logic of Regional Integration*.<sup>43</sup> His research is based on two theories in political science. The first theory is hegemonic stability and the second is institutional theory of International Relations (IR). He places these two theories in the supply side of the regional integration equation, while the demand side is determined by economic growth, intra-regional trade, and market-driven indicators. His conclusion shows that ASEAN's regional integration is very low because of relatively insignificant market gains from integration (demand side), a lack of regional leadership, and an unbinding commitment within the ASEAN institution (supply side). Even though his study focuses mainly on regionalism in the EU and employs few cases from developing countries, this work significantly contributes to strengthening the application of an IPE framework by analyzing cases beyond Europe. However, his work leaves out some political and institutional factors, detailed policies, and characteristics of primary actors in ASEAN regionalism and institution. These problems can be understood by his original specialization in European regionalism. Nevertheless, ASEAN regionalist scholar Helen E. S. Nesadurai points out that Mattli's framework is built on a biased approach, emphasizing a relationship between globalization and regionalism, and lacks an analysis of the relationship between regionalism and domestic politics.<sup>44</sup>

Besides the trade-centered approach in Mattli's framework, another focus of regionalism literature is the role of foreign direct investment (FDI). The growing role of ASEAN investors leads economic regionalist scholars to hold two different views. First, FDI and policy dimensions certainly set in motion the dynamic effects that allow ASEAN to avoid trade diversion;<sup>45</sup> on the other hand, many scholars have been concerned about trade diversion resulting from the creation of a regional

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<sup>43</sup> Walter Mattli, *The Logic of Regional Integration: Europe and Beyond* (New York: Cambridge University Press, 1999).

<sup>44</sup> Helen E. S. Nesadurai, *Globalisation, Domestic Politics, and Regionalism: The ASEAN Free Trade Area* (New York: Routledge, 2003), 11-12.

<sup>45</sup> Michael G. Plummer, "ASEAN and The Theory of Regional Economic Integration: A Survey," *ASEAN Economic Bulletin* 14, no. 2 (1997), Michael G. Plummer, "Regional Economic Integration and Dynamic Policy Reform: The Special Case of Developing Asia," *Asia-Pacific Development Journal* 4, no. 1 (1997).

trading bloc in Southeast Asia.<sup>46</sup> Second, an increase in FDI from ASEAN investors promoted by AIA may create discriminatory arrangements that are likely to lead to investment diversion, while most scholars believe in advancing investment creation under AFTA and AIA. These debates under the FDI-cored approach have not yet been well developed by an IPE framework, unlike the trade-cored approach shown in Mattli's work.

The last core of ASEAN regionalism literature is domestic politics. The relationship between internationalization and domestic politics is firmly theorized from already developed countries, especially in the case of the EU, with little evidence from developing countries and an over-generalization of cases.<sup>47</sup> The previous studies by for example Jeffrey Frieden, Geoffrey Garrett, Peter Lange, Helen Milner, and Ronald Rogowski attempts to establish that internationalization influences changes in domestic policies and institutions. For ASEAN regionalist scholars, domestic policies and institutions have also been known to follow the alteration brought about by globalization. Richard Stubbs finds that the domestic power between government and bureaucracy is associated with economic decisions that favor economic liberalization.<sup>48</sup> This argument is certainly valid under the experience of ASEAN regionalism; however, the interaction between globalization and domestic politics that these scholars elucidate has been further expanded in Nesadurai's work. An interaction between domestic politics and regional institutions is spelled out in her globalization-regionalism-domestic politics framework.

Nesadurai's recent work has been recognized as one of the most concerted attempts to theorize ASEAN regionalism. She applies all the core views in regionalist literature by including a

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<sup>46</sup> Ariff, "Outlooks for ASEAN and NAFTA Externalities."

<sup>47</sup> Jeffrey A. Frieden and Ronald Rogowski, "The Impact of the International Economy on National Policies: An Analytical Overview," in *Internationalization and Domestic Politics*, ed. Robert O. Keohane and Helen V. Milner (New York: Cambridge University Press, 1996), Geoffrey Garrett and Peter Lange, "Internationalization, Institutions, and Political Change," in *Internationalization and Domestic Politics*, ed.

Robert O. Keohane and Helen V. Milner (New York: Cambridge University Press, 1996), Robert O. Keohane and Helen V. Milner, "Internationalization and Domestic Politics: An Introduction," in *Internationalization and Domestic Politics*, ed. Robert O. Keohane and Helen V. Milner (New York: Cambridge University Press, 1996).

<sup>48</sup> Stubbs, "Signing on to Liberalization: AFTA and the Politics of Regional Economic Cooperation."

trade approach (AFTA), an FDI approach (AIA), and domestic politics, and by developing them from the experience of ASEAN regionalism. In addition, she places the regionalism variable in the middle of the relationship between internationalization and domestic politics, and emphasizes the power of domestic politics in shaping regional policy. AFTA and AIA are claimed to be examples of her argument because their operations are often nationalistic in order to protect domestic businesses and industries, and not in favor of real liberalization that would encourage foreign investors, especially in the non-manufacturing sectors. Her work substantially contributes to a complete picture of the interactions of internationalization, regionalism, and domestic politics.

Even though Mattli's and Nesadurai's frameworks have been the most systematic recent contributions to the theorization of ASEAN regionalism literature in IPE, their analysis does not include the condition of ASEAN enlargement that may bring about changes in (1) the level of diversity among ASEAN members, (2) the ASEAN political institution, (3) the regional policy-making process and policy coordination, and (4) the strategic mechanism for conducting ASEAN regionalism and integration. This project will thus examine the condition of ASEAN enlargement in a three-level analysis and investigate the above omitted points by emphasizing the impact of ASEAN enlargement on economic integration in terms of policy coordination in Chapters Four to Six.

To summarize, the existing literature regarding ASEAN enlargement and integration can be categorized into two perspectives. One is an economic approach that follows debates under the neoclassical theory and dynamic effects in terms of intra-regional trade and intra-regional investment; the other is an IPE approach of regionalist literature that attempts to theorize ASEAN regionalism under the relationships of globalization, regionalism, and domestic politics. It is likely that the economic approach has more concretely profiled the importance of ASEAN enlargement than the IPE regionalist works have, but it does not provide a good view of political constraints in a regional context that may affect the process of regional economic integration. In contrast, the ASEAN regionalism literature lacks an interest in the issue of ASEAN enlargement and its impact on regional

economic integration; however, the literature tends to be well developed in a specific framework with a good grasp of policy interpretation and the unique characteristics of regional institutions. The most important contribution of this study to ASEAN regionalism literature will be to introduce the condition of ASEAN enlargement into the field of economics by using a gravity model approach and into the field of IPE by using a domestic politics—regional institution—international politics approach.

## **2. Research Questions, Variables, and Hypotheses**

### ***2.1. Research Questions***

Research questions are divided into two categories: quantitative and qualitative sets. The quantitative questions set will examine the relationship between the impact of ASEAN enlargement and economic integration without a political constraint, whereas the qualitative questions set will investigate their relationship under the influence of ASEAN political institution.

#### ***Quantitative Questions Set: The Impact of ASEAN Enlargement on Intra-ASEAN Trade***

1. What is the impact of ASEAN enlargement on economic integration in terms of intra-ASEAN trade?

Does ASEAN enlargement with the accession of Cambodia, Laos, Myanmar, and Vietnam significantly influence economic integration in terms of intra-ASEAN trade for all sectors and in three important specific sectors—food and animal livestock, manufacturing, and machinery and transport equipment?

How can AFTA policy explain intra-ASEAN trade from the statistical finding?

#### ***Qualitative Questions Set: The Impact of ASEAN Enlargement on Policy Coordination***

1. What is the impact of ASEAN enlargement on economic integration in terms of policy coordination?
  - 1.1. What are the preferences of the CLMV countries in joining ASEAN? What type of ASEAN political institution do the new members prefer?
  - 1.2. Does ASEAN enlargement influence any changes in ASEAN political institution?
  - 1.3. How do the changes in ASEAN political institution after the enlargement influence regional economic policies—AFTA and AIA? Does policy coordination improve to achieve a higher degree of regional integration?
2. What are the impediments to economic integration? What policy implementations are needed to improve regional economic integration through the role of institution?

## ***2.2. Variables and Variations***

### ***2.2.1. Independent Variable: Impact of ASEAN Enlargement***

This thesis does not center on the initial process of the enlargement, but is interested in the economic and political impacts after the enlargement. However, the importance of the causes of enlargement will not be ignored in the research analysis. In the quantitative part, the impact of ASEAN enlargement explicitly means an increase in the number of ASEAN members from six to ten countries; in the qualitative part, the impact of ASEAN enlargement signifies the increasing diversities in the level of economic development and political systems in ASEAN.

The diversity in politics after the enlargement has two levels: domestic politics and international politics. First, the different types of domestic politics between old and new members undoubtedly raise political diversity in ASEAN political institution. Myanmar has been ruled by a military junta and has a deplorable human rights record. Socialist governments have long controlled Vietnam and Laos, while the strongman government in Cambodia was set up by a democratic election. They are likely to secure their sovereignty and power through the non-interference principle under ASEAN political institution. After the enlargement, ASEAN political institution would, thus, possibly maintain or increase its institutional weakness due to the demand from the four new members. Three factors in domestic politics that influence national economic policy and their demands at the regional level are the political system, the government or ruling class, and elite interest groups—the military, state-owned enterprises, business groups, and foreign business groups. These three main players in domestic politics interact with each other, and the explanation of their natures and interactions will help to explain their national preferences and motivations at the international and regional arena. Second, at the international level, long disputes over such issues as human rights and democracy between CLMV and ASEAN dialogue partners may create pressures on national policies. Usually ASEAN dialogue or trade partners want ASEAN to be a stronger institution to continue improving the regional human rights record, excepting some Asian partners

such as China and India. Most importantly, they want a guarantee from ASEAN political institution to continue fostering economic liberalization and maintaining peace in the region.

### **2.2.2. Intervening Variable: ASEAN Political Institution**

As documented by the studies of many Asian regionalists, ASEAN has developed its own policy and cultural institutionalization and finally made its institution distinct from the case of European regionalism. Starting with a study in the mid-1970s, Estrella D. Solidum suggested analyzing ASEAN regionalism through cultural and historical aspects,<sup>49</sup> and Acharya in the 1990s supported Solidum's work to understand Asia-Pacific regionalism through a constructivist approach. Recent literature on Asian regionalism has categorized ASEAN into a type of intergovernmental organization or state-led project and bargaining entity.<sup>50</sup> Even though this project takes a position in economic and institutional approaches rather than in a constructivist approach, the author also realizes the important contribution of constructivist works to identify the characteristics of ASEAN political institution. Other IPE works on ASEAN regionalism also accept the concept of the ASEAN Way as a way to understand politics in ASEAN institution and as an important political constraint in economic cooperation and integration.<sup>51</sup>

The ASEAN political institution is defined as an intergovernmental action of Southeast Asian states that emerges from a common interest to solve regional problems and initiate regional cooperation through *political-oriented* mechanisms and procedures. The institution is labeled as a political domination because politics is at the heart of the institutional operation that controls

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<sup>49</sup> Estrella D. Solidum, *Towards a Southeast Asian Community* (Quezon: University of the Philippines Press, 1974).

<sup>50</sup> Catharin Dalpino and David I. Steinberg, eds., *Georgetown Southeast Asia Survey 2004-2005* (Washington, DC: Georgetown University, 2005), Dosch, "The Post-Cold War Development of Regionalism in East Asia.", Fu-kuo Liu and Philippe Regnier, eds., *Regionalism in East Asia: Paradigm Shifting?* (London: Routledge, 2003), Palmujoki, *Regionalism and Globalism in Southeast Asia*.

<sup>51</sup> Soesastro, "The ASEAN Free Trade Area: A Critical Assessment.", Hadi Soesastro, *ASEAN: Regional Economic Cooperation and its Institutionalization, Economics Working Paper Series WPE 071* (Jakarta: Center for Strategic and International Studies, 2003), Stubbs, "Signing on to Liberalization: AFTA and the Politics of Regional Economic Cooperation."



economic and other regional issues. As we always omit the middle name, the ASEAN political institution is thus shortened as ASEAN institution. The ASEAN political institution is composed of three parts: nature of regionalism, structure of institution, and policy commitment.

***Nature of Regionalism:*** In keeping with the Treaty of Westphalia of 1648, ceasing political interference and opinions over other countries' political affairs is believed to be avoidance of conflict. Non-intervention, sovereignty, and the equality of states are the basic rules.<sup>52</sup> According to K. J. Holsti, non-interference traditionally means that governments can "attempt to influence each other's behavior only through established diplomatic channels."<sup>53</sup> However, he further points out that non-intervention should not obstruct cooperation among governments for the advancement of mutual interests in political, economic, and social affairs. In Southeast Asia, this principle of non-interference or non-intervention has been known to be related to the concept of the ASEAN Way (diplomatic and interpersonal relation, avoidance of conflict, and consensus) that helps member countries to cope with the diversities of politics, culture, religion, and race among ASEAN members. Perhaps this may be a way to increase political and economic cooperation, but certainly it is not a means to foster a degree of regional integration. A *non-interference and non-confrontation principle* has been practiced among ASEAN members, where domestic politics seem to be strict and undisclosed. This principle has undoubtedly corresponded with the demand for a *consensus rule* in producing a regional policy. Richard Higgott points out that the consensus rule and non-interference policy in East Asian institutions were formed under the concept of "*enhanced sovereignty*," instead of "pooling" or "transferring" sovereignty like the European institution.<sup>54</sup> The prolonged utilization of non-intervention for forty decades has turned this principle into the distinctive doctrine that hinders

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<sup>52</sup> K. J. Holsti, *International Politics: A Framework for Analysis* (Englewood Cliffs, NJ: Prentice-Hall 1988).

<sup>53</sup> *Ibid.*, 80.

<sup>54</sup> Richard Higgott, "The International Political Economy of Regionalism: The Asia-Pacific and Europe Compared," in *Regionalism and Global Economic Integration: Europe, Asia, and the Americas*, ed. William D. Coleman and Geoffrey R. D. Underhill (New York: Routledge, 1998).

a deeper scheme of regional integration, compared to the principle of non-interference adhered to by the UN Charter and other regional arrangements.

**Structure of Institution:** ASEAN has been categorized as a *state-led bargaining institution* because the government is solely an actor that has absolute desire and power in leading national and regional policies. ASEAN institution has been known to be soft, loose, and weak. Politics is the reason for it. Acharya points out that the origin of a *soft, loose, or weak institution* came from the preference for a non-interference policy among Southeast Asian leaders, which eventually tended to become the regional political culture.<sup>55</sup> As Fu-Kuo Liu notes, “the whole process of regionalism in East Asia has been somewhat ASEANised in its norms,”<sup>56</sup> and “no formal kinds of decision-making institutions have been established, and no majority voting has been added to the decision-making process of regional mechanism.”<sup>57</sup> The impossibility of a political convergence leads ASEAN to prefer a “soft and decentralized” over a “strong and centralized” institution. This type of structure has reflected a weak ASEAN *dispute settlement mechanism* that ineffectively deals with regional conflict management. The weak dispute settlement mechanism in ASEAN echoes the principle of the ASEAN Way in avoidance of conflict, which does not have a positive contribution to providing economic resolution and accelerating economic integration.

**Political Will and Policy Commitment:** The unwillingness of ASEAN members to pursue true ASEAN cooperation at the early stage of economic cooperation had been evident.<sup>58</sup> In the 1990s, flexible commitment was still known as one of the problems to slow down regional integration. The

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<sup>55</sup> Amitav Acharya, "Sovereignty, Non-Intervention, and Regionalism, CANCEPS Paper No. 15," (Toronto: Canadian Consortium for Asia-Pacific Security, York University, 1997).

<sup>56</sup> Fu-Kuo Liu, "East Asian Regionalism: Theoretical Perspectives," in *Regionalism in East Asia: Paradigm Shifting?*, ed. Fu-Kuo Liu and Philippe R gnier (New York: RoutledgeCurzon, 2003), 22.

<sup>57</sup> *Ibid.*, 23.

<sup>58</sup> Hans H. Indorf, *Impediments to Regionalism in South-East Asia* (Singapore: ASEAN Economic Research Unit, Institute of Southeast Asian Studies, 1984).

lack of political will and policy commitment to strengthen ASEAN institution has long been recognized. Without a meaningful commitment to regional cooperation, it is hard for ASEAN to develop toward a formal institution and to monitor policy compliance under a peer review. Jacques Pelkmans points out that “there is indeed no integration without tears; neither is there credibility without substance.... Institutions, can and should, facilitate but they cannot replace political will. Conversely, even a crippled institutional set-up like the EPC (European Permanent Committee) can be effective if only there is political will.”<sup>59</sup> This is a problem for not only ASEAN but also East Asian regionalism to create the “institutional competence to act more interdependently as a region.”<sup>60</sup>

### **2.2.3. Dependent Variable: Economic Integration**

Economic integration has two meanings in this study: the first is *intra-ASEAN trade* (quantitative part), and the second is *policy coordination* at the regional level (qualitative part). Intra-ASEAN trade is the volume of total trade among ASEAN members. The higher the intra-ASEAN trade, the higher the level of economic integration. Policy coordination is the second meaning of economic integration, which allows the study to examine the dynamics of politics in economic matters. Policy coordination is harder to identify compared to the first meaning, which deals with an increasing membership. However, to make its study possible, the policy coordination can be divided into three stages: (1) policy-negotiating stage, (2) policy-compliance stage, and (3) conflict-managing stage. First, policy negotiation is a process in which official representatives formulate or amend regional economic policy. Second, policy compliance is the action of ASEAN members to keep promises and follow the policy agreement. Finally, the stage of conflict management appears when any member reveals its inability to continue the policy implementation as promised. If negotiation

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<sup>59</sup> Pelkmans, "Institutional Requirements of ASEAN with Special Reference to AFTA," 114.

<sup>60</sup> Mark Beeson, "Rethinking Regionalism: Europe and East Asia in Comparative Historical Perspective," *Journal of European Public Policy* 12, no. 6 (2005): 981.

yields a successful agreement, implementation goes smoothly as promised, and conflict is solved quickly, policy coordination is likely to be effective.

### **2.3 Hypotheses**

Assume that the impact of ASEAN enlargement is represented by A, an increasing number of members are  $A_1$ , and a higher level of diversities in politics and economics is  $A_2$ .  $A_1$  and  $A_2$  are independent variables. Economic integration is represented by B: intra-ASEAN trade is  $B_1$  and policy coordination is  $B_2$ .  $B_1$  and  $B_2$  are dependent variables. ASEAN political institution is I as an intervening variable.

#### **Quantitative Hypothesis:**

$$\text{Quantitative Hypothesis 1: } A_1 \uparrow \rightarrow B_1 \uparrow$$

The impact of ASEAN enlargement may significantly influence regional economic integration. In other words, an increase in the number of members in ASEAN with the accepting of Cambodia, Laos, Myanmar, and Vietnam may significantly strengthen intra-ASEAN trade.

#### **Qualitative Hypothesis:**

$$\text{Qualitative Hypothesis 1: } A_2 \uparrow \rightarrow I \downarrow \rightarrow B_2 \downarrow$$

Qualitative hypothesis 1 consists of one prime hypothesis,  $A_2 \rightarrow B_2$ , and two explanatory hypotheses,  $A_2 \rightarrow I$ , and  $I \rightarrow B_2$ . The relationship between  $A_2 \rightarrow B_2$  in the prime hypothesis means that the impact of ASEAN enlargement as increasing diversities in economics and politics may hinder regional policy coordination. The relationships in the explanatory hypotheses demonstrate that the impact of ASEAN enlargement may increase or maintain the weakness of ASEAN political institution, and the weak ASEAN political institution may impede regional policy coordination.  $I \rightarrow B_2$ , or the relationship between institution and policy coordination, is likely to be a positive one. In

other words, the stronger the institution, the higher the degree of policy coordination or economic integration.

### **3. Theoretical Framework**

#### ***3.1. Quantitative Framework: Gravity Model Approach***

##### ***3.1.1. H-O vs. Linder Hypotheses***

The Heckscher-Ohlin model is based a theory of factor endowments, with an assumption of the same level of technology and identical preferences or tastes everywhere in the world. Factor endowments (capital and labor) determine the patterns of the opportunity costs and comparative advantage of trade between two different countries. For example, if country A is capital abundant,  $(K^A/L^A) > (K^B/L^B)$ , country A will export its capital-intensive goods to country B, whereas country A will import country B's labor-intensive goods. In this way, "each country will be the low cost producer of that good that used its abundant factor intensity"<sup>61</sup>; this is referred to as the "H-O theorem." With free trade conditions, two countries that have different factor endowments will trade more than another two countries that have similar factor endowments. In other words, the more endowments differ between the two countries, the greater the volume of trade between them. Frankel, Stein, and Wei support Deardorff's assertions that the gravity model includes developing countries in each pair of trading partners and satisfies the North-South trade relationship under the H-O model.<sup>62</sup>

However, the assumptions of identical taste and technology were claimed to be static, and might not be suitable to explain new patterns of trade. James Markusen empirically supported that richer countries are likely to spend a larger amount of their budget shares on capital-intensive goods.<sup>63</sup>

<sup>61</sup> Beth V. Yarbrough and Robert M. Yarbrough, *The World Economy* (FL: Mike Roche, 2000), 81.

<sup>62</sup> Frankel, Stein, and Wei, *Regional Trading Blocs in the World Economic System*, 55-57.

<sup>63</sup> James R. Markusen, "Explaining the Volume of Trade: An Eclectic Approach," *American Economic Review* 76, no. December (1986).

Unlike the H-O theory, capital-rich countries produce capital-intensive goods; therefore, it is likely that the capital-rich countries trade with each other rather than trading with capital-poor countries.<sup>64</sup>

The above statements apparently support the Linder hypothesis. The hypothesis says that countries with similar levels of income per capita will likely show similar taste, produce similar but differentiated products, and trade more among themselves. Developing countries may, thus, tend to trade more with each other because their tastes are similar and their goods are likely to be substituted by their Third World trading partners. This prediction is the opposite of the H-O hypothesis. The ASEAN case is a little bit more complicated than the H-O and Linder hypotheses because ASEAN does not possess only one attribute of the trading pattern. ASEAN as a whole, when compared to other trading regions, is a South trading partner. Internally, however, ASEAN has the flavor of the North-South trading pattern, especially between the new and old members.<sup>65</sup>

In this dissertation, the empirical test of intra-ASEAN trade will include an H-O indicator—an absolute difference in per capita GDP between two countries. This tester will capture the difference between rich (capital-intensive) and poor (labor-intensive) countries. It implies that if the H-O hypothesis is correct, the relationship between an absolute difference in per capita GDPs and the volume of trade is positive.<sup>66</sup> The higher the difference in per capita GDPs (difference in factor endowments), the higher the volume of trade. In contrast, if the relationship is negative, the Linder hypothesis is correct. The finding of the first indicator showed a negative relationship between income differentials and bilateral trade, rejecting the H-O effect.<sup>67</sup> However, the product of income has a positive impact on bilateral trade.<sup>68</sup>

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<sup>64</sup> Alan V. Deardorff, "Determinants of Bilateral Trade: Does Gravity Work in a Classical World?," in *The Regionalization of the World Economy*, ed. Jeffrey A. Frankel (Chicago: University of Chicago Press, 1997), 5.

<sup>65</sup> Fukase and Winters, "Possible Dynamic Effects of AFTA for the New Member Countries," 857.

<sup>66</sup> Frankel, Stein, and Wei, *Regional Trading Blocs in the World Economic System*.

<sup>67</sup> *Ibid.*, 133.

<sup>68</sup> *Ibid.*, Table 3, Elhanan Helpman and Paul R. Krugman, *Market Structure and Foreign Trade* (Cambridge, MA: MIT Press, 1985).

### 3.1.2. Distance Factor

Paul Krugman and Lawrence Summers point out that the dominant factor used to explain a concentration of modern trade is geographic proximity between trading partners.<sup>69</sup> Krugman's empirical work illustrates the importance of distance, such as in the computer concentration in Silicon Valley in California or around Route 128 in Massachusetts, and the automotive industrial concentration in the Midwest. In ASEAN's case, it is certain that, for example, Laos has traded much more with contiguous Thailand than more distant Singapore even though the factor endowments between Laos and Singapore are more differentiated than the endowments between Laos and Thailand. Similarly, Singapore has traded more with proximate Malaysia than more distant Thailand even though Singapore's factor endowments are closer to Malaysia's endowments than those of Thailand.

Revealed Comparative Advantages (RCAs) were used to test the characteristics of Asian trading blocs.<sup>70</sup> Their RCA results indicated that ASEAN and Asian NIEs, including Japan, are labeled as a natural bloc. In addition, Jessie Poon's interesting finding about a change in geographic trading blocs between 1965 and 1990 supports ASEAN, Asian NIEs and Japan as geographic trading partners. She concludes that "the region appears to have become an efficient geo-economic spatial unit for driving world economic development,"<sup>71</sup> and "trade regions have become more entrenched confirming Krugman and others' observation."<sup>72</sup> We certainly cannot ignore the importance of geographic distance in testing bilateral trade and regional trading blocs. Alan Deardorff derives the

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<sup>69</sup> Paul R. Krugman, *Geography and Trade* (Cambridge, MA: MIT Press, 1991), Rolf J. Langhammer, "ASEAN Economic Cooperation: A Stock-taking from a Political Economy Point of View," *ASEAN Economic Bulletin* 8, no. 2 (1991).

<sup>70</sup> Mordechai E. Kreinin and Michael G. Plummer, "Natural Economic Blocs: An Alternative Formulation," *The International Trade Journal* 8, no. 2 (1994), Mordechai E. Kreinin and Michael G. Plummer, "Structural Change and Regional Integration in East Asia," *International Economic Journal* 8, no. 2 (1994).

<sup>71</sup> Jessie P. Poon, "The Cosmopolitanization of Trade Regions: Global Trends and Implications, 1965-1990," *Economic Geography* 73, no. 4 (1997): 402.

<sup>72</sup> *Ibid.*: 396.

gravity model from the H-O theory and suggests that “it is certainly no longer true that the gravity equation is without a theoretical basis.”<sup>73</sup>

### ***3.1.3. Regional Trading Groups Factor***

In the quantitative empirical part, bilateral trade between countries *i* and *j* are dependent variables, and the factors of the H-O model and the gravity model are independent variables. Besides these independent variables, which are used to test the impact of regional trading groups like in many empirical works on intra-regional trade, dummy variables related to regions such as ASEAN, EU, and NAFTA are added in at the end of the right side of the equation. These kinds of dummy variables help to explain how significantly, for example, the ASEAN trading arrangement influences the volume of intra-ASEAN trade. Frankel and Wei included Cambodia, Laos, and Vietnam, referred to as the “Indochina” variable and the “Indochina openness” variable.<sup>74</sup> Their study did not find a statistically significant contribution from the “Indochina” variable to the growth of intra-ASEAN trade, while the “Indochina openness” variable showed a negative relationship in bilateral trading. Their study used the available data from before the completion of the ASEAN enlargement in 1999. In this research, the author will test the impact of the four new members (ASEAN-4) after the enlargement and the trade data from ASEAN-4 will now be more accessible. Another two dummy variables that the gravity model gives importance to are a shared border and a common language, which are referred to as “subjective resistance” by Ross Garnaut.<sup>75</sup> They are generally categorized as political factors that help capture the dynamics of bilateral and regional trade.

In short, the H-O model and the gravity model significantly contribute to the test of regional trading groups. This quantitative approach will use three groups of independent variables to establish

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<sup>73</sup> Deardorff, "Determinants of Bilateral Trade: Does Gravity Work in a Classical World?," 7.

<sup>74</sup> Frankel and Wei, *ASEAN in Regional Perspective*.

<sup>75</sup> Ross. Garnaut, "Open Regionalism: Its Analytic Basis and Relevance to the International System," *Journal of Asian Economics* 5, no. 2 (1994).



the regression equations. The first group of independent variables is based on the H-O model—absolute difference in per capita GDPs. The second group of independent variables is based on the gravity model: (1) the product of GDPs, (2) the product of per capita GDPs, (3) distance, (4) shared border, and (5) common language. The third group consists of the main independent variables of regional trading groups.

### ***3.1.4. Methodology and Data Collection***

The equations and hypotheses are laid out and discussed in Section 2.1, Chapter Three. The tests will use an OLS multiple regression method to test the hypotheses by transforming descriptive statistics to “present quantitative descriptions in a manageable form.”<sup>76</sup> The proposed equations contain both numeric variables and dummy variables. The time dimension will be a longitudinal study using a panel data set of the years 1991, 1996, and 2005. A time-series regression is not being operated due to a concern of a “variation over time in trade policies and their effects to fluctuations.... The fluctuations seem too great to be plausible [estimation error]. [This is the reason to prefer to] pool data ... and cross-section observations together, which forcibly smoothes out some of the variation.”<sup>77</sup>

The data set includes Andean (5 countries), ASEAN (10 countries), East Asia (3 countries), EU (14 countries), Mercosur (4 countries), and NAFTA (3 countries). The use of other countries and regional trading groups will allow a comparison between ASEAN and other regional groups. The number of observations each year will increase from 741 in 1991 and 1996 to 780 dyads in 2005. The total number of observations will consist of 2262 dyads for all three years. In the dataset, three years are chosen for a comparison between before and after ASEAN enlargement: 1991 (before ASEAN enlargement), 1996 (Vietnam’s accession), and 2005 (after full enlargement). In addition,

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<sup>76</sup> Earl R. Babbie, *The Basics of Social Research* (Belmont, CA: Wadsworth Publishing, 1999), 369.

<sup>77</sup> Frankel, Stein, and Wei, *Regional Trading Blocs in the World Economic System*, 78.

the years of 1991, 1996, and 2005 are considered normal or close to normal years, avoiding the effect of economic shocks such as the 1997 Asian financial crisis. Sources of data will be acquired from the United Nations COMTRADE online database and IMF Direction of Trade Statistics Yearbooks for the volumes of trade; World Bank Development Indicators (WDI) for GDPs and per capita GDPs; CIA World Fact Book for common language; and the U.S Department of Agriculture Rural Utilities Service for geographic distance.

### ***3.2. Qualitative Framework: Liberal Intergovernmentalism and Neo-Liberal Institutionalism***

#### ***3.2.1. Theoretical Discussion***

A three-level analysis frames the qualitative part of the dissertation, which derives from theories of liberal intergovernmentalism (LI) and neo-liberal institutionalism. Andrew Moravcsik theorizes the concept of “liberal intergovernmentalism” in *The Choice for Europe*.<sup>78</sup> LI treats the state as a unitary actor based on the International Relations (IR) tradition; and assumes that national preferences are consistent, which is developed from domestic political bargaining and domestic actors who do not “play a significant independent role in negotiations beyond the state.”<sup>79</sup> Moravcsik structures his framework into a three-stage analysis: national preference formation, regional negotiation process, and regional institution cooperation. The national preferences come from bargaining among domestic interest and social groups, and are driven by economic interdependence, not by geopolitical factors. The negotiation process is operated under traditional diplomacy or intergovernmental bargaining between heads of government. The institution cooperation does not develop from a self-sustaining process, as neo-functionalism has claimed, but from a credibility of commitment instead. His theoretical framework is founded in the interaction between the formation of national preferences (domestic) and the choice of institution (regional).

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<sup>78</sup> Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*.

<sup>79</sup> Frank Schimmelfennig, "Liberal Intergovernmentalism," in *European Integration Theory*, ed. Antje Wiener and Thomas Diez (Oxford Oxford University Press, 2004), 77.

Neo-liberal institutionalism is the second theory in which my research framework is grounded. The theory says that states establish international institutions to manage and solve international problems. International cooperation reflects the need for collective action from countries that have the same concerns in solving the problems. The reasons for cooperation are to lessen transaction costs and to access and exchange necessary information among members in order to reduce uncertain future preferences and behaviors.

Since both LI and institutionalism are theorized under the sole case of European integration, they are likely to have lower capacity to explain the story of integration in other regional arrangements. "The specific geopolitical, local, historical and ideational contexts of the late 1940s and early 1950s yielded a particular model for Europe."<sup>80</sup> Thus, "Europe's present is not the Asia-Pacific's future,"<sup>81</sup> and Europe's past is not the Asia-Pacific's present. To increase the effectiveness of the theories in examining other regional cases, regional contexts and other conditions must be included in a theoretical framework. This thesis thus encompasses ASEAN historical context and ASEAN enlargement within its framework, and also modifies the theories by adding the following three main points in order to provide a more appropriate framework for the case of ASEAN regionalism and integration.

First, one of the weaknesses in Moravcsik's work is a lack of analysis of the interactions between intra-regional and extra-regional actors. The importance of the United States as an extra-regional actor was a low key in the analysis of shaping European regionalism.<sup>82</sup> This point has become one of the strongest criticisms of his work. Thus, there is a need to transform the two

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<sup>80</sup> Shaun Breslin, Richard Higgott, and Ben Rosamond, "Regions in Comparative Perspective," in *New Regionalisms in the Global Political Economy: Theories and Cases*, ed. Shaun Breslin, Richard Higgott, and Ben Rosamond (New York: Routledge, 2002), 10.

<sup>81</sup> Higgott, "The International Political Economy of Regionalism: The Asia-Pacific and Europe Compared," 42.

<sup>82</sup> Helen Wallace points out that in general the theory of European integration has emphasized the internal region too much and omitted external matters. Helen Wallace, "Europeanisation and Globalisation: Complementary or Contradictory Trends?," in *New Regionalisms in the Global Political Economy: Theories and Cases*, ed. Shaun Breslin, et al. (London Routledge, 2002).

theories before using them to frame Asian regionalism, where international politics and superpowers have a substantial influence. Hence, this framework has inserted international politics and its pressures into the picture as one important influence on ASEAN institution and policy.

Second, different institutional designs reflect different problems of cooperation and historical context in that region. A demand-driven approach can help to explain a pattern of institutional design in the region.<sup>83</sup> Miles Kahler asserts that high political heterogeneity and high demand for preserving sovereignty in the Asia-Pacific explain low legalization and institutionalization in Asia. Moreover, the bitter experiences of colonization kept East and Southeast Asian countries from transferring their national sovereignties into a formal institution. Thus, this research study analytically looks at ASEAN that has its own historical path in developing the characteristics of regional institution.

Third, Moravcsik's study asks how and why Europe integrated at the formation stage. Therefore, his work emphasizes the integrative process, which starts from the formation of national preferences and ends at the outcomes of integrative policy and institution. In contrast, this thesis will center on (1) the point after the formation of institution, and (2) the condition of post-enlargement. The study does not emphasize why ASEAN expanded. Rather, this study focuses on understanding the preferences of the new members for a certain type of institution after the formation of ASEAN, and on examining the successes and failures of ASEAN policy coordination under ASEAN political institution after the enlargement.

In addition, even though this qualitative framework is based on IL theory which emphasizes a "pure economic interest." The politics is likely to influence economic agreements and operations in ASEAN. The overlapping spheres between politics and economics are thus difficult to separate, and the importance of political influence to economic activities is fully recognized in this research project. However, to make the study of economic integration possible, it is necessary to systematically separate economic integration from political integration in the analytical framework in order to

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<sup>83</sup> Kahler, "Legalization as Strategy: the Asia-Pacific Case," 560.

clearly evaluate the performance of economics. As a result, this framework thus employs IL theory instead of neo-functional theory which stresses the significance of the spillover effect between economics and politics.<sup>84</sup>

Regarding the issue of regional enlargement, Frank Schimmelfennig addressed that only two works under LI theory have dealt with it. First, Mattli focuses on the interest of applicant states in membership but does not scrutinize the EU decision in favor of enlargement. Second, Sieglinde Gstohl draws a reason to enlarge on EU identity, besides economic incentives.<sup>85</sup> Both works analyze enlargement as one of the sub-issues in European integration theory, focusing on the stage before enlargement or at the formation of preferences. Recent work by Schimmelfennig and Sedelmeier has attempted to theorize EU enlargement; however, it still focuses on EU's enlargement decision and national preferences of candidate states.<sup>86</sup> In this study, the analysis will focus on the period after the formation of ASEAN and the impact of ASEAN enlargement in the 1990s. This work aims to fill the gap of ASEAN regionalism literature, and to propose the first systematic framework to offer an analysis of the impact of enlargement and its relationship with economic integration and regional institution in Southeast Asia.

### **3.2.2. Framework and Stages of Analysis**

The framework employs a three-level analysis, which is similar to Nesadurai's work—globalization, regionalism, and domestic politics. However, this framework is different due to my emphasis on enlargement. First, “globalization” is replaced by “international politics,” a term that refers not only to global trade liberalization but also to the politics of international relations with

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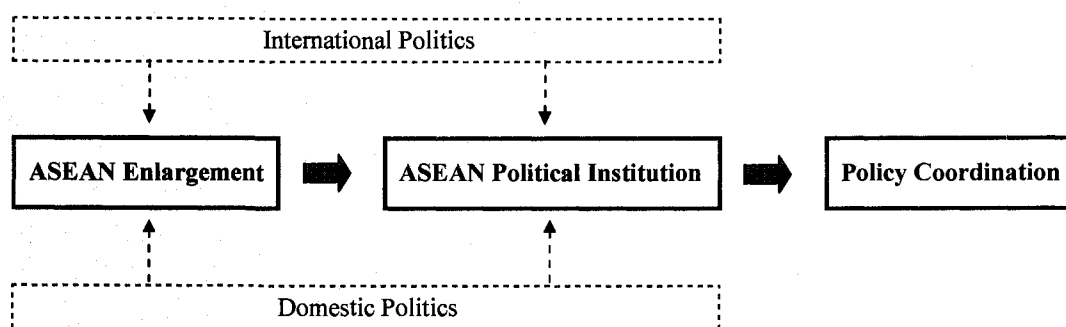
<sup>84</sup> For the readings of neo-functional theory, see Joseph S. Nye, *International Regionalism* (Boston, Little, 1968), Joseph S. Nye, *Peace in Parts: Integration and Conflict in Regional Organization* (Boston, Little, 1971), Ben Rosamond, *Theories of European Integration* (New York St. Martin's Press, 2000).

<sup>85</sup> Sieglinde Gstohl, *Reluctant Europeans: Norway, Sweden, and Switzerland in the Process of Integration* (Boulder, CO: Lynne Rienner Publishers, 2002).

<sup>86</sup> Frank Schimmelfennig and Ulrich Sedelmeier, "Theorizing EU Enlargement: Research Focus, Hypotheses, and the State of Research," *Journal of European Public Policy* 9, no. 4 (2002).

ASEAN's dialogue partners—the United States, East Asian countries, and the EU. Second, the framework inserts “domestic politics” to signify the diversity in political systems and national preferences between old and new members. I recognize that Nesadurai's study carefully analyzed the interaction between globalization and the other two interacting levels in the context of ASEAN regionalism; however, the issue of ASEAN enlargement was not touched on. The inclusion of the enlargement issue may change the analysis of the previous work due to an increasing number of members and a greater diversity in economics and politics.

**Figure 1.2: Framework of the Three-level Analysis**



- Note: 1. **ASEAN Enlargement** is defined as greater ASEAN diversities  
 2. **ASEAN Political Institution** consists of (1) nature of regionalism—non-interference and non-confrontation, (2) structure of institution—state-led bargaining, loose structure and DSM and consensus rule, and (3) policy commitment—weak and flexible commitment.  
 3. **Policy Coordination** refers to policy negotiation, policy compliance and conflict management.  
 4. **International Politics** is defined as the politics of international relations and trade liberalization.  
 5. **Domestic Politics** is defined as different political systems (types of governments and interest groups).

Figure 1.2 presents the new framework to look at the issue of ASEAN enlargement. The independent variable is the impact of ASEAN enlargement, referring to diversity in politics and economics; and the dependent variable is regional economic integration, referred to as policy coordination. ASEAN political institution is an intervening variable, characterized by three components: nature of regionalism, structure of institution, and policy commitment. The relationship

of three variables is presented in the middle row of the figure. The upper bar shows the influence of international politics, and the lower bar explains the influence of domestic politics.

**Table 1.1: Identifying the Preferences of CLMV Countries**

		Domestic Politics			International Politics		
		Types of Regime	Economic Policy	Foreign Policy	Democracy	Human Rights	Trade Liberalization
New Members	Cambodia						
	Laos						
	Myanmar						
	Vietnam						

The stages of analysis start by identifying the preferences of ASEAN politics and economics in joining ASEAN, represented as the *first stage*. Table 1.1 illustrates the characteristics of the four new members' domestic politics, international politics, and economics. The first stage will examine the type of political regimes, the direction of economic politics, and the orientation of foreign policies. International relations and pressures from ASEAN dialogues will be investigated under the issues of trade, aid, human rights, and democratization. The analysis attempts to suggest what type of ASEAN political institution is likely to be preferred by the new ASEAN members.

The *second stage* will examine how the conditions illustrated in Table 1.1 may influence any change in ASEAN political institution. This stage will look at the relationship between the impact of ASEAN enlargement and ASEAN political institution. The analysis inspects the changes in ASEAN political institution by three criteria, as shown in Table 1.2. ASEAN political institution has been categorized as a weak institution due to three components: the nature of the "ASEAN Way," loose structure, and flexible commitment. My question is whether the higher degree of differences in politics and economics in ASEAN will change ASEAN institution, and in which way: strengthen, weaken, or neither.

**Table 1.2: ASEAN Political Institution Criteria after Enlargement**

<b>ASEAN Political Institution Criteria</b>	<b>Status</b>
<b>1. Nature of Regionalism</b> 1.1. Non-interference 1.2. Non-confrontation 1.3. Enhanced sovereignty	Weaker/ Stronger/ Unchanged
<b>2. Type of Institutional Structure</b> 2.1. State-led bargaining entity 2.2. Consensus rule of decision making 2.3. Loose ASEAN Secretariat 2.4. Loose dispute settlement mechanism	Weaker/ Stronger/ Unchanged
<b>3. Political Will and Policy Commitment</b> 3.1. Promises in agreements	Weaker/ Stronger/ Unchanged

The first criterion is the nature of regionalism: non-interference, non-confrontation, enhanced sovereignty, and consensus rule. The concept of the ASEAN Way represents these four components. Institutional structure is the second criterion, which consists of a state-led bargaining entity, a loose structural institution of the ASEAN secretariat, and a loose dispute settlement mechanism. The last criterion is political will and policy commitment. The components in the same criterion are not likely to contradict each other. In the first criterion (nature of regionalism), if the non-interference policy is accentuated, the non-confrontation policy and sovereignty seem to be enhanced as well. These changes are not in a one-way cause-effect relationship; strengthening the non-confrontation policy can also enhance the non-interference policy and sovereignty. In other words, once any component is stimulated, the rest respond and move in the same direction. Similar logic can be applied to the second criterion (structure of institution). For instance, if the dispute settlement mechanism is strengthened, other structures of institution must be also strengthened to support the new mechanism.

Also, the components across different criteria are not likely to contradict each other. The nature of regionalism and policy commitment must be changed to support the way that the structure of institution has changed, and vice versa. For example, when consensus rule is eased and commitment is more promising, then the dispute settlement mechanism must be strengthened. Therefore, strengthening the nature of institution and commitment are likely to improve the other



components of ASEAN political institution. However, if there are no changes in any components of the criteria, it means that ASEAN political institution after the enlargement is likely to remain unchanged. In other words, ASEAN political institution remains weak.

The *third stage* is the final stage of the analysis. This stage will look at the relationship of the change in ASEAN political institution and regional policy coordination. Table 1.3 illustrates policy coordination criteria after the enlargement. Policy coordination can be categorized into three criteria: policy negotiation, policy implementation, and conflict management. The question is whether the change in ASEAN political institution as the result of ASEAN enlargement improves or impedes policy coordination in terms of speed and contribution.

**Table 1.3: Policy Coordination Criteria after Enlargement**

Policy Coordination Criteria	Policy Coordination Change
1. Policy Negotiation	Improve/ Impede
2. Policy Implementation	Improve/ Impede
3. Policy Solution/ Conflict Management	Improve/ Impede

### **3.2.3. Methodology and Data Collection**

The research in the qualitative empirical part will use case study analysis, which substantially lays in two data sources: (1) descriptive sources and (2) in-depth interviews. AFTA (trade arrangement) and AIA (investment arrangement) are selected as the case studies to test my hypothesis. The case study analysis is the most appropriate methodology because the study of regional economic integration is hardly isolated from political constraints. Coping with the issue of political sensitivity requires investigation data in depth for a few cases rather than examination of many cases or large-n methods.<sup>87</sup> In addition, not only the descriptive but also the policy objective of this proposal will manipulate the study toward an “extended case method” to create policy implications.

<sup>87</sup> Stephen Van Evera, *Guide to Methods for Students of Political Science* (Ithaca, NY: Cornell University Press, 1997).

To investigate the above research questions, AFTA and AIA will be evaluated according to the criteria in the third stage. Five types of document are classified for the research: (1) regional trade agreements and their protocols, (2) reports on ASEAN negotiations and meetings, (3) tariff reduction schedules and implementations, (4) domestic reform and policy announcement as promised at ASEAN meetings, and (5) dispute cases. All documents will be investigated to evaluate all of the above criteria. The examination of reports on ASEAN negotiations and meetings can indicate the speed of policy coordination and contribution of each member, and also reflect problems and progress in the development of ASEAN political institution. The assessment of tariff reduction schedules and implementation can indicate policy commitment and contribution of each member in regional economic integration. The investigation of dispute cases can analyze change in ASEAN political institution and conflict management. For example, if dispute cases end quickly and the solution is followed as agreed, ASEAN political institution is likely to be stronger and policy coordination tends to be improved. The data sources of publications and archives can be acquired from the library system and interlibrary system in the United States and ASEAN countries. The second method is personal in-depth interviews with policy makers, officials, and bureaucrats to fill in the missing or unrevealing parts of archives and publications. The interviews seek to encourage free and open responses from the respondents about the issues of economic integration, the ASEAN political institution, and disputes in trade issues and policies in order to provide comprehensive coverage for a better analysis outside of the secondary data collections.

#### **4. Conclusion**

ASEAN has faced challenges as a result of the ASEAN enlargement in the 1990s. In economics, the question of whether the impact of ASEAN enlargement with the accession of CLMV strengthens intra-regional trade is significant to examine in the quantitative part of this thesis. In

politics, the question of whether the impact of ASEAN enlargement with higher diversities influences the development of ASEAN institution and policy coordination is a focal point of the qualitative part. The research design of this study includes both quantitative and qualitative empirical works. The limitation of using only a quantitative method to inspect the area of regional economic integration, which is undoubtedly related to the regional structure of politics, is a reason to employ both methods in order to convey the significance of non-numeric evidence, and to fulfill the more comprehensive examination of the interaction between economic and political subjects. This approach will capture the missing linkage between economics and politics in the international political economy.

Chapter Two will discuss three phases of ASEAN history, demonstrating successful political cooperation and exemplifying the understanding of the ASEAN Way and ASEAN members' behaviors. Political behaviors are imitated in managing economic affairs in ASEAN. To learn ASEAN political behaviors will thus lead to better identification with the challenges of economic cooperation and integration in ASEAN. Chapters Three to Six are each divided into two major parts. The first part is quantitative (Chapter Three), focusing on the impact of ASEAN enlargement on intra-ASEAN trade. The research method in this part is a gravity model approach. The second part of my research study is qualitative and considers the ASEAN political institution into the equation of the impact of ASEAN enlargement and policy coordination.

In the qualitative part, Chapter Four will serve as the first stage of the qualitative analysis, identifying the new members' preference over the type of the ASEAN political institution. Even though CLMV may have realized the need for an institutional change, their political constraints at home and intense international pressures from trade liberalization and international donors may cause them to prefer an informal cooperative arrangement at the regional level. This may greatly slow the process of institutionalization by the old members. Chapter Five covers the second stage, which will continue to examine a change in ASEAN political institution after identifying the preferences of the new members in the first stage. The institution may be weakened, strengthened, or unchanged as a

result of the enlargement. Each component of ASEAN political institution will be profoundly analyzed. The change of institution, considered as a result of the impact of ASEAN enlargement, is expected to come from a policy initiative by the new members or a change of action by the new members. Any change of institution that is caused by the initiative of the old members unrelated to the enlargement will be considered as a movement of institutional development without the impact of ASEAN enlargement. Chapter Six demonstrates the last stage of the qualitative analysis. AFTA and AIA are case studies, represented as the most advanced economic schemes under the weak ASEAN institution regarding trade and investment cooperation. The role of ASEAN institution will be investigated at three levels: policy negotiation, policy compliance, and conflict management. An increasing role of economic activities in the politically dominated institution of ASEAN may create sluggish management in those three levels of policy coordination, illustrating an inefficient and too clumsy structure of regional institution to deal with economic integration. Chapters Four to Six will examine whether ASEAN enlargement has an impact on institutional change, and whether the current institution can generate policy coordination that can facilitate and handle more complicated economic matters. In the last part of this dissertation, Chapter Seven will discuss contemporary issues of ASEAN regionalism and provide policy recommendations to strengthen policy coordination through ASEAN institution.

In summary, the contribution of this research study is first to fill the gap in ASEAN regionalism literature by investigating the relationships of the impact of enlargement, ASEAN regional institution, and economic integration. Second, the study will point out political and institutional factors that deter the process of regional economic integration, and lastly provide policy implications to improve the role of ASEAN institution.

## CHAPTER TWO

### THE HISTORY OF ASEAN EVOLUTION AND ENLARGEMENT

This Chapter examines the history of ASEAN evolution from its pre-formation days until the present. Why did the formation of ASEAN not succeed in the 1950s, but succeed in the late 1960s? What were the reasons for the five-original ASEAN members to expand their membership by accepting the Indo-Chinese countries and Myanmar? These two questions will be analyzed by a historical examination related to (1) intra- and extra-regional pressures, (2) the role of the United States in the region, and (3) demands for ASEAN enlargement in the 1990s. This examination of ASEAN evolution allows the research to carefully observe the root of the ASEAN political institution and understand the existing non-supranational entity of ASEAN.

The history of ASEAN evolution can be separated into three chronological periods. The first period is called “forming ASEAN” (1947-1975), which includes the time before ASEAN’s establishment until the end of the Vietnam War. This period embraces the investigations of (1) the unsuccessful attempts of Southeast Asian countries in establishing a Third World arrangement under cooperation across regions and within the region, (2) the successful formation of ASEAN, and (3) the diplomatic relationship among ASEAN members, CLMV and the United States regarding the issue of communism and ASEAN’s formation.

The second period is called the “building cooperation” phase in ASEAN (1976-1989). Among the original five ASEAN members, this period shows their attempts to create economic and political cooperation. From an economic perspective, as a result of world recession in the early 1970s, the issue of economic cooperation was brought for discussion at the Heads of Government meeting at the first ASEAN Summit in 1976. From a political perspective, ASEAN went through

several unstable situations, both from the political and security point of view, after the end of the Vietnam War. This instability became a powerful force for the ASEAN members to learn not only to cooperate with each other, but also to present themselves as a regional grouping to the international community. The end of the Vietnam War, which meant the end of U.S. military assistance in the Southeast Asian region, pressured ASEAN to soften its foreign policy against the Indo-Chinese countries. The issue of the Cambodia conflict became a priority for ASEAN cooperation. ASEAN as a regional grouping sought to end the Cambodia conflict by pursuing both regional and international peace negotiations. The cooling situation in the late 1980s was a turning point when Vietnam withdrew its troops from Cambodia. The stages of peaceful resolution created a closer relationship among the original ASEAN members as well as between ASEAN and the Indo-Chinese countries, thus leading to a brighter path for ASEAN to become the association of ten nations.

The third period is called the phase of “expanding membership” (1990 until the present). The Paris peace agreement in 1991 confirmed the closing stage of several “Cambodia conflict” negotiations between the Soviet Union & Vietnam camp and the West camp, including ASEAN and China. The peaceful conclusion of the Cambodia conflict and the end of the Cold War resulted in a shift in regional cooperation to concentrate on trade promotion. The growth of regional trading blocs mushroomed during the late 1980s and the early 1990s. ASEAN members were encouraged by this mounting trend to establish their own trading arrangement. The ASEAN Free Trade Agreement (AFTA) was finally enforced in 1993. The idea of becoming an economic arrangement had moved from a simply cooperative group in the 1980s to a more integrative one in the 1990s and then to a community in the early 2000s. The enlargement process started in the late 1990s. Within eight years after the Paris agreement, ASEAN fulfilled an aspiration of the Bangkok Declaration in 1967 to be a

full regional grouping<sup>1</sup> by accepting Cambodia, Laos, Myanmar and Vietnam. The following sections are a discussion about these three periods.

## **1. First Period: Forming ASEAN (1946-1975)**

### ***1.1. Unsuccessful Attempts before the Formation of ASEAN***

In 1947, a “Pan-Southeast Asian Union” suggested by France to promote cooperation between Thailand and the Indo-Chinese countries in the areas of “irrigation, fisheries, communication and other resources” failed due to the interruption of the 1948 coup in Thailand.<sup>2</sup> The instability of Thai politics created an unfavorable atmosphere which made it difficult for countries to concentrate on regional cooperation. During the same year, individual Southeast Asian countries proposed their own ideas to generate a regional grouping. For instance, the leftist Thai leaders set up a “Southeast Asia League.” The Indonesian Socialist Party President Soetan Sjahrir proposed a “Pan-Malay.” On the other hand, Philippines President Quirino proposed a “Pan-Asia,” and Malaya’s Prime Minister Tunku Abdul Rahman proposed a “Southeast Asian Unions.”<sup>3</sup>

The first generation of regional cooperation proposals did not successfully materialize due to an overemphasis on anti-colonialism and Westernness, as well as a high degree of preservation of national sovereignty after the independence.<sup>4</sup> Practical cooperation, or even political consultation, was thus rarely to happen since the Southeast Asian countries were primarily concerned with the principal concept of nationhood. Therefore, the literature in the 1940s-60s explains that the reason for proposing a regional organization was just a symbol of Asian gathering against Western powers,

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<sup>1</sup> That time East Timor was part of Indonesian archipelagoes. Therefore, East Timor as a country was not included in the interpretation of a full Southeast Asian grouping in the 1967 Bangkok declaration.

<sup>2</sup> Milton Meyer, "Regional Cooperation in Southeast Asia," *Journal of International Affairs* 3 (1949): 70.

<sup>3</sup> Amry Vandenbosch and Richard A. Butwell, *Southeast Asia among the World Powers* (Lexington: University of Kentucky Press, 1957), 249-50.

<sup>4</sup> Maruyama Shizuo, "Asian Regionalism," *Japan Quarterly* 15, no. January-March (1968): 57, Amry Vandenbosch and Richard A. Butwell, *The Changing Face of Southeast Asia* (Lexington: University of Kentucky Press, 1966), 348.

but did not possess a real meaning of cooperation. The so-called Bandung Conference of Afro-Asian countries—led by the Colombo Powers<sup>5</sup> and in which 29 Third World countries participated—was held in 1955 in order to have their voice in managing the world affairs, “capitalize on Asian feelings of unity,”<sup>6</sup> and neutralize their political position. Nevertheless, the conference was claimed to be unproductive due to a lack of mutual interests, and the domination of anti-Western and anti-colonial feelings. William Henderson criticized that the “[participating countries] arose out of an ill-defined sense of Asian solidarity springing from a shared colonial past and common resentment against the West.”<sup>7</sup>

The escalation of the Vietnam War and the unsuccessful Geneva settlement brought about the birth of the South-East Asia Treaty Organization (SEATO) in September 1954 based on the Manila Treaty.<sup>8</sup> Only two countries in Southeast Asia—the Philippines and Thailand—which had a very close relationship with the United States, signed the treaty. They became the two biggest recipients of U.S. military aid in Southeast Asia. Malaysia, including Singapore, received military support from the British under the Anglo-Malaysia Defense Agreement (AMDA). In 1971, after the British withdrew their troops from the bases east of the Suez, Malaysia initiated a military agreement with Australia, New Zealand, Singapore, and Britain—the so-called Five Power Defense Arrangement (FPDA).<sup>9</sup> It is clear that most Southeast Asia countries particularly sought assistance from extra-regional alliances, and were less enthusiastic to develop their own system of security cooperation.

Many attempts to create a cooperative grouping by the Third-World countries had disappointed. Only SEATO and AMDA practically succeeded in forming and operating under a patron-client relationship between the superpowers and the Southeast Asian countries. The

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<sup>5</sup> The members of the Colombo Powers were Burma, Ceylon (Sri Lanka), India, Indonesia, and Pakistan.

<sup>6</sup> William T. Bucklin, "Regional Economic Cooperation in Southeast Asia: 1945-1969" (1972), 18.

<sup>7</sup> Henderson, "The Development of Regionalism in Southeast Asia," 468.

<sup>8</sup> The members of the SEATO were Australia, France, New Zealand, the Philippines, Pakistan, Thailand, the United Kingdom, and the United States.

<sup>9</sup> Mohd. Anis Bin Ajmal Muhammad, "ASEAN: Comparative Foreign Policy Analysis, Murugesu Pathmanathan [Compiled]" in *ASEAN Research Studies* (Kuala Lumpur: 1979), 6.



Philippines and Thailand heavily relied on U.S. security support under SEATO, while Malaysia and Singapore received British military assistance under AMDA and FPDA. The struggle of the Southeast Asian countries to seek out for a group led by the superpowers reflected their feeling of insecurity due to their weak military capability in the region. Moreover, the fact that communist North Vietnam was back by sophisticated military equipment and training as well as economic aid from the Soviet Union was a truly intimidating factor against other Southeast Asian countries. The distrust between Southeast Asian countries caused by their historical hostilities and unsolved territorial conflicts was also significant. The intra-regional conflicts thus contributed to the unsuccessful creation of a regional organization. As a result, Malaysia, the Philippines, Thailand and Singapore searched for cooperation outside of the region in order to ensure their national security. Among the Southeast Asian countries, Indonesia had the least faith in Western powers. The country focused on ensuring its “national resilience” by seeking official cooperation only with countries in the Third World. President Sukarno declined to associate with the superpowers after Indonesia’s independence. He saw aid as a form of imperialism.

The Association of Southeast Asia (ASA) was the first regional arrangement, established by Southeast Asian countries. It was signed under the Bangkok Declaration on July 31, 1961 to establish “friendly consultations, collaboration, and mutual assistance in the economic, social, cultural, scientific and administrative fields,” provide educational training and research, and promote the expansion of trade, industry, and transport and communication facilities.<sup>10</sup> ASA generated a Standing Committee, Joint Working Party, Expert Committees, and a National Secretariat in each member country to carry out administrative work. The headquarters was in Thailand. Reports of ASA meetings were minimally kept and no verbatim records were available.<sup>11</sup> It was during a visit by the

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<sup>10</sup> Bucklin, "Regional Economic Cooperation in Southeast Asia: 1945-1969", 32. It was based on the letter to Bucklin from Kok-Swee Choog, First Secretary, Embassy of Malaya at Washington, D.C. on August 11, 1961.

<sup>11</sup> Bernard K. Gordon, *The Dimensions of Conflict in Southeast Asia* (Englewood Cliffs, NJ: Prentice-Hall, 1966), 168-69.

Malay Deputy Prime Minister Tunku Abdul Rahman to the Philippines in January 1959 as a guest of President Carlos Garcia that the initial ASA proposal for such cooperation was agreed upon.<sup>12</sup> Only Malaysia, the Philippines and Thailand were the members of ASA. Indonesia did not want to join the group because ASA was seen to be “the blood brother of SEATO which colored by a certain political view [of] anti-communism.”<sup>13</sup> However, Roger Irvine (1982) asserted, “ASA was handicapped by its limited membership and by accusations that it was a pro-Western anti-communist group whose motivations were primarily political.” During late 1963, ASA was eroded by several bilateral conflicts when President Diosdado Macapagal of the Philippines formally claimed Sabah or North Borneo as part of the territory of the Philippines.<sup>14</sup> He argued that the Manila government was the heir of the old Sultan of Sulu, who originally owned Sabah.<sup>15</sup> The conflict between Malaysia and the Philippines resulted in a suspension of the 1964 ASA meetings. During that time, the inception of the Indonesia-Malaysia Confrontation also started in 1963. The Foreign Ministers of the ASA member countries met only three times in 1961, 1963 and 1966, before ASA was “absorbed into ASEAN.”<sup>16</sup>

The conflict between Malaysia and the Philippines occurred during the same time as the Indonesian President Sukarno’s opposition of the amalgamation of North Borneo into the Malaysian Federation.<sup>17</sup> Indonesia perceived Malaysia as a threat because it controlled Singapore, Sabah and Sarawak, which composed the Federation of Malaysia.<sup>18</sup> The separation of Singapore from Malaysia on August 9, 1965 was supported by the Indonesian Foreign Minister Adam Malik’s statement to the Singapore government on June 4, 1966:

<sup>12</sup> Roger Irvine, "The Formative Years of ASEAN: 1967-1975," in *Understanding ASEAN*, ed. Alison Broinowski (New York: NY: St. Martin's Press, 1982), 9.

<sup>13</sup> Muchtar Machmud, "The Origin of the Association of Southeast Asian Nations (ASEAN), Murugesu Pathmanathan [Complied]," in *ASEAN Research Studies* (Kuala Lumpur: 1979), 6.

<sup>14</sup> The Sabah territory belonged to the Sultan of Sulu who leased the territory to Baron Overbeck in 1878. Baron later on gave this land to the North Borneo Company. In 1946, the whole of North Borneo, including Sabah, was under the British colony.

<sup>15</sup> Dewi Fortuna Anwar, *Indonesia in ASEAN: Foreign Policy and Regionalism* (Singapore: Institute of Southeast Asian Studies, 1994), 168-69.

<sup>16</sup> Bucklin, "Regional Economic Cooperation in Southeast Asia: 1945-1969", 33.

<sup>17</sup> Anwar, *Indonesia in ASEAN: Foreign Policy and Regionalism*, 168-69.

<sup>18</sup> The Federation of Malaya (1948-1963) was renamed to the Federation of Malaysia (1963 to present).

We [Indonesians] have noted and given thorough attention to the fact that the Government and people of Singapore under your excellency's leadership have, as of 9<sup>th</sup> August 1965, proclaimed themselves the free and Sovereign Republic of Singapore, and are undertaking and continuing the struggle to perfect that independence and sovereignty of the State and people of Singapore, as neighbors of ours who, from ago, have conducted relations with Indonesia.<sup>19</sup>

The Indonesia Confrontation policy was operated between 1963 and 1966 by supporting terror and operating military threat in Malaysia. During the peak of this aggressive policy, no effective mediators in ASA could help to ease the tension. While President Macapagal was proposing a "Pan-Malaya Confederation" to embrace Indonesia in the hope of solving the clash between Malaysia and Indonesia, President Sukarno adopted the idea of the Confederation and transformed it to Malphilindo<sup>20</sup> in 1963. However, Malphilindo never took a solid or effective form of organization to solve territorial problems and also enhance regional cooperation. This arrangement had "no blueprint, no timetable, [and] no agenda."<sup>21</sup> Moreover, no mediators were effectively involved in easing bilateral conflicts.<sup>22</sup> The Philippines could not be a mediator for the conflict between Indonesia and Malaysia since the conflict on the Sabah issue between the Philippines and Malaysia still flamed. Thailand, which could be a mediator, was not invited to join Malphilindo. Moreover, Muchtar Machmud (1979) pointed out that Malphilindo was claimed to be a means for Indonesia to create its hegemonic power in Southeast Asia.<sup>23</sup> Therefore, the problems of bilateral conflicts and distrust were a substantial factor that explained the unsuccessfulness of regional cooperation during this period.

The turning point came when the October 1965 coup in Indonesia led to the political demise of President Sukarno, who supported military force against Malaysia. Several official and

<sup>19</sup> Ranjit Gill, *ASEAN: Coming of Age* (Singapore: Sterling Corporate Services, 1987), 9.

<sup>20</sup> Malphilindo was named by an abbreviation of Malaysia, the Philippines and Indonesia.

<sup>21</sup> Willard Anderson Hanna, "The State of the States of Indochina: A Collection of 25 Reports Written for the American Universities Field Staff," (New York: American Universities Field Staff, 1960), 5.

<sup>22</sup> Pisanu Suvanajata, *ASEAN in Three Decades [In Thai]*, 37-39.

<sup>23</sup> Machmud, "The Origin of the Association of Southeast Asian Nations (ASEAN), Murugesu Pathmanathan [Complied]," 7.

underground negotiations were set up by Indonesia aiming to cease the Confrontation policy between Malaysia and Indonesia between 1965 and 1966.<sup>24</sup> In August 1966, an official agreement between Malaysia and Indonesia was reached to end the confrontation with the active mediation from the Thai Foreign Minister Thanat Khoman.<sup>25</sup> On the Sabah issue, President Ferdinand E. Marcos's election in November 1965 resulted in a relaxed policy toward Malaysia.<sup>26</sup> The peaceful resolution to end the Confrontation policy and a relief in the conflict on the Sabah claim were not a product of operating the Malphilindo or ASA, but of changes in the political regime instead. In the following year of Marcos's election, the Philippines re-established a diplomatic relation with Malaysia. In Indonesia, a newspaper reported that around 20,000 people rallied to call on the Indonesian government to ratify the peace proposals drawn up in Bangkok.<sup>27</sup> The peaceful expression also stated by Darius Marpuang, leader of the Indonesian Workers Action Front says: "Our enemies are the communists and the neo-colonialists and imperialists, ... Malaysia and Singapore are our friends."<sup>28</sup> Lastly, Malaysia and Indonesia regained their diplomatic tie in April 1967 after a three-year phase of antagonistic relationship.

In sum, before the formation of ASEAN, the feeling of insecurity caused by a communist threat encouraged Malaysia, the Philippines, Singapore and Thailand to search for assistance from Western countries. On the other hand, the concept of anti-Westerness dominated the Indonesian foreign and security policy, which led the country to mainly prefer cooperation with only the Third World countries. Also, the feeling of distrust among the Southeast Asian countries was accelerated by three major bilateral conflicts in the 1960s: (1) the Philippines' claim to the Sabah—formally North Borneo, (2) the separation of Singapore from Malaysia, and (3) the Indonesian Confrontation

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<sup>24</sup> Anwar, *Indonesia in ASEAN: Foreign Policy and Regionalism*, 40-44. See discussion in Anwar's book, which detailed the three-level operation of Indonesian peace negotiation with Malaysia—underground, semi-official, and official—under President Suharto's authority.

<sup>25</sup> Irvine, "The Formative Years of ASEAN: 1967-1975," 10.

<sup>26</sup> Ibid.

<sup>27</sup> Gill, *ASEAN: Coming of Age* 12.

<sup>28</sup> Ibid.

policy toward the Malaysian Federation. These incidents extensively contravened cooperation in Southeast Asia before the formation of ASEAN.

### ***1.2. The Formation of ASEAN***

In May 1967, one month after the re-establishment of full diplomatic relations between Indonesia and Malaysia, the Thai Foreign Minister Thanat Khoman formally discussed the idea of a “larger-than-ASA” grouping with the Malaysian Deputy Prime Minister Tunku Abdul Rahman. The birth of the Association of Southeast Asian Nations (ASEAN) was an outcome of the discussion; and consequently, ASA was discontinued.<sup>29</sup> On August 8, 1967, ASEAN was signed under the Bangkok Declaration by five Southeast Asian countries—Indonesia, Malaysia, the Philippines, Thailand, and Singapore. The nature of ASEAN existed as an “association,” and not an “organization” like SEATO or the Organization of African Unity (OAU). This was because ASEAN was signed under a “declaration,” not a “treaty.”<sup>30</sup> Thanat Khoman said that Southeast Asian countries needed an informal type of cooperation because they were not comfortable to committing themselves to international law.<sup>31</sup>

According to the Bangkok Declaration in 1967, three important themes needed to be pointed out as an official agreement and common ideology shared among ASEAN members. First, ASEAN members greatly recognize “the existence of mutual interests and common problems among countries of South-East Asia and convinced of the need to strengthen further the existing bonds of regional solidarity and cooperation.” Second, ASEAN was established to promote regional cooperation toward “peace, progress and prosperity in the region” and contribute to “their peaceful and

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<sup>29</sup> Roger Irvine (1982) claimed that the first “Draft Joint Declaration” proposed by Thanat Khoman to establish a South East Asian Association for Regional Cooperation (SEAARC) was already circulated in late 1966, based on the Manila Agreement of Maphilindo. Anwar (1994) instead argued that Indonesia contributed the most to the creation of the First Draft, and actually brought the draft to discuss with the four ASEAN members, including Burma.

<sup>30</sup> Pisanu Suvanajata, *ASEAN in Three Decades [In Thai]*, 64.

<sup>31</sup> *Ibid.*

progressive national development” in economic and social stability. Third, ASEAN is an independent grouping which “... ensure[s] their stability and security from external interference in any form of manifestation in order to preserve their national identities ...” ASEAN further states, in order to secure its sovereignty, that “all foreign bases are temporary and remain only with the expressed concurrence of the countries concerned and are not intended to be used directly or indirectly to subvert the national independence and freedom of States.”<sup>32</sup> In short, the Declaration expresses (1) equality and mutual interests as a principle of managing regional affairs, (2) regional cooperation as a contributing factor to national development and independence, and (3) concealment of external domination over regional and national affairs.

At the inaugural meeting of ASEAN in 1967, Indonesia's independent foreign policy was significantly employed to portray ASEAN as a group of anti-imperialist countries, whereas the non-ASEAN members perceived ASEAN as an anti-communist grouping. As the Indonesian Foreign Minister Adam Malik stated, the Indonesian New Order policy would lead ASEAN to be “a strong bulwark against imperialist manipulations as well as a decisive stabilizing factor in this part of the world ... ending once and for all foreign influence, domination, and intervention.”<sup>33</sup> The supporting statement from the Malaysian Deputy Prime Minister Tun Razak to the Indonesian Foreign Minister asserted that “for many centuries most of us have been dominated by colonial powers either directly or indirectly and even today we are not entirely free from being exposed to the struggle for domination by outside powers.”<sup>34</sup>

From academic perspectives, Michael Leifer points out that ASEAN was formed to manage regional order in order to reduce the political and military presence of non-regional power in

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<sup>32</sup> Since Thailand and the Philippines had been foreign homes for U.S. military bases in Southeast Asia and Indonesia was not, the Declaration was written in a compromised way to make sure that Indonesia felt comfortable with the stance of ASEAN.

<sup>33</sup> Antara News Bulletin, December 15, 1966. (In Irvine 1982: 16-17)

<sup>34</sup> Ibid. Malaysia was the first country to declare its policy toward neutrality in 1971 and started to construct diplomatic relations with the other big powers—China and the Soviet Union—besides the United States.

Southeast Asia.<sup>35</sup> Charles Morrison and Artis Suhrke support that ASEAN cooperation would prevent diplomatic isolation and military conflict.<sup>36</sup> Donald Crone instead emphasizes the issue of interdependence that ASEAN was basically a tool for managing and reducing the degree of regional dependence on outside powers.<sup>37</sup> Dewi Fortuna Anwar came to support Crone's argument that ASEAN could serve as a stage for directing bilateral negotiations with superpowers and being a negotiating bloc at international economic forums.<sup>38</sup> She further stresses the issue of a possible fear of marginalization in the late 1950s to the early 1960s. ASEAN feared to be left alone in the world of several regional blocs such as the European Economic Community (EEC) in 1958, Treaty on Central American Economic Integration in 1960, the Latin American Free Trade Association (LAFTA) in 1961, and the Organization of African Unity (OAU) in 1963.<sup>39</sup> On the other hand, some scholars have seen ASEAN as a residual Cold War<sup>40</sup> or a product of the Cold War<sup>41</sup> because its formation could be explained as a result of the irresistible tension between communism and anti-communism.

To understand the formation of ASEAN, two significant factors which reinforced this success should be examined: (1) the internal-demand for regional cooperation and (2) the external-supply for regional building by the United States. Regarding the internal-demand side, the Southeast Asian countries had always desired to build a regional association, as illustrated by several historical attempts before the formation of ASEAN. One month after the re-establishment of full diplomatic relations between Indonesia and Malaysia in 1967, Southeast Asian countries were ready to talk about region-building. Another internal factor that contributed to the successful formation of ASEAN was a

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<sup>35</sup> Michael Leifer, "Problems and Prospects of Regional Cooperation in Southeast Asia: The Political Dimension," *Indonesian Quarterly*, no. 4 (1976): 104.

<sup>36</sup> Charles E. Morrison and Astri Suhrke, *Strategies of Survival. The Foreign Policy Dilemmas of Smaller Asian States* (St. Lucia: University of Queensland Press, 1978).

<sup>37</sup> Donald Crone, "The Management of International Dependence: The Case of ASEAN," *Contemporary Southeast Asia* 5, no. 1 (1983): 54-79.

<sup>38</sup> Anwar, *Indonesia in ASEAN: Foreign Policy and Regionalism*, 60

<sup>39</sup> *Ibid.*, 48.

<sup>40</sup> Breslin, Higgott, and Rosamond, "Regions in Comparative Perspective," 10.

<sup>41</sup> Joseph A. Camilleri, *Regionalism in the New Asia-Pacific Order, The Political Economy of the Asia-Pacific Region* (Cheltenham: Edward Elgar, 2003), 87.

common acceptance of the neutrality view in the late 1960s, even though the ASEAN members' foreign policies were very different in orientation. The Philippines and Thailand had been homes for U.S. military bases, and they still needed U.S. military power to remain in the region. Indonesia and Malaysia started to shift their foreign policies and became believers of the neutrality policy in the late 1960s.<sup>42</sup> Correspondingly, Thailand compromised with the neutrality view that it would uphold its existing defense agreements with the United States "until a time when the prospects of peace, freedom and neutrality are completely assured."<sup>43</sup>

On the other hand, the Singaporean government had much feared the communist threat in general and the Chinese communists in particular that tried to predominate the overseas Chinese population. Thus, a very tiny country like Singapore had preferred to ensure its security under a regional grouping and/or the protection of U.S. military assistance. Nonetheless, the other ASEAN members pressured Singapore especially after the 1972 visit of President Richard Nixon to Peking. After Nixon's visit, the other ASEAN countries including Thailand and the Philippines reconstructed their diplomatic relationships with China. At this point, Leifer claims that Singapore was "willing to pay lip service to the principle of neutralization."<sup>44</sup> Even though the Philippines, Singapore and Thailand did not support the neutrality policy during the formation of ASEAN, they did not strongly oppose the stance of Indonesia and Malaysia. More significantly, Indonesia at least, did not see ASEAN as the arms and legs of the U.S. military in Southeast Asia like the SEATO. This was because the ASEAN declaration was basically shaped under the Indonesian independent and neutralist foreign policies. When Indonesia joined ASEAN as the biggest and the most influential country in the region, it proved to be a huge contributing factor to the success of ASEAN's formation.

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<sup>42</sup> However, when it came to the issue of China, the Indonesian government seemed not to follow its neutral policy and tried to keep some distance because it always saw China as the biggest peril to national and regional security.

<sup>43</sup> Irvine, "The Formative Years of ASEAN: 1967-1975," 28.

<sup>44</sup> Michael Leifer, "The ASEAN States: No Common Outlook," *International Affairs* 49, no. 4 (1973): 602.



Obviously, ASEAN existed as a cooperative group that came together because of the same interest in solving problems, but at the same time allowing its members to pursue their own ways to cope with the problems. The “collective interest with individual means” can be expressed as the characteristic of ASEAN in this period, which perfectly fulfilled the intra-regional demand for cooperation.

In terms of the external-supply side, the successful formation of ASEAN significantly depended on the role of the United States in Southeast Asia as the external-supply factor for region-building. In the aftermath of World War II, “[t]he United States attempted to create and organize both a North Atlantic and a Southeast Asian region.”<sup>45</sup> In the security domain, U.S. foreign policy in the post-war era promoted multilateral cooperation in Europe by forming the North Atlantic Treaty Organization (NATO) and established “hub-and-spokes” bilateral relationships with many of Asian countries with the United States at the center.<sup>46</sup> The United States established a series of bilateral agreements with, for example, Japan, Korea, Taiwan, and the Philippines instead of encouraging multilateral cooperation in Asia.

In fact, in Southeast Asia the United States had attempted to create a multilateral organization—SEATO—as an anti-communist grouping, which would include all Southeast Asian countries. However, SEATO failed to achieve this aim because only the Philippines and Thailand acceded under this treaty. As discussed earlier, Indonesia under President Sukarno pursued its anti-Western and pro-nationalist policy after gaining independence in 1945. Burma strongly insisted on its neutral foreign policy towards the big powers. As a result, the United States changed its strategy to deal with each country bilaterally by providing economic and military support. At first, the United States sent economic aid to Southeast Asia before the involvement of its combat troops in the Vietnam War in 1965. Russell H. Fifield illustrated two economic strategies pursued by the U.S. in

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<sup>45</sup> Hemmer and Katzenstein, "Why is There No NATA in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism ": 575.

<sup>46</sup> Peter J. Katzenstein, "Introduction: Asian Regionalism in Comparative Perspective," in *Network Power: Japan and Asia*, ed. Peter J. Katzenstein and Takashi Shirashi (Ithaca: Cornell University Press, 1997), 23.

the Southeast Asian region. First, sending U.S. economic assistance would help to prevent the expansion of communism and weaken the Sino-Soviet economic bloc in Asia. Second, economic development would increase the standard of living, which would result in political stability.<sup>47</sup> According to the U.S. Bureau of the Census—Statistical Abstract of United States in 1967, the United States trade with Southeast Asia accounted for only 7 percent of total U.S. exports and 8 percent of total U.S. imports.<sup>48</sup> The private investment of Americans in 1964 in the Asian and Oceania countries accounted for only US\$3.2 billion, as compared to US\$44.3 billion of total investments overseas by Americans.<sup>49</sup> U.S. economic strategy in Southeast Asia was basically serving the country's security interest in the region.

According to Fifield, the Philippines, Thailand, Vietnam, and Cambodia received “economic assistance under defense support, which was closely related to military assistance.”<sup>50</sup> Burma did not receive military assistance from the United States, but instead received special assistance for economic aid to help preserve their neutrality in 1961. Indonesia did not like the idea of “Western backup” and was not in any military agreement or treaty with the major powers. The country however received technical cooperation for military training operation along with other Southeast Asian countries like Thailand, Vietnam and the Philippines under the Mutual Security Program, and started to receive military aids i.e. defense equipment and spares from the United States. The Federation of Malaya received the Development Loan Fund (DLF), which went into infrastructure construction such as road building. Similarly, DLF was also loaned to Laos in 1959.<sup>51</sup>

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<sup>47</sup> Russell H. Fifield, *Southeast Asia in United States Policy*, 1st ed. (New York: Praeger, 1963), 262-63. Fifield also argued that economic assistance could be misused for corruption, promoting communist activities, and supporting other nationalist groups.

<sup>48</sup> US Bureau of the Census, *Statistical Abstract of the United States* 88 (1976): 840. in Fifield, *Southeast Asia in United States Policy*.

<sup>49</sup> US Bureau of the Census: 815.

<sup>50</sup> Fifield, *Southeast Asia in United States Policy*, 266.

<sup>51</sup> *Ibid.*

Between 1955 and 1959 Vietnam received US\$1,216.5 million of aid, while the Philippines received US\$1,177.9 million, including US\$634 million for Philippines Rehabilitation.<sup>52</sup> During the same period, Laos received obligations US\$190.8 million, Cambodia US\$173.4 million and Malaya US\$21.5 million. Indonesia received US\$373 million, Thailand US\$240.5 million, and Burma US\$96.4 million between 1951 and 1959. The total amount of aid that transferred to Southeast Asian countries between 1955 and 1959 accounted for 0.74 percent of the U.S. GNP or 4.3 percent of the federal budget.<sup>53</sup> The countries that received the largest amount of aid and military assistance from the United States were those most affected by the communist threat like Vietnam and those who had the most pro-American foreign policies. On the one hand, the U.S. foreign policy evidently showed that the United States dealt with the security issue in Southeast Asia by replacing the promotion of bilateralism, after realizing that multilateral cooperation led by an extra-regional superpower like SEATO had not matched most of the interests of the Southeast Asian countries. On the other hand, the United States did not counter the idea of the creation of multilateral cooperation among Southeast Asian countries, but played a role of unofficial supporter of ASEAN's creation.

In July 1969, the United States announced that all military bases would be closed gradually in Thailand.<sup>54</sup> The U.S. withdrawal was proclaimed in Thailand two years after the formation of ASEAN. Besides the anti-war pressure at home, the U.S. troop withdrawal from the region could be read that the establishment of ASEAN came to serve as an anti-communist network by preventing communism and remaining aligned with U.S. power. Thus, the United States positively reacted to the establishment of ASEAN. During the formation of ASEAN, the presence of the United States as an outsider and a non-opponent to the neutrality view strategically encouraged Southeast Asian countries

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<sup>52</sup> Ibid., 267.

<sup>53</sup> Ibid., 268. Fifield also showed that in 1959 the United States spent around US\$30 billion buying automobiles and US\$3 billion on television and radio in Southeast Asia.

<sup>54</sup> Machmud, "The Origin of the Association of Southeast Asian Nations (ASEAN), Murugesu Pathmanathan [Compiled]," 23.

to accomplish their desire to create the first successful multilateral arrangement. The outsider standing of the United States generated a comfortable feeling for Southeast Asian countries, especially Indonesia, to manage their own institution. They did not want the arrangement to be formed under the guidance of the superpowers, as shown in the statement of non-foreign interference in the 1967 Bangkok Declaration and the previous rejections by Indonesia to associate with a group that was subdued by Western intervention. The non-objection and non-intervention of the United States to ASEAN proposal thus notably contributed to making the formation of ASEAN possible. Some may argue that the formation of ASEAN can be interpreted as a successful product under the U.S. umbrella. However, ASEAN was not set up financially or supported technically by the U.S. arrangement. The United States, therefore, seemed to be an indirect supporter to the successful formation of ASEAN.

### ***1.3. ASEAN Relationship with CLMV***

The relationships between the ASEAN members and CLMV were diverse. The Philippines and Thailand supported South Vietnam to aggressively fight Communist North Vietnam, while Indonesia showed its sympathy for the North Vietnamese by offering to send voluntary Indonesian troops to fight along with the National Liberation Front (NLF), or the Viet Cong in 1965.<sup>55</sup> Indonesia claimed that the Saigon government was an American puppet and accused the United States as having “failed to understand Vietnamese nationalism.”<sup>56</sup> Obviously, the hegemony of Vietnam in Mainland Southeast Asia did not pose enough of a threat to Indonesia, as compared to the fear of China seeking to establish its hegemony in the whole Asian region.<sup>57</sup> Despite the positive position of Indonesia toward North Vietnam, the Philippines and Thailand saw it as hostile. Firstly, the North Vietnamese

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<sup>55</sup> Franklin B. Weinstein, *Indonesia Foreign Policy, The Dilemma of Dependence* (Ithaca, NY: Cornell University Press, 1967), 125.

<sup>56</sup> *Ibid.*

<sup>57</sup> Leifer, "The ASEAN States: No Common Outlook," 603.

were communists and secondly, they were appreciably supported by the Soviet Union, which was a rival superpower to the United States. The Laotian government was very vulnerable to foreign interference because of its geographically deadlocked land and poor economy. Laos had a rightist policy led by Souvanna Phouma in the 1960s. The U.S. government sent troops from Thailand to help Laos maintain its territory from the Pathet Lao, which was backed by North Vietnam. In 1975, the whole country was taken over by communist forces, leading to the end of the alliance of Laos with non-communist countries in the region and the beginning of a closer tie with Vietnam.

Cambodia had long adopted the neutralist policy under Prince Norodom Sihanouk throughout the 1960s, as influenced by U Nu of Burma, Nehru of India, and Chou En-lai of Communist China at the Bandung Conference.<sup>58</sup> However, Sihanouk pursued a contradictory policy by permitting the Communist North Vietnamese government to base its troops in Cambodia, and at the same time receiving aid from the United States. The relationship between the United States and Cambodia started to get bitter after Cambodia had claimed that the United States supported an anti-government movement to overthrow Sihanouk's government.<sup>59</sup> In 1970, Sihanouk could not hold on to power against the coup led by General Lon Nol. Finally, Cambodian troops were engaged and absorbed by the communist troops based in Cambodia. In 1953, Burma strongly insisted in pursuing a neutralist course led by General U Nu and refused to join SEATO. This was around the same time that the relationship between China and Burma improved. Burma was recognized to be one of the first countries to construct a significant relationship with the communist government of China. In the early 1960s, General Ne Win not only pushed Burma's foreign policy towards neutralization but he

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<sup>58</sup> Kenneth Ray Young, "Neutralism in Laos and Cambodia," *International Studies Quarterly* 14, no. 2 (1970): 223.

<sup>59</sup> The relationship between the United States and Cambodia was interrupted in 1958 and 1959 when Cambodia had territorial conflicts with both Thailand and Vietnam. Three countries received military aid from the United States, but Cambodia received the least. Comparing the Cambodian military capability to the other two countries' military capability, Cambodia could not protect its territory. This led to a critical statement from Sihanouk to the United States for "not restraining its Vietnamese friends and suspected that Washington hoped to use the dispute to put pressure on the Khmers to join SEATO" (Fifield 1963: 233-239).

also further imposed a policy of nationalization and international isolation as well. Burma, therefore, isolated itself from both the regional and international spheres.

Before the formation of ASEAN, Cambodia, Laos, Burma, and Vietnam including North Vietnam<sup>60</sup> were invited to join ASEAN. However, they declined being part of ASEAN because they saw it as an anti-communist grouping, which was very different from their preferences in maintaining a neutralist or communist policy. In 1971, the Zone of Peace, Freedom and Neutrality (ZOPEAN) Declaration was agreed upon by five founding ASEAN members to assure neutrality in Southeast Asia, based on the influence of the Declaration on the Promotion of World Peace and Cooperation of the Bandung Conference in 1955. V. Kudryatzev, political commentator for the Soviet government agency of press news (APN), argued that, without the Indo-Chinese countries, ZOPEAN did not have a real meaning and could not achieve its real goal for a zone of peace, freedom and neutrality.<sup>61</sup>

The first coordinating task among ASEAN members after its establishment was on the issue of North and South Vietnam conflict in April 1973. ASEAN set up the Coordinating Committee for the Reconstruction and Rehabilitation of Indochina States to manage this conflict. The proposal from the Committee for peace negotiation was however rejected by North Vietnam, and was conceived to be a favor for the United States and South Vietnam.<sup>62</sup> At the end of the Vietnam War in 1975 and the victory of Communism in Indochina, the relationship between Vietnam and the ASEAN countries surprisingly improved from enmity to friendship. At the 8<sup>th</sup> ASEAN Ministerial Meeting in May 1975, Malaysia expressed its friendship towards the Indo-Chinese countries and implied its willingness to accept new members: “[w]hen I look at the map of the World, I see Southeast Asia as a cohesive and coherent unit. ... [S]urely the movement has come for the community of Southeast

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<sup>60</sup> Ceylon (Sri Lanka) was welcomed to join ASEAN by Tun Razak and Adam Malik, but Tun Razak had reservations over the relationship between India and Pakistan (Gill 1987: 15).

<sup>61</sup> ASEAN Business Quarterly, "Preferential Trading Agreement Expanded Urea Projects Endorsed Singapore's Project Faces Uncertainty," 2, no. 2 (1978): 28.

<sup>62</sup> Gill, *ASEAN: Coming of Age* 42.

Asia, which has been our dream, to be realized.”<sup>63</sup> However, the Malaysian view about admitting new members was not formally represented by ASEAN due to huge differences in the degree of neutralization policy carried on by the individual ASEAN countries.

To summarize the first period of ASEAN evolution, Bernard Gordon states that in the 1950s and early 1960s, “regionalism has not taken root in Southeast Asia, first, because of many political conflicts among the nations there, and second, because there is so little agreement, even among its advocates, on what ‘cooperation’ would mean in practice.”<sup>64</sup> ASEAN failed in many regional cooperative attempts in the 1950s and 1960s. The cooperation among the members was weak, in contrast to the strong bilateral links between the United States and each individual Southeast Asian country as a “hub and spokes.” The Bangkok Declaration fundamentally revealed that ASEAN was formed under a flexible and non-legal framework, and the declaration did not enforce a type of supranational entity. The successful formation of ASEAN was manipulated by internal and external factors of the regional sphere. The end of the confrontation between Indonesia and Malaysia in 1966 brought a peaceful atmosphere for a possible regional talk. The internal demands came from the desires to create a peaceful region against the communist and imperialist threat and to prevent future bilateral conflicts between members. The external supply was the U.S. approbation. The presence of the United States as a non-opponent supported the formation of ASEAN, and its presence as an outsider made ASEAN feel complacent and protected in its own decision without fear of intervention.

## **2. Second Period: Building Cooperation (1976-1989)**

Ten years after the formation of ASEAN in 1967, the period of building regional cooperation began after the end of the Vietnam War. Two major circumstances which stimulated the ASEAN

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<sup>63</sup> Irvine, "The Formative Years of ASEAN: 1967-1975," 32.

<sup>64</sup> Bernard K. Gordon, "Regionalism and Instability in Southeast Asia," *Orbis*, no. Summer (1966): 438.

countries towards a closer relationship were (1) the world economic recession and (2) the emergence of communist domination over Mainland Southeast Asia.

### **2.1. World Economic Recession**

World oil prices were rising dramatically and the economic growth of developed countries was slowing down, which led to an increasing use of protectionist policy and the spread of the illness to the developing countries. The slowing down of the world economy created an urgent sense to improve ASEAN economic cooperation in terms of trade and industrial projects in order to reduce the effects of recession, placed a demand on the ASEAN members for a need to get together at the first Heads of Government meeting. The first ASEAN Summit was held in February 23-24 in Bali, Indonesia in 1976. The necessity of economic cooperation was recognized to help ease political instability in Southeast Asia. As the Malaysian Prime Minister Dutak Hussein Onn stated, “if we can progress in economic cooperation, we would have made a substantial contribution towards the maintenance of our respective national security as well as the larger regional security.”<sup>65</sup> The Singaporean Prime Minister Lee Kuan Yew addressed it this way: “The basic question is how to ensure continuing stability by stimulating economic development to resolve social and political problems. Otherwise, increasing disaffection and discontent fuel incipient insurgencies into full-scale revolutions.”<sup>66</sup>

The pulling out of U.S. aid programs along with other military assistance in Southeast Asia worried the ASEAN countries that they would face financial difficulties to continue their economic development projects in the future. At the regional level, the ASEAN countries used ASEAN non-economic meetings many times to discuss the problem of trade protectionism with their dialogue partners—the EEC, the United States, and Japan, who in fact heavily imposed this unfavored policy

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<sup>65</sup> The ASEAN Secretariat, *10 Years ASEAN* (Jakarta: The ASEAN Secretariat, 1978), 93.

<sup>66</sup> *Ibid.*, 99.



on them. The discussions were in the form of bilateral negotiations between the individual ASEAN countries and individual dialogue partners. The bilateral meetings, however, did not increase the ASEAN bargaining power, even though they were held under the name of regional meeting. At the international level, on the other hand, ASEAN showed more collective bargaining power to deal with the protectionist issue to ensure their market access.<sup>67</sup> In addition, ASEAN decided to adopt the 1960s United Nations Report, which was suggested by a UN research team, in order to improve economic cooperation at the First ASEAN Summit. In the following year, the Second ASEAN Summit agreed to follow up on the report by creating the Preferential Trading Arrangement (PTA) and several large-scale industrial projects.

During the late 1970s, only a few Southeast Asian countries started to pursue export-led growth. Singapore was the most advanced country that pursued liberalization and the PTA policy, followed by the Philippines and Thailand.<sup>68</sup> Malaysia did not show much support for liberalization at that time. Indonesia was not at all interested in opening its domestic market to foreigners. Despite the different economic policies, ASEAN members commonly accepted the idea of “national resilience” of Indonesia that should be transformed to the so-called concept of “regional resilience.” The idea implies a support for the import-substitution policy at the regional level. This concept became a basic foundation for the creation of regional economic cooperation during the 1970s and 1980s. The ASEAN Industrial Complementation (AIC), for example, was set up to create a regional economic project. Each country could pick one industry to develop and aim to become a monopoly

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<sup>67</sup> Laurence D. Stifel, "ASEAN Cooperation and Economic Growth in Southeast Asia," *Asia Pacific Community Spring-Early Summer* (1979): 126-27.

<sup>68</sup> Shee Poon-Kim, "A Decade of ASEAN, 1967-1977," *Asian Survey* 17, no. 8 (1977): footnote 8. For the Philippines, there were not only economic reasons to support trade liberalization. The political and security reasons also pressured the Philippines to align more closely with other ASEAN members. Its positive pose expressed a desire to diversify its export destinations, which at that time relied only on Japanese and U.S. markets. According to the Asia Research Bulletin (March 31, 1976), the Philippines' economy generated only 2.9 percent of the total intra-regional trade (Poon-Kim 1977: footnote 8). The weakness of its dependence on the US market was related to politics, especially after the U.S. surrendered and withdrew its troops from Vietnam in 1975. There was a fear that the U.S. would leave the region, and abandon its economic and security patronages.

supplier of that product to other countries in the region. These cooperative projects fundamentally failed because no one would stick to produce only one industry if another industry was likely to give a higher benefit. For example, more and more members revealed their similar interest in the automobile and electronics industries. In short, the economic recession and protectionism imposed by the developed countries urged ASEAN to build closer economic cooperation. However, during that time the nationalist and import-substituting policy heavily controlled the policy of regional cooperation. This clearly reflected the limitations of economic cooperation among ASEAN members.

## ***2.2. Emergence of Communist Domination over Indo-China: Cambodia Conflict***

Due to a fear of the “domino theory,” during the first ASEAN Summit the members ominously discussed the emergence of communist control over Indochina in mid-1975 and the cooperative building after the removal of U.S. troops from the region. In June 1977, one year after the ASEAN first Summit, SEATO was disbanded due to the fall of the American-supported regime in Vietnam and Cambodia in 1975. The fear was accelerated.<sup>69</sup>

Comparing the size of the army between Vietnam and ASEAN, the total armed forces of Vietnam between 1975 and 1976 were approximately 700,000 personnel, while the total armed forces of the five ASEAN countries combined were only 631,000 personnel.<sup>70</sup> The well-equipped forces and the bigger size of the Vietnamese forces threatened ASEAN security. As a result, ASEAN dramatically changed its foreign policy regarding Vietnam and the other Indo-Chinese countries from belligerence toward diplomacy.<sup>71</sup> As Mike Mansfield reported to the U.S. Senate on August 26, 1976 after his trip to Southeast Asia, “[a]s a result of past American policy in the region, principally the

<sup>69</sup> Gill, *ASEAN: Coming of Age* 57.

<sup>70</sup> International Institute for Strategic Studies, *Military Balance, 1975-1976* (London: IISS, 1977).

<sup>71</sup> According to ASEAN Business Quarterly, only Thailand in the late 1970s had publicly welcomed the participation of Laos, Vietnam and Cambodia in the regional grouping. ASEAN Business Quarterly, “Preferential Trading Agreement Expanded Urea Projects Endorsed Singapore's Project Faces Uncertainty,” 28. Also, report of Senator Mike Mansfield (1978) on his visit in Southeast Asia in 1976 suggested the improvement of Thai and Laotian relationship after the withdrawal of the US military from Thailand with the opening of several crossing border points to foster trade along the Mekong River (48).

attempt to create non-neutral regimes which were strictly aligned in policy with the U.S., nations now find it disadvantageous to be identified too closely with U.S. interest."<sup>72</sup> On the Vietnamese side, Deputy Foreign Minister Phan Hien visited the Philippines, Malaysia, Singapore, Indonesia and Myanmar, and expressed his country's disinterest to join ASEAN or subscribe to the ZOPFAN.<sup>73</sup> Instead, Vietnam proposed many draft treaties, including a friendship, cooperation, and non-aggression agreement, which emphasized bilateral relationships with the ASEAN members.<sup>74</sup> However, the ASEAN governments did not respond to his proposals. Rather, one of the newsletters published by ASEAN expressed it in this way, "... the draft agreements were ignored because Vietnam can ill-afford to fall out with the United States. Indeed, it has been suggested that Vietnam's main interest in the ASEAN countries is to use ASEAN government as marriage brokers, so to speak, between Vietnam and the United States."<sup>75</sup> The visits to ASEAN capitals by the Vietnamese leader were made during September and October 1978 with the promise that Vietnam would not support communist insurgence in ASEAN countries. Then, in December of the same year, Vietnam invaded Cambodia with the support of the Soviet Union<sup>76</sup>, and ignored a warning from the United States that Vietnamese interference in Cambodia's internal affairs would militate against the establishment of

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<sup>72</sup> Mike Mansfield, "Charting a New Course: Southeast Asia in a Time of Change, Presented to the Committee on Foreign Relations, United States Senate, 94th Congress on August 26, 1976," in *Charting a New Course: Mike Mansfield and U.S. Asian Policy: Four Reports* (Japan: Charles E. Tuttle, 1978), 78.

<sup>73</sup> Allan Gyngell, "Looking Outwards: ASEAN's External Relations," in *Understanding ASEAN*, ed. Alison Broinowski (New York: NY: St. Martin's Press, 1982), 130.

<sup>74</sup> ASEAN Business Quarterly, "Preferential Trading Agreement Expanded Urea Projects Endorsed Singapore's Project Faces Uncertainty," 28. The article revealed the Vietnamese's initial attempt to create its neutrality zone with ASEAN by proposing it as the so-called Zone of Peace, Independence, and Neutrality. After the meeting with the ASEAN Standing Committee (ASC), the Vietnamese Vice-Foreign Minister Phan Hien regarded ASEAN as a "non-military organization." Later on, Vietnam condemned ASEAN for not being a Zone of Peace, Freedom, and Neutrality, but rather a military bloc.

<sup>75</sup> ASEAN Business Quarterly, "Editorial: Diplomatic Maneuvers " 2, no. 3 (1978): 69.

<sup>76</sup> Vietnamese government signed the Treaty of Friendship and Cooperation in 1978 with the Soviet Union, which brought Hanoi into the Soviet sponsorship in terms of economics and military. Vietnam then joined the economic grouping of the Council for Mutual Economic Assistance (COMECON or CMEA) in the same year.

U.S.-Vietnamese relations.<sup>77</sup> In early 1979, China quickly responded to the Vietnamese aggression with a “punitive” military action on the Vietnamese border.

In 1975, Cambodia was still catastrophic under the Pol Pot regime. Pol Pot refused to sign a special relationship with Vietnam in November 1978 as Laos had agreed in July 1976. One month later, Vietnam invaded Cambodia and replaced Pol Pot in December 1978 by Heng Samrin, who had lived in Vietnam following a conflict with Pol Pot. Heng Samrin, thus, had been seen as a puppet government of Hanoi in Phnom Penh. The government did not gain international recognition from the Western countries, the United Nations, China, and also ASEAN. After the occupation, Vietnamese soldiers aggressively crossed into a few kilometers of the Thai border. As a result of this forceful movement, the United States and China came to support Thailand and the Khmer Rouge army against Vietnam.<sup>78</sup> A previous warning from the senior Indonesian General Widodo to Vietnam in 1977 declared that, “an attack on Thailand would be viewed ... as an attack on ASEAN as a whole.”<sup>79</sup> However, Indonesia opposed a proposal by Singapore in December 1981 to officially allow ASEAN to supply arms to the Khmer resistance.<sup>80</sup> Thailand and Singapore provided military assistance to the non-communist Khmer resistance groups, whereas China contributed military weapons to the Khmer Rouge,<sup>81</sup> including Malaysia.<sup>82</sup> The “dilemma for ASEAN was clear”<sup>83</sup> that there was no consensus on military assistance to resistance movements against the Vietnamese. This dilemma greatly “reflected the differences of political alliance and interests in security ideology especially between Indonesia and Thailand.”<sup>84</sup>

<sup>77</sup> ASEAN Business Quarterly, "Editorial: Diplomatic Maneuvers ": 1.

<sup>78</sup> Gyngell, "Looking Outwards: ASEAN's External Relations," 131-32.

<sup>79</sup> Anwar, *Indonesia in ASEAN: Foreign Policy and Regionalism*, 183-84.

<sup>80</sup> *Ibid.*, 186.

<sup>81</sup> *Ibid.*, 188.

<sup>82</sup> Kao Kim Hourn, "Cambodia's Foreign Policy and ASEAN: From Non-Alignment to Engagement, Ph.D. Dissertation" (University of Hawaii, 2001), 44.

<sup>83</sup> Donald E. Weatherbee, *ASEAN Security Cooperation and Resource Protection*, ed. Kusuma Snitwongse and Sukhumbhand Paribatra, *The Invisible Nexus: Energy and ASEAN's Security* (Singapore: Executive Publications, 1984), 4-6.

<sup>84</sup> *Ibid.*

As predicted, the relationship between Vietnam and ASEAN had deteriorated after the occupation of Cambodia. Vietnam publicly revealed that it was disappointed with the West and ASEAN for their financial support to the Khmer Rouge movement, which had killed millions of Cambodian people under Pol Pot. ASEAN and the Western countries sponsored a UN resolution on Cambodia for the withdrawal of Vietnamese troops and the creation of a Cambodia Coalition government-in-exile to lead the resistance movement against the puppet government in Phnom Penh in 1979. The improvement of diplomatic relations between ASEAN and Vietnam was completely destroyed due to the Cambodia conflict, less than three years after the initiation of diplomatic foreign policy toward each other after the end of the Vietnam War. Nevertheless, the situation of the Cambodia conflict strengthened the image of ASEAN as a regional grouping in the international community.

At the international level, ASEAN supported the formation of the Coalition Government of Democratic Kampuchea (CGDK) on June 22, 1982, consisting of four resistance groups against Heng Samrin's government: (1) the Khmer Rouge, (2) the Kampuchean People's National Liberation Front (KPNLF), (3) the nationalist group, and (4) the Khmers loyal to Prince Sihanouk. According to Dewi Fortuna Anwar, ASEAN lobbied at the UN to gain internationally legitimate support for the CGDK by securing the retention of the CGDK seat at the UN.<sup>85</sup> In April 1986, President Ronald Reagan arrived in Bali to support the eight-point peace proposal of the CGDK at the ASEAN special Ministerial Meeting.<sup>86</sup> Not surprisingly, Vietnam had quickly rejected the proposal.<sup>87</sup> Tengku Ahmad Rithauddeen, Malaysia's Foreign Minister, criticized Vietnam for "not being serious to resolve the Kampuchean problem."<sup>88</sup> On the other hand, to respond to the rejection of the eight-point

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<sup>85</sup> Anwar, *Indonesia in ASEAN: Foreign Policy and Regionalism*, 186.

<sup>86</sup> ASEAN Newsletter, "Joint Communique of the Special Meeting of the ASEAN Foreign Ministers, Bali, 29 April 1986," no. 14, March-April (1986): 3 and 11.

<sup>87</sup> ASEAN Newsletter, "Evaluation of ASEAN Economic Cooperation Urged by Ministers," no. 15, May-June (1986): 5-6.

<sup>88</sup> *Ibid.*

proposal by Vietnam, the Philippines's Foreign Minister Salvador Laurel instead emphasized increasing international support from the UN General Assembly Session to pressurize Vietnam.<sup>89</sup> ASEAN members gained more international support year by year to push Vietnam's withdrawal from Cambodia. In 1979, ASEAN received 91 votes in support of its campaign, 21 votes against, and 29 abstentions. Compared to the year 1979, ASEAN had 122 votes in support to pass the resolution in 1988.<sup>90</sup> ASEAN imposed a pressurizing approach toward Vietnam while retaining the opportunity for future reconciliation between ASEAN and the Indo-Chinese countries. As shown in the statement of Prince Mohamed Bolkiah, Brunei's Foreign Minister at the 20<sup>th</sup> ASEAN Ministerial Meeting in Singapore in 1987, "[w]e should assure the Vietnamese that once the problem is resolved, ASEAN would offer its hand of friendship. We should persuade the Soviet Union to use its influence on Vietnam, so that Vietnam can come to the negotiation table to resolve the Kampuchean conflict."<sup>91</sup>

In April 1987, however, Vietnam continued its aggression by invading the Thai territories in the area of Chon Bok Pass, Nam Yuen District, Ubon Ratchathani Province. ASEAN announced an official condemnation of the Vietnam aggression on May 10, 1987.<sup>92</sup> Indonesia offered itself to be the interlocutor for ASEAN to ease this rising tension by sending its Foreign Minister Mochtar Kusumaatmadja to Vietnam for the negotiation in Ho Chi Minh City on July 29, 1987. The negotiation basically failed to come to an agreement and the Joint Informal Meeting (JIM) was set up to discuss the situation among the ASEAN members.<sup>93</sup> The many failures of peaceful negotiations made ASEAN realize the tensions behind the conflict between Vietnam and Cambodia, which

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<sup>89</sup> Ibid.

<sup>90</sup> ASEAN Newsletter, "ASEAN Scores Big Victory at the UN," no. 30, November-December (1988): 7.

<sup>91</sup> ASEAN Newsletter, "The 20th ASEAN Ministerial Meeting, Singapore, 15-16 June 1987," no. 21, May-June (1987): 6.

<sup>92</sup> ASEAN Newsletter, "ASEAN Statement Condemns Vietnam," no. 21, May-June (1987): 16.

<sup>93</sup> ASEAN Newsletter, "Joint Press Release Informal Meeting of the ASEAN Foreign Ministers, Bangkok, 16 August 1987," no. 22, July-August (1987): 6. The Joint Informal Meeting (JIM) I or 'cocktail party' in July 1988 to discuss between ASEAN members after the negotiation of Indonesian and Vietnamese leaders, held in Bogor in Indonesia. JIM II was held in February 1989 in Jakarta to plan for the international conference on Indo-Chinese refugees.

seemed to spread to other ASEAN countries. Donald Weatherbee suggests that the conflict in Southeast Asia was a conflict between the superpowers, in which Vietnam was backed by the Soviet Union and the Khmer Rouge resistance was backed by China. Therefore, "the compromises between China and USSR would produce peace."<sup>94</sup> At the opening of the Third ASEAN Summit in Manila in 1987, the Malaysian Prime Minister Mahathir Mohamad addressed the relations of prolonged-unsolved conflict and the superpowers in this way,

Our efforts should never become less than what they have been. Efforts to find a solution to this problem should not aim only at ensuring total Vietnamese withdrawal and the restoration of the independent, neutral and non-aligned status of Kampuchea. They should also aim at ending once and for all the rivalry between the major powers in the region so that durable peace, understanding and cooperation could, in the long term, prevail for the whole of Southeast Asia.<sup>95</sup>

During the ten years between 1976 and 1986, the relationship between ASEAN and the Indo-Chinese countries remained unsteady. At the beginning, the relationship started developing further cooperation after the end of the Vietnam War. It was suddenly destroyed after the Vietnamese occupation of Cambodia leading to an acceleration of more tension in the region. In contrast to the ASEAN membership, Cambodia, Laos, and Vietnam signed a friendship agreement in February 1983 to reinforce their solidarity and cooperation. The international involvement in the Cambodia conflict significantly ensured ASEAN's position in supporting the independence and restoration of Cambodia. Even though the differences of domestic policy among the ASEAN members toward Vietnamese aggression were largely observed, ASEAN was still presented a unified voice at the international level to free Cambodia.

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<sup>94</sup> Donald E. Weatherbee, "The Diplomacy of Stalemate," in *Southeast Asia Divided: The ASEAN-Indochina Crisis*, ed. Donald E. Weatherbee (Boulder, CO: Westview Press, 1985), 24.

<sup>95</sup> ASEAN Newsletter, "Third ASEAN Summit Held After 10 years," no. 24, November-December (1987): 6.

### ***2.3. Turning Point of the Cambodia Conflict***

On the one hand, Vietnam faced continuous pressure from the international community and ASEAN. On the other hand, the scarcity of Soviet funding on economic and military assistance to Vietnam along with a possible change in the relationship between the United States and the Soviet Union, was a huge impact. For the European Community (EC), the group stood on restoring Cambodia's independence. The EC insisted on not providing financial assistance to Vietnam in order to prevent the enhancement of the strength of the Vietnamese military.<sup>96</sup> Joe Clark, the Secretary of State for External Affairs of Canada at the 20<sup>th</sup> ASEAN Ministerial Meeting in Singapore in 1987 stated a similar position, "I reiterate Canada's pledge not to provide development assistance to Vietnam while that country continues its aggression in Cambodia."<sup>97</sup> The support of the United States for the ASEAN position against Vietnam was meaningfully recognized at the 1988 Post-Ministerial Conference (PMC) in Bangkok, "[w]e applaud the skill with which ASEAN has marshaled international opposition to Vietnam's actions in that tortured country," expressed by the U.S. Secretary of State George Shultz.<sup>98</sup> At the 1989 PMC in Malaysia, U.S. Secretary of State James Baker III asserted that "[t]he United States and ASEAN share three main objectives: a verified withdrawal of Vietnamese troops; effective measures to prevent the return to dominance of the Khmer Rouge; and self-determination for the Cambodian people."<sup>99</sup> These statements confirmed the U.S. support for ASEAN's desire to restore Cambodia and to undermine Vietnamese communist power in the region.

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<sup>96</sup> ASEAN Newsletter, "Joint Declaration of the Sixth ASEAN-EC Ministerial Meeting, Jakarta, 20-21 October 1986," no. 17, September-October (1986): 12.

<sup>97</sup> ASEAN Newsletter, "Post-Ministerial Conferences, Singapore 18-20 June 1987: Kampuchea Problem and International Economic Issues," no. 21, May-June (1987): 14.

<sup>98</sup> ASEAN Newsletter, "Post Ministerial Conferences with the Dialogue Partners, Bangkok, 7-9 July 1988," no. 28, July-August (1988): 13.

<sup>99</sup> ASEAN Newsletter, "Post Ministerial Conferences with the Dialogue Partners, Bandar Seri Begawan, 6-8 July 1989," no. 34, July-August (1989): 17.



The change in domestic politics in the Soviet Union negatively contributed to weakening the Vietnamese stance against the international effort. After General Secretary Mikhail Gorbachev took control over the Soviet foreign policy after Chernenko's death in 1985, the Soviets sought to normalize their relationships with China and the United States, and concentrated less on the conflict in Southeast Asia.<sup>100</sup> In other words, Vietnam received less attention and military aid from the Soviet Union. As a result of the desire for pursuing normalized relations with the other superpowers, the Soviet Union had avoided accusing China of being a "hegemonist" since 1985; the Soviets had thus distanced themselves from the China-Vietnam conflict.<sup>101</sup> Gorbachev asserted that, "the Kremlin was not going to pressure Vietnam on China's behalf because this was basically a Sino-Vietnam conflict."<sup>102</sup> Also, when President Ronald Reagan and Chinese Premier Zhao officially included the Cambodia issue in their agenda by requiring Vietnamese withdrawal and the resettlement of an independent Cambodia, the Soviets rethought their position against this announcement.<sup>103</sup> In 1987, President Reagan and General Secretary Gorbachev finally signed the Treaty on the elimination of intermediate and shorter-range nuclear missiles as a significant pact in nuclear arms reduction and disarmament.<sup>104</sup>

Vietnam finally could not resist pressures from the international community. The struggle on the economic front to maintain a trade balance for several years and the abandonment of Soviet military and economic aid were also significant factors. These conditions consequently led to an announcement of Vietnamese troop withdrawal from Cambodia by the end of 1989 and an alteration from being an enemy to become a friend to the ASEAN countries. Vietnam began to withdraw

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<sup>100</sup> Robert C. Horn, "Vietnam and Sino-Soviet Relations: What Price Rapprochement?," *Asian Survey* 27, no. 7 (1987): 740.

<sup>101</sup> Ibid.

<sup>102</sup> Ibid.: 742.

<sup>103</sup> Ibid.: 735.

<sup>104</sup> ASEAN Newsletter, "Joint Press Release the Third ASEAN Summit in Manila," no. 24, November-December (1987): 15.

15,000-18,000 troops from Cambodia in 1988.<sup>105</sup> Another indicator that signaled ASEAN to alter and ease its foreign policy in Indochina came from the creation of the Vietnamese Doi Moi policy in 1986. This liberal economic policy showed a long-term vision and a new desire of the Vietnamese communist government. The new orientation of the Vietnamese national development policy encouraged a hostile country like Thailand and the other ASEAN countries to ease their foreign policy. The Singaporean Foreign Minister S. Dhanabalan expressed the need for Vietnam to change its position: "The Soviet Union and China seem to have shifted their positions. ... Vietnam has acknowledged that the war in Cambodia is [a] drain on its economy and is an obstacle to economic reform in Vietnam."<sup>106</sup> On ASEAN's side, the Thai foreign policy turned from combat to support Vietnam back into the region after the incipient troop withdrawal in 1988. Prime Minister Chatichai Choonhavan turned around the previous military-oriented foreign policy into a trade-oriented foreign policy in 1989. This was expressed under the famous phrase of "turning Indo-Chinese battle field into a market place" or "golden land"—*Suwannaphom*. In the same year, Air Chief Marshal Siddhi Savetsila, the Thai Foreign Minister, already gave a speech to initially welcome Laos and Vietnam to accede to the Treaty of Amity Cooperation (TAC) in Southeast Asia if they wished.<sup>107</sup>

In the opposition to the Vietnam-Cambodia Conflict, Myanmar was completely isolated from the regional and even the international community. The country neither joined ASEAN to pressurize Vietnam nor supported Vietnam against ASEAN. Under Myanmar's foreign policy, the government seemed to focus only on its special relationship with China. Myanmar has pursued an isolationist policy since the late 1960s. The international community was less aware of this isolationism especially before the detention of Aung San Suu Kyi in 1989. This could be because all attention and concentration were put on solving the Cambodia Conflict and the Vietnamese aggression in Southeast

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<sup>105</sup> Straits Times, January 14, 1989.

<sup>106</sup> ASEAN Newsletter, "PM: ASEAN must Increasingly Assume the Responsibility that Comes with Growing Maturity.," no. 28, July-August (1988): 7. It was a speech at the opening 21<sup>st</sup> AMM in Bangkok in 1988.

<sup>107</sup> ASEAN Newsletter, "The 22nd ASEAN Ministerial Meeting, Bandar Seri Begawan, 3-4 July 1989," no. 34, July-August (1989): 8-9.

Asia. By the end of the 1980s, the conflict between Vietnam and Cambodia was cooling down. On the other side of the Mainland Southeast Asia, the Myanmar military government failed in its promise to democratize the political system, by unrecognizing the 1989 election won by the leader of the National League for Democracy (NLD), Aung San Suu Kyi. People demonstrated to support her win on the streets, but the force by the military government turned deadly and created the political unrest in the country. Suu Kyi was finally placed under house arrest in 1989. In response to this incident, ASEAN did not interfere with Myanmar's internal political unrest or democratization because non-interference was claimed to be the ASEAN principle. The unrest in Myanmar was perceived as a different case from the Cambodia Conflict. Moreover, Myanmar did not want to play any role in both the regional and international levels. ASEAN hence did not have to worry much about Myanmar's possible aggression towards other countries in Southeast Asia.

Briefly, during the second period of the ASEAN evolution, the relationship between ASEAN and the Indo-Chinese countries was fluctuating. During the ten years between 1976 and 1986, the relationship between ASEAN and Vietnam including Laos was in jeopardy due to the unsolved conflict. Whereas the Indonesian government continued to deny the Vietnamese domination in Mainland Southeast Asia and saw Vietnam as a contributor to "regional resilience,"<sup>108</sup> the other ASEAN countries were clearly fearful of the spread of the Vietnamese Communist power. The different perceptions and political alliances among the ASEAN countries did not result in any single common policy toward the issue of the Cambodia Conflict. However, ASEAN successfully cooperated as one voice at the international level. The uncertain security situation in the region made it necessary for ASEAN to gain support from outside of the region, such as China, the EC, the United States, and the United Nations. ASEAN, therefore, started to campaign for its peaceful negotiation for the troop withdrawal and the restoration of an independent, neutral, and non-aligned Cambodia. Increasingly, ASEAN began to earn recognition at the international level. The signals that led to a

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<sup>108</sup> Weatherbee, "The Diplomacy of Stalemate," 21.

turning point in 1988 were the heavy and continuous pressure from the international community, the new foreign policy of the Soviet Union to normalize its relationship with China and the United States, the indebted balance of trade of the Vietnamese economy, and the shortage of financial aid from the Soviet Union. Then, the turning point came when Vietnam ordered its troops back home in 1988. On the other side of the Mainland Southeast Asia, when ASEAN was busy dealing with the Cambodia issue, Myanmar concentrated on its isolationist and neutral policy. However, in the late 1980s the country could not prevent itself from international criticism anymore after the NLP leader Aung San Suu Kyi, who won the elections in 1989, was detained.

### **3. Third Period: Expanding Membership (1990 until Present)**

In the second period of the ASEAN evolution, the organization “[clearly] turned [ASEAN] into a ... political organization.”<sup>109</sup> This was largely due to the fact that ASEAN had been a significant contributor to the negotiation of the Cambodia conflict. ASEAN had considered the CLMV as an outsider to its regional interaction because of distrust, the pro-communist system, and different political and economic alliances. The signing of the Paris Agreement on Cambodia on October 28, 1991 brought the end of the Cambodia conflict. Under the presidency of Prince Sihanouk, the supreme National Council was arranged from the four factions of CGDK. Sihanouk was responsible for the control of power until a general election would be held in 1993. The peaceful resolution in Southeast Asia, thus, signaled a potential for ASEAN to expand its membership from six to ten, and to become the Association of “One Southeast Asia.”

In the third period, ASEAN cooperation visibly shifted from a security mode to an economic one. The peaceful political atmosphere in the region created a new prospect for the ASEAN

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<sup>109</sup> Lim Chong Yah, "ASEAN's External Trade: Intra-ASEAN and Extra ASEAN Co-operation," *ASEAN Business Quarterly* 3, no. 4 (1979): 13.

countries to expand their cooperation in the economic area. AFTA was founded in 1992 and implemented in 1993, followed by the establishment of the ASEAN Investment Area (AIA) in 1998. Hence, the ends of the Cold War shifted ASEAN's interest from a concentration on security issues to economic cooperation. This consequently enriched the idea of "One Southeast Asia" and the enlargement of ASEAN membership in the late 1990s.

Under the Bangkok Declaration, ASEAN membership was meant to be open to all states in Southeast Asia that wished to subscribe to ASEAN's principles, policies, and agreements. At that time, Cambodia, Laos, Myanmar, and Vietnam were invited to join ASEAN, but all of them rejected the invitation because of the anti-communist image of ASEAN. The idea of "One Southeast Asia" became an important subject for discussion among ASEAN scholars in mid-1993. The 5th Southeast Asian Forum, organized by the ASEAN-Institute of Strategic and International Studies (ASEAN-ISIS) in Malaysia, fortified the development of this idea by focusing on economic cooperation and international bargaining power. The Malaysian Deputy Prime Minister Anwar Ibrahim participated in the forum and encouraged ASEAN to accomplish the idea of "One Southeast Asia":

Our end goal must of course be shared prosperity for all. There cannot be two Southeast Asias, a 'rich' Southeast Asia and a 'poor' Southeast Asia. ... There must be only one Southeast Asia, a dynamic, vigorously growing Southeast Asia that moves with the rest of the soaring economies of East Asia. Participation in ASEAN can perhaps make this passage easier.<sup>110</sup>

The then Malaysian Foreign Minister and the current Prime Minister, Abdullah Haji Ahmad Badawi, also reiterated the benefits of ASEAN enlargement at the 7th Southeast Asia Forum in Kuala Lumpur in 1996. He stated that

[a]s for the benefits of expansion to ASEAN itself, an ASEAN-10 would obviously be a considerably more empowered actor on the international scene. When we were ASEAN-5, dynamic as we were, we were but an association of half the Southeast Asian nations. We exercised only half our regional voice. When we become ASEAN-6, and now ASEAN-7, we empowered ourselves more. We began to speak

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<sup>110</sup> Anwar Ibrahim, "Towards Shared Prosperity for One Southeast Asia," *ASEAN-ISIS Monitor*, no. 8 (1993): 5.

and the articulate for the greater part of the region. When we are an ASEAN-10, we will finally realize our full potential.<sup>111</sup>

The Malaysian Prime Minister Mahathir Mohamad was confident of the inevitability of enlargement, "I think Vietnam is well on the way to doing what China has done, and eventually Laos and Cambodia would do the same, and at some stage I think Myanmar also would join."<sup>112</sup>

### ***3.1. Why the New Members were Accepted: Positive and Negative Expectations***

Three supporting reasons influenced ASEAN to accept new members: (1) the China factor, (2) economic benefits, and (3) the pro-Asian grouping. The rise of China in the world economy has been recognized as the most threatening competition for the ASEAN economies in terms of trade and investment. China's attraction could change the flow of investment from the Americas, Europe, and Japan to China, instead of Southeast Asia. The lower cost of Chinese products could cause the ASEAN economies to lose their market share in sectors such as garments, and electronics, and computer equipment.<sup>113</sup> Thus, the tremendous growth of the Chinese economy worried ASEAN remarkably. The expansion from a group of six to ten economies might help ASEAN to cope with a giant economy like China. Moreover, ASEAN wanted to break down the too-close relationship

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<sup>111</sup> Datuk Abdullah Badawi, "Speech," in *The 7th Southeast Asia Forum* (Kuala Lumpur: 1996), 20.

<sup>112</sup> Mahathir Mohamad, "A Prime Minister Speaks," *ASEAN-ISIS Monitor*, no. 6 (1993): 10. He also positively supported to include the Indo-Chinese countries into his East Asian Economic Grouping (EAEG).

<sup>113</sup> See the discussion of this issue in the following works. Barry Eichengreen, Yeongseop Rhee, and Tong Hui, "The Impact of China on the Exports of Other Asian Countries, NBER Working Paper No.10768," (Cambridge, MA: National Bureau of Economic Research, 2004), Elena Ianchovichina and Will Martin, "Trade Liberalization in China's Accession to WTO, Policy Research Working Paper 2623," (Washington, DC: World Bank, 2001), Elena Ianchovichina and Terrie Walmsley, "Impact of China's WTO Accession on East Asia, Policy Research Working Paper No. 3109," (Washington, DC: World Bank, 2003), Francis Ng and Alexander J. Yeats, "Major Trade Trends in Asia, Policy Research Working Paper No. 3084," (Washington, DC: World Bank, 2003), Terrie Walmsley and Thomas Herter, "China's Accession to the WTO: Timing is Everything, Working Paper No. 13," (West Lafayette, IN: Center of Global Trade Analysis, Department of Agricultural Economics, Purdue University, 2000).

between China and Myanmar in terms of financial and military support.<sup>114</sup> On the other hand, the accession of the CLMV into ASEAN could indirectly upraise a “good and close relationship” between ASEAN and China due to the AFTA progress and liberalization reforms in China.<sup>115</sup>

In terms of the economic benefits, the accession of the new members would expand the integrated production network in the complementary industries under the AFTA scheme.<sup>116</sup> The economists expected that the admission of the new members in ASEAN would help cut the cost of business and transactions<sup>117</sup> by receiving cheaper raw materials from the new members and by moving assembly industries to the locations where there is lower cost of labor.<sup>118</sup> The Vietnamese economy especially seems to provide complement factor endowment for the old ASEAN members.<sup>119</sup> In short, the expansion within the ASEAN market by embracing CLMV can spur the growth of the ASEAN consumption and production network.

The third reason for accepting the new members is a desire to develop regional grouping in Asia. Two aspects have been observed. First, enlargement is a means to create a peaceful region. Michael Leifer suggests that ASEAN enlargement “institutionalized the process of reconciliation” between the original ASEAN members and the Indo-Chinese countries.<sup>120</sup> This could promote peace and increase welfare for the people in the ASEAN countries.<sup>121</sup> Domingo Siazon, the Secretary of

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<sup>114</sup> Marvin Ott, "Don't Push Rangoon into Beijing's Orbit," *The Nation* June 13, 1997, Reuters, "ASEAN Expands Due to Worries Over China," June 4, 1997.

<sup>115</sup> Feng, "ASEAN's Relations with Big Powers," 222. On the other hand, some scholars warned China's involvement as a byproduct of ASEAN enlargement would lead internal ASEAN affairs to be just more complicated. See Palmujoki, *Regionalism and Globalism in Southeast Asia*, 48.

<sup>116</sup> Helen E. S. Nesadurai, "The Indo-Chinese Enlargement of ASEAN: Implications for Regional Economic Integration, Paper No. 56," (Singapore: Institute of Defence and Strategic Studies 2003), 11.

<sup>117</sup> Kriengsak Chareonwongsak, "Lessons from ASEAN's Economic Integration," 38, Kiyokatsu Nishiguchi, "Regional Economic Cooperation in East Asia After the Crisis," in *UBC Year of Japan: 2002-2003, Japan, Canada and the Pacific Rim: Trade, Investment, and Security Issues* (Tokyo: Center for Japanese Research and University of British Columbia, 2002).

<sup>118</sup> Felker, "Southeast Asian Industrialization and the Changing Global Production System," 2003.

<sup>119</sup> Naya and Plummer, "Economic Co-operation After 30 Years of ASEAN," 124.

<sup>120</sup> Michael Leifer, "The ASEAN Peace Process: A Category Mistake," *The Pacific Review* 12, no. 1 (1999).

<sup>121</sup> Jusuf Wanandi, "ASEAN Summit Yields Major Results," *ASEAN Update* 1, no. January-February (1996): 10.

Foreign Affairs of the Philippines, stated at the accession of Vietnam in the 27th ASEAN Ministerial Meeting in Brunei that “[w]ith Vietnam in ASEAN, the foundations for enduring national security and stability have been strengthened more than ever before. We have learned our lessons from the past. The ray of peace is shining brightly in our region.”<sup>122</sup> Second, the enlargement is a means to resist Western domination. The Malaysian Prime Minister Mahathir Mohamad proposed an East Asian Economic Grouping (EAEG) during a meeting with the Chinese Premier Li Peng in December 1990. As the biggest and strongest economy in East Asia, demands were placed on Japan to take a leading role to support the Malaysian “Look East” policy. However, Japan rejected this proposal. The negative response of Japan was claimed to be due to the influence of the United States, which did not support any type of a newborn-Asian grouping. The failure of the East Asian Economic Group (EAEG) initiated by the former Malaysian Prime Minister Mahathir Mohamad in 1990 led to a shift in his concentration from East Asian to Southeast Asian cooperation as a second option.<sup>123</sup> The failure of the EAEG in turn could promote the enlargement of ASEAN membership.

Eero Palmujoki’s argument about the influence of Malaysia on the decision for ASEAN enlargement was possibly supported by two events. First, in the early 1990s, the Malaysian government was enthusiastic to sponsor the Southeast Asian forum under the operation of the ASEAN-ISIS in Malaysia in order to directly initiate and enhance the discussion about the concept of “One Southeast Asia.” The above speeches of the Malaysian Prime Minister and the Deputy Prime Minister on the issue of enlargement were one of the earliest statements that were publicly released to support not only the inclusion of the Indo-Chinese countries but also Myanmar into ASEAN. Malaysia’s firm position on Myanmar’s membership was reassured by the Malaysian Foreign Minister (current Prime Minister) Abdullah Ahmad Badawi, “[w]e see the membership of Myanmar from various angles-strategic and growth of the region. It should be brought into the regional

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<sup>122</sup> ASEAN Update, "Historic ASEAN Meeting in Brunei," October (1995): 6.

<sup>123</sup> Palmujoki, *Regionalism and Globalism in Southeast Asia*, 46.



organization.”<sup>124</sup> Second, Prime Minister Mahathir Mohamad was known to be the strongest sponsor for Myanmar’s accession since the beginning of the discussion about the enlargement. When Myanmar declined to release Aung San Suu Kyi from detention in 2001, Mahathir Mohamad was asked to respond to whether its strong support for Myanmar’s accession in the 1990s faced a decline due to Myanmar’s misbehavior and stubbornness. This question that particularly targets Malaysia reflects how Mahathir Mohamad significantly supported Myanmar in ASEAN during that time, and how the Malaysian Look East policy might significantly influence ASEAN’s decision on the issue of ASEAN enlargement.

In the early phase of the discussion about ASEAN enlargement, most ASEAN scholars supported the accession of CLMV into ASEAN. Around mid-1995, the issue of diversity between ASEAN members and the CLMV was a concern of mostly Thai scholars in the 6<sup>th</sup> Southeast Asia forum in Malaysia. The main argument is that the different levels of economic development and the diverse political systems such as the highly restricted political freedom, the non-marketized economic policy, and the anti-democracy or anti-Western policy of the new members, especially Myanmar, might disturb the development of ASEAN cooperation within and outside the regional sphere. Therefore, ASEAN enlargement could bring about not only positive but also negative effects for the organization. Compared to the early picture of enlargement, it was clear that ASEAN looked at the issue of enlargement in a more realistic way in 1995.

In the forum, Thai scholars such as Sukhumbhand Paribatra and Kusuma Snitwongse emphasized political diversity between the CLMV and the old ASEAN members—especially Myanmar, whereas Indonesian scholars such as Hadi Soesastro focused more on the difficulty of economic cooperation. Sukhumbhand insists that ASEAN should not ignore the negative effects which might come from a low level of democratization, absence of freedom, and human rights in the

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<sup>124</sup> Ranjit Gill, *ASEAN Towards the 21st Century: A Thirty-Year Review of the Association of Southeast Asian Nations* (London: ASEAN Academic Press, 1997), 234.

Indo-Chinese countries and Myanmar. It was argued that these low qualifications might distort ASEAN's relationship with an international community.<sup>125</sup> ASEAN might have difficulty in keeping its international value and commitment. Instead of increasing the level of regional security, Sukhumbhand argues that ASEAN enlargement, especially the accession of Myanmar, might cause "tension and insecurity, reduce immunity and momentum of collective political will."<sup>126</sup> Leifer refers to this situation as a "lack of natural political center of gravity"<sup>127</sup>, whereas Termsak Chalermpananupap calls it a "lack of ASEAN unity" or one voice.<sup>128</sup> Furthermore, Amitav Acharya was concerned about a difference between the rich and poor ASEAN members that the greater diversity among them might not positively contribute to create regional development and identity.<sup>129</sup>

In terms of an institutional-economic factor, the two- or three-tiered regionalism in ASEAN could slow down the AFTA progress. ASEAN does not provide financial support to equalize the differences in the level of economic development between the old and new members before the enlargement.<sup>130</sup> In addition, ASEAN institution in terms of administration and legalization may not be effective enough to control its progressive scheme of economic cooperation.<sup>131</sup> Interestingly enough, Helen Nesadurai, a Malaysian scholar, hypothesizes that institutional arrangements in the new members is weak and iniquitous. Therefore, in the case that the countries face social and political instability, there is a possibility that the new members could stop subscribing to the trade

<sup>125</sup> Sukhumbhand Paribatra, "Regional and Global Implication of an ASEAN 10, the 7th Southeast Asia Forum Conference Paper," *ASEAN-ISIS Monitor*, no. 13 (1996): 7-8.

<sup>126</sup> Sukhumbhand Paribatra, "From ASEAN Six to ASEAN Ten: Issues and Prospects," 249.

<sup>127</sup> Leifer, "The ASEAN Peace Process: A Category Mistake," 1.

<sup>128</sup> Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*, 122, Termsak Chalermpananupap, "Enlargement of ASEAN: Prospects for Closer Regional Cooperation," in *The International Conference "ASEAN at the Crossroads: Opportunities and Challenges"* (Kuala Lumpur: Malaysian Institute of Economic Research, 1997).

<sup>129</sup> Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*, Termsak Chalermpananupap, "Enlargement of ASEAN: Prospects for Closer Regional Cooperation."

<sup>130</sup> Menon, "The Expanding of AFTA: Widening and Deepening?," 14.

<sup>131</sup> Arndt, "AFTA and After.", Menon, "The Expanding of AFTA: Widening and Deepening?," 13.

liberalization policy and the ASEAN economic policy.<sup>132</sup> The weak structure and institution of ASEAN regionalism itself may be one of the major obstacles to regional economic integration creating ineffective integrative policies after the enlargement.<sup>133</sup> However, these negative expectations did not alter the decision of ASEAN to expand its membership. To some extent, scholars pressed ASEAN to create cooperative programs in order to prepare for the accession of the new members. For example, Kusuma Snitwongse called for an ASEAN attempt to ease problems of "... feelings of suspicion, mistrust, lack of information and mutual understanding" before the enlargement, whereas the Deputy Foreign Minister of Vietnam Nguyen Dy Nien publicly revealed the possibility of future problems that might happen after the enlargement.

### ***3.2. Negotiation of Membership***

#### ***3.2.1. Vietnam and Laos***

Among the new members, Vietnam was the readiest to become an ASEAN member considering its economic reforms, market-oriented policy, complementarities of natural resources to the old members' economies, and high political stability. Laos is the closest regional friend of Vietnam, and it has followed Vietnam's diplomatic and economic policies. The decision of Vietnam to join ASEAN influenced Laos's interest. Vietnam was the first country to officially request the status of an ASEAN observer. However, before that stage, Vietnam and Laos already had to accede to the TAC in 1992. After both countries received the official status of an ASEAN observer, they could then participate in six functional fields: science and technology, environment, public health, culture, information, and tourism,<sup>134</sup> and also receive funds from the European Community (EC) in

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<sup>132</sup> Nesadurai, "The Indo-Chinese Enlargement of ASEAN: Implications for Regional Economic Integration, Paper No. 56."

<sup>133</sup> Arndt, "AFTA and After.", Menon, "The Expanding of AFTA: Widening and Deepening?," 14.

<sup>134</sup> ASEAN Update, "Vietnam and Laos: VN, Laos to be more Active in ASEAN " September (1993): 8.

drug addiction prevention projects with the other ASEAN countries.<sup>135</sup> Vietnam and Laos had quite a smooth process of accession into the ASEAN because there were no interruptions and disagreements from the existing ASEAN members. For both countries, it was just a matter of time before their participation would be fully and officially recognized. Vietnam joined the ASEAN in 1995, and ASEAN agreed to accept Laos in 1997.

### *3.2.2. Myanmar and Cambodia*

In contrast to Vietnam and Laos, Cambodia and Myanmar proved to be more complicated cases. Not all ASEAN members showed unconditional support to admit Cambodia and Myanmar. The Thai and Philippines scholars had strong concerns about Myanmar's case. They argued that Myanmar's military regime—the State Law and Order Restoration Council (SLORC)—would create an image problem for ASEAN at the international level and create difficulties for political and economic management at the regional level. In 1995, Myanmar ultimately received an official invitation from ASEAN to attend the 5<sup>th</sup> ASEAN Summit in Bangkok and signed the Southeast Asian Nuclear Weapons Free Zone Treaty. In the same year, Myanmar became an official ASEAN observer and months later; then the country joined the ASEAN Regional Forum (ARF). ASEAN required that Myanmar complete those agreements before joining the Association. This was the same case with Vietnam and Laos.

Before the accession of Myanmar in 1997, the military government showed its enthusiasm for the democratization of the country. The Thai Foreign Minister, Amnuay Viravan, pressed Myanmar to complete a draft of its constitution and start the process of democratization before receiving full

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<sup>135</sup> ASEAN Update, Vietnam and Laos (1994, Mar, 3) Vietnam and Laos received US\$20,565 and US\$15,700 from the EC respectively, which was the first fund release in 1994.

membership of ASEAN.<sup>136</sup> Similarly, the Philippines agreed with Thailand that there were “no reasons to rush acceptance of Burma” if the country was not ready.<sup>137</sup> However, due to the great support of Malaysia for Myanmar’s accession, and Myanmar’s promise to democratize its political system, the ASEAN members finally agreed to a unanimous decision on the country’s accession. Based on my interviews with ASEAN officials in the region, most of them claimed that one of the significant reasons for Myanmar’s successful accession in 1999 was to just celebrate the 30th anniversary of ASEAN. Malaysia as the ASEAN standing committee in that year hence wanted to complete the full ASEAN by ten countries. The inclusion of Vietnam as a new member of ASEAN also became a public message in support of Myanmar’s readiness to join ASEAN as well.<sup>138</sup> The Thai scholars and officials reduced their aggressive tone against Myanmar, and in turn focused more on how to improve the ASEAN political institution in order to cope with Myanmar before its accession.

The shift in the position of Thailand from an opponent to an adherent was caused by a change in government from the Democrat Party to the new political party—the New Aspiration Party (NAP). As a leader of the NAP, Prime Minister General Chavalit Yongchaiyudh had long been in a good relationship with the Burmese military leaders. Thus, the position of the Thai government was completely reversed in 1996 after he took office. The Thai deputy government spokesman Tinakorn Kanasuta said that “[w]hatever happens, Thailand maintains its standpoint to support Burma in becoming a member of ASEAN because we have already made the decision.”<sup>139</sup> The economic ties between the new Thai government and Myanmar from 1996 till mid-1997, was another possible reason for the softened Thai foreign policy. According to the Bangkok Post, the Petroleum Authority of Thailand (PTT) was allowed to explore natural gas in the Gulf of Martaban in Myanmar with other

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<sup>136</sup> The Bangkok Post, "Put Democracy Before ASEAN Role - Amnuay," October 30, 1996.

<sup>137</sup> The Bangkok Post, "No Reason to Rush Acceptance of Burma," September 28, 1996

<sup>138</sup> The Bangkok Post, "Rangoon 'Better Prepared' to Join ASEAN," January 17, 1997.

<sup>139</sup> The Bangkok Post, "Thailand Rejects US Appeal ", April 27, 1997.

foreign joint ventures—Unocal of the United States and Total of France.<sup>140</sup> Commerce Minister Narongchai Akaraseranee confirmed in 1997 that Thailand was still a “good friend” to Myanmar.<sup>141</sup>

Objectively, U.S. Secretary of State Madeleine Albright forcefully protested against Myanmar’s accession to ASEAN, while other East Asian countries such as Japan and Korea had been quiet on this issue. David Steinberg argues that the aggressive stand of the United States on this issue, in turn, drove the ASEAN members towards admitting Myanmar “so that [ASEAN] could not be perceived as submitting to U.S. control.”<sup>142</sup> This perfectly matched the Malaysian anti-Western or “Look East” policy. Confirming its position in supporting Myanmar after 1996, the Thai Deputy government spokesman said,

Thailand and the US have different points of view. For Thailand's part, we have a strong policy of non-interference in the internal affairs of neighboring countries. We accept the right of the United States to declare this, but Thailand also has the right to its position... Thailand must always be careful and sincere in its relations with neighboring countries.<sup>143</sup>

Then in June 1997, the Senior Director for Asian Affairs in the Clinton administration Sandra Kristoff stated,

[I]et me make quite clear that the U.S. did not oppose the entry of Myanmar into ASEAN that was an internal decision for ASEAN to make. The U.S. will not criticize that decision. I would not think there would be any difficulty or embarrassment for Mrs. Albright to sit at the table with other ASEAN foreign Ministers, and engage in a discussion on what are after all common regional problems.<sup>144</sup>

To improve relationships and boost the confidence of the ASEAN members, General Khin Nyunt, that time Prime Minister of Myanmar, pursued a new economic plan. He opened the

<sup>140</sup> The Bangkok Post, "US Ban will not Affect ASEAN," April 24, 1997.

<sup>141</sup> Ibid.

<sup>142</sup> David I. Steinberg, *Burma: The State of Myanmar* (Washington, DC: Georgetown University Press, 2001), 239.

<sup>143</sup> Bangkok Post, "Thailand Rejects US Appeal".

<sup>144</sup> Gill, *ASEAN Towards the 21st Century: A Thirty-Year Review of the Association of Southeast Asian Nations*, 235.

country's market to encourage trade and investment from outsiders and abandoned the isolationist policy. General Nyunt also visited ASEAN countries and in turn received a warm welcome from them. The Singaporean Prime Minister Chok Tong and the Indonesia Foreign Minister Ali Alatas visited Myanmar in return.<sup>145</sup> At the first informal Summit in Jakarta in 1996, ASEAN finally agreed to admit Cambodia, Laos, and Myanmar simultaneously. The formal ceremony would be held at the 30<sup>th</sup> AMM in Kuala Lumpur in 1997. Unfortunately, before the admission day, domestic violence occurred in Cambodia, which led to political instability in the country.

Comparing the case of Cambodia to Myanmar, some scholars such as Mya Than points out that ASEAN had double standards for the accession of ASEAN membership.<sup>146</sup> He argues that both countries had political repression but only Cambodia received heavy pressure from ASEAN. ASEAN placed conditions on Cambodia to restore its political stability in 1998, but continued to adhere to its policy of constructive engagement with Myanmar. ASEAN compelled Cambodia in a more demanding and complicated way after the violent incidents on July 5 and 6 1997 between Second Prime Minister Hun Sen and First Prime Minister Norodom Ranariddh. ASEAN also decided to postpone Cambodia's entry indefinitely and called for an immediate negotiation between the two parties, by declaring a joint statement after the violence in 1997:

While reaffirming the commitment to the principle of non-interference in the internal affairs of other states, they decided that, in the light of unfortunate circumstances which have resulted from the use of force, the wisest course of action is to delay the admission of Cambodia into ASEAN until a later date.<sup>147</sup>

ASEAN started to send teams to Phnom Penh for a peaceful settlement and called for other meetings outside of Phnom Penh. Hun Sen saw the ASEAN mission as an intervention in its internal

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<sup>145</sup> K. S. Balakrishnan, "SLORC and Myanmar: The Struggle for Identity," *ASEAN-ISIS Monitor*, no. 10 (1995): 19.

<sup>146</sup> Mya Than, *Myanmar in ASEAN: Regional Cooperation Experience* (Singapore: Institute of Southeast Asian Studies, 2005), 86.

<sup>147</sup> ASEAN Update, "Preparations for Admit Cambodia, Laos and Myanmar into ASEAN Intensified," no. 1, January-April (1997): 2.

affairs, whereas the postponement of membership showed unequal treatment by ASEAN compared to Myanmar's case. On July 10, the Cambodian Foreign Minister announced a threat to reject ASEAN.<sup>148</sup> In the same month, Hun Sen stated that "[r]ight now, I think that we need ASEAN, but in the future, ASEAN will need us because they will probably not want Cambodia to be alone [outside of the region]."<sup>149</sup> Hun Sen's displeasure with the ASEAN mission was due to his fear that ASEAN would back FUNCINPEC—the royalist Cambodian political party—led by Norodom Ranariddh, as had happened in the past. However, ASEAN's purpose was not what Hun Sen expected. The ASEAN mission attempted to bring all political parties to participate in a national election and restore political stability in Cambodia. One year later, the election was set up, and Hun Sen was victorious over the opposite party. The result of the election was accepted by ASEAN. After the election, Hun Sen sought support from the ASEAN members to resume its membership in ASEAN. Hun Sen's letter was sent to the Thai Prime Minister Chuan Leekpai reflecting his interest in ASEAN membership.<sup>150</sup> Also, Sihanouk wrote a letter to request Vietnam's support for the admission of Cambodia on December 2<sup>nd</sup> 1998. On December 6<sup>th</sup>, Sihanouk sent a thankful response to Vietnamese Prime Minister Phan Van Kahi for his letter of support.<sup>151</sup>

### ***3.3. Pre-Membership of ASEAN***

To become an ASEAN member, no specific conditions had been set for Cambodia, Laos, Myanmar, and Vietnam. As Rolf Langhammer said, ASEAN membership is fundamentally based on a "shallow scheme," which does not require a precondition as compared to the "deep scheme" of the

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<sup>148</sup> China Daily, "Hun Sen Threatens to Drop ASEAN Bid," July 15, 1997.

<sup>149</sup> K.P. Waran, "Hun Sen to Accept Membership Rejection," *New Straits Times*, July 25, 1997.

<sup>150</sup> Xinhua News Agency, "Hun Sen Wants Thailand's Help for Joining ASEAN," September 7, 1998.

<sup>151</sup> BBC Monitoring Asia Pacific, "Cambodia: King Thankful for Vietnam's Support on ASEAN Membership," December 11, 1998, BBC Monitoring Asia Pacific, "Vietnam: Premier Asserts Supports for Cambodia's ASEAN Membership," December 7, 1998. However, before that King Norodom Sihanouk had opposed a full Cambodia membership of ASEAN.



European Union (EU) membership.<sup>152</sup> ASEAN set up two types of pre-membership program: (1) working groups for building information network and (2) administrative training program. First, the ASEAN-Vietnam working group was set up in 1992 as part of the international symposium on "Interaction for Progress." The ASEAN working group learned about the Vietnamese decision-making process and its economic development reforms, including the country's political system, whereas the Vietnamese working group was also educated about ASEAN affairs and its cooperative framework.<sup>153</sup> At the 26th ASEAN Economic Ministerial Meeting (AEM) in Chiangmai on September 19-25, 1994, the Deputy Prime Minister of Thailand, Suphachai Panitchapaki, said "[w]e know very little about Vietnam's economic structure, government bureaucracy, macro-economic policy, and economic data, etc."<sup>154</sup> Thus, the Secretary-General of ASEAN and the Senior Economic Official Ministerial (SEOM) leaders formed a working group to fill in the information gap and increase the participation of Vietnam in the AFTA activities. Similarly, the ASEAN Standing Committee's (ASC) fact-finding team was assigned to visit Cambodia and Laos in February 1996. This working group held negotiations on the terms and conditions for their participation in the AFTA scheme. After the working groups concluded their work, the next process was training. The Cambodian and Laotian government officials began their training in the AFTA Unit at the ASEAN Secretariat later in May 1996.<sup>155</sup>

Official Training is the second type of pre-membership program. The ASEAN Secretariat hosted training programs for new members to learn how the administrative wing of the organization works. For example, Vietnam sent two groups of four officials to this training program in mid-

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<sup>152</sup> Rolf J. Langhammer, "How Far is Indochina from ASEAN?," *ASEAN Economic Bulletin* 14, no. 2 (1997): 172.

<sup>153</sup> ASEAN-ISIS Monitor, "Conference Report: Towards One Southeast Asia," 7 (1993): 6. The whole project was financially sponsored by the Management for Change Project of the Canadian International Development Agency (CIDA) and private sector organizations in ASEAN.

<sup>154</sup> ASEAN Update, "Vietnam: A Major Step Forward in ASEAN-Vietnam Cooperation," October (1994): 6.

<sup>155</sup> ASEAN Update, "Cambodia and Laos Submit Their Applications for ASEAN Membership," no. 2, March-April (1996): 4.

February 1995 for a period of two months. Nguyen Trung Thanh, the Deputy Director of the ASEAN Department said that the training program "... gives me a strong sense of belonging as part of the ASEAN family" and inculcated an understanding for the ASEAN way, which is a mutually constructive means to get things done in ASEAN affairs.<sup>156</sup> The ASEAN Secretariat also sent two teams to brief officials in Cambodia and Laos on ASEAN affairs. In return, two Cambodian and five Laotian officials undertook intensive training at the Secretariat from October to November 1994,<sup>157</sup> and two more Cambodian officials were trained in January 1995, including the Director-General of Cambodia's ASEAN Department. The Malaysian government sent a senior official from its National Secretariat to visit Cambodia and Laos to share his administrative experience in ASEAN.<sup>158</sup> Since Myanmar was the latest country that made the decision to join ASEAN, their official training program began later than the other new members. English became a major language for regional interaction and communication among the ASEAN members. The low level of English proficiency in the Indo-Chinese members was a concern of ASEAN and for the new members themselves. Malaysia and Singapore offered English language training for officials with New Zealand's assistance.<sup>159</sup>

These working groups and training programs aspired to create a bridge for a new information network between the old and new members. The working groups gathered and exchanged information about the economic and political conditions between the old and new members. The teams gave suggestions to the new members about economic reforms in order to perform their economic cooperation under the AFTA scheme, but a convergence of political ideologies or political systems had never been touched. The economic suggestions were shallow in a very broad sense, and

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<sup>156</sup> ASEAN Update, "ASEAN-Vietnam: Preparations for Vietnam Joining ASEAN," February (1995).

<sup>157</sup> ASEAN Update, "Historic Meeting of 10 Leaders of Southeast Asian States during the Fifth ASEAN Summit," December (1995): 6.

<sup>158</sup> Ibid.

<sup>159</sup> ASEAN Update, "Vietnam and Laos: VN, Laos to be more Active in ASEAN ": 8.

focused on topics such as the improvement of privatization and the market price system. The suggestions did not try to narrow the gap of fundamental economic indicators such as inflation, balance of payment, external debt, and exchange rate. This clearly reflected that ASEAN did not aim to be a trade union group or a community like the EU. The new members were required to sign the Zone of Peace, Freedom and Neutrality (ZOPFAN) declaration (Kuala Lumpur, 1971), the Treaty of Amity and Cooperation (TAC) (Bali, 1976), the declaration of ASEAN Concord (Bali, 1976), and the Agreement of the Establishment of the ASEAN Secretariat (Manila, 1976). This was to confirm their commitment to the ASEAN Way and the non-interference policy. Therefore, political adjustment was not a prerequisite or even an option open to discussion. Overall, the pre-membership programs were meant to briefly train the new members in administrative work, suggest some economic adjustments under the AFTA policy, and ignore political differences.

With the new members, several new departments were set up or merged to ASEAN related institutions. The new members must establish the ASEAN National Secretariat in their country. Usually the ASEAN National Secretariat is placed under the Ministry of Foreign Affairs. Another ASEAN department dealing with economic matters may be set up under the Ministry of Commerce. In Cambodia, the government established an additional organization, the so-called Internal Coordination Network (ICN), in order "to coordinate, plan, and direct all work related to ASEAN."<sup>160</sup> In December 1994, Vietnam's Institute of International Relations became a part of the ASEAN-ISIS.<sup>161</sup> Laos printed its first economics dictionary to educate their officials and prepare for communication with the other ASEAN members, before its accession into ASEAN.<sup>162</sup> In short, ASEAN preparations for membership did not deal with fundamental economic reforms or political convergence, but the pre-programs were more likely to be the processes of (1) a shallow economic

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<sup>160</sup> Kao Kim Hourn, "Cambodia's Foreign Policy and ASEAN: From Non-Alignment to Engagement, Ph.D. Dissertation", 97.

<sup>161</sup> ASEAN Update, "ASEAN-Vietnam: Preparations for Vietnam Joining ASEAN," 3.

<sup>162</sup> The Bangkok Post, "Laos Trade Dictionary to Help Officials Cope with ASEAN," January 11, 1997.

adjustment to the AFTA scheme and (2) administrative and diplomatic development between the old and new members.

#### **4. Conclusion**

The first period of ASEAN evolution is called “forming ASEAN.” This period suggested that Southeast Asian countries initiated many attempts to set up a cooperative group in order to manage their regional and international affairs. But all the attempts failed. The failures in the early 1950s and the early 1960s were caused by the instability of domestic politics, the political conflicts among the Southeast Asian countries, the lack of cooperative sense, and the fear of foreign domination. In the mid-1960s, the serious conflict between China and the Soviet Union along with the fear of the spread of Communism to the Southeast Asian region forced ASEAN to develop its own regional grouping. Around the same time, the end of the Confrontation period between Indonesia and Malaysia in 1966 brought a peaceful atmosphere for a possible regional arrangement. Importantly, the U.S. approbation positively contributed to the successful formation of ASEAN as an external supply. At the formation of ASEAN, the United States ceased its intervention and stayed out of the regional decision-making process. This made Indonesia feel comfortable to join the Association.

In the second period—“cooperating ASEAN,” the five founding members of ASEAN started to practice its first cooperative strategies after the end of the Vietnam War and in the Cambodia conflict. Even though each country pursued its own foreign and security policy toward Vietnam, the ultimate goal of the ASEAN mission was to prevent the spread of Communism in the region and settle a peaceful resolution. Therefore, the relationship among the five ASEAN members was much improved compared to their relationship in the first period. In contrast, the relationship between the

five ASEAN members and the Indo-Chinese countries was in jeopardy in the second period. The end of the Cold War and the Cambodia conflict along with the changes in domestic policy opened up a great opportunity for reconciliation between the ASEAN members and the Indo-Chinese countries during the late 1980s and the early 1990s.

In the last period, the concept of “One Southeast Asia” became a dream come true. For the first time in the political history of Southeast Asia, ten Southeast Asian leaders came for the meeting to put forward the reality of ASEAN-10 at the 5<sup>th</sup> ASEAN Summit in Bangkok in 1995. The discussions on accepting new members brought out both the positive and negative aspects. The positive effects are economic benefits in terms of increasing volumes of trade and investment, and encouraging production networks in the region. On the other hand, the negative effects could be the damage to ASEAN credibility at the international level, and the difficulties in regional management as a result of a greater diversity. ASEAN always insists on its commitment to the principle of the ASEAN Way and on non-interference. This creates an assurance for the new members that other ASEAN members would not violate their sovereignty and differences in political ideologies and systems would be tolerated. The acceptance of Vietnam and Laos seemed to be the easiest cases, whereas some ASEAN members and extra-regional actors had opposed Cambodia and Myanmar’s membership. However, Cambodia and Myanmar ultimately satisfied ASEAN’s requirements, which were shallow ones as compared to the EU’s requirements.

## CHAPTER THREE

### THE IMPACT OF ASEAN ENLARGEMENT ON INTRA-ASEAN TRADE: GRAVITY MODEL APPROACH

Two decades after the establishment of ASEAN in 1967, ASEAN cooperation has shifted from political to economic concentration. Economic cooperation among ASEAN members was less significant at the earlier stage of economic development because a sense of nationalism and protectionism overwhelmingly controlled national policy. The economic cooperation mainly aimed to promote international trade and attract international investment into individual ASEAN economies. Europe and North America including Japan, not ASEAN market, were the solely significant markets that ASEAN members targeted to penetrate with their agricultural and manufactured consumer products. The intra-ASEAN trade to the total ASEAN international trade in 1970 was 17.4 percent. It declined to 12.8 percent in 1974 due to the 1973 world recession and soared to 15.5 percent in the 1977 recovery.<sup>1</sup> The 1980s share of total ASEAN trade within the region to the rest of the world had shown below or about 20 percent.

In the early 1990s, the end of the Cold War and the Cambodia conflict, and the emergence in international trade brought about a new perspective for closer economic cooperation in the region, along with a convergence of trade policy between ASEAN-6<sup>2</sup> and CLMV<sup>3</sup>. The promotion of export-led growth policy and liberalization in ASEAN-6 contributed to the birth of the ASEAN Free Trade Area (AFTA) in 1992, and a shift from a central planning to market-oriented economy in CLMV also

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<sup>1</sup> ASEAN Business Quarterly, "Statistical Appendix VI: ASEAN Trade with Selected Regions and Countries, 1977," 3, no. 4 (1979): 14, Saw Swee-Hock and N. L. Sirisena, "Economic Framework of ASEAN Countries," in *Economic Problems and Prospects in ASEAN Countries*, ed. Saw Swee-Hock and Lee Soo Ann (Singapore: Singapore University Press, 1977), 12.

<sup>2</sup> ASEAN-6 refers to Brunei, Indonesia, Malaysia, the Philippines, Thailand, and Singapore.

<sup>3</sup> CLMV refers to Cambodia, Laos, Myanmar, and Vietnam.

created a new interest for the new members to participate in a regional free trade area. The tariff reduction schedule under AFTA has been implemented in order to stimulate trade participation and indirectly influence domestic reform as part of trade liberalization policy in order to achieve a free trade area. The intra-ASEAN trade has been increasing from around 20 percent in the 1980s to 25 percent in 2005. After the enlargement, the highest share of the total intra-ASEAN trade registered by the new members has been rising, but in a small proportion (approximately less than 7 percent in 2005). In the other words, the old members have controlled over 90 percent of the total intra-ASEAN trade activities.

The gravity model studied by Jeffrey Frankel and his colleagues<sup>4</sup> provided three significant findings regarding the impact of the three Indo-Chinese countries on intra-regional trade in mid 1990s. First, ASEAN membership has significantly influenced an increase in intra-ASEAN trade and generated trade creation rather than trade diversion. Second, ASEAN did not have an “independent effect” on intra-ASEAN trade based on the early 1990s panel data. The growth of intra-ASEAN trade substantially depended on the growth of East Asian economies. Third, Indo-Chinese economies did not have a significant influence on intra-ASEAN trade due to the small size of their economies. Recent works by Elliott and Ikemoto<sup>5</sup>, Gilbert, Schollay, and Bora<sup>6</sup>, Nguyen Trung Kien and Hashimoto<sup>7</sup>, and Soloaga and Winters<sup>8</sup> have also shown the significant characteristics of ASEAN bloc on intra regional trade, which basically supports the early 1990s result of Frankel and his colleagues’ works.

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<sup>4</sup> Jeffrey A. Frankel, Ernesto Stein, and Shang-Jin Wei, "Regional Trading Arrangements: Natural or Supernatural?," *American Economic Review* 86, no. 2 (1996), Frankel, Stein, and Wei, *Regional Trading Blocs in the World Economic System*.

<sup>5</sup> Elliott and Ikemoto, "AFTA and the Asian Crisis: Help or Hindrance to ASEAN Intra-Regional Trade?."

<sup>6</sup> Gilbert, Scollay, and Bora, "Assessing Regional Trading Arrangements in the Asia-Pacific, Policy Issues in International Trade and Commodities Study Series No. 15."

<sup>7</sup> Nguyen Trung Kien and Yoshizo Hashimoto, *Economic Analysis of ASEAN Free Trade Area, Discussion Papers in Economics and Business No. 05-12* (Osaka, Japan: Graduate School of Economics and Osaka School of International Public Policy, Osaka University, 2005).

<sup>8</sup> Soloaga and Winters, "Regional in Nineties: What Effect on Trade?."

However, above studies did not include the four new ASEAN members—CLMV. Frankel illustrated that the new members may not have had much influence to contribute to the growth of the intra-ASEAN trade *before* the ASEAN expansion. Also, later works on intra-regional trade have not focused on or included the new members as a factor in the dynamics of regional trade. Nevertheless, the participation of CLMV after ASEAN enlargement is expected to stimulate trade among ASEAN members under the AFTA scheme. Thus, this unexplored issue generates a question of how significantly the new members influence intra-ASEAN trade *after* the ASEAN expansion.

This chapter is aim to pursue a statistical test on the impact of ASEAN enlargement by asking of how significantly the impact of ASEN enlargement (accession of the CLMV economies) enhances the relationship of intra-ASEAN trade in general and in three important specific sectors—food and animal livestock, manufactures, and machinery and transport equipment. Based on the empirical results in this chapter, two findings are evidently revealed. First, the ASEAN enlargement (accession of CLMV) has statistical significance that influences intra-ASEAN trade. Vietnam has a significant impact on intra-ASEAN trade—especially in the food and live animal, and the manufactured goods sectors. The involvement of Cambodia, Laos and Myanmar has become significant after the enlargement, but the impact is smaller compared to Vietnam. Second, although the influence of East Asian economies is still significant to the growth of intra-ASEAN trade under a new panel data including the year 2005, ASEAN as a trading group has an “independent effect” that influences its own intra-regional trade. The empirical result shows that trade within old ASEAN members has a stronger tie particularly in the machinery and transport equipment sector.

The first section of this chapter will give a background of intra-ASEAN trade, comparative advantages of ASEAN economies, and AFTA policy. In the second section, the gravity model, hypothesis and methodology will be explained; and the third section will provide the empirical result and AFTA implication.

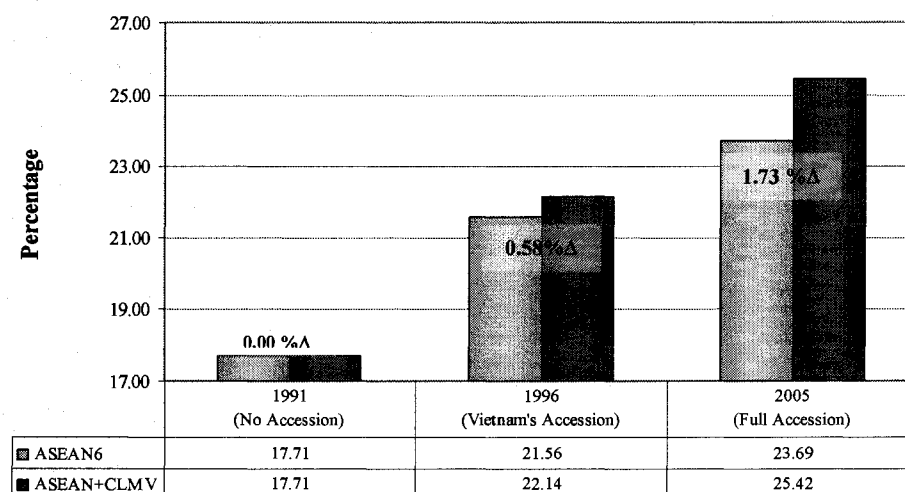


## 1. Background: Intra-ASEAN Trade, Comparative Advantages and AFTA policy

### 1.1. *Intra-ASEAN Trade*

The accession of CLMV during the 1990s illustrated a sense of opening up for economic and political cooperation to other countries in the region. Besides political reasons for the admission of CLMV, the economic advantages of ASEAN enlargement are speculated by providing economies of scale<sup>9</sup>, expanding market<sup>10</sup>, and increasing regional investment and trade<sup>11</sup>. However, many have questioned about how significant the impact of ASEAN enlargement is on intra-ASEAN trade after accepting the four new members. It is because the size of the new member economies is small, compared with the size of the ASEAN-6 economies. The total GDP of CLMV was US\$ 279 billion, accounted for 14 percent of the total GDP of ASEAN-6 in 2005. Excluding Vietnam, the total GDP of CLM accounted for only 2.6 percent of the total GDP of ASEAN-6.

**Figure 3.1: Net Intra-ASEAN Trade before and after Enlargement, percentage**



Source: UNComtrade Database (various years)

<sup>9</sup> Prema-Chandra Athukorala and Jayant Menon, "AFTA and the Investment-Trade Nexus in ASEAN," *The World Economy* 20 (1997), Fukase and Winters, "Possible Dynamic Effects of AFTA for the New Member Countries."

<sup>10</sup> Kraft, "ASEAN and Intra-ASEAN Relations: Weathering the Storm?."

<sup>11</sup> Kriengsak Chareonwongsak, "Lessons from ASEAN's Economic Integration.", Soesastro, "The ASEAN Free Trade Area: A Critical Assessment."

In 1991, prior to the accession of any new members, ASEAN trade among the old members accounted for 17.71 percent of ASEAN's total trade. In 1996, the share of intra-ASEAN-6 trade was around 21.56 percent. With Vietnam's accession, the share of intra-ASEAN trade was increased slightly by 0.58 percent, which was after one year of Vietnam's accession. The highest intra-ASEAN trade had continuously grown and hit a higher record of 25.42 percent in 2005 after the full accession, as shown in Figure 3.1. The four new members contributed around 1.73 percent to the increase in intra-ASEAN trade, or around 7 percent to the share of the total intra-regional trade.

According to the United Nations Comtrade database in Table 3.1, based on the total trade in all sectors CLMV shows a higher share in intra-regional trade in 2005, compared to its share in 1991. Myanmar retained its share in regional trade around 1-1.20 percent. On the other hand, Vietnam improved its share of trade with ASEAN from 2.44 percent in 1991 to 4.63 percent in 2005. Cambodia and Laos increased their shares by less than 1 percent. In specific sectors, one-third of intra-ASEAN trade was accounted for three main products, which were crude oil, petroleum products, rice and maize during the late 1970s. Manufactured goods had only 6 percent shared in total intra-ASEAN trade.<sup>12</sup> Crude oil and petroleum continued to be an important product in intra-ASEAN trade in the early 1980s when the oil prices were very high.<sup>13</sup> In the early 2000s, machinery and electrical appliances has been manipulated about half of the intra-ASEAN trade.<sup>14</sup> The share of CLMV in intra-ASEAN trade increased evidently in the food and live animals sector, and manufactured goods sector, recorded by 14.45 percent and 10.10 percent respectively. Vietnam's share was more than half the share of CLMV in intra-ASEAN trade in both sectors. The machinery and transport equipment sector did not have much of a boost from CLMV's participation. The share of CLMV in this sector

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<sup>12</sup> ASEAN Business Quarterly, "Sensitive Areas on ASEAN's Anatomy," 2, no. 3 (1978): 13.

<sup>13</sup> Hal Hill, "ASEAN Economic Development: An Analytical Survey," *Journal of Asian Studies* 53, no. 3 (1994): 849.

<sup>14</sup> European Commission, *New Business Opportunities for EU Companies in the ASEAN Area* (Luxembourg: Office for Official Publications of the European Communities, 2005), Chart1.11:13.

however rose from approximately 0.66 percent in 1991 to 2.54 percent in 2005. About 77 percent of CLMV's share in this sector was dominated by Vietnam in 2005.

**Table 3.1: Share of Intra-ASEAN Trade among Members, percentage**

Country/ Sector	All Sectors		Food and Animal		Manufactures		Machinery and Transport Equipment	
	1991	2005	1991	2005	1991	2005	1991	2005
<b>Brunei</b>	1.56	0.82	2.65	1.03	1.83	0.59	1.10	0.22
<b>Indonesia</b>	8.61	10.70	12.43	15.54	14.54	16.43	4.28	6.21
<b>Malaysia</b>	28.67	21.17	30.34	20.21	28.37	21.19	50.58	21.74
<b>Philippines</b>	2.84	5.29	1.58	9.11	2.85	3.50	3.77	6.75
<b>Singapore</b>	41.64	40.39	31.48	19.72	41.98	29.04	21.78	49.79
<b>Thailand</b>	12.97	14.85	18.55	19.95	8.95	19.15	17.84	12.75
<b>Total</b>	<b>96.29</b>	<b>93.22</b>	<b>97.03</b>	<b>85.55</b>	<b>98.52</b>	<b>89.90</b>	<b>99.35</b>	<b>97.46</b>
<b>Cambodia</b>	0.07	0.58	0.04	1.50	0.01	1.37	0.003	0.19
<b>Laos</b>	0.19	0.37	0.34	0.90	0.16	1.00	0.0004	0.14
<b>Myanmar</b>	1.00	1.20	1.25	2.76	0.86	1.39	0.60	0.23
<b>Vietnam</b>	2.44	4.63	1.35	9.28	0.46	6.35	0.06	1.97
<b>Total</b>	<b>3.70</b>	<b>6.78</b>	<b>2.98</b>	<b>14.45</b>	<b>1.49</b>	<b>10.10</b>	<b>0.66</b>	<b>2.54</b>

Source: United Nations Comtrade

Among the old members, from 1991 to 2005 Brunei, Malaysia, and Singapore reduced their shares in total intra-ASEAN trade, while Indonesia, the Philippines, and Thailand instead increased their intra-trade shares. Half of the old members lost their shares in the food and live animals sector. Only Indonesia, the Philippines, and Thailand could expand their markets against an increasing influence of CLMV in the agricultural sector. The situation in the manufactured goods sector is similar to that in the food and live animals sector. In the machinery and transport equipment sector, Malaysia lost its status of the biggest intra-regional trader to Singapore in 2005. Malaysia's share in this sector declined in ASEAN market from about 50 to 22 percent, whereas Singapore increased its share from 22 to 50 percent in 2005. Overall, the intra-ASEAN trade share of the new members has risen from 3.7 percent in 1991 to 4.5 percent in 1996 and 6.8 percent in 2005; in contrast, the old members' share of intra-regional trade proportionally declined.

## **1.2. Comparative Advantage**

A comparison of comparative advantage over time is one of the measures to understand the structural change as well as the complementariness and competitiveness of economies in the region.

A comparison of allocating production cost for each commodity or industry across individual countries is the best way to measure an actual comparative advantage. However, this way of comparison is practically unfeasible. Therefore, the so-called revealed comparative advantage or RCA index, invented by Bela Balassa,<sup>15</sup> uses the volume of total exports as an estimator to measure comparative advantage across countries and rank industries or commodities by their relative export performance. This index says that the share of a commodity in country's total exports relative to the commodity's share in total world exports. It can be expressed as following,

$$RCA_a = (X_a^i / X_i^t) / (X_a^w / X_i^w),$$

where  $X_a^i$  is a value of commodity 'a' exported by country  $i$ ;  $X_i^t$  is a value of total exports of country  $i$ ;  $X_a^w$  is a value of world exports of commodity 'a'; and  $X_i^w$  is a value of total world exports. An RCA index of more than 1 means a country has a comparative advantage in the goods. The RCA index suggests that the countries tend to export relatively larger quantities of goods in which they gain a comparative advantage. This index additionally reflects the allocation of technology and factor endowments as well as government policy design.<sup>16</sup> The government can identify the industries that have comparative advantage and give assistance to strengthen their position by promoting export strategy.<sup>17</sup>

Tables 3.2 and 3.3 compare RCA indices between two periods: 1990-1995 and 2000-2004. Table 3.2 is the ASEAN-RCA map of 1990-1995, derived from the calculation of Emiko Fukase and Will Martin<sup>18</sup>; and Table 3.3 is the 2000-2004 map which combines Ian Coxhead's<sup>19</sup> calculation in five ASEAN economies (Indonesia, Malaysia, the Philippines, Thailand, and Vietnam) and my

<sup>15</sup> Bela Balassa, "Trade Liberalization and Revealed Comparative Advantage," *Manchester School of Economic and Social Studies* 33, no. 99-123 (1965).

<sup>16</sup> Fukase and Martin, *Free Trade Area Membership as a Stepping Stone to Development: The Case of ASEAN*.

<sup>17</sup> Don P. Clark, W. Charles Sawyer, and Richard L. Sprinkle, "Revealed Comparative Advantages Indexes for Regions in the United States," *Global Economy Journal* 5, no. 1 (2005): 2.

<sup>18</sup> Fukase and Martin, *Free Trade Area Membership as a Stepping Stone to Development: The Case of ASEAN*.

<sup>19</sup> Ian Coxhead, "A New Resource Curse?: Impacts of China's Boom on Comparative Advantage and Resource Dependence in Southeast Asia," *The World Development* 35, no. 7 (2007).

calculation<sup>20</sup> in the other five ASEAN economies (Brunei, Cambodia, Laos, Myanmar, and Singapore). According to Table 3.2, in the first half of the 1990s the economic structure of the old members was more diversified than the new members' structures, except Brunei which concentrated on only two sectors—petroleum and miscellaneous manufactured articles. The Singaporean economy also had high concentration on heavy industries, and machinery and transport equipment. Thailand, the Philippines, and Indonesia had a huge comparative advantage in agricultural products, as well as apparel and clothing accessories. In the machinery and transport equipment sector (SITC 7), Malaysia, the Philippines, and Thailand already enjoyed exporting power-generating machinery (SITC 71) and machinery specialized for particular industries (SITC 72) to the world market, in addition to Singapore. The old ASEAN members had evidently moved away from the exportation of “classical trio”<sup>21</sup>—textiles, miscellaneous manufactures, and clothing—, which was recognized as a new gain in trade in the 1980s. The two weakest sectors that had low comparative advantage in ASEAN economies during the 1990s were beverages and tobacco (SITC 1), and chemicals and related products (SITC 5), as shown in Table 3.2.

Comparing the ASEAN-RCA maps between 1990-1995 and 2000-2004, Brunei has remained the most 1990s structure of its economy. Indonesia shows its improvement in increasing comparative advantages in four sectors which are tobacco, raw materials, manufactured goods such as paper and rubber manufactures, and machinery, and transport equipment. On the other hand, the Philippines' RCA indices show many losses in its comparative advantages, in which the economy was used to benefit from such as in agricultural products, raw materials, chemicals, wood manufactures, and clothing, and footwear. Only the SITC category 7 has improved comparative advantage in the productions of office and data processing machinery (SITC 75) as well as electrical machinery and

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<sup>20</sup> The calculation used the United Nations Comtrade database which is consistent to Fukase and Martin's and Coxhead's works.

<sup>21</sup> Seiji Naya and Ulrich Hiemenz, "Changing Trade Patterns and Policy Issues: The Prospects for ASEAN and the Asian NICs," *ASEAN Economic Bulletin* November (1985): 95.

appliances (SITC 77). The significant change in the economic structure of the old members is in the machinery and transport equipment sector (SITC 7), shown in Table 3.4. The black highlight indicates a new gain in comparative advantage. It is evident that all old members, except Brunei, shifted their production in power-generating machinery to telecommunication apparatus and equipment, indicating their capacity in higher technological manufactures. Their high capacity in this type of production also supports a potential gain to become a global-regional production network.

For the new members, in 1990-1995 their trade was manipulated by agricultural products (SITC 0) and raw materials (SITC 2), and had small comparative advantages in mining sector (SITC 3) and light industries like wood and clothing manufactures (SITC 6 and 8), shown in Table 3.2. The sectors that they lost to other economies were beverages and tobacco, animal oils and fats, chemicals, and machinery and transport equipment. Among them, Cambodia seemed to have the fewest comparative advantages. In the 2000-2004 RCA map, Cambodia loses its comparative advantage in agricultural and raw materials sectors in which the economy had high comparative advantage in the 1990s. In the early 2000s, Cambodia becomes a strong producer in the production of clothing and footwear as a major sector dominated the economy.<sup>22</sup> Laos and Myanmar gain the RCA index of greater than 1 in many sectors such as raw materials, mining, and manufactured goods. The allocation of technology and resources in both countries might greatly move to increase the production in energy sources, raw materials, and miscellaneous manufactured goods such as apparel and clothing, footwear, and handbags, demonstrated in Table 3.4. Vietnam loses in manufactured goods such as rubber, wood, and textile yarn. Even though none of the new members has yet gained a comparative advantage in the machinery and transport equipment sector, their RCA indices in this sector have been increasing, detailed in Appendix A.

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<sup>22</sup> Solely this sector accounted for 500,000 workers in urban areas, estimated in 2004. Melanie Beresford, "Cambodia in 2004: An Artificial Democratization Process," *Asian Survey* 45, no. 1 (2005): 138.

Table 3.2: ASEAN-RCA Map, 1990-1995 average

Name	SITC	BRU	SING	MAL	THA	PHI	IND	VIET	LAO	MYA	CAM
Live animals	00										
Meat and meat preparations	01										
Dairy products and birds' eggs	02										
Fish, crustaceans, etc	03										
Cereals and cereal preparations	04										
Vegetable and fruit	05										
Sugars, sugar preparations	06										
Coffee, tea cocoa, spices	07										
Feeding stuff for animals	08										
Misc. edible products	09										
Beverages	11										
Tobacco and tobacco manuf.	12										
Hides, skins and furskins, raw	21										
Oil seeds, nuts, kernels	22										
Crude Rubber	23										
Cork and wood	24										
Pulp and waste paper	25										
Textile fibers	26										
Crude fertilizer	27										
Metalliferous ores	28										
Crude animal and veg mat.	29										
Coal, coke and briquettes	32										
Petroleum and petrol products	33										
Gas, natural and manuf.	34										
Electric current	35										
Animal oils and fats	41										
Vegetable fast and oils, refined	42										
Animal or veg fats and oils, pro'd	43										
Organic chemicals	51										
Inorganic chemicals	52										
Dyeing and tanning materials	53										
Medicinal and pharm. Products	54										
Essential oils and resinoids	55										
Fertilizers	56										
Plastics in primary forms	57										
Plastics in non-primary forms	58										
Chemical materials and products	59										
Leather, leather manuf.	61										
Rubber manuf.	62										
Cork and wood manuf.	63										
Paper and paper board	64										
Textile yarn, fabrics and articles	65										
Non-metallic mineral manuf.	66										
Iron and steel	67										
Non-ferrous metals	68										
Manuf. of metals	69										
Power-generating machinery	71										
Mach specialized for parti indus.	72										
Metalworking machinery	73										
Industrial mach and eqpt	74										
Office and data processing mach	75										
Telecom apparatus and eqpt	76										
Elect mach and appliances	77										
Road vehicles	78										
Other transport equipment	79										
Prefab bldgs and construction	81										
Furniture, and parts	82										
Travel goods, handbags	83										
Articles of apparel and clothing	84										
Footwear	85										
Profess and scientific instru	87										
Photo apparatus and watches	88										
Misc manuf articles	89										

Source: Fukase and Martain (2001) - RCA values of ASEAN-10, 1990-1995 average.

Color Code:

	RCA < 1 = No comparative advantage
	RCA > 1 = Comparative advantage

Table 3.3: Current ASEAN-RCA Map, 2000-2004 average

Name	SITC	BRU	SING	MAL	THA	PHI	IND	VIET	LAO	MYA	CAM
Live animals	00										
Meat and meat preparations	01										
Dairy products and birds' eggs	02										
Fish, crustaceans, etc	03										
Cereals and cereal preparations	04										
Vegetable and fruit	05										
Sugars, sugar preparations	06										
Coffee, tea cocoa, spices	07										
Feeding stuff for animals	08										
Misc. edible products	09										
Beverages	11										
Tobacco and tobacco manuf.	12										
Hides, skins and furskins, raw	21										
Oil seeds, nuts, kernels	22										
Crude Rubber	23										
Cork and wood	24										
Pulp and waste paper	25										
Textile fibers	26										
Crude fertilizer	27										
Metalliferous ores	28										
Crude animal and veg mat.	29										
Coal, coke and briquettes	32										
Petroleum and petrol products	33										
Gas, natural and manuf.	34										
Electric current	35										
Animal oils and fats	41										
Vegetable fast and oils, refined	42										
Animal or veg fats and oils, pro'd	43										
Organic chemicals	51										
Inorganic chemicals	52										
Dyeing and tanning materials	53										
Medicinal and pharm. Products	54										
Essential oils and resinoids	55										
Fertilizers	56										
Plastics in primary forms	57										
Plastics in non-primary forms	58										
Chemical materials and products	59										
Leather, leather manuf.	61										
Rubber manuf.	62										
Cork and wood manuf.	63										
Paper and paper board	64										
Textile yarn, fabrics and articles	65										
Non-meallic mineral manuf.	66										
Iron and steel	67										
Non-ferrous metals	68										
Manuf. of metals	69										
Power-generating machinery	71										
Mach specialized for parti indus.	72										
Metalworking machinery	73										
Industrial mach and eqpt	74										
Office and data processing mach	75										
Telecom apparatus and eqpt	76										
Elect mach and appliances	77										
Road vehicles	78										
Other transport equipment	79										
Prefab bldgs and construction	81										
Furniture, and parts	82										
Travel goods, handbags	83										
Articles of apparel and clothing	84										
Footwear	85										
Profess and scientific instru	87										
Photo apparatus and watches	88										
Misc manuf articles	89										

Source: Coxhead (forthcoming) - RCA values of Indonesia, Malaysia, the Philippines, Thailand and Vietnam, 2000-2004 average.

Author calculation - RCA values of Brunei, Cambodia, Laos, Myanmar and Singapore, 2000-2004 average.

Color Code:

RCA < 1 = No comparative advantage  
 RCA > 1 = Comparative advantage



Table 3.4: Changes in ASEAN-RCA Map, compared between 1990-1995 and 2004

Name	SITC	BRU	SING	MAL	THA	PHI	IND	VIET	LAO	MYA	CAM
Live animals	00			X							
Meat and meat preparations	01										
Dairy products and birds' eggs	02										
Fish, crustaceans, etc	03										X
Cereals and cereal preparations	04										
Vegetable and fruit	05										
Sugars, sugar preparations	06					X					
Coffee, tea cocoa, spices	07			X						X	X
Feeding stuff for animals	08					X	X			X	
Misc. edible products	09										
Beverages	11										
Tobacco and tobacco manuf.	12					X					
Hides, skins and furskins, raw	21							X	X	X	X
Oil seeds, nuts, kernels	22										X
Crude Rubber	23		X								
Cork and wood	24							X			X
Pulp and waste paper	25										
Textile fibers	26										X
Crude fertilizer	27										
Metalliferous ores	28					X		X	X	X	X
Crude animal and veg mat.	29				X	X		X			X
Coal, coke and briquettes	32										
Petroleum and petrol products	33			X							
Gas, natural and manuf.	34										
Electric current	35										
Animal oils and fats	41			X							
Vegetable fast and oils, refined	42		X								
Animal or veg fats and oils, pro'd	43		X			X					
Organic chemicals	51										
Inorganic chemicals	52		X								
Dyeing and tanning materials	53										
Medicinal and pharm. Products	54										
Essential oils and resinoids	55										
Fertilizers	56					X					
Plastics in primary forms	57					X					
Plastics in non-primary forms	58										
Chemical materials and products	59										
Leather, leather manuf.	61										
Rubber manuf.	62							X			
Cork and wood manuf.	63					X		X			
Paper and paper board	64										
Textile yarn, fabrics and articles	65							X			
Non-metallic mineral manuf.	66									X	
Iron and steel	67										
Non-ferrous metals	68					X					
Manuf. of metals	69										
Power-generating machinery	71		X		X						
Mach specialized for parti indus.	72		X	X	X	X					
Metalworking machinery	73										
Industrial mach and eqpt	74										
Office and data processing mach	75										
Telecom apparatus and eqpt	76										
Elect mach and appliances	77										
Road vehicles	78										
Other transport equipment	79										
Prefab bldgs and construction	81										
Furniture, and parts	82					X					
Travel goods, handbags	83										
Articles of apparel and clothing	84			X							
Footwear	85					X					
Profess and scientific instru	87					X					
Photo apparatus and watches	88										
Misc manuf articles	89	X	X	X		X					

Source: Coxhead (forthcoming) - RCA values of Indonesia, Malaysia, the Philippines, Thailand and Vietnam, 2000-2004 average.

Fukase and Martain (2001) - RCA values of ASEAN-10, 1990-1995 average.

Author calculation - RCA values of Brunei, Cambodia, Laos, Myanmar and Singapore, 2000-2004 average.

Color Code:

	Always loss
X	New loss
	Always gain
	New Gain

### ***1.3. ASEAN Free Trade Area (AFTA)***

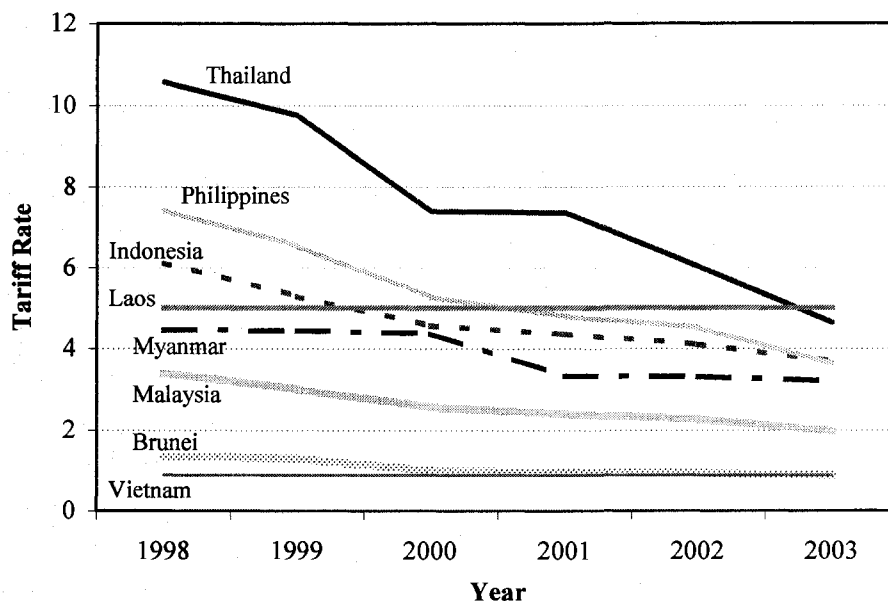
By 1992, the idea of ASEAN Free Trade Agreement (AFTA) was agreed upon by the old members to strengthen its position in the international market and accelerate trade prosperity among ASEAN members. After its enforcement came in 1993, AFTA has had several series of protocol and enhancement agreements to assist in its achievement of a free trade area by 2010 for old members and 2015 for new members. AFTA is based on four fundamental rules: (1) reciprocal product-by-product basis, (2) local content requirement of 40 percent, (3) tariff reduction, and (4) non-tariff elimination. Each member decides its own tariff reduction list that suits the AFTA tariff scheme. The tariff schedules are voluntary reductions in nominated tariff lines.

Manufactured goods are the priority under the AFTA scheme, which means that those goods are the first target for tariff elimination, hoping to boost intra-ASEAN trade. They are listed under the Inclusion List (IL). These products on the IL are subjected to the Common Effective Preferential Tariff (CEPT) rate reduction between 0-5 percent immediately. The Temporary Exclusion List (TEL) included the products that are granted a flexible status to avoid tariff cut, but needed to be transferred to IL by 2000. Mostly, unprocessed agricultural products are placed in the Sensitive List (SL), which was forced to liberalize after the 1996 agreement by including this type of product under the "AFTA Plus" scheme with a deadline of the year 2010 to move the products into IL and immediately cut their tariffs. The General Exclusion List (GEL) contains products that are excluded from the CEPT scheme for reasons of national security, protection of public morals, protection of human, animal or plant life and health, and protection of articles of artistic, historic and archaeological value. In 2005, approximately 98 percent of the total products by the old members were in IL, and 60 percent by the new members.<sup>23</sup>

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<sup>23</sup> European Commission, *New Business Opportunities for EU Companies in the ASEAN Area*, 5.

**Figure 3.2: Projection of the Average CEPT Tariff Rates in All Sectors under Inclusion List, 1998**



Source: ASEAN Secretariat (1998)

The projection of the average CEPT tariff rates in IL between 1998 and 2003 is shown in Figure 3.2, with an exception of Cambodia.<sup>24</sup> Thailand holds the highest average tariff rate of approximately 10.5 percent and Vietnam has the lowest average rate of less than 1 percent in IL. As we can see, the new members basically imposed much lower tariff rates than the old members in 1998. Laos, Myanmar and Vietnam already had their average tariff rates about or below 5 percent in the normal track. According to the European Commission report on EU-AFTA investment in 2005, Thailand, Indonesia, and the Philippines are the highest tariff holders among the old members with the average tariff rates between 4.6 to 3.7 percent. Laos's average tariff rate remains unchanged at around 5 percent.<sup>25</sup>

<sup>24</sup> The ASEAN Secretariat, *AFTA Reader: The Sixth ASEAN Summit and the Acceleration of AFTA, Volume V* (Jakarta, Indonesia: The ASEAN Secretariat, 1998), 10.

<sup>25</sup> European Commission, *New Business Opportunities for EU Companies in the ASEAN Area*, 6.

Table 3.5: Average AFTA-CEPT and MFN Rates, 2006

Country	Ranking	Rate	All Sectors	Food and Live	Manufactures	Manufactures	Machinery &	Motor Vehicles
				Animal (HS 1-14)	by Materials (HS 40-48)	by Materials (HS 50-59)	Electronics (HS 84-85)	
Singapore	1	AFTA	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	1	MFN	0	0	0	0	0	0
Brunei	2	AFTA	<u>1.17</u>	<u>0*</u>	<u>1.8</u>	<u>0.55</u>	2.66	3.53
	2	MFN	4.81	0	6.84	0.78	10.06	18.68
Indonesia	3	AFTA	<u>1.93</u>	<u>0.07**</u>	2.69	<u>0.98</u>	<u>0.91</u>	4.48
	6	MFN	9.85	4.74*	5.38	8.51	4.05	31.77
Malaysia	4	AFTA	<u>2.3</u>	<u>2.64</u>	<u>2.68</u>	<u>3.36</u>	<u>1.49</u>	<u>3.18</u>
	5	MFN	9.75	2.46*	10.09*	9.09*	5.92	21.31
Philippines	5	AFTA	<u>2.37</u>	<u>4.29</u>	<u>2.36</u>	<u>3.12</u>	<u>1.14</u>	<u>3.96</u>
	4	MFN	7.47	12.86	5.72	8.19	3.09	17.87
Thailand	6	AFTA	<u>2.47</u>	<u>4.32</u>	<u>2.23</u>	<u>0.16</u>	<u>1.67</u>	<u>4.81</u>
	8	MFN	11.69	23.77*	8.71	6.31	5.77	31.61
Vietnam	7	AFTA	<u>2.48</u>	<u>3.31</u>	<u>1.92</u>	<u>3.53</u>	<u>1.74</u>	<u>4.3</u>
	10	MFN	18.54	21.15	13.7	27.47	9.62	43.01
Laos	8	AFTA	<u>3.04</u>	<u>3.46</u>	<u>4.24</u>	<u>2.03</u>	<u>2.66</u>	<u>6.05</u>
	7	MFN	10.99	18.65	13.33	8.47	7.17	24.72
Myanmar	9	AFTA	<u>4.2</u>	<u>4.68</u>	<u>5.53</u>	<u>5.73</u>	<u>2.11</u>	<u>6.93</u>
	3	MFN	6.08	7.15	6.74	8.09	2.62	12.93
Cambodia	10	AFTA	<u>8.82</u>	<u>9.78</u>	<u>9.45</u>	<u>6.8</u>	<u>8.37</u>	<u>14.14</u>
	9	MFN	15.11	16.15	13.4	10.48	17.06	20.83

Source: ASEAN Consolidate CEPT Package 2006, ASEAN Secretariat. This table is calculated by the author.

Note: HS 40-48 includes the manufactured products of rubber, wood, cork, paper, furskin and leather.

HS 50-59 includes the products of silk, wool, cotton, and other textile fabrics.

The underlined-bold numbers are indicated the average CEPT rate of less than 2 percent.

The italic-bold numbers are indicated the average CEPT rate of more than 5 percent.

\* Quantity Restriction

\*\* No tariff rate revealed: Indonesia for rice is indicated in a highly sensitive list

Table 3.5 demonstrates the current situation of average tariff rates in different sectors in ASEAN members. Measuring by ranking the average tariff rate in all sectors, Singapore is already a subscriber to free trade in the region and outside the region by imposing zero percent of AFTA and MFN tariff rates. Among the old members, Thailand is the slowest participant in tariff reduction, while Indonesia strikingly shows its progress. In 2006, Indonesia is ranked on the third place with the average tariff rate in all sectors of below 2 percent, and the average tariff rates in manufactures by materials (HS<sup>26</sup> 50-59) and machinery and electronics (HS 84-85) of below 1 percent.

The underlined-bold numbers in Table 3.5 are specified the value of lower than 2 percent. Most of these numbers are located on the columns of the old members. Vietnam is the fastest tariff reducer among the new members because its schedule for tariff reduction in IL (between 0 and 5

<sup>26</sup> HS means Harmonized System.

percent) is due by the end of year 2006. The manufactures by materials such as rubber, wood, cork, fur skin, paper, and leather are the fastest category to be liberalized by the Vietnamese government, along with the machinery and electronics sector. Cambodia has the highest average CEPT rates in all sectors and other specific sectors that are registered at more than 5 percent, represented by the italicized numbers. The differences between MFN and AFTA rates are wider in the new members. The difference is as high as 16 percent in Vietnam, 13 percent in Cambodia, 9 percent Thailand, and 0 percent in Singapore.

At the specific sectors, the average tariff rates in the food and live animal sector are below 5 percent in old and new members, excluding Cambodia. Vietnam's and Laos's average rates are lower than the Philippines' and Thailand's. It is noticeable that in this sector individual tariff rates are extremely varied. For example, the Indonesian government imposes a quantity restriction of rice on MFN and does not report its certain AFTA-CEPT rate. Rather, a note is remarked in the consolidated AFTA-CEPT package 2006 that rice is a highly sensitive product. In Malaysia, pineapples, watermelons, and other local Southeast Asian fruits such as durians, jackfruits, and rambutans are categorized in a sensitive list. The Malaysian government officially imposes heavy tariff rates on them, ranking from 120 to 20 percent. The products of machinery and electronics (HS 84-84) are focally promoted by ASEAN members. With an exception of Brunei, all old members manifestly liberalize their average tariff rates to be lower than 2 percent, including Vietnam. The average rates of Myanmar and Laos are 2.11 and 2.66 percent, respectively. In this sector, Cambodia still embraces a high tariff rate on average of 8.37 percent. The category of motor vehicles (HS 87) has been endorsed as one of the most important industrial development strategies by many ASEAN members such as Malaysia, Indonesia, Thailand, and now Vietnam. The average HS 87 CEPT rates by ASEAN members are ranging from 3.18 percent in Malaysia (along with an imposition in quantity restrictions) to 4.81 percent in Thailand and 14.14 percent in Cambodia.

## 2. Gravity Model

The gravity model has been widely accepted as one of the most popular approaches to test the relationship of bilateral trade and the impact of trading blocs. The model was pioneered by Jan Tinbergen and Hans Linnemann without a theoretical ground.<sup>27</sup> Later on the works by, for example, Alan Deardorff<sup>28</sup>, and Paul Krugman and Elhanan Helpman<sup>29</sup> kept the gravity model alive by their explanations based on the Heckscher-Ohlin model and the new international trade theory. In the early 1990s, Paul Krugman<sup>30</sup> and Lawrence Summers<sup>31</sup> asserted that the dominant factor used to explain a concentration of modern trade is geographic proximity between trading partners. The distance can represent the geographic proximity as a significant parameter inserted to the gravity equation. Adding a regional trading arrangement in the gravity model was first experimented by Norman Aitken.<sup>32</sup> Jeffrey Frankel, Ernesto Stein, and Shang-Jin Wei<sup>33</sup> widely tested the gravity model with many regional trading groupings and popularized it as one of most important approaches to test the effect of regional trading agreements (RTAs). Since the 1990s, the gravity model has been frequently used for not only testing the effects of formal/informal trading blocs,<sup>34</sup> but also even predicting the outcome of proposed agreements<sup>35</sup>. More discussion about the theory of the gravity model is in Section 3.1 of Chapter One.

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<sup>27</sup> Hans Linnemann, "An Econometrics of International Trade Flows" (Thesis--Netherlands School of Economics., North-Holland, 1966), Jan Tinbergen, *Shaping the World Economy: Suggestions for an International Economic Policy* (New York: Twentieth Century Fund, 1962).

<sup>28</sup> Deardorff, "Determinants of Bilateral Trade: Does Gravity Work in a Classical World? ."

<sup>29</sup> Helpman and Krugman, *Market Structure and Foreign Trade*

<sup>30</sup> Krugman, *Geography and Trade*.

<sup>31</sup> Lawrence Summers, "Regionalism and the World Trading System, Policy Implications of Trade and Currency Zones," (Kansas, MO: Federal Reserve Bank of Kansas City, 1991).

<sup>32</sup> Norman D. Aitken, "The Effect of the EEC and EFTA on European Trade: A Temporal Cross Section Analysis," *American Economic Review* 63 (1973).

<sup>33</sup> Frankel, Stein, and Wei, *Regional Trading Blocs in the World Economic System*.

<sup>34</sup> Lee and Park, "An Examination of the Formation of Natural Trading Blocs in East Asia," 91.

<sup>35</sup> Gilbert, Scollay, and Bora, "Assessing Regional Trading Arrangements in the Asia-Pacific, Policy Issues in International Trade and Commodities Study Series No. 15," 1.

The gravity model can test the Heckscher-Ohlin theory and Linder hypothesis. With free trade conditions, two countries that have different factor endowments will trade more than another two countries that have similar factor endowments, assumed in the H-O model. Unlike the H-O theory, James Markusen empirically supported that the richer countries are likely to spend a larger amount of their budget shares on capital-intensive goods.<sup>36</sup> Capital-rich countries produce capital-intensive goods; therefore, it is likely that the capital-rich countries trade with each other rather than trading with capital-poor countries.<sup>37</sup> However, the performance of factor endowment variables to a gravity equation was found less well than the standard income and population variables.<sup>38</sup> Therefore, the experiment by the gravity model approach cannot perfectly test the H-O model because the H-O model does not fundamentally possess the product of GDPs as one of the assumptions, and other assumptions between them mismatch such as monopolistic and imperfect competition.<sup>39</sup> Two reasons to add the parameter of difference in per capita GDP in the gravity equation in this project are (1) at least to illustrate a big picture of the evolution of international trade that the classical trade theory is now challenged by a new theory of international trade, and (2) to test the H-O model in the case of ASEAN which has the favor of the North-South pattern between the new and old members.<sup>40</sup> The detailed discussion regarding the gravity model and the H-O theorem can be found in Section 3.1.1 of Chapter One.

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<sup>36</sup> Markusen, "Explaining the Volume of Trade: An Eclectic Approach."

<sup>37</sup> Deardorff, "Determinants of Bilateral Trade: Does Gravity Work in a Classical World?," 5.

<sup>38</sup> Edward E. Leamer, "The Commodity Composition of International Trade in Manufactures: An Empirical Analysis," *Oxford Economic Papers* 26, no. November (1974). Another approach which is often used to estimate the benefit of participating in a trading arrangement is a Computable General Equilibrium (CGE) in the works of, for example, Fukase and Martin (2001), and Gilbert, Scollay and Bora (2001). The CGE is more complicated than the gravity model and can predict welfare gain or loss. However, this approach is used to predict a single country, not a trading group. It lacks the ability to predict the effect of trading agreement comparing with other trading agreements or ignores the influence of extra-regional traders on a trading agreement. Hence, the "independent effect" illustrated in Frankel's work and the impact of enlargement cannot be captured by the CGE.

<sup>39</sup> Elhanan Helpman, "Imperfect Competition and International Trade: Evidence from Fourteen Industrial Countries," *Journal of the Japanese and International Economies* 1, no. March (1987), Helpman and Krugman, *Market Structure and Foreign Trade*

<sup>40</sup> Fukase and Winters, "Possible Dynamic Effects of AFTA for the New Member Countries," 857.

## 2.1. Equations and Hypotheses

The basic gravity model consists of two types of indicators: economic and non-economic. Economic parameters include (1) gross domestic product (GDP), and (2) gross domestic product per capita (GDP per capita). Non-economic parameters comprise (1) distance, (2) shared border, and (3) common language. The basic gravity equation is shown as following,

### Basic Gravity Equation

$$\text{Log (Volume of Trade}_{ij}) = \alpha + \beta_1 \text{Log(GDP}_i * \text{GDP}_j) + \beta_2 \text{Log(NGDP}_i * \text{NGDP}_j) + \beta_3 \text{Log(Distance}_{ij}) + \beta_4 (\text{Border}_{ij}) + \beta_5 (\text{Lang}_{ij}) + U,$$

where  $\text{GDP}_i * \text{GDP}_j$  is a product of  $\text{GDP}_{ij}$ ,  $\text{NGDP}_i * \text{NGDP}_j$  is a product of per capita  $\text{GDP}_{ij}$ ,  $\text{Distance}_{ij}$  is the distance between capital cities of country  $i$  and  $j$ ,  $\text{Border}_{ij}$  is a dummy variable. Given 1 when country  $i$  and  $j$  share the same territory; otherwise 0.  $\text{Lang}_{ij}$  is also a dummy variable. If country  $i$  and  $j$  share a common language, the value is 1; otherwise 0.

Other indicators such as regional trading arrangements can be added in the equation. These dummy variables lend an explanatory power in terms of how significantly, for example, the ASEAN trading arrangement influences the volume of intra-ASEAN trade. The examination of how the new members significantly influence ASEAN economic integration in terms of intra-ASEAN trade is a main question in this project. The hypothesis is that the ASEAN enlargement (accession of CLMV) may significantly influence an increase in intra-ASEAN trade. Two models are used which are all sectors and specific sectors, and each model has two scenarios— expansion and no expansion. Specific sectors model will test three major sectors: (1) food and live animals, (2) manufactured goods, and (3) machinery and transport equipment, based on ten trade sectors of the SITC-revision 2 database.<sup>41</sup>

<sup>41</sup> SITC stands for standard international trade classification. Ten trade sectors consist of (1) food and live animals, (2) beverages and tobacco, (3) inedible crude materials (except fuels), (4) fuels, lubricants, and related materials (5) animal, vegetable oils, fats, and waxes, (6) chemicals and related products, (7) manufactured goods, (8) machines and transport equipment, (9) miscellaneous manufactured articles, and (10) goods not classed by kind.



***Enlargement Equation for All Sectors***

$$\begin{aligned} \text{Log (Volume of Trade}_{ij}) = & \alpha + \beta_1 \text{Log}(\text{GDP}_i * \text{GDP}_j) + \beta_2 \text{Log}(\text{NGDP}_i * \text{NGDP}_j) + \\ & \beta_3 \text{Log}(|\text{Diff in NGDP}_{ij}|) + \beta_4 \text{Log}(\text{Distance}_{ij}) + \beta_5 (\text{Border}_{ij}) + \beta_6 (\text{Lang}_{ij}) + \\ & \beta_7 (\text{ASEANExpand}_{ij}) + \beta_8 (\text{ASEANplus3}_{ij}) + \beta_9 (\text{EU}_{ij}) + \beta_{10} (\text{NAFTA}_{ij}) + \\ & \beta_{11} (\text{Mercosur}_{ij}) + \beta_{12} (\text{Andean}_{ij}) + U \end{aligned}$$

***Non-Enlargement Equation for All Sectors***

$$\begin{aligned} \text{Log (Volume of Trade}_{ij}) = & \alpha + \beta_1 \text{Log}(\text{GDP}_i * \text{GDP}_j) + \beta_2 \text{Log}(\text{NGDP}_i * \text{NGDP}_j) + \\ & \beta_3 \text{Log}(|\text{Diff in NGDP}_{ij}|) + \beta_4 \text{Log}(\text{Distance}_{ij}) + \beta_5 (\text{Border}_{ij}) + \beta_6 (\text{Lang}_{ij}) + \\ & \beta_7 (\text{ASEANNoExpand}_{ij}) + \beta_8 (\text{ASEANplus3}_{ij}) + \beta_9 (\text{EU}_{ij}) + \beta_{10} (\text{NAFTA}_{ij}) + \\ & \beta_{11} (\text{Mercosur}_{ij}) + \beta_{12} (\text{Andean}_{ij}) + U \end{aligned}$$

Besides the above denotation of basic gravity parameters,  $|\text{Diff in NGDP}_{ij}|$  is an absolute difference in per capital GDP of country  $i$  and  $j$ ;  $\text{ASEAN}_{ij}$ ,  $\text{ASEANplusThree}_{ij}$ ,  $\text{EU}_{ij}$ ,  $\text{NAFTA}_{ij}$ ,  $\text{Mercosur}_{ij}$ , and  $\text{Andean}_{ij}$  are dummy variables. If both country  $i$  and  $j$  are the members of the same trading group, the value of that pair is 1; otherwise 0. All variables except dummy variables are in a logarithmic form. The dependent variable is the volume of total trade between country  $i$  and  $j$ . In sum, the variables of  $\beta_1$ ,  $\beta_2$ ,  $\beta_4$ ,  $\beta_5$ , and  $\beta_6$  are the basic parameters of the gravity model. The variable of  $\beta_3$  is to test H-O hypothesis. The variables of  $\beta_7$ ,  $\beta_8$ ,  $\beta_9$ ,  $\beta_{10}$ ,  $\beta_{11}$ , and  $\beta_{12}$  represent regional trading groups. The difference between the above two equations is that the “ASEANExpand” variable refers to the real world situation of ASEAN enlargement, whereas the “ASEANNoExpand” variable is set up to retest in the scenario as if ASEAN did not expand. Therefore, the “ASEANExpand” variable means only six old ASEAN members that are marked for the value of 1, otherwise 0, in the year 1991 dataset (no accession in that year). In the 1996 dataset (after Vietnam’s accession), the variable includes six old ASEAN members plus Vietnam, and the data of the year 2005 (after CLM’s accession) are included six old ASEAN members plus CLMV. In the no expansion scenario, all three years of the data set do not include CLMV as if ASEAN would not accept new members. The summary of ASEAN variables in different years and scenarios is shown in Table 3.6.

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### **Enlargement Equation for Specific Sectors**

$$\begin{aligned} \text{Log (Volume of Specific Sector}^N_{ij}) = & \alpha + \beta_1 \text{Log(GDP}_i \cdot \text{GDP}_j) + \beta_2 \text{Log(NGDP}_i \cdot \text{NGDP}_j) + \\ & \beta_3 \text{Log(|Diff in NGDP}_{ij}|) + \beta_4 \text{Log(Distance}_{ij}) + \beta_5 (\text{Border}_{ij}) + \\ & \beta_6 (\text{Lang}_{ij}) + \beta_7 (\text{ASEANExpand}_{ij}) + \beta_8 (\text{ASEANplus3}_{ij}) + \\ & \beta_9 (\text{EU}_{ij}) + \beta_{10} (\text{NAFTA}_{ij}) + \beta_{11} (\text{Mercosur}_{ij}) + \beta_{12} (\text{Andean}_{ij}) + U \end{aligned}$$

### **Non-Enlargement Equation for Specific Sectors**

$$\begin{aligned} \text{Log (Volume of Specific Sector}^N_{ij}) = & \alpha + \beta_1 \text{Log(GDP}_i \cdot \text{GDP}_j) + \beta_2 \text{Log(NGDP}_i \cdot \text{NGDP}_j) + \\ & \beta_3 \text{Log(|Diff in NGDP}_{ij}|) + \beta_4 \text{Log(Distance}_{ij}) + \beta_5 (\text{Border}_{ij}) + \\ & \beta_6 (\text{Lang}_{ij}) + \beta_7 (\text{ASEANNoExpand}_{ij}) + \beta_8 (\text{ASEANplus3}_{ij}) + \\ & \beta_9 (\text{EU}_{ij}) + \beta_{10} (\text{NAFTA}_{ij}) + \beta_{11} (\text{Mercosur}_{ij}) + \beta_{12} (\text{Andean}_{ij}) + U \end{aligned}$$

In the equations of specific sectors, most of variables are the same; but only one variable is different from the first two equations which is the dependent variable. Volume of Specific Sector<sup>N</sup><sub>ij</sub> is the volume of trade in sector *N* between country *i* and *j*. Sectors (*N* = 1, 2, 3) denotes food and live animals, manufactured goods, and machinery and transport equipment, respectively. The “ASEANExpand” and “ASEANNoExpand” variables can be explained similarly by Table 3.6.

**Table 3.6: Value of ASEAN Variables in Expansion and No Expansion Scenarios**

	1991	1996	2005
<b>Expansion</b>	<b>ASEAN-6</b> The pairs of ASEAN-6 members have the value of 1, otherwise 0.	<b>ASEAN-6 plus Vietnam</b> The pairs of ASEAN-6 members plus Vietnam have the value of 1, otherwise 0.	<b>ASEAN-6 plus CLMV</b> The pairs of ASEAN-10 members have the value of 1, otherwise 0.
<b>No Expansion</b>	<b>ASEAN-6</b> The pairs of ASEAN-6 members have the value of 1, otherwise 0.	<b>ASEAN-6</b> The pairs of ASEAN-6 members have the value of 1, otherwise 0.	<b>ASEAN-6</b> The pairs of ASEAN-6 members have the value of 1, otherwise 0.

## **2.2. Method and Data**

Three major sectors are selected which have significantly been traded among ASEAN members. The *first sector* is the agricultural sector (SITC 0), which has the highest tariff rates under the AFTA scheme. Its intra-ASEAN trade relative to the world accounted for 22.22 percent in 2005, shown in Table 3.7. It is also interesting in the way that the new members have comparative advantage, whereas many old members started to lose their advantage in this sector. The benefit of

geographic proximity agricultural products is likely to be significant in trade in this region. The *second sector* is the manufactured goods by materials (SITC 6) such as leather, rubber, wood, textiles, yarn, and paper, which are indicated to be an intermediate good in producing a final product in the miscellaneous manufactured articles sector (SITC 8) such as furniture, footwear, apparel and clothing, and handbags. This is a potential improvement of intra-ASEAN trade in a competitive sector. For example, apparel and clothing accessories, and footwear produced by ASEAN members are competing in the world market. Most ASEAN members have comparative advantage in this sector, and the market destinations for those goods are the same. This statement is irrefutable. However, the process of the productions for apparel and clothing accessories (SITC 8) uses textiles yarn and other materials (SITC 6) that are traded among ASEAN members. Therefore, trade between old and new members can apparently be stimulated under a competitive sector. This project selects to test SITC 6 that produces intermediate goods to supply the production of SITC 8, but not test SITC 8 because this sector produces the final products that directly respond to the demand from outside of the region. The *third sector* is the machinery and transport equipment (SITC 7), where the old members have increased their potential to produce, including Vietnam (even though its RCA in this sector is still less than 1), and the new members have capacity to be a location for assembly factories. The current share of CLMV on intra-ASEAN trade is small in this sector; but, its proportion has been increasing after joining ASEAN. Geographical proximity among ASEAN members can be an incentive to create a regional production network in the machinery and transport equipment sector.

According to Table 3.7, the beverages and tobacco sector (SITC 1) had the highest share of intra-ASEAN trade relative to the world, accounted for 42.87 percent. The fuels, lubricants and related materials sector (SITC 3) had the second highest volume of trade among ASEAN members, accounted for 32.25 percent. These two sectors are not selected to test even though they have a very high percentage in intra-ASEAN trade. It is because they are less dynamic in terms of stimulating trade in other sectors compared to manufactures in the SITC 6 or 7. Even though the project chooses

only the most three dynamic and important sectors and does not test the other seven sectors individually, the seven sectors are managed to include in the data set of *all sectors* which is also tested in this study.

**Table 3.7: Intra-ASEAN Trade in Sectors, 2005**

Sector	SITC	Percentage
Food and Live Animals	0	22.22
Beverages and Tobacco	1	47.87
Inedible Crude Materials (Except fuels)	2	17.05
Fuels, Lubricants, and Related materials	3	32.25
Animal, Vegetable Oils, Fats, and Waxes	4	17.09
Chemicals and Related Products	5	26.56
Manufactured Goods	6	21.66
Machines and Transport Equipment	7	25.70
Miscellaneous Manufactured Articles	8	15.02

Source: UNcomtrade (2005)

This study does not include tariff rates in the equation because the emphasis of this study is at the sectoral level. Generally speaking, a tariff rate is assigned for each product, and the rates of different products vary hugely within the same sector. For example, Malaysian tariff rates are ranked between 150 and 0 percent in the food and live animal sector. Indonesia does not provide a fixed tariff rate for rice due to its high sensitivity. Brunei mostly gets rid of the tariff rates, but imposes several quantity restrictions on importation instead. The use of the average tariff rates, therefore, is extremely cautious at the sector level. Another concern is that, as we know, CLM are very small economies considering the total volume of trade. The less precise the data, the easier the impact of the small economies are over- or underestimated. Hence, if the average tariff rate is much higher or lower than the real rate, the economies with a small volume of trade are likely to be affected more than the large economies, which could lead to a high chance to produce a misestimated result. Thus, for this study which has a focus on the impact of small economies, the effect of the tariff reduction schedule will be investigated in other dimensions that are on-time schedule, contribution, and implementation problems in Chapter Six.

The hypothesis testing on this chapter uses a cross-section data set of years 1991, 1996, and 2005 to avoid the effect of economic shocks such as the 1997 Asian financial crisis. In the dataset, three years are chosen for a comparison between before and after ASEAN enlargement: 1991 (before ASEAN enlargement), 1996 (Vietnam's accession), and 2005 (after full enlargement). The data set includes Andean (5 countries), ASEAN (10 countries), East Asia (3 countries), EU (15 countries), Mercosur (4 countries), and NAFTA (3 countries). The use of other countries and regional trading groups allows a comparison between ASEAN and other regional groups. In years 1991 and 1996, the total number of countries is 39, which leads to 741 dyads [ $39 * (38/2)$ ]. In 2003, Belgium and Luxemburg have separated their trade records. It increases a record in EU group from 14 to 15 countries and total numbers of countries from 39 to 40 countries. As a result, the total observation increases from 741 in 1991 and 1996 to 780 dyads in 2005. The total number of observations, thus, consists of 2262 dyads for all three years. The test uses an OLS multiple regression method. Heteroskedastic errors are frequently evident in the case with cross-sectional data. Therefore, the regression employs a robustness method to ease this problem. Data sources are summarized in Appendix C.

### **3. Empirical Result**

The statistical result shows that ASEAN enlargement has significantly influenced intra-regional trade in Southeast Asia in both the total volume of trade and the three major sectors, namely: (1) food and animal, (2) manufactured goods by materials, and (3) machinery and transport equipment. Statistics show that Vietnam has stupendously affected intra-ASEAN economic integration after the enlargement in the three sectors including the total trade. Cambodia, Laos, and Myanmar have influenced less in intra-ASEAN trade; however, their role in economic integration in the region has been increasing, as compared to the period before the membership. The statistical

significance in the three sectors in 2005 illustrates that CLM started to enjoy the benefits of trade not only with international traders but also ASEAN members. This study gives the same direction that ASEAN enlargement is trade creation as the previous CGE work studied by Fukase and Martin<sup>42</sup> in 2001. The basic parameters of the gravity model in this study support the results of previous gravity works that these parameters are powerful indicators for international and regional trade flows. However, this study also finds that the “distance,” “border,” and “language” parameters have a strong performance in the different types of products, which have not been discussed in many studies.

Below are details of the empirical result, divided into two sections. The first section is the report for the performance of the basic gravity parameters. The second section focuses on the statistical interpretation of regional grouping variables. The statistical results are put together in four Tables in Appendix B.<sup>43</sup>

### ***3.1. Basic Gravity Parameters and the H-O Testing***

(1) GDP, (2) per capita GDP, (3) distance, (4) shared border, and (5) shared official language are the five basic gravity parameters. The first two parameters—GDP and per capita GDP—always perform well by giving statistical significance at 1 percent level in all years and all sectors with a positive coefficient, shown in Appendix B, Tables B.1 to B.4. GDP has increased the value of its coefficient from 0.85 in 1991 to 1.06 in 2005. Per capita GDP is reported in its coefficient of between 0.70 and 0.63. This study firmly concludes that the higher the GDP or the per capita GDP between two countries, the higher is the volume of trade between them. The third, fourth, and fifth parameters of the basic gravity model, on the other hand, show fluctuations in different sectors and years.

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<sup>42</sup> Fukase and Martin, *Free Trade Area Membership as a Stepping Stone to Development: The Case of ASEAN*.

<sup>43</sup> Table 1 is the result of all sectors or overall trade (SITC 0); Table 2 is the food and live animal sector (SITC 0); Table 3 is the manufactured goods by materials sector (SITC 6); and Table 4 is the machinery and transport equipment sector (SITC 7).

The general assumption of the basic gravity model claims that distance has a negative relationship with the total volume of trade. It means that the shorter the distance between two countries, the higher is the volume of trade between them. The previous studies by, for example, Krugman, Summers, and Wonnacott and Lutz in the 1990s suggested that geographical proximity is important to trade concentration ratios.<sup>44</sup> However, recent research on transportation cost has argued that economic distance may not be as important as it was in the past.<sup>45</sup> This is because globalization can reduce transport costs<sup>46</sup> across continents supported by a study of UNCTAD that shows a decline in freight costs. However, this study argues that the power of distance has still maintained its significance in some sectors while losing its significance in some sectors, depending on types of products.

According to the empirical result Tables in Appendix B, distance is generally still significant to international trade. Even though the cargo cost is much cheaper in the globalized market, this still cannot completely undermine the importance of the geographical proximity effect, especially in the food and lived animal sector. The empirical finding of this study supports this argument and shows a different conclusion from Frankel's<sup>47</sup> on the issue of distance. His work in 1997 illustrated that distance has a higher effect on manufactures than agricultural products due to the costs of cultural unfamiliarity and transport time in doing business. Oppositely, distance has a stronger effect on agricultural products than manufactures, illustrated in this study. At the specific sectors, "distance"

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<sup>44</sup> Krugman, *Geography and Trade*, Summers, "Regionalism and the World Trading System, Policy Implications of Trade and Currency Zones.", Paul Wonnacott and Mark Lutz, "Is There a Case for Free Trade Areas?," in *Free Trade Areas and U.S. Trade Policy*, ed. Jeffrey J. Schott (Washington, DC: Institute for International Economics, 1989).

<sup>45</sup> Benjamin A. Roberts, "A Gravity Study of the Proposed China-ASEAN Free Trade Area," *The International Trade Journal* 18, no. 4 (2004): 340.

<sup>46</sup> Transport costs include direct and indirect ways. Direct transport costs are freight and insurance. Indirect transport costs are for example holding costs for transition, and inventory cost for a delay of delivery dates. Prabir De, *Regional Trade in Northeast Asia: Why do Trade Costs Matter?*, CESIFO Working Paper No. 1809 (Germany: The Center for Economic Studies, 2006).

<sup>47</sup> Frankel, Stein, and Wei, *Regional Trading Blocs in the World Economic System*.

shows its outstanding impact on trade in the food and live animal sector in all years, but has less power in explaining trade in the machinery and transport equipment sector.

This could be because the “distance” variable may capture the type of the products. The agricultural goods are likely to trade in a closer distance than manufactured goods due to the matters of freshness and cultural cuisine. Another point is the “distance” variable may also capture the limitation of market access. For example, the agricultural products face a higher trade barrier than manufactures. General speaking, the average tariff rate on agricultural products is four times as high as in manufactures and twice as high as in textile and clothing.<sup>48</sup> This fact thus reveals the difficulty to gain market access in the global agricultural market. As Will Martin and Mari Pangestu (2003) suggested, the market access for agricultural products is more limited and less transparent due to several protection techniques such as dirty tariffication, ceiling bindings, and unfilled tariff rate quotas.<sup>49</sup> Also, non-WTO members have been facing a higher tariff rate and more import protection imposed on agricultural products than WTO members.

“Shared border” parameter can boost trade flows among the countries because it indicates that those countries may have cultural, language, and social connections.<sup>50</sup> In other words, if the two countries share a national border, they are likely to have higher trade than the other pairs that do not possess a common border. According to the empirical result of this study, a shared border has a large impact on the total trade in 1991 and 1996, and the manufactures trade in all years. In the manufactured goods sector (SITC 6), and the machinery and transport equipment sector (SITC 7), a shared border can be an essential factor to stimulate production, which leads to increasing trade.<sup>51</sup>

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<sup>48</sup> Kym Anderson et al., "Agriculture and the Doha Development Agenda," in *Options for Global Change Reform*, ed. Will Martin and Mari Pangestu (UK: Cambridge University Press, 2003), 27.

<sup>49</sup> Will Martin and Mari Pangestu, "Options for Global Trading Reform," in *Options for Global Change Reform*, ed. Will Martin and Mari Pangestu (UK: Cambridge University Press, 2003), 6.

<sup>50</sup> Frankel, Stein, and Wei, *Regional Trading Blocs in the World Economic System*, 117.

<sup>51</sup> It is important to note again at this point that the manufactured goods in SITC 6 includes only materials manufactures like rubber, leather, steel and textile yarn, and not electronic manufactures. Electronic appliances



This is because the cost of manufacturing production can be reduced due to a close geographic location between factories that produce intermediate goods and factories that need those goods to produce the final goods. Neighboring countries with the same border are thus likely to become the most popular destination for each other to trade and invest in order to serve as a cheaper labor/ natural resource supply for the production. On the other hand, the influence of “shared border” became less powerful in the total trade and agricultural sector in 2005. This implies that in general the countries export their final products to non-shared border countries and do not only rely on markets next to their home countries as much as in the past. It is important to be noted at this point that when “shared border” is insignificant, “distance” still can be significant.<sup>52</sup> The “language” parameter overall shows its strong influence over time in the three sectors. It reflects that the common language can be an incentive factor to create trade flows between countries.

The last parameter that is not in the basic gravity parameter is a “difference in per capita GDP” between two countries. The insertion of this variable in the equations was made in order to test the Heckscher-Ohlin Model. The model says that the abundant-capital countries should trade more with the abundant-labor countries. In other words, rich economies trade more with poor economies because their economies are likely to be complementary. If this claim is true, the coefficient of difference in per capita GDP must be positive. If this hypothesis fails, the Linder hypothesis<sup>53</sup>, which claims that the same level of income countries are likely to trade with each other more than the different income countries due to their similar preferences, is correct; and adversely the coefficient of difference in per capita GDP is negative. According to the statistical result, this parameter does not have statistical significance in the total trade, shown in Appendix B, Table B.1. However, if we look at the specific sectors, this parameter reveals an interesting outcome. In the food and animal sector, a

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are included in the machinery and transport equipment sector (SITC 7), in which parts and components of manufactures are categorized as well.

<sup>52</sup> Distance and shared border hold a different value of indicators, and their results do not correlate. If the “distance” parameter is significant, it does not mean that the “shared border” parameter is also significant.

<sup>53</sup> More detail about the H-O model and Linder hypothesis explains in Chapter 1.

positive sign of the “different in per capita GDP” variable supports that the H-O hypothesis is correct which means that higher income countries are likely to trade with lower income countries for agricultural products. However, its power of prediction has declined overtime in the value of coefficient. The 1991 coefficient is 0.35 and the 2005 coefficient is 0.12 with statistical significance at 1 percent level in both years. In the manufactured goods sector and the machinery and transport equipment sector, the H-O hypothesis is not satisfied. Small negative coefficients are recorded in 2005 in both sectors which may support the Linder hypothesis. It could explain that the capital-intensive countries are likely to trade more among themselves, and the less capital-intensive countries similarly do so in manufactures. However, the gravity cannot draw a strong conclusion on the H-O model without an inclusion of H-O assumptions in the equation. The study that has a core hypothesis of testing H-O model in particular, which is not found in this study, will provide a more sophisticated model to test the H-O assumptions. Hence, the result from this study can instead draw a big picture of the movement of international trade, which the classical trade theory is challenged by a new theory of international trade. At the same time, a new pattern of international trade—the so-called fragmentation of production<sup>54</sup>—is growing rapidly in many productions’ process from whisky and apparels to electronics and high-technological equipment, which intra-ASEAN trade is likely to move toward this pattern.

### ***3.2. ASEAN and Other Regional Grouping Parameters***

#### ***3.2.1. Total Trade/ All Sectors (SITC 0-9)***

The statistical result on the total trade is in Appendix B, Table B.1. According to this result, in 1991 ASEAN did not have its real power in boosting intra-regional trade by its own members. The

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<sup>54</sup> Sven W. Arndt, "Alpine Contrasts: Swiss and Austrian Responses to the EU," in *Forging an Integrated Europe*, ed. Barry Eichengreen and Jeffrey A. Frieden (Ann Arbor: University of Michigan Press, 1998), Sven W. Arndt and Henryk Kierzkowski, eds., *Fragmentation: New Production Patterns in the World Economy* (New York: Oxford University Press, 2001).

ASEAN variable reports a substantive coefficient of 1.94 and statistical significance at 1 percent level. Adversely, when the “ASEAN plus Three” variable which included China, Korea and Japan is inserted, the ASEAN variable shows statistical insignificance, and its coefficient reduces to 0.25. The evidence supports several previous studies that ASEAN had no “independent effect” when East Asian economies were placed in.<sup>55</sup> This effect illustrates that the growth in intra-ASEAN trade primarily depended on the growth of East Asian economies in 1991. However, later on the ASEAN variable picks up a powerful effect on intra-ASEAN trade. The 1996 ASEAN coefficient is reported as 1.06 and increases to 1.24 in 2005 with statistical significance at 1 percent level in both years, even considering East Asian economies in the equations. This becomes the new and strong verification that erases the 1990s picture of its lack of independent effect on its own intra-regional trade. The reasons why we see the stronger result of the ASEAN variable in 1996 and 2005 are because of (1) tighter economic integration among old members, (2) strong significance of Vietnam, and (3) increasing participation of CLM. Another reason is the positive effect of AFTA scheme that brings down import tariffs among ASEAN members, including CLMV.

Considering Vietnam’s influence, the 1996 coefficient of ASEAN variable will lose its value and its statistical significance if Vietnam is not included in ASEAN. In 2005, ASEAN-6 economies imperatively improved their degree of trade concentration among themselves. They exemplify their strong trade alliance with a 2005 coefficient of 1.39 (sig. at 1 percent). Then, when Vietnam is tested separately from the group of the new members by adding only Vietnam in ASEAN in 2005, the statistical result shows that Vietnam is a strong trade alliance of ASEAN-6 members and positively contributes to stronger intra-ASEAN trade. This finding absolutely validates how the Vietnamese economy importantly participates in the growth of the total intra-ASEAN trade after the enlargement. In the same way, the group of the other three small economies, CLM, is added in the ASEAN variable in order to see its individual effect on intra-ASEAN trade without Vietnam’s influence. Positively,

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<sup>55</sup> Frankel, Stein, and Wei, *Regional Trading Blocs in the World Economic System*, 99.

the participation in the total intra-ASEAN trade by CLM improves dramatically in 2005 by registering a higher value of coefficient of 0.98 with statistical significance at 1 percent level, compared to the same test in 1996 which shows the coefficient of only 0.12 with no statistical significance. All tests in Table B.1 in Appendix B report the values of adjusted R-squared ranging from 0.70 to 0.84.

In brief, the enlargement by accepting CLMV significantly strengthens in general the total intra-ASEAN trade. Vietnam proves to become a crucial trading partner of ASEAN since its accession in 1996, while Cambodia, Laos, and Myanmar started to show their important participation in the intra-ASEAN trade. The small economies of CLM, which many works have earlier ignored, strongly divulge their significance to intra-ASEAN trade in the latest year. Furthermore, this empirical evidence demonstrates an increasing level of emergence of CLMV to regional trade with no discriminatory effect because, whereas the ASEAN variable gets stronger, the "ASEAN plus Three" variable is still robustly significant. This fact assures that ASEAN is still an open type of regionalism, which fully engages in non-discriminatory trade with extra-regional members. For other regional trading arrangements, this empirical evidence suggests that the EU, Mercosur and Andean are strong trading blocs, especially Andean which has strong statistical significance in all three years. In contrast, some negative coefficients of NAFTA without any statistical significance in all years are expected as Frankel mentioned that the small numbers of NAFTA have caused this consequence.

### ***3.2.2. Food and Live Animals (SITC 0)***

Based on the 1986-1998 database in the study of Gilbert, Schollay, and Bora (2001), it was found that intra-ASEAN-6 trade in agricultural products lost its statistical significance in the post-1992 period.<sup>56</sup> According to Table B.2 in Appendix B, ASEAN clearly demonstrates a strong trade

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<sup>56</sup> Gilbert, Scollay, and Bora, "Assessing Regional Trading Arrangements in the Asia-Pacific, Policy Issues in International Trade and Commodities Study Series No. 15," 9.

link among the members in the food and live animal sector especially in 1996 and 2005, with or without the insertion of East Asian economies. Vietnam is tested independently from the other new members in 1996 and 2005. The result shows that without Vietnam's accession, a food trade linkage in ASEAN could be weakened in 1996, thus decreasing the coefficient of 1.73 to 1.04 and eroding the level of statistical significance at 1 to 10 percent. Vietnam shows higher involvement in intra-regional food trade in 2005 than 1996. For CLM, the three economies did not strongly influence intra-ASEAN trade in this sector in 1996. After CLM's accession, their engagement in this type of trade becomes significant and shows a higher value of the coefficient in 2005.

Comparing the influence of Vietnam and CLM reveals that Vietnam is absolutely more important to intra-ASEAN trade in the agricultural sector than CLM. It is because the Vietnamese economy not only has a higher capacity in agricultural production, but also a higher diversification in this sector than CLM's economies in the exportations of food products that basically served scarce-agricultural economies like Brunei, Singapore, and Malaysia. Vietnam can also fulfill the insufficient domestic production in huge agricultural economies by exporting cereals, vegetables, and fruits to Indonesia; cereals and coffee to the Philippines; and coffee to Thailand. This is referred to Table 3.4 on the ASEAN-RCA map in the previous part of this chapter. Among the other three new members, the economy of Myanmar seems to have a comparative advantage similar to Vietnam's in the agricultural sector. Myanmar has a strong potential to increase its capacity and gain comparative advantage in this sector, if the military government seriously promotes economic reformation targeting to serve the ASEAN and non-ASEAN markets. Laos remains strong in the exportation of live animals while none of the old members have this advantage. In contrast, Cambodia currently loses its comparative advantage in all agricultural products. Undoubtedly, Cambodia reallocates its resources to invest in miscellaneous manufactured goods such as footwear, apparel, and clothing, which are chiefly supplied for the international market.

For other regional trading arrangements, the EU shows weak intra-EU trade in the agricultural sector, compared to the manufacturing sector. Mercosur has a 2005 coefficient of 1.45 (sig. at 10 percent). Andean has a very strong intra-regional trade in this sector, as shown the 2005 coefficient of 1.95 (sig. at 1 percent). NAFTA records a negative coefficient with no statistical significance. The adjusted R-squared has values between 0.56 and 0.61.

### ***3.2.3. Manufactured Goods by Materials (SITC 6)***

In line with Table B.3 in Appendix B, intra-ASEAN trade loses its statistical significance in an exporting category of material manufactures such as rubber, leather, paper, and wood, when East Asian economies are inserted in the equation in 1991. This proves that the growth of intra-ASEAN trade depended on the growth of East Asian economies that used those intermediate goods to produce the final products in 1991. In 1996 and 2005 tests, intra-ASEAN trade becomes significant with or without East Asian economies. This implies that material-manufactured goods were traded more within the ASEAN members. Without considering Vietnam in 1996, intra-ASEAN trade in this sector loses its statistical significance with a decline in the value of coefficient by 16 percent.

In 2005, the trade relationship among old members had little improvement in this sector. But when CLMV is counted in ASEAN as members of the group, intra-ASEAN trade in this sector becomes statistically significant at 1 percent level with a coefficient of 0.87. Evaluating the influence by the new members, the gravity-model test finds a decline in significance of Vietnam's trade with ASEAN members in material-manufactured goods in 2005. This situation could be explained by (1) Vietnam moving its resources to be allocated in other sectors, leading to less significant trade between ASEAN-6 and Vietnam in this sector; or (2) Vietnamese production in this sector increasing its efficiency to produce a higher volume of output so that Vietnam can reduce the importation from ASEAN-6. To search for the answer, these assumptions need to be studied by future research, focusing on specific industries. On the other hand, the trade relationship between ASEAN-6 and

CLM has statistical significance in the latest year. The expansion of their trade relationship increased in 2005 by approximately 77 percent.<sup>57</sup> Cambodia, Laos and Myanmar have comparative advantage in cork and wood manufactures; however, they do not have comparative advantage in the production of furniture and parts (SITC 82). Their products may be exported to the international market including the regional one, in which for example Malaysia and Vietnam have gained a new comparative advantage in the production of furniture and parts.

Among other regional trading groups, Andean always has strong statistical significance to trade among its members, including Mercosur in this sector. Moreover, the EU clearly picks up its strength of intra-regional trade under this type of production, shown by statistical significance at 1 percent in all three years. NAFTA changes its negative coefficient to a positive one in 2005 without a record of statistical significance in any years.

#### **3.2.4. Machinery and Transport Equipment (SITC 7)**

ASEAN has strong intra-regional trade in the machinery and transport equipment sector with or without the inclusion of East Asian economies. However, ASEAN's growth still corresponds to the growth of East Asian production in this sector, as shown in Table B.4, Appendix B. Vietnam's influence on the SITC 7 was very significant in 1996. Without Vietnam's accession, intra-ASEAN trade could reduce its statistical significance and the value of coefficient. Therefore, Vietnam was a significant trader in this sector in the region. However, the picture turned out differently in 2005. Vietnam is still a significant trader in this sector, but its role has become less significant. This remarkably reflects the faster growth of the machinery and transport equipment sector and a higher technological upgrade in ASEAN-6 members than Vietnam, leading to a tight development in the production network among the old members. As shown in Table 3.4 of the ASEAN-RCA map, the old members used to have comparative advantage in power-generating machinery (SITC 71) and

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<sup>57</sup>  $[\exp(0.64)-1]*100 - [\exp(0.12)-1]*100 = 76.90\%$

machinery specialized for particular industries (SITC 72) in the period between 1990 and 1995. However, the RCA map between 2000 and 2004 describes that the old members upgraded their technology to focus more on high-tech production such as office and data processing machinery (SITC 75), telecommunication apparatus and equipment (SITC 76), and electronic machinery and appliances (SITC 77).

On the other hand, the new members including Vietnam still cannot achieve a comparative advantage in this sector, shown in their RCA maps. This situation implies that Vietnam is still in a stage of catching up with the old members. Vietnamese industries mostly rely on low-medium technology, which might be less complementary to the old members' production in this sector in 2005. Another study projected that Vietnam benefits at the sectoral level such as in processed food, and textiles and apparel, and gain physical capital accumulation.<sup>58</sup> However, this test does not suggest that Vietnam does not integrate with the old members in this sector. Rather, it points out a caution for Vietnam. Even though Vietnam is still a significant trader of ASEAN-6 in this sector, without technology improvement its participation will be attenuated because increasing trade in this sector requires high technology. If there is not enough technological development to catch up with the old members, Vietnam could be easily out of the production network, considering that the old members are continuing upgrading their technology and getting closer in their network. Vietnam thus needs to improve its technology level in the production of machinery and transport equipment in order to continue strongly attaching to the network of the old members. With a national policy of Vietnam and a regional policy of ASEAN, the opportunity to promote a higher linkage between ASEAN-6 and Vietnam as a regional production network is possible, considering the past potential of and the current economic performance of Vietnam.

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<sup>58</sup> Toh Mun Heng and Vasudevan Gayathri, "Impact of Regional Trade Liberalization on Emerging Economies: The Case of Vietnam," *ASEAN Economic Bulletin* 21, no. 2 (2004): 175.



For CLM, they positively advance their performance in this sector by increasing the value of coefficient from 0.47 (insig.) in 1996 to 0.95 (sig. at 1 percent) in 2005. In other words, their engagement in this sector is increased by 98 percent. However, their impact on this sector is still weak compared to Vietnam's because of a lack of technology in this type of production, including basic infrastructure. To promote the SITC 7 production in the three countries, ASEAN policy needs to do more than just reduce tariffs to stimulate trade capacity. Building in human capital and infrastructure is necessary to be grounded. Nevertheless, at this moment CLM are likely to be assembly factories of intermediate products produced by old members, instead of producing the products. This may explain why the trade relationship between ASEAN-6 and CLM has accelerated recently in this sector. On the other hand, Vietnam might already have a mixed characteristic of serving as an assembly destination for the old members as well as producing some types of low-medium technological intermediate goods. This regional production network undoubtedly enhances the vertical investment and trade in intermediate goods.<sup>59</sup> This is a phenomenon of an emerging Southeast Asian and also East Asian economies by creating the production process and network responding to the growth rate of demand from outside the region.<sup>60</sup>

Under the AFTA policy, tariff provision is one of the fundamental factors to accelerate the linkage of production network besides wage differentials (labor costs), geographical proximity, transport costs, and government policies to stimulate fragmentation trade.<sup>61</sup> Strengthening a regional

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<sup>59</sup> Fukase and Winters, "Possible Dynamic Effects of AFTA for the New Member Countries."

<sup>60</sup> Alan G. Ahearne et al., "China and Emerging Asia: Comrades or Competitors?", Working Paper No. 2003/27, (Chicago: Federal Reserve Bank of Chicago, 2003), Harm Zebregs, "Intraregional Trade in Emerging , IMF Policy Discussion Paper PDP/04/01," (Washington, DC: IMF, 2004).

<sup>61</sup> Alan V. Deardorff, "Fragmentation Across Cones," in *Fragmentation: New Production Patterns in the World Economy*, ed. Sven W. Arndt and Henryk Kierzkowski (New York: Oxford University Press, 2001), Ronald W. Jones and Henryk Kierzkowski, "A Framework for Fragmentation," in *Fragmentation: New Production Patterns in the World Economy*, ed. Sven W. Arndt and Henryk Kierzkowski (New York: Oxford University Press, 2001), Frances Ruane and Holger Gorg, "Globalization and Fragmentation: Evidence for the Electronics Industry in Ireland," in *Fragmentation: New Production Patterns in the World Economy*, ed. Sven W. Arndt and Henryk Kierzkowski (New York: Oxford University Press, 2001), Alexander J. Yeats, "Just How Big is Global Production Sharing? ," in *Fragmentation: New Production Patterns in the World Economy*, ed. Sven W. Arndt and Henryk Kierzkowski (New York: Oxford University Press, 2001).

institution has also been recommended by many scholars to increase the role of ASEAN in facilitate the growth of this trade.<sup>62</sup> The development of the electronics industry in parts and components has been one of the strategies to promote intra-ASEAN trade and foreign direct investment.<sup>63</sup> As we see from the above Table 3.5, AFTA tends to have a positive impact on the development of intra-ASEAN trade by imposing for tariff reduction, especially in the old members and Vietnam. According to the empirical result, intra-regional trade between ASEAN-6 and Vietnam in the manufactured goods sector is statistically significant in all three years. AFTA can be seen to stimulate this growing tie of regional trade. According to Prema-Chandra Athukorala's estimation of the effective rate of protection for traded goods, he found that the rate especially in manufacturing products has been decreasing over time.<sup>64</sup> After CLM joined ASEAN and implemented the AFTA policy, manufactures and machinery trade with other ASEAN members is fortified as shown in the statistical results in Tables B.3 and B.4, Appendix B. Also, without AFTA we can see that CLMV could trade with ASEAN members by imposing the MFN rates, which are immensely higher than the AFTA-CEPT rates. The statistical significance in trade between CLM and ASEAN-6 has clearly picked up after joining ASEAN and implementing AFTA. For other regional trading groups, Andean and the EU again show a strong intra-regional trade linkage in this sector, similar to the manufactured goods by materials sector. Mercosur has a decline in statistical significance of the year 1996, but picks up its strength of connection again in 2005. NAFTA shows a positive coefficient with statistical insignificance as a result of its small number of members.

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<sup>62</sup> Felker, "Southeast Asian Industrialization and the Changing Global Production System.", Fukase and Winters, "Possible Dynamic Effects of AFTA for the New Member Countries.", Adam Schwarz and Roland Villinger, "Integrating Southeast Asia's Economies," *The McKinsey Quarterly* 1 (2004).

<sup>63</sup> The ASEAN Secretariat, *AFTA Reader: Questions and Answers on the CEPT for AFTA, Volume II* (Jakarta, Indonesia: The ASEAN Secretariat, 1995), 31.

<sup>64</sup> Prema-Chandra Athukorala, "Trade Policy Reforms and the Structure of Protection in Vietnam," *The World Economy* 29, no. 2 (2006): 180.

#### **4. Conclusion**

In summary, based on the statistical results operated by the gravity model approach, the study finds that ASEAN enlargement has significantly influenced intra-ASEAN trade. The accession of CLMV has strengthened a web of intra-ASEAN trade, especially Vietnam. Without Vietnam's accession, intra-ASEAN trade could lose its statistical significance in the total trade and the three sectors in 1996. The values of coefficient are higher with Vietnam's inclusion. This study concludes that intra-ASEAN trade has significantly been reinforced after the enlargement due to (1) the significance of Vietnam's accession especially in the food and live animal sector, and the manufactured goods, (2) the strong connection of old members in the machinery and transport equipment sector, and (3) the increasing participation of CLM in all three sectors.

Vietnam has improved its significance on the trade relationship with ASEAN-6 after the enlargement in the food and live animal sector (SITC 0), while retaining its strong impact on intra-ASEAN trade in manufactures (SITC 6 and 7). Cambodia, Laos and Myanmar also show a striking improvement in intra-ASEAN trade's contribution. Their statistical significance is evidently found after the enlargement, which means after joining AFTA. Even though AFTA is not scheduled in reducing import tariffs of unprocessed agricultural products in the new members to 0-5 percent at this time, the intra-regional trade between old and new members is by now extensively connected. Hence, when agricultural products are active in the tariff reduction scheme for the new members, the more developing trend of intra-ASEAN trade in this sector is certainly expected. For the other two manufacturing sectors, AFTA has substantially played a big role in promoting tariff reduction in this type of trade as a priority aim. The manufactured goods by materials sectors, and the machinery and transport equipment sector have been accelerated among the old members as well as between old and new members.

Compared to other regional trading arrangements in the developing world, ASEAN occupies the middle stand in terms of the level of integration. The Economic Community of West African States (ECOWAS) agreed to do all ASEAN agreed to do, in addition to liberalizing a free movement of capital and labor and introducing a common external tariff. The Latin American Free Trade Area (LAFTA) is ranged to have the lowest integrative aim with only tariff elimination and promotion of industrialization promised.<sup>65</sup> Therefore, considering the other regional trading arrangements, AFTA as a trade agreement should be placed somewhere in the middle rank of integrative economic groupings. However, as demonstrated by previous works and this project, AFTA is practically one of the strongest regional trading groupings. The argument about the meaninglessness of AFTA in a stimulation of intra-ASEAN trade is thus weakened. The problem of using time series with a panel style of dataset by many studies may cause a biased interpretation on this issue since most of the works had run data between 1985 until 2000. That means the dataset includes 8 years of having no AFTA and 8 years of having AFTA. Therefore, half of the dataset or at least some of it included the years when AFTA had not even existed. This problem misleads some studies to conclude that AFTA was a pointless agreement. In addition, it is asserted by this study that ASEAN has been a non-discriminatory trading arrangement or open regionalism under both circumstances: (1) with and without AFTA, and (2) before and after ASEAN enlargement. The future growth of intra-ASEAN trade in all three sectors is optimistic. However, to confirm the participation of the old and new members in implementing an effective AFTA policy is significantly determined by a regional institution that controls the operation and rules of cooperation. The political-institutional factor can play an important role in economic integration, which will be closely examined in Chapter Six.

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<sup>65</sup> John Whalley, "Why Do Countries Seek Regional Trade Agreement?," *NBER Working Paper No. 5552* May (1996).

## CHAPTER FOUR

### THE PREFERENCES OF CLMV COUNTRIES FOR THE TYPE OF ASEAN INSTITUTION

Why do the new ASEAN members—Cambodia, Laos, Myanmar, and Vietnam— want to join ASEAN? Or, what are the benefits of becoming ASEAN members? What type of ASEAN institution do they prefer? These questions can be shaped by the interactions of domestic politics, international politics, and international trade. To identify the preferences of CLMV, the nature of the new members' political regimes, the orientation of their foreign policies, and the direction of their economic policies will be examined. This chapter argues that, CLMV countries wanted to join ASEAN in order to preserve national sovereignty, legitimize their authoritarian regimes, and gain trade connections to capitalist countries in the post-Cold War period, while the weak ASEAN institution can play the role of protecting their preferences.

As described in the literature, the ASEAN institution is loose, informal, and unbinding. To become members of ASEAN, CLMV countries do not have to transfer their national sovereignty to ASEAN or transform their political systems from authoritarian to democratic ones as a prerequisite. In addition, ASEAN institution can protect CLMV countries by playing the role of a “buffer” or “neutral” zone and taking a lenient position to authoritarian regimes. CLMV countries are thus likely to prefer a weak regional institution and to oppose empowering the institution to criticize or justify their behaviors. Rather, they encourage ASEAN to avoid conflict and act as a diplomatic forum, maintaining the principles of the ASEAN Way and non-interference.

This chapter aims to investigate the preferences of the new members for a type of institution in order to see the impact of these new factors on the development of the ASEAN institution. The development of the ASEAN institution is not static, which can clearly be seen in the recent debate on

the establishment of the ASEAN Charter, for example. Regarding the ASEAN Charter, the CLMV countries have clearly shown their disagreement with a formal style of regional management such as a voting rule in the meeting and a sanction system. In contrast, the old members are more likely to accept this development and have strongly shown their support for new managerial methods. This controversial debate has yet not unresolved. However, the history of several attempts to fix the ASEAN institution by some old members—in addition to the recent debate on formalizing the ASEAN institution—suggests that the old members' preferences are likely to shift from an informal to a more formal type of regional institution.<sup>1</sup> The diverging preferences of old and new members have become clearer during the negotiations to establish the ASEAN Charter.

In the qualitative part of the dissertation, Chapters Four to Six will investigate economic integration in terms of policy coordination by examining the cases of ASEAN Free Trade Agreement (AFTA) and the ASEAN Investment Area (AIA). The central point in the qualitative part is to examine economic integration in terms of policy coordination after the ASEAN enlargement by considering politico-institutional factors. Statistical findings (discussed in Chapter Three) assert that the 1990s ASEAN enlargement had a significant positive impact on intra-ASEAN trade. The accession of Cambodia, Laos, Myanmar, and Vietnam is likely to generate trade under AFTA, particularly in the case of Vietnam. Nevertheless, the empirical result of Chapter Three does not reflect politico-institutional factors, which can be a barrier to the process of regional economic integration due to higher political diversity among ASEAN members after the enlargement.

Chapter Four, the first stage of the qualitative analysis, aims to identify the preferences of the new members for a type of regional institution. The examination of the new members' preferences in Chapter Four leads to Chapter Five's assessment of changes to the regional institution in terms of its nature, structure, and commitment after the ASEAN enlargement. In Chapter Six, the final stage analyzes the relationship of the regional institution and policy coordination regarding the issue of

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<sup>1</sup> See more detailed discussion in Chapter Five.

economic integration after the enlargement. The organization of this chapter is as follows. Section One will discuss what the existing ASEAN institution can offer to CLMV countries. Section Two will analyze the CLMV countries' preferences by considering the nature of political regimes, the orientation of foreign policies, and the direction of economic policies in each country.

### **1. The Weak ASEAN Institution as a Shelter and Buffer for CLMV**

At the regional level, joining a regional institution requires sacrificing national sovereignty to some degree. As mentioned in Section One, James Mittelman argued that regionalism in the developing world is formed as a vehicle to seek access to global trade and capital; and "such initiatives transcend national boundaries and infringe on sovereignty."<sup>2</sup> To make ASEAN a stronger political institution means that ASEAN members will have to lose more control over their domestic affairs and national sovereignty. This condition is hard for any country to accept if the political system does not facilitate the proposal and at the same time the regime is facing challenges from domestic and international levels. As stressed by Jurgen Haacke, a "divergence of political systems and state-society relations" generates a concept of national identity and support for a non-interference policy in order to eliminate a possible creation of "sub-regional hegemony."<sup>3</sup> Applied to the case of ASEAN, the diversity of politics among ASEAN members does not support ASEAN's political integration or allow transferring national sovereignty to strengthen a regional institution. In turn, the diversity enhances their national sovereignty under the weak ASEAN institution and through the institutional principles of non-interference and the ASEAN Way and prevents the creation of a

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<sup>2</sup> James H. Mittelman, *The Globalization Syndrome: Transformation and Resistance* (Princeton, N.J.: Princeton University Press, 2000), 227.

<sup>3</sup> Jürgen Haacke, "The Development of ASEAN's Diplomatic and Security Culture: Not Beyond 'Flexible Engagement'," in *Regional Integration in East Asia and Europe: Convergence or Divergence?*, ed. Bertrand Fort and Douglas Webber (New York: Routledge, 2006), 167.

regional hegemon. On the other hand, it may be easier to cooperate for a group of countries that have similar political systems and state-society relations.

Concerning differences in political systems, democracy may “[help] to produce an environment which is more hospitable to interdependence at the regional and global level.”<sup>4</sup> Louise Fawcett further stresses that democracy contributes to political stability and high interdependence, thus leading to stronger commitments. Frank Schimmelfennig and Ulrich Sedelmeier also argue that democracy is one of the major conditions for accession to the EU because this system allows the “transfer of more specific EU rules,” and this is the reason to support technical and financial assistance to accomplish this political condition.<sup>5</sup> During the process of ASEAN enlargement, ASEAN did not touch on a change in politics as a condition for receiving its membership. Therefore, democracy is not a prerequisite for the creation of regionalism,<sup>6</sup> but is likely to facilitate the depth of regional integration. The differences in political systems and “state-society” relations may hinder the development of regional institutions due to the hesitation to transfer sovereignty and deepen interdependence.

The three main reasons for CLMV in joining ASEAN are (1) diplomacy and legitimacy, (2) economic benefits, and (3) sovereignty and security. CLMV were not likely to give up their national sovereignty and transfer it to a regional entity. The preservation of national sovereignty or the principle of non-interference is one of the significant factors that attracted CLMV to ASEAN. As Helen Nesadurai argued, “[t]he Indo-Chinese states would have been unlikely to have even considered joining ASEAN without the protection offered them by the Association’s non-intervention

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<sup>4</sup> Louise L'Estrange Fawcett, "Regionalism in Historical Perspective," in *Regionalism in World Politics: Regional Organization and International Order*, ed. Louise L'Estrange Fawcett and Andrew Hurrell (New York: Oxford University Press, 1995), 27.

<sup>5</sup> Frank Schimmelfennig and Ulrich Sedelmeier, *The Europeanization of Central and Eastern Europe*, Cornell studies in political economy (Ithaca, N.Y.: Cornell University Press, 2005), 212.

<sup>6</sup> Fawcett, "Regionalism in Historical Perspective," 27-29.



norm in political and security matters.”<sup>7</sup> Ralf Emmers concludes that the Indochinese countries would benefit from ASEAN membership because their national sovereignty would be enhanced under ASEAN,<sup>8</sup> including Myanmar. With their expectations of ASEAN membership, CLMV expect to enhance, not transfer, their sovereignty.

### ***1.1. ASEAN as an Approval of Legitimacy and a Shelter for International Criticism***

At the international level, considering the long-hostile relationship between the Indochinese countries and the Western countries, it was not easy for the CLMV themselves to reconstruct diplomatic relations and recreate international credibility. ASEAN, which had already gained international credibility and formed an alliance with the Western countries and the international organizations, can serve as a diplomatic linkage between the CLMV countries and extra-regional actors. Despite the issues of violation of human rights and anti-democratic attitude, the CLMV as a member of ASEAN could still be on the same negotiating table with the West.<sup>9</sup> For example, due to the EU's refusal to meet with Myanmar on the 1998 Asia-Europe Meeting (ASEM) table, ASEAN warned that the Association would retaliate by preventing EU members from joining the meeting. The consequence was that Myanmar could send low-level officials to participate in the ASEM and the EU withdrew its refutation.<sup>10</sup>

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<sup>7</sup> Nesadurai, "The Indo-Chinese Enlargement of ASEAN: Implications for Regional Economic Integration, Paper No. 56," 6.

<sup>8</sup> Ralf Emmers, "The Indochinese Enlargement of ASEAN: Security Expectations of Outcomes," *Australian Journal of International Affairs* 59, no. 1 (2005): 75-76.

<sup>9</sup> However, for the first time after Myanmar's accession into ASEAN, the U.S. Secretary of States Condoleezza Rice withdrew her participation at the ASEAN Regional Forum (ARF) meeting to protest Myanmar's chairmanship of ARF in 2006. Finally, with many pressures from ASEAN and ASEAN dialogue partners, Myanmar officially resigned to take the leadership at the next year ARF meeting.

<sup>10</sup> Kyaw Yin Hlaing, "Myanmar in 2004: Another Year of Uncertainty," *Asian Survey* 45, no. 1 (2005): 178. As a result, this event created a visible conflict between the Malaysian Prime Minister Mahathir Mohamad and the British Foreign Secretary Robin Cook. James Guyot, "Burma in 1997: From Empire to ASEAN," *Asian Survey* 38, no. 2 (1998): 192.

Clearly, ASEAN can be a bridge to end the continuing isolation of the CLMV from the West; it can help build diplomatic relations with the West, and even gain support to enter into international organizations such as the World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation (APEC).<sup>11</sup> For example, Vietnam, supported by ASEAN, was finally accepted as a new member of APEC in 1998. The new members can receive aid such as Official Development Assistance (ODA), as a byproduct of improving individual diplomatic relations with the developed countries. Laos would gain tremendously from improving its international relations to "enhance its ties with external donors."<sup>12</sup> In other words, ASEAN membership could not only be seen as a passport for entering multilateral meetings, but it was also to be the stamp on the passport to gain the legitimacy of government at the international level as well. Regarding the issues of environment, human rights, and democratization, ASEAN cannot prevent a clash between the domestic and international commitments, but ASEAN can be a rest area where the members are not supposed to make any comments or create pressures on other members' affairs. National sovereignty is thus enhanced, not transferred at ASEAN.

### ***1.2. ASEAN as a Buffer Zone and a Stepping Stone to Trade Liberalization***

In terms of economic benefits, the ASEAN meetings can be a negotiating stage for the CLMV to meet with large countries like the United States, Japan, and the group of European countries. The CLMV countries can use these meetings to promote trade and investment. As a member of ASEAN, CLMV can access to international political and economic institutions. For

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<sup>11</sup> Kao Kim Hourn, "Cambodia's Prospective Membership in ASEAN: Opportunities, Challenges and Prospects," in *The Conference Working Paper No. 3* (Phnom Penh: Cambodia Institute for Cooperation and Peace, 1999), 3.

<sup>12</sup> Emmers, "The Indochinese Enlargement of ASEAN: Security Expectations of Outcomes," 78.

example, ASEAN has backed the membership of Vietnam in the WTO, as well as other new ASEAN members.

Moreover, the AFTA schedule to reduce tariffs is an effective factor to press the CLMV for domestic economic reforms such as improving the quality of production, initiating custom standards, and enforcing trade law and court.<sup>13</sup> The new members realized this pressure as a beneficial stimulation to push their economic policy toward liberalization and reformation. AFTA can thus be seen as a “stepping stone”<sup>14</sup> to prepare the economy before engaging a larger scale of liberalization policy and accessing to APEC and WTO memberships. Strategically, as a result of their commitment to the AFTA scheme, CLMV countries can attract advanced technology from Japan, the United States, Korea, and Taiwan to develop their economies.

ASEAN can also be a buffer to reduce tensions from trade liberalization at the regional level. Under the AFTA scheme, CLMV must pursue tariff reduction, but also can delay the opening of an unready sector. AFTA tariff reduction is flexible to implement. The delay may or may not cause a country to give compensation to the members that are negatively affected by this drawback because the ASEAN institution is weak to manage economic disputes, as discussed in Chapter Five. The flexible way to negotiate may also in fact provide time to extend the delayed schedule without any cost. Indonesia, the Philippines, and Malaysia had successfully asked to delay their tariff reduction schedule in rice, sugar, and automotive products without compensation, as discussed in Chapter Six. Considering the new economies of CLMV, their governments would feel more secure to engage with the institution that gives them flexibility in policy implementation on trade liberalization.

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<sup>13</sup> Kao Kim Hourn, "Cambodia's Foreign Policy and ASEAN: From Non-Alignment to Engagement, Ph.D. Dissertation", 64.

<sup>14</sup> Kym Anderson, *Vietnam's Transforming Economy and WTO Accession* (Australia: Center for International Economic Studies, University of Adelaide, 1998), Fukase and Martin, *Free Trade Area Membership as a Stepping Stone to Development: The Case of ASEAN*.

On one hand, the weak institution of ASEAN helps to generate the quick liberalization agreements in trade, investment, and services between old and new members. The new members are thus likely to advance in liberalization agreements with ASEAN due to the ambiguous penalty system for non-compliance. These liberalization agreements help them look good in the world economic community. On the other hand, the weak ASEAN institution to some extent opens a channel for CLMV to easily withdraw their participation in AFTA or any agreement in the case of crises. Therefore, in terms of economic management CLMV are likely to be more comfortable with an unbinding legal style of ASEAN management and bilateral diplomacy on trade talks, instead of having a formal and legal mechanism to operate regional cooperation.

## **2. Four New Members: Political Regimes, Economic Reforms, and Foreign Policies**

### ***2.1. Vietnam***

Three factors have contributed to the demand for joining the weak/loose type of ASEAN institution in the case of Vietnam. First, the Vietnamese Communist Party (VCP) wanted to continue its authoritarian regime and preserve full control in managing its own domestic affairs after the collapse of communism in the Soviet Union. In particular, when its economy has recently been liberalized, the growth of the private sector and the demand for political liberalization have greatly challenged the existing authority. Second, the VCP shifted its central planning economy to the socialist market-oriented economy like China, and has emphasized trade liberalization to develop the country. Third, Vietnam started to normalizing its diplomatic relationships with the international community after the end of the Cold War in order to gain its legitimacy and access to global markets. With these three reasons, Vietnam preferred to join ASEAN to support its position at the international level and to protect its national sovereignty in dealing with domestic affairs.

### ***2.1.1. Political Regime of Vietnamese Socialism***

With the occupation of the Vietnam People's Army in Saigon on April 30, 1975, the seventeenth parallel that separated North Vietnam and South Vietnam was erased. The Democratic Republic of Vietnam (DRV) or North Vietnam defeated the American-backed regime in South Vietnam and the United States. The unification of the two Vietnams was officially announced at the first anniversary of the Communist victory in July 1976. The Socialist Vietnam finally proclaimed its victory and new country name, the Socialist Republic of Vietnam (SRV).

Since 1976, the political regime in Vietnam has been controlled by one party, the Vietnamese Communist Party (VCP), which strictly adheres to the ideology of Leninism. At the top executive level, the Central Committee of the VCP elects the components of the political bureau or Politburo, and has power to appoint the government cabinet. The most powerful persons are the General-Secretary of the VCP and the members of the Politburo, who can influence policy. Customarily, the leader of the party is the leader of the regime, who can advance "ideas that affect the most important decisions, and ... have the last conclusions to issues that caused diverging opinions among the members of the Politburo," especially on the issues of war and peace, trade negotiation, foreign affairs, major economic policies, finance, and culture.<sup>15</sup> At the local level, the VCP sets up a party committee to control local government by appointing the head of People's Councils.<sup>16</sup> The strong linkages between the party and public associations such as the Vietnam Fatherland Front, the Vietnam General Confederation of Trade Unions, the Red Scarf Teenagers' Organization, and the Ho Chi Minh Communist Youth League helped the party not only to maintain its control over the public, but

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<sup>15</sup> Bui Tin, "The Communist Party and Challenges of Global Integration," in *The Future of Development in Vietnam and the Challenges of Globalization: Interdisciplinary Essays*, ed. Hans Stockton (Lewiston, NY: Edwin Mellen Press, 2006), 213.

<sup>16</sup> The party cadres may take responsibility in leading 'specialized branches' of the local government. Thaveeporn Vasavakul, "Vietnam: Doi Moi Difficulties " in *Government and Politics in Southeast Asia*, ed. John Funston (Singapore: Institute of Southeast Asian Studies, 2001), 395.

also to recruit and train young locals. The massive number of VCP members had increased from around one thousand in 1941 to 1.5 million by 1975,<sup>17</sup> and to 2.5 million by 2001.

In the period of trade liberalization, Adam Fforde suggests that the centralized communist party is weakened by market force and economic adjustment,<sup>18</sup> which has been perceived by the conservative/militarist faction of the party and Politburo. Bui Tin further explains that the current Politburo is not as stable as before; it has very weak “capability and leadership caliber” and does not have the research competence to contribute to policy options. “In the current Politburo, one cannot identify individuals of the influence and prestige as Gorbachev, Deng Hsiao-Ping or even Hu Jin-Tao. ... The VCP politburo is [thus] in reality without leadership.”<sup>19</sup> The participation of the private sector in the Vietnamese economy has evidently been increasing not only in economic but also in political affairs. State control over the media has also been relaxed and public comments on government policies are allowed.<sup>20</sup> A 2001 survey by the Associated Press (AP) suggested that young Vietnamese are interested in launching or getting involved in private businesses and less interested in being members of the VCP.<sup>21</sup>

Even though the 1992 Constitution and the effect of trade reforms empowered the National Assembly by broadening the participatory base—including private sector, religious figures, and ethnic minorities—and raised hopes for political pluralism, the VCP has still preserved its monopoly in politics. Brian Van Arkadie and Raymond Mallon argue that the National Assembly is still “likely to be toothless” because representatives from the private sector are classified by the party as those

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<sup>17</sup> D. R. SarDesai, *Vietnam: Past and Present* Fourth ed. (Boulder, CO: Westview, 2005), 144. The Fifth Vietnamese Party Congress in 1982 had rejuvenated and strengthened the party by replacing 350,000 of young new members, which ninety percent of them were under thirty year old and seventy percent war veterans (SarDesai 2005, 148).

<sup>18</sup> Adam Fforde, “Vietnam in 2004: Popular Authority Seeking Power?,” *Asian Survey* 45, no. 1 (2005): 149.

<sup>19</sup> Bui Tin, “The Communist Party and Challenges of Global Integration,” 211-13.

<sup>20</sup> Chris Dixon, “State, Party and Political Change in Vietnam,” in *Rethinking Vietnam*, ed. Duncan McCargo (New York: RoutledgeCurzon, 2004), 20.

<sup>21</sup> David Thurber, *Associated Press*, October 22, 2001.

who “would not be hostile to the regime.”<sup>22</sup> Dang Quoc Bao, the former director of the commission on education of the Central Committee and the former director of the school of military technology, stated that “the party monopoly on power has debilitated the fabric of social consciousness, and paralyzed the activities of the National Assembly and the State.”<sup>23</sup> The most significant economic strategies are still framed in the resolutions of the Party Congress, which consists of VCP members only.<sup>24</sup> Therefore, the control of policy-making decisions has remained in the hands of the most powerful persons. Furthermore, the so-called “Red Wednesday” struck on September 10, 2000, when the conservative forces ordered the detention of well-known dissidents and anti-government leaders after the election of Nong Duc Manh, Secretary General of the VCP.<sup>25</sup> This incident was interpreted as a warning sign to liberal party members to “not do anything against the old power grip.”<sup>26</sup> In the private sector, Chris Dixon asserts that this sector in Vietnam is still weak and fragmented. There is no single strong or “autonomous business group that is able or willing to challenge the party-state,”<sup>27</sup> while “local governments in the provinces, parts of the army, people’s committees, SOEs and other

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<sup>22</sup> Brian Van Arkadie and Raymond Mallon, *Viet Nam: A Transition Tiger?* (Canberra: Asia Pacific Press at the National Library of Australia, 2003), 59-60.

<sup>23</sup> Bui Tin, "The Communist Party and Challenges of Global Integration," 211. Brian Van Arkadie and Raymond Mallon observe that “[t]he policymaking process is often opaque and is not well understood nor not by outsiders but even by those within the government. Allocation of responsibilities is often far from clear, and the need to agree through consensus delays decision making.” Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, 62.

<sup>24</sup> Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, 59.

<sup>25</sup> The conservative faction of the VCP has some stake in the ownership of State-Owned Enterprises (SOEs) and is not very happy with structural changes that erode their power base. Nguyen Quoc Cuong, "Development without Democratization?," in *The Future of Development in Vietnam and the Challenges of Globalization: Interdisciplinary Essays*, ed. Hans Stockton (Lewiston, NY: Edwin Mellen Press, 2006), 73. The privatization of SOEs was urged by those international institutions to reduce subsidies from State-Owned Commercial Banks (SOCBs) to SOEs. The closure of unproductive enterprises and mergers with foreign investors were recommended. However, the political affiliation between SOEs and SOCBs has helped to keep state domination alive in a highly competitive market in Vietnam.

<sup>26</sup> *Ibid.*, 72.

<sup>27</sup> Dixon, "State, Party and Political Change in Vietnam," 22.

elements of the party and bureaucracy are emerging as a form of new business elite,"<sup>28</sup> or holding shares in private companies.<sup>29</sup>

At the national level, Prime Minister Khai publicly assured his political leadership that "while economic integration was important, it must not [come] at the expense of national independence and sovereignty."<sup>30</sup> The VCP consistently declared the need to follow the socialist leaders and rules as an important condition of reaching economic goals. The word "democracy" is always used in the National Congress announcements. Its meaning in this context has been understood as "democratic centralism," where policy decisions are still based on a consensus of VCP's Politburo.<sup>31</sup> At the 9<sup>th</sup> Central Committee meeting<sup>32</sup> in 2004, the issues of rapid economic growth and competitiveness were addressed along with in-house party discipline.<sup>33</sup> Clearly, the announcement of the 10<sup>th</sup> Party Congress in April 2006 reaffirmed that

Party members involved in the private economy must set examples in observing laws and State policies, strictly abiding by the Party Statute and regulations of the Party Central Committee. ... [The goal of the Party is] to build an independent, democratic, rich and strong Vietnam with an equitable and civilized society without exploitation, successfully realizing socialism and communism as a final goal.<sup>34</sup>

In short, since the reunification of the two Vietnams, the Vietnamese socialist regime has remained in power. Political power is hierarchically secured and distributed among the party members from the top-executive to the local level. Vietnam believes that ASEAN will not erode but

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<sup>28</sup> Tim Forsyth, "Industrialization in Vietnam: Social Change and Environment in Transitional Developing Countries," in *Approaches to Sustainable Development*, ed. Richard M. Auty and Katrina Brown (London: Pinter, 1997), 245 and 57.

<sup>29</sup> Kokko added that in most cases the owner of an SOE could be identified as 'a minister, a local People's Committee, an army division, or some other part of the public sector or Party organization.' Ari Kokko, "Growth and Reform Since the Eighth Party Congress," in *Rethinking Vietnam*, ed. Duncan McCargo (New York: RoutledgeCurzon, 2004), 82.

<sup>30</sup> Nguyen Manh Hung, "Vietnam in 1999: The Party's Choice," *Asian Survey* 40, no. 1 (2000): 105.

<sup>31</sup> Bui Diem and Nguyen Quoc Cuong, "Development and Democratization: Economic and Political Issues," in *The Future of Development in Vietnam and the Challenges of Globalization: Interdisciplinary Essays*, ed. Hans Stockton (Lewiston, NY: Edwin Mellen Press, 2006), 70.

<sup>32</sup> The Central Committee Party meeting usually meets two to three times annually to discuss and direct policy in a specific issue.

<sup>33</sup> Fforde, "Vietnam in 2004: Popular Authority Seeking Power?," 150.

<sup>34</sup> Vietnam News, "Party Congress Ends on High Note, Message to the People, Military, Party: Move Forward," April 26' 2006.



insulate the dominance of the VCP in its domestic politics, or not create any pressure on the reformation of the Vietnamese political regime.

### ***2.1.2. Doi Moi Policy and Economic Liberalization***

Vietnam had adopted agrarian collectivism and Soviet-style central planning, which was designed to dominate economic activities by, for example, using food coupons, regulating salaries, creating state-owned stores, and subsidizing industrial SOEs to allocate input and set targets for output. Vietnam traded with the Soviet Union and the COMECON or CMEA (Council on Mutual Economic Assistance) countries through contracts and joint ventures in oil exploration and export crops such as rubber, coffee, and tea.<sup>35</sup> Due to its eleven-year occupation of Cambodia, Vietnam used its financial resources to maintain its operation in Cambodia, rather than developing its economy at home. The VCP leaders recognized that “Vietnam could not develop its economy as long as its troops remained in Cambodia.”<sup>36</sup> The economic recession in the 1980s in Vietnam and the change in diplomatic relations between China and the Soviet Union compelled Vietnam to realize the future difficulty of persistently residing in Cambodia. The Soviets also refused to give Vietnam “favorable prices” that had been granted previously, and had no interest in committing to long-term trade agreements with Vietnam.<sup>37</sup> The Sixth Vietnamese Party Congress in December 1986 finally declared its intentions to liberalize the economy and to follow the socialist market-oriented strategy of China. Nguyen Xuan Phong, former labor and welfare minister of the South Vietnamese government between 1965 and 1975, expressed the Vietnamese position on liberalization in this way:

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<sup>35</sup> Gareth Porter, *Vietnam: The Politics of Bureaucratic Socialism* (Ithaca, NY: Cornell University, 1993), 211. However, the VCP was unhappy with those business agreements due to the inefficiencies in transportation and transfers of payments, for example (212).

<sup>36</sup> *Ibid.*, 205.

<sup>37</sup> *Ibid.*, 213.

The VCP is obviously aware that economic development is a prerequisite for survival, and the capitalist system is the only and fastest way to obtain the highest growth rates. On this aspect, the VCP is very conscious of the experience already gained by the Communist Party of China.<sup>38</sup>

As the result of the Sixth Congress, the *Doi Moi* or “renovation” policy was formed. It is composed of four strategies to liberalize trade relations with regional and international traders and to revitalize the economy after recession caused by wars and inefficient collectivism. The *Doi Moi* policy is committed to (1) promoting export orientation, (2) encouraging private participation, (3) diminishing the state’s role in the economy, and (4) reducing the subsidy on state enterprises.<sup>39</sup> In terms of export promotion, the government withdrew export permits, licenses, and quotas in the late 1980s.<sup>40</sup> Export taxes on manufactured goods were also withdrawn.<sup>41</sup> Restrictions on some products such as rice and wood still require a permit for exportation.

The collapse of Communism in the Soviet Union and Eastern Europe during the late 1980s and the early 1990s created “Gorbachev phobia” among high-ranking VCP members. The party believed that the cause of this collapse was the political mismanagement of Gorbachev rather than the fallacy of Marxist-Leninist ideology.<sup>42</sup> Clearly, the party tried to resolve the incredibility problem of communism after the end of the Cold War and preserve its monopoly like in China. At the Seventh Party Congress in 1991, the party reemphasized the *Doi Moi* policy as a way to create economic liberalization and development, while refusing to consider political liberalization. Again, the Ninth

<sup>38</sup> Nguyen Xuan Phong, "Development and Democratization: The Practical Challenges," in *The Future of Development in Vietnam and the Challenges of Globalization: Interdisciplinary Essays*, ed. Hans Stockton (Lewiston, NY Edwin Mellen Press, 2006), 37.

<sup>39</sup> Martin Gainsborough, "Key Issues in the Political Economy of Post-Doi Moi Vietnam," in *Rethinking Vietnam*, ed. Duncan McCargo (New York: RoutledgeCurzon, 2004), 43. The pinpoint policies which initiated the success story of the Vietnamese economy were price liberalization, agricultural decollectivization, the introduction of contract and leasing systems, promoting foreign investment, creating legal and institutional framework for private participation, and reducing state power on controlling input and output under a gradual approach policy.

<sup>40</sup> The highly protected products such as cigarette, cars and scooters, and import-substitution policy are discussed in the case study of AFTA in Chapter Six.

<sup>41</sup> United Nations, *Strengthening Capacities in Trade, Investment and the Environment for the Comprehensive Development of Indo-China, ESCAP Studies in Trade and Investment 1* (New York: United Nations, 1995), 23-24.

<sup>42</sup> SarDesai, *Vietnam: Past and Present* 150.

Congress in 2001 recognized that its country needed to improve economic competitiveness and continue to establish a “socialist market-oriented economy.”

The involvement of international economic institutions such as the World Bank (WB) and the International Monetary Fund (IMF) for loans and policy assistance has been welcomed by the Vietnamese government since the 1990s. The Policy Framework Paper (PFP) in 1996 was framed to assist the Vietnamese government to achieve economic development in the medium term.<sup>43</sup> Under the PFP, Vietnam committed to a liberalization policy in order to get loans and technical assistance from both institutions. The PFP document also stresses that this economic reform would help Vietnam to prepare for meeting the AFTA tariff reduction scheme and accession to WTO membership. The most recent bilateral WTO accession talks between the two countries, signed in May 2006, have been even more liberal than the former. Vietnam accepted some conditions that are applied to developed countries under the “WTO-plus” such as the recognition of Intellectual Property Rights (IPR) and the removal of agricultural subsidies with no transition period. Regarding this liberal agreement, Vietnam thus expected to receive U.S. support for its accession to WTO membership.<sup>44</sup>

As Pham Cao Phong suggests, economic development contributes to the concept of national security.<sup>45</sup> In order to develop its country, Vietnam has adopted a market system, pursued trade reform policies, and engaged into the world economy after its economic relationship with the Soviet Union was weakened. Under the liberal economic policy, the Vietnamese Socialist government has seen ASEAN as a stepping stone to trade liberalization, global market access, and economic development.

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<sup>43</sup> Policy Framework Paper, “Vietnam Policy Framework Paper, 1996-1998,” (Hanoi: IMF and World Bank, 1996).

<sup>44</sup> See Phuong Le and Ian Coxhead for detailed discussion. Phuong Le and Ian Coxhead, “Vietnam’s WTO Accession: Process, Progress, and Prospects,” (Seminar at Harvard University, [Unpublished Work]).

<sup>45</sup> Pham Cao Phong, “Vietnam’s New Security Perception: The Role of Economic Security,” in *The 43rd Annual ISA Convention* (New Orleans: 2002).

### 2.1.3. Normalizing Vietnam-International Relations

After the end of the Vietnam War in 1975, the United States withdrew its troops from Thailand's base in the following year, and Vietnamese foreign policy increased its autonomy by expanding its political influence in the Southeast Asian region. Vietnam later quickly took control of Laos and Cambodia in the late 1970s. This aggressive action of the SRV reflected its goal of establishing an "Indochinese Federation" and expanded its socialist influence over the Southeast Asian region. Significantly, the Vietnamese occupation of Cambodia in 1978 triggered the so-called "Cambodia Conflict" between (1) Vietnam and the Soviet Union on one side and (2) the West and several ASEAN members, including China, on the other. In the same camp, Vietnam signed the Treaty of Friendship and Cooperation with the Soviet Union in November 1978. Vietnam invaded Cambodia in December 1978.<sup>46</sup> Between 1975 and 1985, the pro-Soviet faction in the VCP leadership manipulated policy in favor of the Soviet Union, leading to the elimination of several pro-Chinese members.<sup>47</sup> In July 1978, Vietnam officially distinguished China as the "main and immediate enemy" of Vietnam at the Fourth Plenum.<sup>48</sup> Vietnam started a war with China in 1979 against the Chinese military support to the Pol Pot group or the Khmer Rouge.<sup>49</sup> From a Chinese perspective, historically Vietnam had been part of "China's sphere of influence."<sup>50</sup> The occupation of Cambodia with objections from China significantly indicated that Vietnam rose up against long-standing Chinese influence and adhered to the Soviet communist grid.

<sup>46</sup> In the 1980s, military support from outside of Vietnam was from the Soviet Union (97 percent), East Germany (2 percent), and the Czech Republic and Poland (1 percent between the two). Theera Nuchpeum, *Vietnam after 1975 [In Thai]* (Bangkok: Doak Ya 1994), 165. According to Douglas Pike, The financial support from the Soviet Union had increased from US\$ 44.7 million in 1976 to US\$ 1.7 billion in 1985. Douglas Pike, *Vietnam and the Soviet Union: Anatomy of an Alliance* (Boulder Westview 1987), 192.

<sup>47</sup> SarDesai, *Vietnam: Past and Present* 147-78.

<sup>48</sup> Porter, *Vietnam: The Politics of Bureaucratic Socialism* 202.

<sup>49</sup> But for Vietnam, the Pol Pot group was extremist and hostile to the Vietnamese communist regime. In turn, Vietnam backed the Pol Pot opposition or the Heng Samrin government by sending artillery to strengthen its power in Cambodia.

<sup>50</sup> Porter, *Vietnam: The Politics of Bureaucratic Socialism* 200.

Excepting Indonesia, ASEAN members (Malaysia, the Philippines, and Thailand) joined China and the West's camp against Vietnam's power expansion in Southeast Asia by sending military force and weapons to support the Khmer Rouge, fighting the Cambodian government backed by Vietnam. On the other hand, Vietnam proposed a "zone of peace, stability and prosperity" treaty to ASEAN, but ASEAN refused to accept it. The Vietnamese Communist threat in Southeast Asian countries increased when the Communist parties in Malaysia, the Philippines, and Thailand expanded swiftly.<sup>51</sup> For Vietnam, ASEAN was a pro-American organization which obviously threatened rather than legitimized the Vietnamese socialist regime. Vietnam was basically seen as an enemy of most Southeast Asian countries. In the same way, Vietnam also distrusted the pro-West ASEAN countries.<sup>52</sup>

As a result of the economic recession and the change in the Soviet Union-U.S. relations, Vietnam began to announce the need to engage into the capitalist world in order to get investments and loans from capitalist countries in mid-1984. Vietnam knew that to receive foreign investment the government had to normalize its relationships with the Western world, China, and ASEAN. In 1985, Vietnam offered close cooperation with the United States in searching for Americans who went missing in Vietnam during the Vietnam War. Its relationship with the United States was eventually reestablished in 1994.<sup>53</sup> The bilateral trade agreement between the United States and Vietnam in May 2006 and the approval of the Vietnam Human Rights Act by the U.S. House of Representatives have, to some extent, reflected the success of the diplomatic policy of trade as practiced by Vietnam.<sup>54</sup>

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<sup>51</sup> Ibid., 204.

<sup>52</sup> A detailed discussion of the Cambodia Conflict and the relationships between ASEAN and Vietnam can be found in Chapter Two.

<sup>53</sup> Two Months after the Vietnam War, Vietnam declared its interest in normalizing the relationship with the United States in order to help the Vietnamese Communist regime stabilize the region (Porter 1993, 200). In 1977, the Carter government had also shown a more lenient position toward Vietnam and did not oppose Vietnam's accession to the United Nations.

<sup>54</sup> The Vietnam Human Rights Act is remaining in the Senate for an approval. According to Nguyen Quoc Cuong, this act could lead to future US non-humanitarian aid to Vietnam. Nguyen Quoc Cuong, "Development without Democratization?," 80.

Vietnam withdrew its troops from Cambodia and Laos between 1988 and 1989. The diplomatic relationship between China and Vietnam was consequently reborn when Deputy Prime Minister Vo Nguyen Giap visited China in 1990. For ASEAN, Vietnam enthusiastically responded to the new regional strategy, proposed by the former Thai Prime Minister General Chatchai Choonhawan, to reconcile ASEAN-Vietnam diplomatic relations through trade. The 1992 Constitution of Vietnam consequently endorsed a new strategy for Vietnamese foreign policy to establish good relations with all nations, regardless of their political beliefs, in favor of the economic advantage and the legitimacy of the Vietnamese communist regime.

Recently, the Vietnamese socialist government has strategized its international and economic policy under so-called trade diplomacy, which establishes international credibility, the legitimacy of the communist regime, and an assurance of international investment, aid, and loans. The pressures from international politics regarding the issues of human rights, corruption, and freedom have been managed carefully under foreign policy and economic development policy. Jorn Dosch and Ta Minh Tuan suggest that “[t]oday economic diplomacy is the most important task of the Ministry of Foreign Affairs.”<sup>55</sup> Hence, economic factors have become a major influence on Vietnamese foreign policy.<sup>56</sup>

In sum, despite changes in Vietnamese economic and foreign policies, domestic politics has not been changed and liberalized. Joining the weak ASEAN institution, Vietnam can gain economic benefits and legitimacy at the international level; on the other hand, the government still can exercise its authoritarian power at home without ASEAN intervention. As the Vietnamese Minister of Foreign Affairs Nguyen Dy Nien stated, that “Vietnam’s entry into ASEAN has made a significant

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<sup>55</sup> Jorn Dosch and Ta Minh Tuan, “Recent Changes in Vietnam’s Foreign Policy: Implications for Vietnam-ASEAN Relations,” in *Rethinking Vietnam*, ed. Duncan McCargo (New York: RoutledgeCurzon, 2004), 203.

<sup>56</sup> Carlyle A. Thayer and Ramses Amer, *Vietnamese Foreign Policy in Transition* (New York: St. Martin’s Press, 1999), 220.

contribution to implementing the State and Party's foreign policy of independence, sovereignty, diversification and multilateralization."<sup>57</sup>

## **2.2. Laos**

ASEAN as an open regionalism and a weak institution can back Laos to fulfill its preferences. The Socialist government of Laos have three major preferences are (1) to reserve its political regime without foreign intervention, (2) to legitimizes its regime and increase its recognition at the international stage, and (3) to promotes trade reforms and attract foreign investment and aid.

### **2.2.1. Lao Socialist Regime**

In December 1975, the Lao National Congress eradicated the Lao constitutional monarchy and plugged the new idea of a Communist People's Republic.<sup>58</sup> The new regime of Laos was manipulated by a communist party, the so-called Lao People's Revolutionary Party (LPRP). The new socialist regime in Laos was greatly influenced by Vietnam's socialist system. The apex of political power has been in the hands of the Politburo and the Secretary-General of the Communist Party. The Supreme People's Assembly—later renamed as the National Assembly—is a legislative body that has been subservient to the Party. The Party has allowed the creation of mass organizations such as the Lao Patriotic Front, women's organization, and youth organization operating under its direct involvement and surveillance.

In the early 1980s, Laos expanded the sizes of the Central Committee and the Secretariat. Ninety percent of the new Central Committee members were sent to take an intermediate or higher

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<sup>57</sup> Dosch and Ta Minh Tuan, "Recent Changes in Vietnam's Foreign Policy: Implications for Vietnam-ASEAN Relations," 207.

<sup>58</sup> According to Martin Stuart-Fox, the Communist Party of Laos had not revealed its organization until 1972, and it structured a new regime after 1975. Martin Stuart-Fox, *A History of Laos* (New York: Cambridge University Press, 1997).

course of Marxist-Leninist theory in Vietnam.<sup>59</sup> The party called for a draft of a new constitution in 1990. At the 5<sup>th</sup> Party Congress in 1991, the draft was widely discussed among the party members, and they decided to continue granting a “leading role” for the party in guiding the state toward “democratic centralism,” declaring the nation as a “People’s Democracy” in the sense of Marxism. The party was also in charge of the armed forces.<sup>60</sup>

The political role of the Lao People’s Army had been extended through its growing role in economic development such as infrastructure building and natural resources businesses like timber in rural areas. Later on, the party tightly linked politics and military together by electing Generals as members of the Politburo. According to Yves Bourdet, the “militarization” of Laotian politics started when the army penetrated the membership of the Politburo by increasing the number of members from three out of nine in 1991 to seven in 1996.<sup>61</sup> The relationship between the LPRP and the military is very tight, and so far the military has not shown any signs of reducing its power in economics and politics. The military controls a business conglomerate, the so-called BPKP (Mountain Region Development Company), which has business in many areas such as tourism, logging, and trade.<sup>62</sup> Business and trade are mainly performed under state enterprises, which are owned by senior ranks of state bureaucrats. This situation reflects a small size of the private sector in Laos. As Kyaw Yin Hlaing observes, “[t]here is no autonomous middle class and civil society. The handful of middle-class people created by the economic reform is very weak but also very close to the government.”<sup>63</sup>

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<sup>59</sup> Ibid., 187.

<sup>60</sup> Ibid., 201-02.

<sup>61</sup> Yves Bourdet, *The Economics of Transition in Laos: From Socialism to ASEAN Integration* (Northampton, MA: Edward Elgar, 2000), 3.

<sup>62</sup> Nick J. Freeman, “Laos: Timid Transition,” in *Government and Politics in Southeast Asia*, ed. John Funston (Singapore: Institute of Southeast Asian Studies 2001), 139.

<sup>63</sup> Kyaw Yin Hlaing, “Laos: The State of the State,” in *Southeast Asian Affairs 2006*, ed. Daljit Singh and Lorraine C. Salazar (Singapore: Institute of Southeast Asian Studies, 2006), 143.



The current head of state is Choummaly Sayasone, who is the President and the Chairman of the Party as well as the Commander of the Lao armed forces.<sup>64</sup> The political structure of Laos is similar to that of Vietnam, in which the communist party is the only legal political party and the election of the National Assembly's members is held in response to an agreement at the Party Congress. Due to the close amity and the political system similar to Vietnam's, some have labeled Laos as a "satellite state of the Vietnamese party-state."<sup>65</sup> Comparing the current situation of the Vietnamese Party, the Laotian Party has stronger control over the National Assembly and political and economic activities in general. Unlike the Vietnamese Assembly, the Laotian private sector has not participated much in the National Assembly. Only very few business people who are selected by the Party could be candidates for election to the National Assembly.<sup>66</sup> Similar to Vietnam, the socialist government has revealed its "fear of losing control over the changes brought by liberalization" under the one-party state.<sup>67</sup> Also, tensions have developed between the conservatives and the reformers in the Party.<sup>68</sup> The formulation of policies is now often settled by the caliber of the policymakers because most senior party officials do not have a knowledge or understanding of market economic reforms. Kyaw Yin Hlaing also mentioned that local and provincial officials have a hard time understanding and following economic reform policies. However, the role of the state in business and politics has still dominated the country by ruling the regulation of foreign investment and the participation of the private sector.<sup>69</sup>

Milton Osborne asserts that after the end of the 8<sup>th</sup> party congress in 2006, the central government has persisted in limiting market reforms and has been disinclined to abandon the one-

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<sup>64</sup> He assumed the positions in the 8<sup>th</sup> Party Congress of 2006. The party congress in Laos meets every five years to plan the socio-economic development plan, which on the same schedule is that of Vietnam.

<sup>65</sup> Kyaw Yin Hlaing, "Laos: The State of the State," 134.

<sup>66</sup> Freeman, "Laos: Timid Transition," 140.

<sup>67</sup> Bourdet, *The Economics of Transition in Laos: From Socialism to ASEAN Integration*, 3.

<sup>68</sup> Ibid.

<sup>69</sup> Romeo A. Reyes, "The Role of the State in Laos' Economic Management," in *Laos' Dilemmas and Options: The Challenge of Economic Transition in the 1990s*, ed. Myan Than and Joseph L.H. Tan (Singapore: Institute of Southeast Asian Studies, 1997), 54-57.

party system. He furthermore points out that “[t]he Lao remain concerned to try to find some fashion that will enable them to balance their slow opening up to the outside world with the maintenance of strict party control. And any signs that have occurred of people questioning party control have been very sharply dealt with.”<sup>70</sup> ASEAN as a regional institution which does not implement political integration and adheres to the principle of the ASEAN Way and non-interference can assure Laos for its full sovereignty in domestic politics and other internal affairs.

### **2.2.2. Collectivism to the New Economic Mechanism (NEM)**

The LPRP advertised its authoritarian power as a necessary condition for the country’s development by imposing personal and economic restrictions and promoting nationalism against foreign dominance.<sup>71</sup> During the Vietnamese occupation of Laos, Vietnam attempted to transfer the Soviet-style of central-planning economy to Laos. However, the transformation failed as it had in Vietnam. The process of socializing the means of production under agricultural collectivism was slow and not strictly followed by the private farmers and landowners in Laos.<sup>72</sup> When the new regime of Laos introduced the socialist economy and collectivism, its economy plunged, with high inflation, huge government deficits, and low productivity. A number of educated Lao people fled across the border to refugee camps in Thailand.

Laos started to reform its economic policy toward capitalism after Vietnam and the Soviet Union had been in a prolonged economic recession and decided to reduce their financial support for Laos. After Vietnam announced its *Doi Moi* policy in 1986, in the same year Laos responded by declaring its own economic reform policy—the “New Economic Mechanism” or “NEM.” The

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<sup>70</sup> Scott Bobb, "Laos Government Prepares Eighth Communist Party Congress," *Voice of America*, March 16, 2006.

<sup>71</sup> The party ordered the closure of independent publications, destroyed English publications and withdrew them from libraries, and prohibited “American music, dancing, clothes, hairstyles and sexual permissiveness.” Stuart-Fox, *A History of Laos*, 172-73.

<sup>72</sup> See more detailed discussion in *Ibid.*, 176.

Secretary of the Party, Kaison Phomvihan, then lifted restrictions on trade and production and claimed that this reform was a new Leninist economic policy.<sup>73</sup> Prices were decontrolled, inefficient SOEs were privatized, subsidies were reduced, and a market-determined exchange rate was established.<sup>74</sup> Quantitative import restriction, import tariffs, and export taxes were eliminated during 1987 and 1988.

Laotian economic policy has deeply relied on the policies of neighboring countries such as Thailand, Vietnam, and China.<sup>75</sup> In the early 1990s, the UN-ESCAP study group reported that Laos was a regional entrepot for re-exporting Cambodian timber to Thailand, cars from Thailand to China, and motorcycles assembled to Vietnam.<sup>76</sup> Laos's economy has a very high concentration on the exportation of natural resources such as hydroelectricity, wood, and mining industries, in addition to the garment industry.<sup>77</sup> The industrialization policy of Laos now basically welcomes all types of investment, even in the sectors in which the country has high comparative advantage for a re-export purpose. For example, several Thai garment factories moved their production to Laos because of cheap labor and the privilege of the Generalized System of Preferences (GSP) that Laos received from Japan.<sup>78</sup> In terms of investment, the lack of skilled labor and poor infrastructure are internal forces that frustrate Laos's attempts to open itself up for foreign investment. The government thus

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<sup>73</sup> Ibid., 182-3. The Party also recruited a new group of experts in trade to pursue this new economic policy toward a free market.

<sup>74</sup> The price of rice was still fixed by the public marketing board and the public distributive network in the 1980s. The public market board was abolished in 1987. Bourdet (2000) added that the set price hurt incentives to increase productivity in agriculture. As a result, the government decided to introduce a tax system, which gave a low tax rate on agricultural products (14-18).

<sup>75</sup> During the Asian Financial Crisis in 1997, the country was hit hard because its trade and investment relations have been very tied to Thailand. Bourdet, *The Economics of Transition in Laos: From Socialism to ASEAN Integration*, 4, Carlyle A. Thayer, "Laos in 2002," *Asian Survey* 43, no. 1 (2003): 12.

<sup>76</sup> United Nations, *Strengthening Capacities in Trade, Investment and the Environment for the Comprehensive Development of Indo-China*, 24-25.

<sup>77</sup> The United Nations reported a progress in reducing a cultivated area for opium by 75 percent since 1998, which could be associated with the improvement of economic development in Laos (Forbes and Cutler 2005, 164). Dean Forbes and Cecile Cutler, "Laos in 2004: Political Stability, Economic Opening," *Asian Survey* 45, no. 1 (2005).

<sup>78</sup> United Nations, *Strengthening Capacities in Trade, Investment and the Environment for the Comprehensive Development of Indo-China*, 24-25.

has initiated low tariff rates on imported raw materials and intermediate goods for re-export purposes in order to stimulate economic growth. The small size of the domestic market is inefficient and the low purchasing power of the population itself cannot stimulate economic growth. Therefore, it is clear that Laos is likely to be better off under an outward-looking policy and substantial assistance from international donors; and ASEAN is a clear factor to pull Laos into international economic linkages and resources. So far, Laos as an ASEAN member has received the Generalized System of Preferences (GSP) status with the EU in 1997, after losing its status in 1995 as a result of the restriction of the Rule of Origin (ROR).<sup>79</sup> Due to this GSP status, Laos increased the export of garments to Europe in 1997.<sup>80</sup>

### **2.2.3. Improving International Relations**

Vietnam is the closest friend and the most trusted friend of Laos. Most significantly, the LPRP has felt in debt to the VCP in helping the party building a new regime and gaining authority. Laos does not accept that the country is a satellite state, but a partner of Vietnam. The two signed the Treaty of Friendship and Cooperation in July 1977,<sup>81</sup> and Laos accepted the presence of Vietnamese troops on its soil. Vietnam helped Laos during the economic recession by providing aid, accounting for US\$ 146.7 million in 1983.<sup>82</sup> Moreover, Vietnam freely allowed Laos to use Danang Port and offered loans without interest to Laos between 1978 and 1980.<sup>83</sup> When Vietnam occupied Cambodia, Laos was the first country to recognize the Vietnam-backed government in Cambodia although the LPRP visited Phnom Penh to mediate the conflict between Vietnam and Cambodia. For the first

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<sup>79</sup> Fukase and Martin, *Free Trade Area Membership as a Stepping Stone to Development: The Case of ASEAN*, 37. The GSP status given by the EU is based on a regional basis. Bourdet, *The Economics of Transition in Laos: From Socialism to ASEAN Integration*, 4.

<sup>80</sup> Bourdet, *The Economics of Transition in Laos: From Socialism to ASEAN Integration*, 4.

<sup>81</sup> Later on, Laos and Vietnam further pledged their agreements in other fields such as finance, communications and transportation, education, and agriculture, and technology.

<sup>82</sup> Theera Nuchpeum, *Vietnam after 1975 [In Thai]*, 151.

<sup>83</sup> *Ibid.*, 152.

time, the Vietnam-Cambodia-Laos conference was launched in 1980 and has been conferring since that time. The tie between Vietnam and Laos is historically and politically bonded.

During the late 1970s, escalating conflicts—not only between Vietnam and Cambodia, but also between Vietnam and China and between China and the Soviet Union—worried Laos because the LPRP had good relations with all three nations. Nevertheless, Laos chose to be on Vietnam's side, abandoning Chinese aid and investment to develop its northern provinces and promoting an anti-Chinese propaganda campaign.<sup>84</sup> When Vietnam started to withdraw its troops from Cambodia in late 1988, the China-Laos diplomatic relation returned to normal. For the Laos-U.S. relationship, after the withdrawal of Vietnamese troops from Cambodia, their diplomatic relation was improved through the American missing in action program in Laos. The trade linkage between Laos and the COMECON was diluted after the implementation of the NEM and replaced by Western and ASEAN trade partners, especially Thailand. In 1989, the hostile relationship between Laos and Thailand was negotiated and eased, and Thailand announced a new trade policy as a reconciling strategy in Southeast Asia. In 1994, the Lao-Thai Friendship Bridge was opened to expand the border trade between the two countries. Laos then recognized an imperative to improve diplomatic relationships with other ASEAN members—especially Singapore and Malaysia—in hoping for new trade and investment.

Even though Laos joined the communist pact, the government has never cut off its diplomatic relations with any foreign countries, unlike Vietnam. Among the Indochinese countries, Laos was the least experienced in negative economic and political upshot as a result of the wars, and has never been bullied by the international community. Because (1) its geography created Laos as a buffer state between Thailand and Vietnam during the Vietnam War, and (2) the low level of human development and its geographical land lock have created difficulties for success in economic development, Laos

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<sup>84</sup> Stuart-Fox, *A History of Laos*, 180.

has instead gained sympathy from the international community. Prior to the end of the Soviet aid, Laos had already received foreign assistance from Western countries and international organizations. The foreign policy of Laos was changed from a communist orientation to a neutral one in favor of receiving alternative financial sources.

Regarding the issue of human rights, Laos's conflict with the Hmong and the Lao Citizens Movement for Democracy (LCMD) has caused fluctuations in its relationship with the West, especially the United States.<sup>85</sup> However, the government does not want to be categorized in the same group as Myanmar because it may hurt the relationship with donors and trading partners. "[Senior Laotian officials] wanted to show that they were not like their Myanmar counterparts. That is, they wanted to show that they respected human rights. As about 80 percent of the investment budget came from foreign assistance, they could not afford to upset donor countries."<sup>86</sup> Although Laos has been known for its poor management of foreign aid and loans,<sup>87</sup> its improvement in human rights has been recognized by international NGOs, which now are allowed to freely travel and work in the country.<sup>88</sup>

In short, Laos has attempted to uphold political power in the hands of few party and army leaders, while improving the legitimacy of the communist government through the changes in economic and foreign policies. ASEAN has supported Laos as a small state by promoting its legitimacy and increasing its bargaining status at the international stage. ASEAN has never criticized or interfered with Lao domestic affairs; instead helped Laos to gain the GSP status with the EU and cooperated with other international organizations to initiate several developmental programs in Laos.

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<sup>85</sup> Forbes and Cutler, "Laos in 2004: Political Stability, Economic Opening," 164.

<sup>86</sup> Kyaw Yin Hlaing, "Laos: The State of the State," 135.

<sup>87</sup> Thayer, "Laos in 2002," 122.

<sup>88</sup> Kyaw Yin Hlaing, "Laos: The State of the State," 135.

### **2.3. Cambodia**

Among the four new members, Cambodia was the only country that experienced international and ASEAN interference during the Cambodia Conflict in the 1980s and the political unrest in 1997. Nevertheless, Cambodia decided to join ASEAN after all. Why? First, Cambodia needs ASEAN to support its legitimacy at the international community. Second, Cambodia needs ASEAN to connect its economy to the capitalist world. Third, Cambodia wants to join ASEAN in order to safeguard the principles of the ASEAN Way and non-interference and ensure that they will be always used.

#### **2.3.1. Authoritarianism, Totalitarianism, and “Artificial Democracy”**

From 1954 to 1991, Cambodia had long experienced political repression under Prince Sihanouk, Lon Nol, Pol Pot, Heng Samrin, and Hun Sen. The natures of their systems vary from monarchy, authoritarianism, dictatorship, to totalitarianism. During the Sihanouk regime, he allowed a relatively free election. However, the constitutional monarchy emerged after the World War II, and the King was empowered under the new constitution. He could influence in judiciary affairs and politics as well as the armed forces. The King managed a coup to oust the elected government of Huy Kanthol and dismissed the democratic faction out of office. He finally appointed himself Prime Minister in 1952. To keep himself in power, he suppressed leaders and members of political oppositions and anti-monarchical groups by arresting, jailing, torturing, and assassinating.

In 1970, General Lon Nol, Sihanouk’s security man, overthrew Sihanouk when he was traveling aboard. Lon Nol announced that he would turn the country into a democracy and bring liberties and freedom to the Cambodian people. In turn, he replaced the feudal monarchy of Sihanouk with the “Khmer Republic” under the new draft constitution of a presidential regime. During his authoritarian period, Lon Nol ordered his followers to kill hundreds of thousands of rebels and blasted Cambodia into a civil war. A few years later, Pol Pot took over Lon Nol’s office and turned the

country into an extremist-revolutionary lab and a killing field. The Khmer Rouge ordered people to leave their houses for rural camps. Millions of people were killed in the revolution. Genocide was practiced against ethnic minorities and especially Vietnamese. As a consequence, the society and economy were massively destroyed. Vietnam invaded Cambodia in 1978 and took Pol Pot out of power. The new Vietnamese-backed regime, called the People's Republic of Kampuchea or PRK, was set up to transform the country into a socialist state, following the examples of the Soviet Union and Vietnam. The PRK ruled Cambodia until 1990, when Vietnam completely withdrew its troops from Cambodia and the Paris agreement was concluded with an agenda for a first free and fair election for the Cambodia people.

The current political system in Cambodia is officially democratic. The head of state is King Norodom Sihamoni, who was crowned on October 29, 2004. The current government, led by Prime Minister Hun Sen as the head of government and the leader of the Cambodia People's Party (CPP). The democratic system in Cambodia is very centralized and controlled by Hun Sen, who is called a strongman. The democratic regime under Hun Sen has looked like an authoritarian one. Melanie Beresford calls the political system in Cambodia an "artificial democratization."<sup>89</sup> Hun Sen controls all political factions, the parliament, bureaucracy, court, police, and military.<sup>90</sup> The power of the Cambodian parliament is, thus, very weak. All high-ranking positions such as ministers, council of ministers, senior ministers, and governors are appointed by Hun Sen.<sup>91</sup> He subjugates the majority of votes in the parliament. The bureaucracy is "highly politicized" and heavily dependent upon political leadership from the CPP. The CPP had lost a number of its seats in the parliament in the 2003 national election, reflecting a decline in Hun Sen's popularity. As a result, the government created more than 200 ministries to re-magnetize the CPP's loyalty—a network of local and military

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<sup>89</sup> Beresford, "Cambodia in 2004: An Artificial Democratization Process," 135.

<sup>90</sup> Sorpong Peou, "Cambodia: After the Killing Fields " in *Government and Politics in Southeast Asia*, ed. John Funston (Singapore: Institute of Southeast Asian Studies, 2001), 54.

<sup>91</sup> *Ibid.*, 44-45.



officials.<sup>92</sup> The National Assembly and the Senate, including technocrats and research institutes such as the Cambodia Development Research Institute (CDRI) and the Cambodia Institute for Cooperation and Peace (CICP), have been called to join the policymaking process and work for the government.

Hun Sen's political power is guaranteed under the politico-economic network among politicians, military, and local authorities. The massive land grabbing by officials, military, and political leaders related to the exploitation of natural resources such as timber<sup>93</sup>, rubber, and fisheries has buttressed his strongman system. In the timber industry, money is distributed as bribes to several people from provincial officials, local military, and the forestry personnel.<sup>94</sup> Similarly, the rubber industry has red tape, network, and unofficial costs that the private sector has to pay illegally. Local and military authorities completely control fishery resources, while in some areas local people are prohibited to use the resources.<sup>95</sup> The strong link between the military, politicians, government, and local authorities has cut the civilian private sector out of the picture and created a close patron-client relationship among them. Caroline Hughes adds that the concession policy has contributed to "the process of state-building as political leaders participated in and turned a blind eye to the sales of concessions by political and military-power holders in the provinces, contributing to enhance the political loyalty."<sup>96</sup>

<sup>92</sup> Beresford, "Cambodia in 2004: An Artificial Democratization Process," 135.

<sup>93</sup> The timber industry is important to Cambodia's government as a state apparatus to control from top to bottom. Caroline Hughes, *The Political Economy of Cambodia's Transition, 1991-2001* (New York: RoutledgeCurzon, 2003), 44.

<sup>94</sup> The World Bank's investigation of this case reveals a secret network within the timber industry where loggers have to bribe state agencies for a legal operation license and an unofficial transportation fee to move logs to a processing place. World Bank, "Background Note: Cambodia, A Vision for Forestry Sector Development," in *Paper Prepared for Consultative Group Meeting on Cambodia* (Tokyo: Accessed online at [www.worldbank.org](http://www.worldbank.org), 1995). Sam Rainsy, the leader of the opposition party, had claimed that the prime minister has secret contracts to authorize the military and customs officers to export illegal and untaxed logs. Sam Rainsy, "A Condition for Further International Assistance Should be Greater Transparency in Public Decision Making," in *International Conference on the Reconstruction of Cambodia (ICORC)* (Paris, 14-15 March: 1995).

<sup>95</sup> Hughes, *The Political Economy of Cambodia's Transition, 1991-2001*, 45.

<sup>96</sup> *Ibid.*, 44. Hughes suggests that the patron-client relationship described by James Scott could not explain the countryside experience in Cambodia, where the "rural people is not client but an outsider, while state is patron and state also is a client. The relationships between state and non-state actors are disconnected (61-62)."

As a central-power regulator and a strongman, Hun Sen domestically preserves his power by feeding local authorities, state agencies, and the military with the privileges of economic benefits and political protection. To prevent foreign interference with domestic politics as experienced in the past, Hun Sen knew that Cambodia would be in a better position if the country joined ASEAN because this way he can make sure that ASEAN will always stick to the principles of the ASEAN Way and non-interference. Besides, Hun Sen has implicitly warned ASEAN to back off from his own way to develop democracy.

### ***2.3.2. Economic Liberalization and the Low-Diversified Economy***

During the Khmer Rouge period, cities and urban areas were destroyed. People were displaced, agricultural tools and equipment were broken, and labor forces were starved. One-third of the country's fields were left empty.<sup>97</sup> In fact, the economy was in crisis and bureaucracy was in turmoil. Agricultural collectivism became a new economic policy.<sup>98</sup> However, it was extremely hard for the new Cambodian regime backed by Vietnam to pursue a socialist economic policy after the country had substantially devastated under the Khmer Rouge.

During the 1980s, Cambodia received approximately 80 percent of its government budget from COMECON and Soviet aid.<sup>99</sup> The implementation of collectivization failed and the local

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<sup>97</sup> Evan Gottesman, *Cambodia after the Khmer Rouge* (New Haven: Yale University Press, 2003), 79. According to Gottesman, the Khmer Rouge focally reallocated the workforce to create water projects, and due to the genocide Cambodia did not have enough labor to produce adequate food. Not until 1979 were those empty lands used for agricultural activities again.

<sup>98</sup> *Ibid.*, 91. Vietnam sent an advisor to Cambodia to promote and explain about the collectivism policy and even helped to draft a circular.

<sup>99</sup> Aid from COMECON was ceased after those countries applied for membership of the IMF. Under the condition for IMF applicants, they were not allowed to provide aid to third parties (Thayer 1990, 7). Carlyle A. Thayer, "The Soviet Union and Indochina," in *The IV World Congress for Soviet and East European Studies* (Harrogate: 1990), 7.

redistribution of food and services collapsed.<sup>100</sup> In the late 1980s, when Vietnam and Laos seriously pursued economic reform policies, Cambodia was still struggling to gain its independence from foreign influences—Vietnam, the Soviet Union, China, the West, and ASEAN. Economic development in Cambodia, thus, seriously lagged behind other countries in Southeast Asia (excepting Laos) and the world.

Trade and investment reforms in Cambodia—including a unification of exchange rates and an implementation of investment law—began after the establishment of a new government in 1993. The tariff rates were reduced from the range of 3 to 100 percent to 5 to 50 percent in the early 1990s.<sup>101</sup> Cambodia has heavily promoted one industry: the garment industry. According to the Cambodian Socio-Economic Development Plan (SEDP) II (2001–2005), approximately 77.5 percent of the total approval for industrial products consisted of garment and textile projects.<sup>102</sup> Import substitutions are selected to promote some industries such as the paper industry, chemical industry, consumer goods industries—such as soap, toothpaste, paints, plastic wares, and electrical accessories—and low-technology machinery industries. The Cambodia government initiated the export strategy of a “pro-poor trade sector” under the SEDP II, which focuses on empowering the private sector to gain access to the market and decentralize export business to the rural areas. The government has attempted to attract foreign investment into the country by promoting its cheap labors.

Cambodia has still lacked infrastructure and human development to diversify its economy. The Cambodian government knows that they need help from outsiders to build up the economy because accumulation of domestic capitals alone is insufficient to bring down poverty and lead the country to be developed. As Cambodia’s permanent Secretary for Foreign Affairs Chem Widhya

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<sup>100</sup> Economist Intelligence Unit, "Quarterly Economic Review of Indochina - Vietnam, Laos, Cambodia, Annual Supplement," (London: EIU, 1985), 41-43.

<sup>101</sup> United Nations, *Strengthening Capacities in Trade, Investment and the Environment for the Comprehensive Development of Indo-China*, 22.

<sup>102</sup> Ministry of Commerce of Cambodia, "Socioeconomic Development Plan II, 2001-2005," (Royal Government of Cambodia).

expressed Cambodia's desire to join ASEAN that, "[w]e are so small and underdeveloped and we cannot stay alone. So first and foremost we would like to merge into ASEAN."<sup>103</sup>

### **2.3.3. Pro-West Diplomatic Policy**

From the neutralist foreign policy in the 1950s and 60s, and the pro-Communist foreign policy in the 1970s and 80s, to the pro-West foreign policy since the 1990s, the Cambodian governments have destroyed and reestablished several diplomatic relations with foreign countries. In the 1950s and 60s, China had a good relationship with the monarchical government of Cambodia. In contrast, its relationship with the United States started to get bitter when the United States was believed to support the *Khmer Seri* (freedom Khmer) to overthrow Sihanouk's power, while Sihanouk's government in turn developed a good relationship with North Vietnam.<sup>104</sup> During the PRK regime, Cambodia completely joined the same camp as Vietnam, Laos, and the Soviet Union against the other camp, which consisted of Western countries, China, and ASEAN.

Cambodia had tremendously relied not only on Vietnam's and the Soviet Union's aid but also on aid from international humanitarian organizations such as the Red Cross and UNICEF. In July 1979, Vietnam and the Soviet Union provided thousands of tons of rice, seed rice, fuel, and shipment tools and equipment, and helped to reconstruct communications and transportation in Cambodia.<sup>105</sup> Around the same time, Vietnam permitted international aid to be delivered to Cambodia. International aid agencies complained about the inefficient distribution of food and supplies to Cambodians under the PRK, which irked Vietnam. A Vietnamese advisor warned Cambodia to stay away from the West and claimed that those international organizations tried to destroy socialism and the new Cambodian regime by making connections to Cambodia's people. As a result, the Cambodia

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<sup>103</sup> The Bangkok Post, "A Symbolic Entry that Lacks Real Substance ", April 30, 1999.

<sup>104</sup> Gottesman, *Cambodia after the Khmer Rouge*, 125-26.

<sup>105</sup> *Ibid.*, 80.

government imposed restrictions on contact between Cambodians and Westerners through the 1980s.<sup>106</sup>

The United States and China officially became the enemies of the PRK, sending military support to the anti-PRK groups, mainly the Khmer Rouge. Except for Indonesia, other members of ASEAN (the Philippines, Malaysia, Singapore, and Thailand) sent money or artillery to fight the PRK and support the Khmer Rouge. The current Prime Minister of Cambodia, Hun Sen, was at that time the PRK Foreign Minister. Relations had been destroyed between Cambodia and the United States, China, and ASEAN. On the other side, Cambodia started to develop a close rapport with Vietnam and Laos by joining an annual Indochina conference and discussing the creation of the “Indochinese Federation.”

Cambodia and the Western camp (including China and ASEAN) resumed their diplomatic relations after the Paris agreement was concluded and all political factions in Cambodia agreed to participate in the first “free and fair” election, monitored by international organizations. Under the new coalition government of Cambodia, its relationship with ASEAN was not always smooth. ASEAN rejected Hun Sen’s application to bring Cambodia into the association due to political unrest in 1997. Condemnations from both sides were exchanged. The situation was resolved after the new election in Cambodia was promised and launched in 1998. ASEAN officially admitted the ASEAN membership of Cambodia in 1999, which means that ASEAN also approved the legitimacy of the new government led by Hun Sen.<sup>107</sup> Cambodia, then, was introduced to ASEAN dialogue partners and brought to the negotiating table with other ASEAN members.

At present, Cambodia has maintained good relations with all nations for trade, investment, aid, and national security purposes. China is always a good friend of the Cambodian royal family and

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<sup>106</sup> *Ibid.*, 85.

<sup>107</sup> The issue of Cambodia-ASEAN relations regarding the Cambodia Conflict and ASEAN membership can be found in Chapter Two.

has supported the current Cambodian government. The country has provided trade, investment, and aid without considering the issues of human rights and democratization. To associate with the West, Cambodia needs another strategy. Even though Hun Sen's power has evidently been overused in threatening human rights activists and the media, Hun Sen has wisely managed to ease this tension by promising reform to its international donors and promoting the approach of diplomatic trade. In 2004, due to the assassination of a well-known trade union leader and other cases of human rights violations, Sorpong Peou criticized that "Hun Sen has not shown any serious willingness to punish human rights abusers."<sup>108</sup> In 2005, the director of the Cambodian Center of Human Rights, Kem Sokha, and the head of the Community Legal Education Center, Yeng Virak, were charged after a banner written with Hun Sen as a "communist" was shown at a workshop on the international human rights day of December 10.<sup>109</sup> Yeng commented on this incident that Hun Sen just tried to "silence the opposition by arresting his critics," and he called it a backward step in democratization in Cambodia. The United States ambassador Joseph Mussomeli responded to this violation that "there is not much left to a real democracy" in Cambodia.<sup>110</sup> A few days later the government freed four other journalists and activists as a "gift" to the United States for opening its new embassy in Phnom Penh.<sup>111</sup> Later on, Cambodia received military aid from the United States for the first time since the Vietnam War.<sup>112</sup> Despite this fact, in March 2006 international donors agreed to continue to give Cambodia US\$601 million in grants and loans, which is much higher than the amount from last year, US\$504 million.<sup>113</sup> The successful continuation financial support from international donors in economic and social areas can be credited to the wise diplomacy of Hun Sen.

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<sup>108</sup> Peou, "Cambodia: After the Killing Fields", 57.

<sup>109</sup> John Aglionby, "Cambodia Arrests Human Rights Activists in Blow to Democracy," *The Guardian*, January 2, 2006.

<sup>110</sup> Ibid.

<sup>111</sup> BBC News Online, "Cambodia Activists Freed on Bail," January 17, 2006.

<sup>112</sup> Guy De Launey, "US Opens New Cambodia Mission," *BBC News*, January 17, 2006.

<sup>113</sup> Ek Madra, "Donors Give Cambodia \$601 Million in Aid for 2006," *Reuters*, March 3, 2006.

Under the Cambodian strongman version of democracy, Hun Sen is comfortable to live with a weak type of regional institution because this guarantees his existing control over the national economic, political, and foreign policies. Prior to becoming the Cambodian Minister of Foreign Affairs, Kao Kim Hourn as an executive director of CICP pointed out that the accession of Cambodia to ASEAN reflected an attraction to the ASEAN Way and the non-interference policy that would help to deal with its external security and stabilize the international politics of Cambodia.<sup>114</sup> Cambodia is thus better off in ASEAN regarding economic benefits, guarantee of national sovereignty, and international recognition. The Cambodian Minister of Economy and Finance, Keat Chhon, emphasized the necessity of non-interference policy as a “golden rule” and the importance of loose regional institution:

Cambodia considers ASEAN's policy of non-interference as one of the ‘golden rules’... This principle has served ASEAN well through many difficult periods of economic turmoil, regional strife and social change. ASEAN is not Southeast Asia's version of the European Union. Rather, it has been a relatively flexible, loose group of sovereign nations. In our view, as long as ASEAN remains a grouping of sovereign states, non-interference is the principle that best respects this condition.<sup>115</sup>

#### **2.4. Myanmar**

Certainly, Myanmar’s military regime will not tolerate domestic and foreign intervention that could erode its political power. Myanmar decided to become an ASEAN member because the military government wanted to improve economy by increasing trade and attracting foreign investment with no political talk. ASEAN of course has agreed to do that. As a result, Myanmar has taken advantage of securing its military regime under ASEAN, while being able to negotiate on the

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<sup>114</sup> Kao Kim Hourn, "Cambodia's Foreign Policy and ASEAN: From Non-Alignment to Engagement, Ph.D. Dissertation", Kao Kim Hourn, "Cambodia's Prospective Membership in ASEAN: Opportunities, Challenges and Prospects.", Kao Kim Hourn, "Flexible Engagement vs. Non-Interference: ASEAN and Cambodia," in *Principles Under Pressure: Cambodia and ASEAN's Non-Interference Policy*, ed. Kao Kim Hourn and Jeffrey A. Kaplan (Phnom Penh, Cambodia: Cambodian Institute for Cooperation and Peace, 1999).

<sup>115</sup> Keat Chhon, "Flexible Engagement vs. Non-Interference: Cambodia's Official Position," in *Principles under Pressure: Cambodia and ASEAN's Non-Interference Policy*, ed. Kao Kim Hourn and Kaplan Jeffrey A. (Phnom Penh, Cambodia: Institute for Cooperation and Peace, 1999), 15.

same table with other ASEAN dialogue partners such as the EU, the United States, and Japan. If ASEAN was not a loose regional institution, Myanmar would never be interested in joining the Association.

#### ***2.4.1. Military Regime of Myanmar***

After the country gained independence in 1948, the Anti-Fascist People's Freedom League (AFPFL) leader, U Nu, became the first prime minister. His government ran until General Ne Win staged a coup in 1952 and formed the military Revolutionary Council (RC). Ne Win announced a new national direction by adopting socialism, but it was the "Burmese Way to Socialism" as a national ideology.<sup>116</sup> The military, *tatmadaw*, was enhanced to lead the revolution and eliminate all opposition parties. The Burmese Socialist Program Party (BSPP) was established as the only party, and Ne Win became the first president of the new regime in 1974.

In 1988, demonstrations led by students had been spreading throughout the country from June to August.<sup>117</sup> Ne Win and his close colleagues resigned after the government could not control the situation. In September, General Saw Maung took over power under the new name of the regime, the so-called State Law and Order Restoration Council (SLORC) to crack down on the demonstrations. At the same time the opposition party, the National League for Democracy (NLD) led by Aung San Suu Kyi, was formed. The military arrested Suu Kyi under house detention in July 1989 and ran a national election in 1990. The result of the election showed that the NLD won 80 percent of the seats, accounting for around 60 percent of the total votes.<sup>118</sup> The SLORC refused to accept the result of the election and transfer power to the NLD. General Than Shwe replaced the Chairman of the SLORC, Saw Maung, in 1992, and changed the name of the regime to the State Peace and Development

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<sup>116</sup> Steinberg, *Burma: The State of Myanmar*, 6, Tin Maung Maung Than, "Myanmar: Military in Charge," in *Government and Politics in Southeast Asia*, ed. John Funston (Singapore: Institute of Southeast Asian Studies, 2001).

<sup>117</sup> Tin Maung Maung Than, "Myanmar: Military in Charge."

<sup>118</sup> *Ibid.*



Council (SPDC) in 1997. Suu Kyi has remained under house arrest to the present day. Again in September 2007, monk and civilian demonstrations were attacked and arrested by the SPDC, leading to international condemnations and the continuation of economic sanctions on Myanmar.

The political system in Myanmar is extremely rigid. The military junta engulfs executive, juridical, and legislative powers in ruling the country, including the economic, political, and social life of Myanmar's people. The current head of state or the chairman of the SPDC is Senior General Than Shwe, who has the power to appoint and dismiss the prime minister. He is believed to be the most powerful influence behind major decisions of the military government and the prime minister. The policymaking process has been described as "opaque and centralized" based on a top-down approach without private or civil participation.<sup>119</sup> The top three priorities of the policymakers under the military government in Myanmar are as fundamental as security, food, and shelter, as stated by Hla Min, spokesman for the junta government. As reflected in Matthews's 2006 country report, the army was allocated 30 percent of the 2005 national budget, education 8 percent, and health 3 percent.<sup>120</sup>

The military government has been strengthened its absolute power through economic monopoly. In the mid-1990s, the government and military officially began to intervene in the market through several approaches such as imposing export taxes and importation control, and establishing military-owned companies—Myanmar Economic Corporation (MEC) and the Myanmar Economic Holdings Ltd. (MEHL).<sup>121</sup> In 1996, the military took control of six industrial enterprises and more

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<sup>119</sup> Tin Maung Maung Than, "Myanmar: Challenges Galore but Opposition Failed to Score," in *Southeast Asian Affairs 2006*, ed. Daljit Singh and Lorraine C. Salazar (Singapore: Institute of Southeast Asian Studies, 2006), 244.

<sup>120</sup> Bruce Matthews, "Myanmar's Human and Economic Crisis and Its Regional Implications," in *Southeast Asian Affairs 2006*, ed. Daljit Singh and Lorraine C. Salazar (Singapore: Institute of Southeast Asian Studies, 2006), 211.

<sup>121</sup> See more discussion about a military and business relationship in David Steinberg's works. Josef Silverstein, "Burma and the World: A Decade of Foreign Policy Under the State Law and Order Restoration Council," in *Burma: Political Economy under Military Rule*, ed. Robert H. Taylor (India Palgrave, 2001), Steinberg, *Burma: The State of Myanmar*, David I. Steinberg, "The Burmese Conundrum: Approaching Reformation of the

than 94 factories, producing garments and textiles, foodstuff and beverages, cement, rubber goods, leather, pulp and paper, and aluminum wares.<sup>122</sup> An import-substitution policy has been accelerated, along with the promotion of foreign investment in Myanmar. The military government has become directly involved with foreign companies in joint venture projects.<sup>123</sup> The office of economic affairs and the office of the auditor general (AG)<sup>124</sup>, which takes responsibility for national budgets and gives advice on state-owned enterprises, are under military guidance. The military has thus absolutely dominated economics and politics. In society, Myanmar's government supports a mass organization, the so-called Union Solidarity and Development Association (USDA), as a civilian organization directly controlled by the military.<sup>125</sup> The government has also monitored and censored the media, communications, and civilian activities.

The military power in Myanmar has been irresistible and unchanging. It is palpable that if Myanmar wants to associate with a regional grouping, the military regime will make sure that that grouping can prolong, not challenge, its domestic dominance. As addressed by Myanmar's former Foreign Minister U Ohn Gyaw at the admission ceremony in Subang Jaya in July 1997, Myanmar expected to control its own domestic affairs under the ASEAN Way and non-intervention principles and with the support of other ASEAN countries.<sup>126</sup>

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Political Economy," in *Burma: Political Economy under Military Rule*, ed. Robert H. Taylor (India: Palgrave, 2001).

<sup>122</sup> Ministry of National Planning and Economic Development of Myanmar, "Economic Development of Myanmar," (Government of the Union of Myanmar, 1996), 26.

<sup>123</sup> *Ibid.* For example, the ministry of Mines welcomed foreign investors into joint ventures in the production of copper, gold, lead, zinc, iron, and steel, particularly. The most popular sector for foreign investors is energy. The Myanmar Oil and Gas Enterprise (MOGE) was established to be the only state enterprise that authorizes all activities in '... exploration, drilling, production and transportation of crude oil and gas in the country (23),' including making contracts with foreign investors and exporting oil and gas outside of the country.

<sup>124</sup> Tin Maung Maung Than, "Myanmar: Challenges Galore but Opposition Failed to Score," 220. Tin Maung Maung Than, "Myanmar: Military in Charge," 220.

<sup>125</sup> The number of USDA members has increased, claimed by the government to be around 22 million in 2005 (Tin Maung Maung Than 2006, 185). Tin Maung Maung Than, "Myanmar: Challenges Galore but Opposition Failed to Score," 185.

<sup>126</sup> Mya Than, *Myanmar in ASEAN: Regional Cooperation Experience*, 125.

### 2.4.2. "Trade Liberalization" Policy of Myanmar

The ruling military junta government has isolated the country from regional and international cooperation and pursued bilateral diplomatic and economic relationships. General Ne Win implemented an extremely socialist-command economy.<sup>127</sup> His government decided which crops to cultivate at fixed prices under a self-reliant policy. Every single sector was nationalized from "retail trade, banks, industries, forestry, fishery, mining to hospitals and schools."<sup>128</sup> The government allowed very few sectors such as communication, energy, teak, pearls, and banking to be traded by the private sector.<sup>129</sup> Passing the Foreign Investment Law in 1988 hoped that the long-isolated economy of Myanmar would start liberalizing.<sup>130</sup> The SLORC began to deregulate the economy by removing the restrictions on private participation in trade. The socialist-oriented economy was claimed to be replaced by the concept of the market-oriented economy in 1989.

Myanmar further announced to pursue its own "trade liberalization" policy that aims to transform an agricultural to an agro-industrial economy, reform SOEs, encourage foreigners to invest in several sectors, and increase private participation in the economy.<sup>131</sup> In the manufacturing sector, the military government encourages foreign companies to invest capital either in the form of joint ventures or wholly owned foreign enterprises in several industries: textile, foodstuffs, pharmaceutical,

<sup>127</sup> The production of rice declined in the 1960s and the 1980s, which dragged the economy into recession and required economic and institutional reforms. The demand for foreign investment and open economy was fostered in the late 1980s, after Ne Win had resigned in July 1988 that left the economy bankrupt and almost in autarky (Mya Than and Loong-Hoe Tan 1990; Taylor 2001). Verghese Mathews, "Cambodia: Positioning for 2008," in *Southeast Asian Affairs 2006*, ed. Daljit Singh and Lorraine C. Salazar (Singapore: Institute of Southeast Asian Studies, 2006), Robert H. Taylor, "Stifling Change: The Army Remains in Command," in *Burma: Political Economy under Military Rule*, ed. Robert H. Taylor (India: Palgrave, 2001).

<sup>128</sup> Myat Thein, *Economic Development of Myanmar* (Singapore: Institute of Southeast Asian Studies 2004), 4-5.

<sup>129</sup> Richard W. A. Vokes, "Burma and Asia-Pacific Dynamism: Problems and Prospects of Export-Orientated Growth in the 1990s," in *Myanmar Dilemmas and Options: The Challenge of Economic Transition in the 1990s*, ed. Mya Than and Loong-Hoe Tan (Singapore: Institute of Southeast Asian Studies, 1990), 232.

<sup>130</sup> Only two weeks after the announcement of this law, the Chairman of the SLORC, made an agreement to trade with a Thai commander in chief of the royal Thai army, General Chavalit Yong Chiyudh, by granting timber and fishery concessions to Thailand. Silverstein, "Burma and the World: A Decade of Foreign Policy Under the State Law and Order Restoration Council," 121.

<sup>131</sup> Myat Thein, *Economic Development of Myanmar*, 176.

ceramic, paper and pulp, rubber, and leather.<sup>132</sup> The Private Industrial Enterprise Law in 1990 and the Myanmar Citizen Investment Law in 1994 were established. Nevertheless, large firms of more than 50 workers in Myanmar are still owned by the Ministry of Industry No. 1, which manages consumer and light industries, and the Ministry of Industry No. 2, which is responsible for heavy industries.<sup>133</sup> The private sector has no voice at the National Convention. Since the 1988 economic reforms, “an emergence of a domestic commercial class” was not opportunely formed under the military consortium.<sup>134</sup>

The military has enhanced its power by spreading out its business network in the mining, energy, industrial, and agricultural sectors under its economic reform policy that attracts several foreign companies to invest in the country. These economic activities controlled by the military “are large enough to affect other economic sectors, create monopolies, and influence markets making the change to a veritable market economy somewhat questionable.”<sup>135</sup> It is estimated that 70 percent of foreign direct investment was transferred to the hands of the military, which was spent on restocking arms, sustaining the military patronage in the country,<sup>136</sup> and enriching the generals, military associates, and their families. The military itself is playing the role of the private sector that provides jobs for civilians and controls the growth of the economy.

David Steinberg asserts that “[t]he military will be both producers and also consumers. Whatever government evolves, it will need to support the enlarged military to some highly significant degree, thus limiting the state’s ability to invest in other activities unless extensive foreign assistance

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<sup>132</sup> Ministry of National Planning and Economic Development of Myanmar, “Economic Development of Myanmar,” 26.

<sup>133</sup> Myat Thein, *Economic Development of Myanmar*, 202.

<sup>134</sup> Taylor, “Stifling Change: The Army Remains in Command,” 13.

<sup>135</sup> David I. Steinberg, “Myanmar: The Roots of Economic Malaise,” in *Myanmar: Beyond Politics to Societal Imperatives*, ed. Kyaw Yin Hlaing, Robert H. Taylor, and David I. Steinberg (Singapore: Institute of Southeast Asian Studies, 2005), 92.

<sup>136</sup> Jurgen Ruland, “Burma Ten Years after the Uprising: The Regional Dimension,” in *Burma: Political Economy under Military Rule*, ed. Robert H. Taylor (India: Palgrave, 2001), 151.

is forthcoming.”<sup>137</sup> Steinberg further describes the characteristics of the economy as “dysfunctional” because of the absence of regulation and real reform policy, the decline in foreign reserves, and the continuation of self-sufficient policy.<sup>138</sup> Bruce Matthews illustrates that “[the junta] has little understanding of market forces. It continues to print money at whim, operates with two or sometimes even three exchange rates, producing an economy which is recognized as one of the most distorted in the world.”<sup>139</sup>

In short, the “trade liberalization” policy of Myanmar has fundamentally benefited the military junta to maintain its economic and political supremacy. However, as suggested by Steinberg the military needs foreign investment to help them sustain the regime. The accessible status of Myanmar after associating with ASEAN has created a new image of economic environment which has caught the attention of foreign companies to initiate business discussions with the military.

#### ***2.4.3. Selected Foreign Relations***

In the mid 1990s, international actors such as the EU and the United States had shown their outspoken position against Myanmar’s accession into ASEAN—concerning about the issues of human rights and democratization.<sup>140</sup> The new military government under General Soe Win did not take any action for progress on the promised road map. The government has not cared to show the international community any effort to improve the human rights and democratization situation. Trade sanctions have been imposed and the ODA has been revoked by the West and other international

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<sup>137</sup> Steinberg, “Myanmar: The Roots of Economic Malaise,” 108.

<sup>138</sup> Steinberg, “The Burmese Conundrum: Approaching Reformation of the Political Economy,” 47.

<sup>139</sup> He further pointed out that the military government over-reported its economy’s performance in 2005 – 10.2 percent. The IMF mission to Myanmar argued that the economy might even plunge to zero percent of the economic growth record. Matthews, “Myanmar’s Human and Economic Crisis and Its Regional Implications,” 210.

<sup>140</sup> Detailed discussion about the supports and opponents of Myanmar’s accession to ASEAN can be found in Chapter Two.

donors as a consequence.<sup>141</sup> In fact, trade sanctions on Myanmar have directly hurt local people, but not the military government.<sup>142</sup> Sixty-four textile factories were shut down in that year as a result of the economic sanctions by the United States in 2003.<sup>143</sup> Furthermore, it was estimated that at least 40,000 garment sector jobs were lost in the short run and around 100,000 jobs in the long run, according to the report made by Deputy Assistant Secretary of State Matthew P. Daley to the U.S. Houses of Representatives.<sup>144</sup>

The financial sources of the military regime are mainly from foreign investment by international companies in the oil and gas sector. The U.S. passage of the Burmese Freedom and Democracy Act did not affect the investment of Unocal,<sup>145</sup> which was an American-supported oil company in the Yadana pipeline project. The project does not create much employment, but just supplies the junta with annual revenues of US\$400 million.<sup>146</sup> According to the report by "Burma Campaign UK" press release of the dirty list in 2005, 26 new companies, such as Siemens, Swiss Re, and Chevron, have invested in Myanmar and directly or indirectly contributed to sustaining the dictatorship of the junta regime.<sup>147</sup> Out of 26 new companies, 11 companies are investing in the oil and gas industry. Interestingly enough, four companies in the oil/gas industry, which just joined the 2005 list, are from Europe and the United States; and seven companies are from the Asian countries

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<sup>141</sup> During the Bush administration, the "Burmese Freedom and Democracy Act" was signed by the president to push forward stronger economic sanctions on Myanmar, including rejections of U.S. visas to military leaders, freezing assets holding by government and its leaders, and ceasing financial transactions and embargo. However, Bush did not put pressure on banning the American Investment Act, which had been passed by Bill Clinton in 1997 (Seekins 2005, 439-40). Donald M. Seekins, "Burma and U.S. Sanctions," *Asian Survey* 45, no. 3 (2005): 439-49.

<sup>142</sup> Philip Robertson argues that the sanctions are instead likely to create 'collateral damage and unintended consequences.' Philip S. Jr. Robertson, "Sanctions are Working in Burma," *The Irrawaddy Online*, August 26, 2003.

<sup>143</sup> David I. Steinberg, "Burma/ Myanmar: The Triumph of the Hard-Liners," *South China Morning Post*, August 15, 2003.

<sup>144</sup> Seekins, "Burma and U.S. Sanctions," 441.

<sup>145</sup> Unocal was taken over by Chevron, American oil giant company, which also owns Texaco.

<sup>146</sup> Seekins, "Burma and U.S. Sanctions," 451-52.

<sup>147</sup> Burma Campaign UK, "The Dirty List: Companies Supporting the Regime in Burma," (Accessed Online at <http://www.burmacampaign.org.uk>: 2005).

of China, Korea, and India. In ASEAN, Singapore was ranked to be at the top of 27 international investors in Myanmar with US\$1.6 billion in 72 projects in 2005. Thailand was the third biggest investor with US\$1.34 billion spread across 55 projects, while Malaysia was in the fourth, based on the junta's Foreign Investment Commission list.<sup>148</sup>

The military has received support from China, India, and ASEAN. Historically, China and Myanmar tightly traded each other and coped with the issues of security, migration, and infrastructure building together. China has also long supplied loans and weapons to the SLORC. The hostile relationship between China and India is the important factor that to large degree enhances their bilateral relationships with Myanmar. Myanmar has been seen by both as a strategic player and a buffer state. After the former Prime Minister Khin Nyunt, who was seen to be pro-West, was ousted, Than Shwe turned a new page of Burmese foreign policy to make friends with India and Russia in addition to China. As a result, China and Russia have secured the Myanmar issue from being accepted at the United Nation Security Council. Similarly, ASEAN's position has officially condemned Myanmar for its violation of human rights, but so far never taken any action against Myanmar's military regime. For ASEAN, keeping Myanmar in the Associate can help to balance the influence of China in the region. The junta has also perceived ASEAN membership as a counterbalance against the Chinese dominance in Myanmar and as an access to get more investment from ASEAN members—especially Malaysian, Singaporean, and Thai governments. ASEAN members do not require the improvement of human rights record and democratization as a prerequisite for investment like the West governments.

ASEAN has been criticized on the grounds that it could not handle the issue of Myanmar. At the ASEAN Regional Forum (ARF) in 2003, the former U.S. Secretary of State Colin Powell urged ASEAN to respond to the detention of the opposition leader Aung San Suu Kyi. He said:

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<sup>148</sup> BBC Monitoring International Reports, "Total Foreign Investment In Burma Since 1988 Said 7.6bn Dollars," November 21, 2005.

Burma is attempting to use its sovereignty as a shield behind which it can violate the fundamental rights of its citizens with impunity. All countries, and especially Burma's neighbors in ASEAN, must make it clear to the [ruling] SPDC that its actions are contemptible and violate Burma's international human rights obligations.<sup>149</sup>

Powell further suggested that “[putting pressure on Myanmar] is not a matter of ASEAN interfering in Burma's internal affairs.” Vittaya Sucharithanarugse, former director of the Asia Studies Institute, reveals that Myanmar could export this problem to other ASEAN countries.<sup>150</sup> Even though several ASEAN members and experts had warned about the reluctant position of ASEAN, ASEAN Secretary-General Ong Keng Yong diplomatically responded to the issue in this way:

All of us in ASEAN wish that Aung San Suu Kyi will be freed to do what she would like to do. ... I think that is at the bottom of our heart and in our own way we have explained to the Burmese foreign minister that wish. But we don't want to do it in a confrontational manner.<sup>151</sup>

In late March 2006, the Malaysian Foreign Minister Albar flew to Rangoon as an ASEAN monitor to assist Myanmar in finalizing the roadmap to democracy. Unfortunately, his visit was cut short and he was not permitted to meet the leader of the National League for Democracy, Aung San Suu Kyi, who was under house arrest. He admitted to not witnessing any “significant development” to democratic reform and mentioned that ASEAN planned to be tougher with the junta government. Later on in May, he toned down his opinion on Myanmar, and said that Myanmar was “part of our family.” “We are not going to [put] pressure [on] them ... We are prompting them to listen to the views of ASEAN.”<sup>152</sup> At the 12<sup>th</sup> ASEAN Summit in January 2007, ASEAN reiterated its traditional non-interference policy. The Secretary-General Ong Keng Yong stated that “there is no official ASEAN position” on Myanmar’s human rights climate, and “it’s up to the individual states” to deal with the issue. The recent crackdown on the monk demonstration by the military in Rangoon in

<sup>149</sup> The Bangkok Post, "Powell Calls for ASEAN Pressure ", June 19, 2003.

<sup>150</sup> Bhanravee Tansubhapol, "ASEAN: Changes needed, seminar told - Non-intervention is no longer relevant," *The Bangkok Post*, June 22, 2000.

<sup>151</sup> Bhanravee Tansubhapol, "Rangoon tackled over Suu Kyi " *The Bangkok Post*, June 17, 2003.

<sup>152</sup> The Star, "ASEAN Will not Pressure Myanmar to Change," May 4, 2006 [Malaysia]



September 2007 has been condemned by the West, but protected by China, India, and Russia. ASEAN has officially joined the West camp in condemning Myanmar, but silently supported the military regime to solve its domestic problem under the principle of non-intervention. Mya Than, a Burmese expert, concludes that Myanmar would not quit ASEAN because ASEAN has been an shelter to insulate the country from international pressures.<sup>153</sup>

### 3. Conclusion

To put it briefly, Fawcett states that “a key aim of regional cooperation [in the Third world] should be not the weakening but the strengthening of national autonomy remains a serious obstacle of effective regionalism.”<sup>154</sup> Correspondingly, Richard Higgott points out that “regionalism consequently becomes a tool for the consolidation of state power,” and Asian regionalism is enhancing not taking away sovereignty.<sup>155</sup> In terms of political affairs, the fear of regional intervention still exists in CLMV. Distrust and fear among members may hardly force CLMV to agree on transferring national sovereignty to enhance a formal regional institution in such a way that the institution can independently make its own policy decisions that would affect domestic affairs.

In terms of economic cooperation, Nesadurai suggested that regionalism could play a role as a “developmental state” in the 1960s and 70s economic development in East Asia. It means that the governments (ASEAN members) can temporarily protect their infant industries or give privileges for domestic capital under the regional liberalization policy.<sup>156</sup> This chapter suggests that new regionalism not only enhances sovereignty but also rescues national authority from the clash between

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<sup>153</sup> The author interviewed with Mr. Mya Than on April 28, 2006 in Bangkok, Thailand.

<sup>154</sup> Fawcett, "Regionalism in Historical Perspective," 34.

<sup>155</sup> Higgott, "The International Political Economy of Regionalism: The Asia-Pacific and Europe Compared," 53.

<sup>156</sup> Helen E. S. Nesadurai, "Attempting Developmental Regionalism through AFTA: the Domestic Sources of Regional Governance," *Third World Quarterly* 23, no. 2 (2003): 238.

domestic and international interaction. The ASEAN institution can be a neutral zone or buffer for CLMV against international criticism and a drawback of trade liberalization policy or regional economic policy that may negatively affect their domestic market in a short run.

One of the membership expectations was that the ASEAN institution would give CLMV countries space to preserve their sovereignty and control over their own businesses at home. Joining a weak regional institution expects to promote their sovereignty as well as rescue it in the midst of domestic and international pressures. ASEAN can be a cushion for CLMV or any members that are not ready to move on. In terms of politics and security, CLMV feel safer to have ASEAN expressed in a neutral way and not comment on their domestic politics. In terms of economics, a loose mechanism of economic cooperation makes them feel comfortable to be progressive on trade reforms and perceive ASEAN as a stepping stone to trade liberalization. Considering the authoritarian types of CLMV's domestic politics as well as the tensions caused by the domestic and international interaction, a soft nature, a loose structure and a weak commitment are likely to be a preferred style of regional institution.

In addition, the four new members can get together to counteract the old members or any members who want to change the loose type of institution and its principles. Regarding the issue of Myanmar, the other three new members always avoid giving comments and categorizing in the same group as Myanmar. However, Cambodia, Laos, and Vietnam tend to stand beside Myanmar if any ASEAN member violates a non-interference policy.<sup>157</sup> "CLV always support military in every issue because [CLV and Myanmar] have a similarity in political systems."<sup>158</sup>

It is clear that ASEAN membership can perfectly respond to the preferences of CLMV by approving their authoritarian legitimacy and diplomacy, protecting them from international criticism,

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<sup>157</sup> The author interviewed with Mr. Tin Muang Muang Than on April 3, 2006 in Singapore.

<sup>158</sup> The author interviewed with Mr. Zin Linn on August 22, 2006 in Bangkok, Thailand. Zin Linn, director of Media and Information Unit of the National Coalition Government of the Union of Burma (NCGUB).

and providing them for economic benefits. CLMV countries can guarantee their sovereignty in managing domestic affairs and controlling the balance of power in domestic politics without regional intervention. Joining the loose ASEAN institution thus has a low risk and is likely to be the best choice for CLMV countries.

## CHAPTER FIVE

### THE CHANGES AND CONTINUITIES IN ASEAN POLITICAL INSTITUTION AND THE IMPACT OF ASEAN ENLARGEMENT

Despite the successful creation of ASEAN in 1967, ASEAN members have battled with their differences and problems by practicing an avoidance of conflict under the Bangkok Declaration and the Treaty of Amity and Cooperation (TAC). The policy of non-interference and the preservation of national sovereignty have been used by ASEAN members to ensure mutual trust, prevent future conflicts, and promote economic and political cooperation. The adhesive belief in national sovereignty and non-interference has induced a political-oriented mode in managing regional activities, accredited a consensus rule in the decision-making process, and cultivated a loose structure of regional institution.

Under the current ASEAN political institution several economic projects were defeated or postponed due to political blockades. The unsolved trade conflicts among ASEAN members were also caused by the characteristics of the ASEAN political-oriented institution, which is slow in making decisions and more responsive to political rather than economic turnovers. This chapter seeks to understand the change and continuity in the ASEAN political institution after the 1990s ASEAN enlargement, which is the second stage in the analytical framework of the qualitative part. The understanding of the institutional changes will further lead to an examination of regional economic integration in the cases of ASEAN Free Trade Area (AFTA) and ASEAN Investment Area (AIA) in the following chapter.

The ASEAN political institution is defined as an intergovernmental action of Southeast Asian states that emerges from a common interest to solve regional problems and initiate regional cooperation through politically oriented mechanisms and procedures. The institution is labeled as a

political type because politics is the core of institutional operation that controls economic and other regional issues. As we always omit the middle name, the ASEAN political institution can be shortened as ASEAN institution. The ASEAN political institution has three key components. The first component is the ASEAN Way and non-interference that constructs the nature of the institution. The second component is the loose structure of the institution, regarding its functional and organizational aspects. Weak policy commitment and political will is the last component. These three components have shaped the characteristics of the ASEAN political institution since its formation in 1967. Nevertheless, the institution is not static. The movement of the ASEAN political institution has been evident, though very slowly.

The analysis of the following sections offers two major findings. First, the impact of the 1990s enlargement by increasing diversity in economics and politics tends to tone down the development of the ASEAN institution. The development of ASEAN political institution toward an integrative and formal nature has been in dilemma due to the disagreement between the supporters (old members) and the opponents (new members) of institutional reforms. The ASEAN political institution has been moving toward a more formal type, but its progress is slowed down due to several political cautions that mainly come from the new members. In the big picture, politics still continues to dominate the ASEAN institution. Second, the most sensitive component of the ASEAN political institution, which is also the hardest to change, is the nature of the institution—the ASEAN Way and non-interference. Conversely, the most adjustable component is the structure, where new units and committees were created as new bodies to ease the differences between the old and new members after the enlargement. This chapter at the end still suggests that ASEAN has not gone across a transitional period of institutional change after the 1990s enlargement.

The organization of this chapter is laid out in three main sections. Section One scrutinizes changes in the nature, the structure, and the political commitment of ASEAN political institution before the 1990s ASEAN enlargement. The second section investigates the changes caused by the

1990s ASEAN enlargement and/or initiated by the new ASEAN members. The reactions of CLMV countries on the issues of Myanmar, the ASEAN Charter, and the ASEAN Security Community (ASC) are examined in the second section. The analysis of the recommendations on the ASEAN Charter by the Eminent Persons Group (EPG) will be found in the seventh chapter, along with the recommendations synthesized from this research study.

## **1. The Development of ASEAN Political Institution: Before the Enlargement**

### ***1.1. Nature of Institution***

The former Thai Foreign Minister Thanat Khoman, one of the founding fathers of ASEAN, once articulated that Southeast Asian countries did not want to create a formal type of institution to legally bind them under international law. The ASEAN members were more comfortable to have a loose institution that compromised national and regional interests. The term “collective interest with individual means” represented a way to do intra-regional businesses in the 1960s-70s. Highly priority was given to preserving national sovereignty and respecting equality among ASEAN members. The ASEAN Way was rooted from this ideology and expressed in both the 1967 Bangkok Declaration<sup>1</sup> and the 1976 Treaty of Amity and Cooperation (TAC). The former Singaporean Foreign Minister Wong Kan Seng expressed in keeping the faith with the Bangkok Declaration at the 22<sup>nd</sup> ASEAN Ministerial Meeting in 1989 in Brunei, said

Journalist are sometimes disappointed because our Annual Ministerial Meetings are not the occasion for the startling and radical initiatives or the fiery dramatics and open conflict and confrontation that make good newspaper stories. This is not the ASEAN Way. We work by consensus, taking into account the interest of all. Our pace is sometimes modest, but always unswervingly and steadily in the directions that our predecessors set when they crafted the Bangkok Declaration 22 Years ago.<sup>2</sup>

<sup>1</sup> As discussed in Chapter Two, the Declaration in 1967 expressed mutual interests, national sovereignty, and the concealment of external domination affairs. Ten years later, the 1976 Treaty repeated the Declaration by emphasizing (1) a mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity, (2) a settlement of differences or disputes by peaceful means, (3) non-interference in the internal affairs of one another, and (4) a renunciation of use of force.

<sup>2</sup> ASEAN Newsletter, "The 22nd ASEAN Ministerial Meeting, Bandar Seri Begawan, 3-4 July 1989," 7.

To understand the ASEAN Way and the concept of non-interference, Jürgen Haacke<sup>3</sup> explains that the ASEAN Way can be categorized into three main approaches: the intramural dispute approach<sup>4</sup>, the decision-making process approach<sup>5</sup>, and the process of identity building approach<sup>6</sup>. Haacke adds that the characteristics of the ASEAN Way are “avoidance of central institution, voluntary relinquishment of sovereignty decision-making, and informality of institutionalization.”<sup>7</sup> Hitherto, old and new members of ASEAN have utilized this principle in a substantive form of informal and bilateral relationships, a strong commitment to avoiding conflicts, and a loose regional institution in order to fully preserve national sovereignty in managing any cooperative and dispute issues in ASEAN affairs. In Southeast Asia, the ASEAN Way has been constructed to understand the behavior of the state leaders

In 1993, the Philippines and Thailand agreed to relax the strict use of the ASEAN Way to create closer regional cooperation, especially in the issues of human security and democratization. Most members at that time (before enlargement) rejected to replace constructive engagement with flexible engagement in dealing with political affairs. Simultaneously, Singapore pushed for improving ASEAN political institution to be more efficient in promoting the growth of regional economies. As spoken by the Prime Minister of Singapore Goh Chok Tong, “[ASEAN members] will have to increasingly rely on the principle of flexible consensus.”<sup>8</sup> The slow progress of AFTA during the first three years made ASEAN (especially Singapore) look back at the institutional

<sup>3</sup> Jürgen Haacke, *ASEAN's Diplomatic and Security Culture: Origins, Development and Prospects* (New York: RoutledgeCurzon, 2003).

<sup>4</sup> Mely Caballero-Anthony, "Mechanisms of Dispute Settlement: The ASEAN Experience," *Contemporary Southeast Asia* 20, no. 1 (1998), Hoang Anh Tuan, "ASEAN Dispute Management: Implication for Vietnam and an Expanded ASEAN," *Contemporary Southeast Asia* 18, no. 1 (1996), Abdullah Kamarulzainam, "ASEAN as a Process of Conflict Management: ASEAN and Regional Security in Southeast Asia: 1976-1994" (University of Bradford, 1996), Abdullah Kamarulzainam, Jacob Bercovitch, and Mikio Oishi, "The ASEAN Way of Conflict Management: Old Patterns and New Trends," *Asian Journal of Political Science* 10, no. 2 (2002).

<sup>5</sup> Pushpa Thambipillai, "ASEAN Negotiating Styles: Asset or Hindrance?," in *ASEAN Negotiations: Two Insights*, ed. Pushpa Thambipillai and J. Saravanamuttu (Singapore: Institute of Southeast Asian Studies, 1985).

<sup>6</sup> Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*.

<sup>7</sup> Haacke, *ASEAN's Diplomatic and Security Culture: Origins, Development and Prospects*.

<sup>8</sup> Jakkrit Srivali, "ASEAN: Assessment and Future Work," *ASEAN-ISIS Monitor*, no. 13 (1996): 2.

building problem, which was rooted in the principle of the ASEAN Way. AFTA and other economic projects for cooperation had showed a fundamental problem of “inadequate precise.”<sup>9</sup> Regarding this problem, the formal Thai Minister of Commerce Narongchai Akrasanee labeled the name of AFTA as “Agree First, Talk After.” This expression reflected a political domination in economic affairs. In 1996, the then ASEAN Secretary-General Ajit Singh reaffirmed the popularity of the ASEAN Way as the core nature of ASEAN institution in his opening speech at the international seminar to commemorate the silver anniversary of the Center for Strategic and International Studies (CSIS) in Indonesia:

We respect each other’s sovereignty and independence and do not interfere in each other’s internal affairs. We treat each other as equals. Decisions are taken only when all are comfortable with them. Close consultations precede these decisions. Consensus is the rule. The question of face is very important and every effort is made to ensure that no party feels hurt in an argument or a discussion. This does not mean that we do not have disagreements. We often do, but we do not, as a rule, air them in public. It also means that knowing each other as well as we do, we can disagree strongly and yet, at the end of the day, play golf together, eat Durians or do the Karaoke. And ASEAN is none the worse for it.<sup>10</sup>

Again in 1997, the Philippines and Thailand had made another attempt to weaken the ASEAN Way by conditioning the accession of Myanmar, which was supported by the EU and the United States. They requested that Myanmar improve its depressing human rights record and show significant steps toward democratization before joining ASEAN. The former Thai Foreign Minister Surin Pitsuwan took a clear position to oppose Myanmar’s accession without improving its human rights record.<sup>11</sup> Both the Philippines and Thailand therefore re-proposed the flexible engagement approach to ASEAN in 1998. In contrast, Myanmar and other authoritarian states in ASEAN declined to endorse this approach because the flexible engagement violates the traditional ASEAN Way by allowing ASEAN to comment and involve itself in the domestic affairs of other members.

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<sup>9</sup> Ravenhill, "Economic Cooperation in Southeast Asia: Changing Incentives."

<sup>10</sup> Ajit Dato Singh, "Opening Address at the International Seminar to Commemorate the Silver Anniversary of CSIS on One Southeast Asia in a New Regional and International Setting," (Jakarta, September 18: 1996).

<sup>11</sup> Surin Pitsuwan, "The Role of Human Rights in Thai Foreign Policy," in *Collected Writings and Speeches: Volume 2*, ed. Corrine Phuangkasem (Bangkok: Thammasat University, 1999).



Malaysia as the then Chair of ASEAN struggled to find a common ground for ASEAN members. Consequently, the former Deputy Prime Minister of Malaysia Anwar Ibrahim suggested another approach to improve the weak nature of ASEAN institution in coping with human rights and democratization, particularly in the case of Myanmar. The so-called “enhanced interaction” was recommended by Malaysia as a response to the pressures from an anti-Myanmar accession within and outside the region.<sup>12</sup> Anwar specifically addressed four steps of enhanced interaction, starting from (1) setting up electoral processes, (2) committing to legal and administrative reforms, (3) developing human capital, and (4) strengthening civil society.<sup>13</sup> The “Anwar proposal” was supported by many parliamentary members in individual ASEAN states represented under the name of the ASEAN Inter-Parliamentary Organization (AIPO), which operates independently outside of the ASEAN structure. Nevertheless, ASEAN members did not accept the enhanced interaction approach either.

The principle of the ASEAN Way was seriously challenged again when several haze problems caused by forest fires in Indonesia spread over some parts of Malaysia, Singapore and the south of Thailand in the early 2000s. Indonesia did not consider any help from neighboring countries due to a concern for national sovereignty in its internal affairs. Besides the haze problem, the lack of regional cooperation in solving other transnational problems such as drug trafficking, human trafficking, and illegal smuggling has led ASEAN to rethink about narrowing the scope of the ASEAN Way. The ASEAN leaders are urged to strengthen the institutional capacity to better communicate and exchange information during emergency situations such as natural disasters like the tsunami in December 2004, and economic disasters like the financial crisis in 1997. The old members who particularly experienced those crises want to lower national barriers and move ASEAN institution away from a traditional style. This was clearly shown in their attempts to set up two teams

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<sup>12</sup> See detailed discussion about the anti-Myanmar accession and extra-regional actors in section 3.3.2 in Chapter Two.

<sup>13</sup> M. Rajaretnam, "Principles in Crisis: The Need for New Directions," in *Principles under Pressure: Cambodia and ASEAN's Non-Interference Policy*, ed. Kao Kim Hourn and Jeffrey A. Kaplan (Phnom Penh, Cambodia: Cambodian Institute for Cooperation and Peace, 1999), 45-47.

of the Eminent Persons Group (EPG) in 2001 and 2005. These two teams were assigned to make plans for stimulating closer regional cooperation under the Bali Concord II and developing a blueprint of a formal institution for ASEAN.

Without considering the impact of ASEAN enlargement, the old members had made several attempts to change the nature of ASEAN political institution from the ASEAN Way to ones of flexible engagement and enhanced interaction, but they failed in their attempts. Nevertheless, the desire for the development of a formal institution is still vigorous among the old members—reflecting from their attempt to create the ASEAN Charter as discussed later in the chapter.

## ***1.2. Structure of Institution***

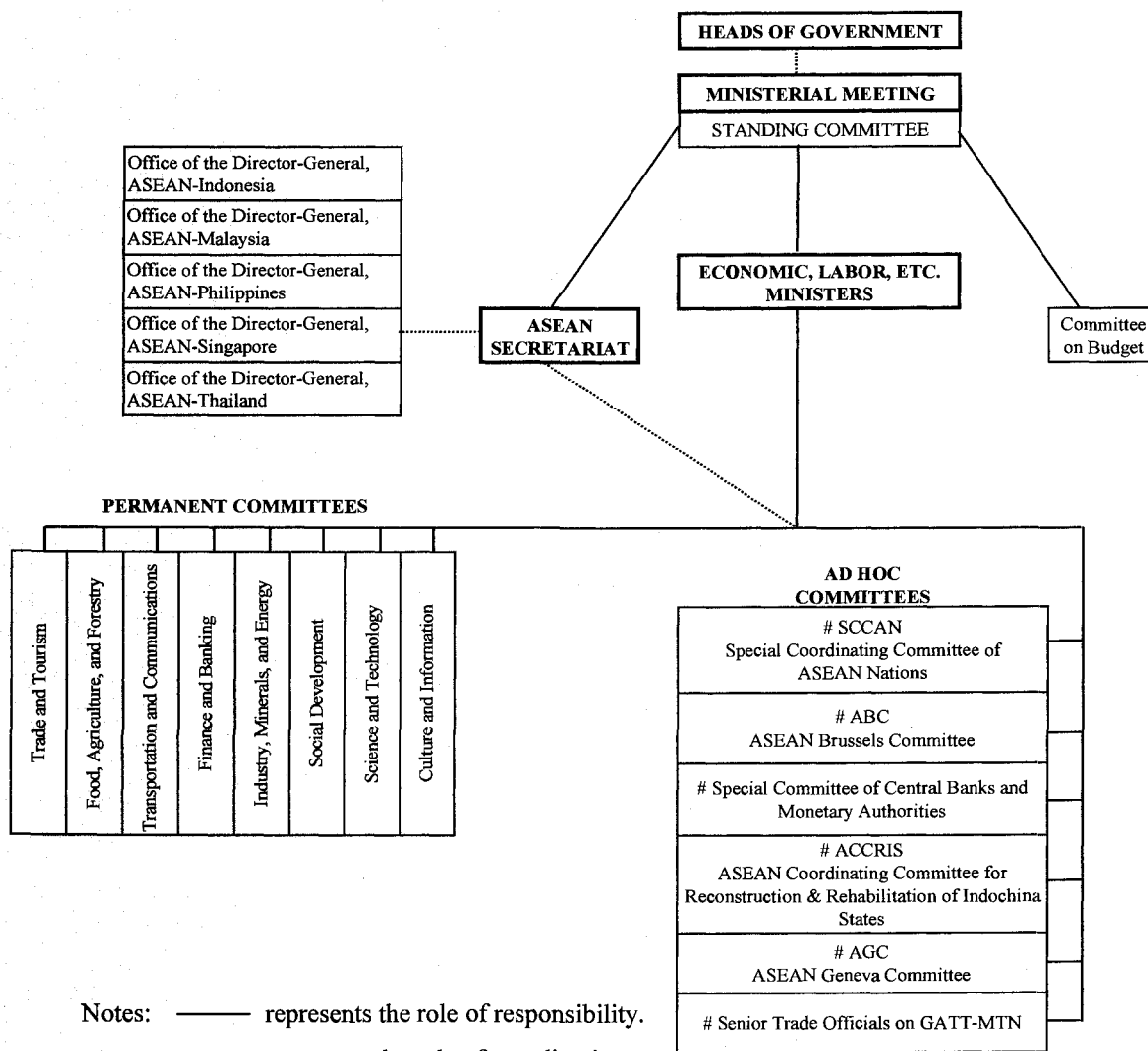
The ASEAN Way and the policy of non-interference have shaped the characteristics of ASEAN political institution in three ways. The nature of the institution has fostered (1) a loose organizational structure and a consensus rule of decision-making process, (2) a powerless secretariat, and (3) a weak dispute settlement mechanism (DSM).

### ***1.2.1. Organizational Structure and Decision-making Process***

The ASEAN political institution was structurally and operationally very loose during the first ten years. During this period, nine out of twelve ASEAN official meetings were made up by a group of foreign ministers. Those ministers had the highest authority to decide issues ranging from security to a free trade area. The meeting of foreign ministers, commonly known as the *Annual or ASEAN Ministerial Meeting (AMM)*, was the highest policy-making body to make final decisions. At that time, the AMM was not regularly scheduled, but arranged by the demand for setting a particular agenda in response to ongoing regional problems. Moreover, ASEAN did not have a secretariat to handle even administrative works. Therefore, informal and bilateral relationships were reinforced in

a way to substitute for the lack of a physical institution and a solid organizational structure. Other problems during the first ten years of ASEAN operation were a lack of national officials to smoothen ASEAN cooperation, an inadequacy of ASEAN meetings, and the overwhelming interest in focusing on bilateral deals.<sup>14</sup>

**Figure 5.1: The Organizational Structure of ASEAN, 1978**



Source: Business International Asia/Pacific Ltd (1979, Chart 2-1, p.15)

<sup>14</sup> Hans H. Indorf, "ASEAN: Problems and Prospects, Occasional Paper No. 38," (Singapore: Institute of Southeast Asia Studies, 1975), 45-47.

Figure 5.1 illustrates the first map of an organizational structure of ASEAN in 1978 after the ASEAN Secretariat was officially established in Jakarta, Indonesia, in 1976. The Declaration of ASEAN Concord organized the first *heads of governments* meeting, which was not planned to meet on a regular basis. It was expected that the Summit meeting among the ASEAN leaders would be held every 18 to 24 months in 1970s,<sup>15</sup> and it would also serve as a stage for meeting with extra-regional partners such as Japan, Australia and New Zealand.<sup>16</sup>

Because of a change in the structural organization in the late 1970s, the AMM was removed from the highest decision-making body to being an influential and consultant body for heads of ASEAN governments. Accordingly, foreign ministers have to be subordinated to the heads of governments, and they do not have a direct authority to amend recommendations or decisions. The ministers' powers were also trimmed down in certain areas such as trade, communications, and transportation. At the same time, economic ministers started to gain power in practice by drafting economic projects and activities. The urgent need for framing a preferential trading arrangement (PTA) in ASEAN stimulated economic ministers to draw on their specialty. The *ASEAN Economic Ministerial (AEM)* meeting was finally institutionalized in 1977 after the Ministers of Trade, Industry, Finance, Mining, Agriculture, and Communications met for the first time in November 1975.<sup>17</sup> The role of economic ministers became clearer and more solid in a policy-making function under ASEAN political institution. They were granted their own official meeting, and support teams to consult on economic projects and development policy. Despite this fact, the 1979 research by Business International Asia/ Pacific Limited suggested that ASEAN Foreign Ministers remain the locus for

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<sup>15</sup> ASEAN again attempted to regularize its summit meeting at the 3<sup>rd</sup> ASEAN Summit meeting in 1987, which the ASEAN leaders agreed to meet every 3 to 5 years. The meeting is now normally held in December of every year.

<sup>16</sup> Business International Asia/Pacific Ltd., *ASEAN: Challenges of an Integrating Market, A Business International Asian Research Report*. (Hong Kong: Business International Asia/Pacific, 1979), 14.

<sup>17</sup> *Ibid.*

shaping ASEAN policy guidelines and coordinating activities at the ministerial level,<sup>18</sup> while having the *ASEAN Standing Committee (ASC)* as its own policy advising and administrative support group.<sup>19</sup> For example, at the 17<sup>th</sup> AMM in 1984 ASEAN Foreign Ministers accepted the recommendation to strengthen economic cooperation by the “fifteen wise men” group, but after removing a sentence that expressed the liberal thought of economic cooperation towards integration in Southeast Asia, as pointed out by Fortuna Anwar.<sup>20</sup> The AMM also had a say in the idea of economic policy by disagreeing with the formation of a common external tariff in ASEAN that time.

Due to the fact that the AMM was overpowering, the Indonesian government and ASEAN Economic Ministers had proposed to eliminate the ASEAN Standing Committee and replace it by the ASEAN Secretariat. This would facilitate direct communications between economic ministers and heads of governments by cutting a political-oriented body out of the policy-recommending process. Of course, the ASEAN Foreign Ministers did not agree with the suggestion because strengthening the ASEAN Secretariat would erode the AMM's influence on ASEAN affairs. The Philippines, Singapore, and Thailand in particular were afraid that they would be dominated by Indonesia, which could control the centralized body (Secretariat) in Jakarta.

The cooperating teams in the organizational structure were composed of *permanent committees and ad hoc committees*. In the early stage of regional economic cooperation, trade was included in the same permanent committee as tourism<sup>21</sup> and investment committee did not exist<sup>22</sup>.

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<sup>18</sup> Ibid., 13-14.

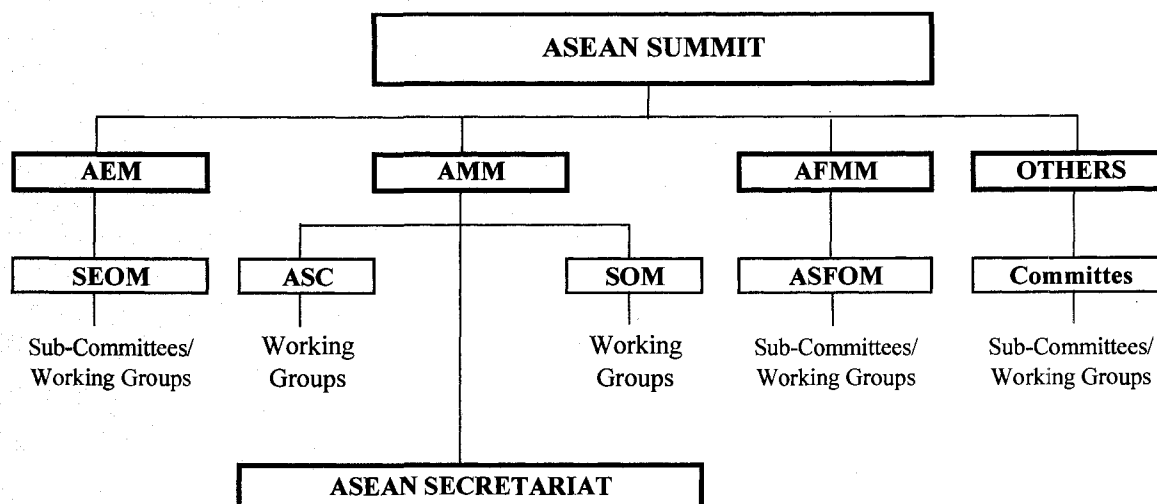
<sup>19</sup> The ASEAN Standing Committee (ASC) now consists of (1) a foreign ministry of the country that hosted the AMM, (2) ASEAN ambassadors to that country, (3) ASEAN directors of national secretariat, and (4) the ASEAN Secretariat-General.

<sup>20</sup> Anwar, *Indonesia in ASEAN: Foreign Policy and Regionalism*, 88.

<sup>21</sup> The Committee on Trade and Tourism (COTT) was assigned its first task to draft a guideline for a preferential trading arrangement (PTA). The Trade Preferences Negotiating Group (TPNG) was set up to meet every three months in Singapore to assist COTT in writing the agreement, rule of origins and other procedures. The TPNG was also in a position to negotiate the list of products in PTA and report it to the economic ministers. See the discussion in Business International Asia/Pacific Ltd., *ASEAN: Challenges of an Integrating Market*, 21.

Another type of committee is an ad hoc committee, which was principally appointed to solve problems in the areas of politics and security, and to handle external affairs. The ASEAN Secretariat is attached to the organizational map as a coordinator between regional and national bodies. The Secretariat will be examined separately in Section 2.2 of this chapter.

**Figure 5.2: The Current Organizational Structure of ASEAN**



Denotes: AEM = ASEAN Economic Ministerial meeting  
 AFMM = ASEAN Financial Ministerial Meeting  
 AMM = Annual/ ASEAN Ministerial Meeting  
 ASC = ASEAN Standing Committee  
 ASFOM = ASEAN Senior Finance Officials Meeting  
 SEOM = Senior Economic Officials Meeting  
 SOM = Senior Officials Meeting

Source: ASEAN Secretariat

The current organizational structure of ASEAN in Figure 5.2 physically shows more equality in different ministerial meetings. In other words, the AMM's decision-making authority was at some degree centrifugal to other ministries. As reflected by the author's interview with the former Foreign

<sup>22</sup> In terms of investment, ASEAN had not arranged a regional committee or a cooperating team to foster intra- or extra-regional investment at that time. Investment was not yet recognized as a means to promote cooperation among ASEAN members due to the member nations' strong protectionist policies for domestic businesses and the limitation of investment law. With an import substitution policy boosted by the belief in the dependency theory in the Third World, ASEAN members thus did not focus on attracting foreign trade and investment, but attempted to build up industries depending upon their own limited resources. As a result, a permanent committee for promoting investment was not formed.

Minister of Indonesia Ali Alatas, “we [foreign ministers] were used to have a joined meeting [with economic ministers] in the past. Before the Summit, we had a joint economic and foreign ministerial meeting. That was a good thing. Now I don’t think we have it.”<sup>23</sup> On the other hand, some economic officials have still complained about the influential power of the Ministry of Foreign Affairs on economic policies and trade negotiations at the regional level. The political influence on economic affairs has been expressed during some interviews of the author with economic officials because some economic negotiating processes have been held back due to political obstacles. So far, ASEAN has tried to reduce the influence of foreign ministers and politics by giving authority to other ministerial meetings; however, the political influence has been practically recognized by ASEAN economic officials.

Regarding the decision-making process in ASEAN, it is explained as the top-down procedure and operates under the famous custom of “Agree First, Talk After.” The consultation and consensus under the principle of the ASEAN Way have been used in the AMM as well as other non-political meetings. Hadi Soesastro points out that the function of the AMM is determined by friendly relationships among ASEAN member: “ASEAN high officials become more acquainted with one another, [and then] more sensitive to one another’s interests.”<sup>24</sup> This sensitive role-playing by ministers in political meetings also took place in the economic meetings, which makes inefficient, slow, and less precise in reaching decisions as well as formulating policies.

To improve the decision-making process, the former Singaporean Prime Minister Lee Kuan Yew suggested a new way to solve the lethargic decision-making process in 1980, “when four agree and one does not, this can still be considered as consensus and the five-minus-one scheme can benefit the participating four without damaging the remaining one.”<sup>25</sup> His suggestion did not catch other

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<sup>23</sup> The author interviewed with Mr. Ali Alatas on June 26, 2006 in Jakarta, Indonesia.

<sup>24</sup> Soesastro, “ASEAN in 2030: The Long View,” 282.

<sup>25</sup> Far Eastern Economic Review, February 1, 1980.

ASEAN members' attention because their focuses were on political cooperation, not economic one. Six years later, the same method, which was renamed as "six-minus x"—including Brunei as the sixth member—, was reiterated by Singapore to replace the time-consuming consensus rule. To change this custom, Singapore's Foreign Minister S. Dhanabalan realized that he first needed to gain support among ASEAN Foreign Ministers to push for this modification. He opened this issue for discussion at the 19<sup>th</sup> AMM in Manila in 1986 by emphasizing the idea proposed by Lee Kuan Yew in 1980.<sup>26</sup> In the following year, S. Dhanabalan pushed this issue again at the 20<sup>th</sup> AMM in Singapore<sup>27</sup>; however, his attempt to create a more pragmatic balance between the traditional and innovative styles of decision-making was still not easily accepted by other ASEAN members. Although ASEAN acknowledged its structural limitations to operate regional economic cooperation at that time, the members were reluctant to change the decision-making process in ASEAN because of the fear of losing control over national sovereignty in their import substitution policies in the 1980s.

An increasing demand for establishing AFTA in the early 1990s suggested that ASEAN should seriously consider another attempt to restructure its regional institution. Accordingly, the ASEAN leaders decided to enhance some parts of its organizational structure, but not to adopt the Singaporean decision-making approach that would devalue a consensus rule. ASEAN thus endorsed an economic supporting team to provide recommendations to economic ministers, oversee regional economic activities, and work with sub-coordinating teams to study particular issues assigned by the ministers. This supporting team consists of senior economic officials from ASEAN member countries, commonly known as the *Senior Economic Officials Meeting (SEOM)*. In 1992, the Singapore Declaration announced to emphasize this new body as a way to strengthen the economic side in ASEAN political institution.

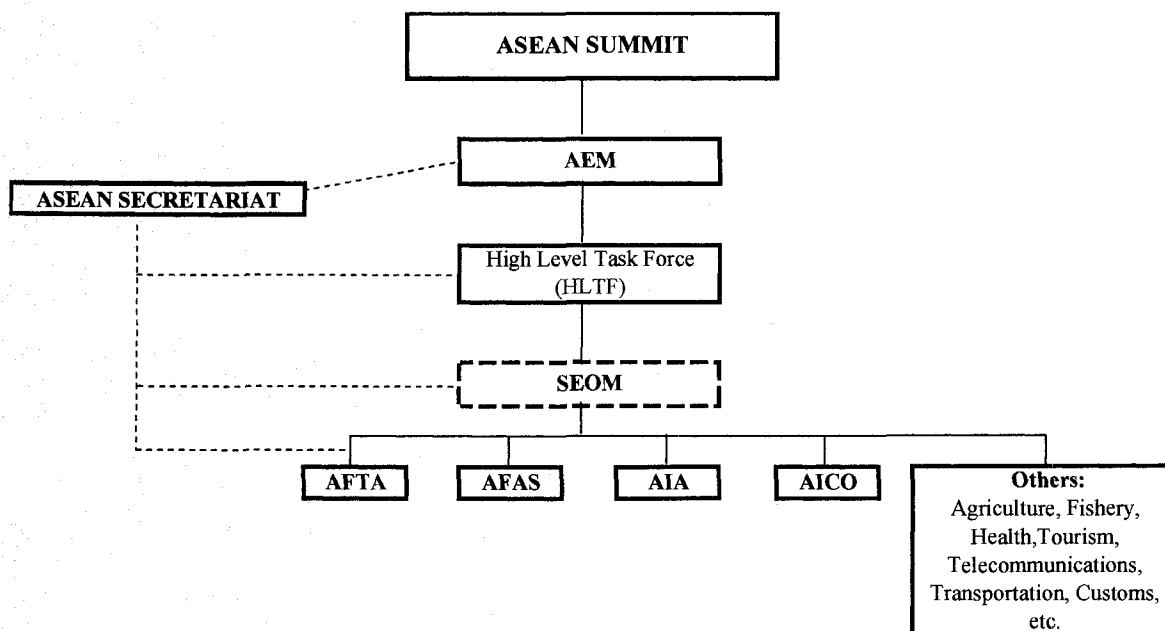
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<sup>26</sup> ASEAN Newsletter, "Six Minus X Principle Proposed," no. 15, May-June (1986): 10.

<sup>27</sup> ASEAN Newsletter, "The 20th ASEAN Ministerial Meeting, Singapore, 15-16 June 1987," 9.



**Figure 5.3: The Current Economic Organizational Structure of ASEAN**



Denotes: AEM = ASEAN Economic Ministerial meeting  
 SEOM = Senior Economic Officials Meeting  
 AFTA = ASEAN Free Trade Area  
 AFAS = ASEAN Framework Agreement on Services  
 AIA = ASEAN Investment Area  
 AICO = ASEAN Industrial Cooperative  
 \_\_\_\_\_ represents the role of responsibility.  
 - - - - - represents the role of coordination.

Source: Ministry of Commerce of Thailand

Figure 5.3 maps the current economic side of ASEAN political institution. The most influential body in an economic area is the SEOM. The officials can decide to transfer or conceal the issues to economic ministers. “The enforcement of senior [economic] officials is the most important stage to bring any thing up or down. They are the ones that can hamper [or foster] the whole process of ASEAN,” stated by Soesastro.<sup>28</sup> As similarly pointed out by Narongchai’s inside experience working with ASEAN officials, “the process of ASEAN decision-making has to pass the senior [economic] officials meeting as a main engine.”<sup>29</sup>

<sup>28</sup> The author interviewed with Dr. Hadi Soesastro on June 27, 2006 in Jakarta, Indonesia.

<sup>29</sup> The author interviewed with Dr. Narongchai Akrasanee on July 12, 2006 in Bangkok, Thailand.

The economic meetings are described as consultation, negotiation, bargaining and sometimes debating, based on the interviews with economic officials. Interestingly enough, the officials have revealed one confrontation during the economic ministerial meeting that ministers were in a very intense debate, and one of them angrily pointed a finger to the other disputing minister. This incident surprised ASEAN officials because it had never happened before. The above incident implies that the style of the economic meeting is more varied, more debatable and more aggressive, as compared to the political meetings. In particular, the AFTA and AIA officials may use various methods in their meetings. Another group in Figure 5.3 called the *High Level Task Force (HLTF)* was formed under the Bali Concord II in 2003 to recommend plans for economic integration. The HLTF is assigned to give recommendations in specific issues, commended by ministers.<sup>30</sup> Below are the brief examples of the different procedures between economic and political decision-making and policy formation.

ASEAN leaders initiate ideas among them and agree at the ASEAN Summit. Senior officials afterward will be ordered to formulate policy outlines. In economic affairs, the ideas of the ASEAN leaders can come from a particular member country, which successfully lobbies other member countries to agree with the idea at the senior official level or at the head of government level. For example, Singapore's Prime Minister Goh Chok Tong originally initiated the idea of AFTA. However, Singapore as the most pro-Western and liberalized economy could not propose this idea directly to other authoritarian and poorer economies in ASEAN. Lee Kuan Yew thus sold his idea to the Thai Prime Minister Anand Panyarachoon, and in return received his full support for the formation of a free trade area. Thailand started to convince other ASEAN member countries through formal and informal meetings. All six members finally agreed to the Singapore and Thailand's idea. Then, a few pages of an official agreement to establish AFTA were signed at the ASEAN Summit meeting. The next step is that senior (economic) officials will arrange a meeting to discuss, consult,

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<sup>30</sup> The same group, but believed to consist of different members, currently functions to draft the ASEAN Charter, which will be officially signed by the foreign ministers in Singapore in November 2007.

and negotiate with each other the details of cooperation and set up a working group to study technical issues and outline an implementing plan. At the national level, those senior officials will call for another meeting to create their national officials working group to survey the possibility of policy implementation.<sup>31</sup> A senior economic official described this route that, “the initiatives come from the state leaders or the economic ministers. Then they will have an agreement and give the agreement to us to implement. After that, we will negotiate about the detail whether this agreement can be done or not, and how.”<sup>32</sup> Based on this hierarchical system, the higher the official meeting level, the more the use of consultation or the less the use of negotiation.

In political affairs, the policy-making procedure is less aggressive and less detailed than the economic meeting. The debate may occur at the senior official level meeting, but never happens at the ministerial meeting level. The debate at the official meeting level in a political and security area is mainly about the wording used in agreements.<sup>33</sup> The foreign ministers only meet to sign the agreement. If the meeting involves a sensitive issue and the senior officials do not arrive at a consensus, the issue will be raised at the ministerial meeting to let the foreign ministers decide. Most of the time, there is no new or unprepared decision-making out of an official AMM. Therefore, some contradictory issues will not have a conclusion at the AMM. As a result, the issue is diluted and frozen until one of the members raises that issue again. Another way to discuss their disagreements is at a retreat ministerial meeting. The retreat ministerial meeting is an informal forum for ministers to discuss controversial and sensitive issues, which are confidential and off the record. Ali Alatas described the ASEAN economic and political meetings in this way,

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<sup>31</sup> At the present, the numbers of supporting teams for ministerial bodies are 29 committees of senior officials and 122 technical working groups. The ASEAN Secretariat, (Available at <http://www.aseansec.org>).

<sup>32</sup> The author interviewed with a senior official on August 3, 2006 in Bangkok, Thailand.

<sup>33</sup> The author interviewed with Dr. Sukhumbhand Pribatra on August 25, 2006 in Bangkok, Thailand.

the ASEAN economic meetings tend to be more to the point... Economic demands are more concrete, whereas in the political discussion [or] negotiation [the demands are] much more general and [we] hear the ASEAN Way very often. ... If we try to have the same opinion in the political field and if it is not there, we don't force. We try to find a formula, which everyone can live [with]. So, we often compromise because we still have differences in political views. But in economics, we are getting closer and closer. In economics, we are much [more developed] than politics.<sup>34</sup>

### *1.2.2. ASEAN Secretariat*

When the ASEAN Secretariat was first established in the late 1970s, only Indonesia was in favor of centralizing power to the Secretariat like a supranational organization of the European institution. Afraid that Indonesians would dominate the centralized institution, the rest of the members completely rejected moves to strengthen the ASEAN Secretariat. As discussed earlier, economic ministers also had an intensive demand to empower the Secretariat because the decision-making authority would be transferred from foreign ministers to a less politically oriented body. On the other hand, the ASEAN Foreign Ministers—except the Indonesian Foreign Minister Adam Malik—were undoubtedly opposed to granting superiority to the Secretariat because it could consequently erode their strong position in the ASEAN policy-making process.<sup>35</sup>

At the beginning, the Secretariat had been identified as “a postman collecting and distributing letters.”<sup>36</sup> The central works of the Secretariat were to prepare briefing papers for ASEAN meetings, facilitate administrative work to organize ASEAN meetings, and embark on research work assigned by ministers. The Secretary-General also acted on directions from the ASC and the AMM under

<sup>34</sup> The author interviewed with Mr. Ali Alatas on June 26, 2006 in Jakarta, Indonesia.

<sup>35</sup> Adam Malik stated that “with the increasing role and involvement of other ASEAN Ministers besides the Foreign Ministers and the necessity for a speedier decision-making process, it is felt that the ASEAN organizational structure has become inadequate and some of its organs even irrelevant. In view of these considerations, I strongly feel that the ASEAN Secretariat must be strengthened and that the present agreement on the establishment of the ASEAN Secretariat needs to be reviews.” Adam Malik, “Opening Statement to the ASEAN Ministers at the Tenth Annual Ministerial Meeting,” (Singapore on July 5-8: 1977).

<sup>36</sup> Business International Asia/Pacific Ltd., *ASEAN: Challenges of an Integrating Market*, 19.

Article II of the Bali Agreement.<sup>37</sup> Two attempts to improve the Secretariat's structure<sup>38</sup> before the enlargement period in the 1990s were brought out by the six old members. In 1982, ASEAN commanded a group of "ASEAN task force" headed by Anand Panyarachoon to recommend changing the organizational structure of ASEAN to get closer to the EU model of institution such as creating a council of ministers and a committee of permanent representatives.<sup>39</sup> Under the 1982 proposal, the ASEAN Secretariat was suggested to receive more power in terms of coordinating jobs in a "three-stage hierarchy," consisted of the existing heads of governments meeting (ASEAN Summit), the proposed council of ministers, and the proposed committee of permanent representatives. At the 17th AMM in 1984, the ASEAN Foreign Ministers however declined to pursue a more integrated regional body following the European Model guided in the recommendations of the 1982 task force.<sup>40</sup> The ASEAN Foreign Ministers instead signed the protocol amending the agreement on the establishment of the ASEAN Secretariat in July 1989 at the AMM to improve the Secretariat.<sup>41</sup>

In 1992, another group was formed to continue working on the suggestion of institutional development in ASEAN, called as the Group of 5 (G-5). The proposal of the G-5 was more

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<sup>37</sup> David Irvine, "Making Haste Less Slowly: ASEAN from 1975," in *Understanding ASEAN*, ed. Alison Broinowski (New York: NY: St. Martin's Press, 1982), 55-56.

<sup>38</sup> In the 1970s-80s, the organizational structure of ASEAN Secretariat was divided under the names of responsible persons, not by the names of institutional functions. Each division was named after the Assistant Director, who was accountable for serving several different functions. For instance, Assistant Director I was in charge of carrying on the work related to the Committee of Trade and Tourism (COTT), fostering future cooperation with other third countries, and coordinating with ASEAN bodies and NGOs. Assistant Director III was assigned to handle the works related to the Committee of Transportation and Communications (COTC), economic and political cooperation with the United States, liaison with ASEAN bodies and NGOs, and meeting coordination. See more detail of a full figure of the 1970s-80s organizational structure of the ASEAN Secretariat in Hans Christoph Rieger, *ASEAN Economic Co-operation: Handbook* (Singapore: ASEAN Economic Research Unit, Institute of Southeast Asian Studies, 1991).

<sup>39</sup> Pelkmans, "Institutional Requirements of ASEAN with Special Reference to AFTA," 101.

<sup>40</sup> Anwar, *Indonesia in ASEAN: Foreign Policy and Regionalism*, 88.

<sup>41</sup> ASEAN Newsletter, no. 35, September-October (1989), ASEAN Update, "Secretariat News: Secretariat Restructuring Completed," September (1993).

aggressive than the one made by the 1982 task force.<sup>42</sup> The G-5 proposed further strengthening the ASEAN Secretariat in research performance, policy monitoring without giving decision-making power, and project initiatives that could pass an initiative plan straight to the ASEAN leaders (not through the AMM). In terms of qualification of staffs at the ASEAN Secretariat, the proposal emphasized to operate a competitive open recruitment, which was expected to increase the capacity of the organization. The AMM abandoned some of the G-5 suggestions and signed its protocol to improve the ASEAN Secretariat in July 1992. The new functions of the ASEAN Secretariat, endorsed at the 4<sup>th</sup> ASEAN Summit, are to harmonize, facilitate, and monitor progress in the implementation of approved ASEAN activities, as well as to initiate plans and programs for cooperation in accordance with the approved policy guidelines.<sup>43</sup>

Figure 5.4 shows the current organizational structure of the ASEAN Secretariat. The structure is divided into three major divisions: (1) economic cooperation, (2) office of the Secretary-General, and (3) functional cooperation. All intra-ASEAN economic activities are operated under economic cooperation division. The current structure of the Secretariat illustrates that the Secretariat seems not to have a body to perform the jobs of monitoring policy implementation and initiating plans as written under the Singapore Declaration. Interestingly enough, the author found a trade unit under the Bureau for Economic Integration in the ASEAN Secretariat dealing with the compliance of actual tariff reduction with AFTA schedules, confirmed by the head of the unit. However, national officials, scholars, and even some Secretariat staffs were not aware of the existence of this unit's task.

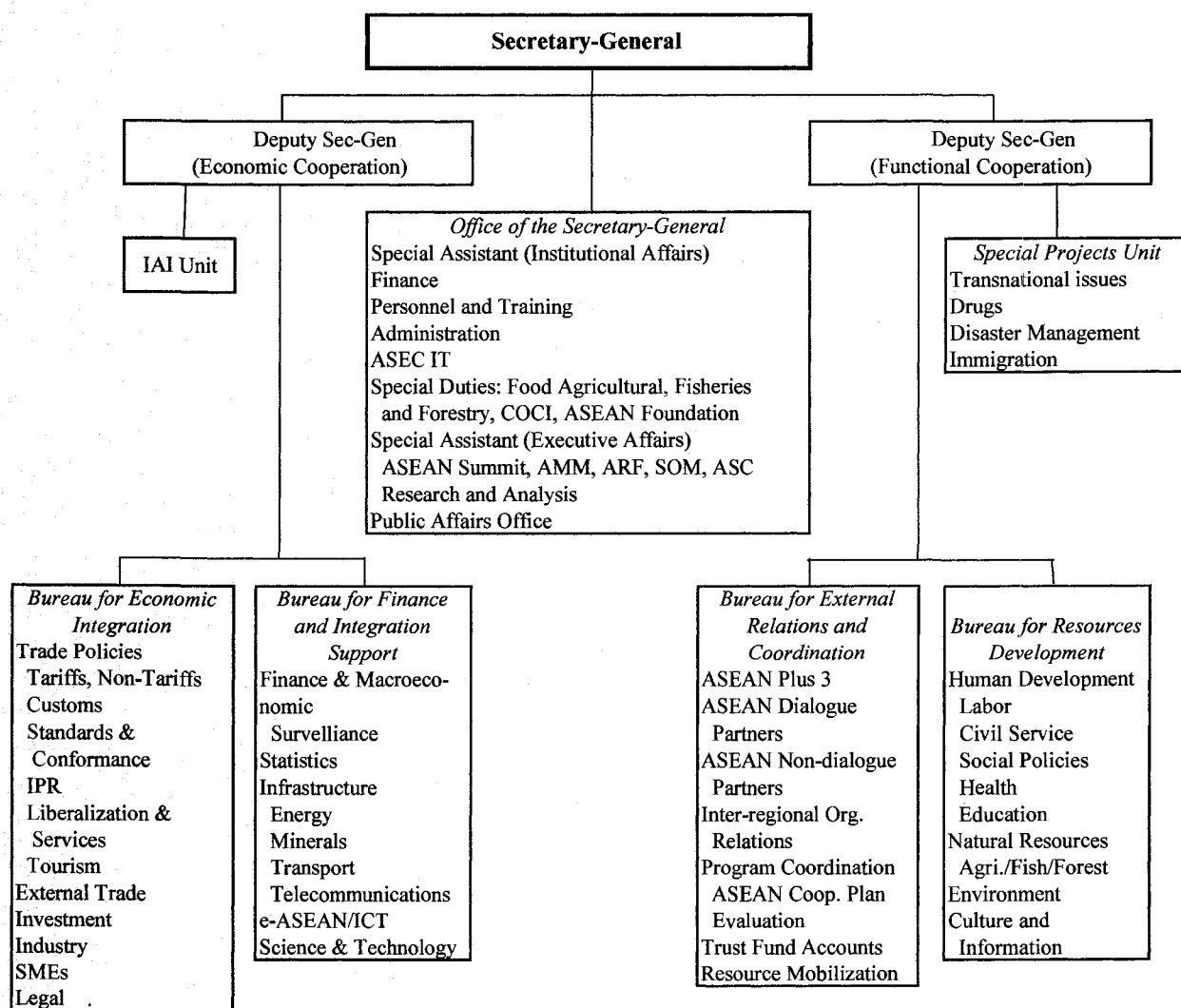
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<sup>42</sup> The G-5 suggested a supreme council which would set up permanent ministerial bodies to make a centralized decision, which means that the principle of the ASEAN Way and the traditional consensus rule would be eradicated. The G-5 proposal also advocated eliminating the ASEAN Standing Committee (supporting team for the AMM) with the replacement of the Committee of Permanent Representatives (CPR). This proposal directly and seriously challenged the political power in the institution. See more discussion in Pelkmans, "Institutional Requirements of ASEAN with Special Reference to AFTA."

<sup>43</sup> In 1982, ASEAN organized the ASEAN Task Force and again in 1992 the Group of Five (G-5), which gave recommendations to strengthen the ASEAN institution. ASEAN leaders agreed with some of the recommendations, which contributed to the protocol amending the agreement on the establishment of the ASEAN Secretariat in 1989, the protocol amending the agreement in 1992, and the Singapore Declaration in 1992.

All interviews that involved the discussion about economic integration mentioned the problems created by the absence of a compliance body, especially in trade affairs. This indicates that the Secretariat's job of policy compliance is not in fact effective and realized in reality.

**Figure 5.4: The Current Organizational Structure of the ASEAN Secretariat**



Source: ASEAN Secretariat

The ASEAN Secretariat has continued to work only as an administrative body to coordinate with the National Secretariats of ASEAN members. This was revealed in the author's interview with a senior economic official of an AFTA Unit,

[the Secretariat staffs/ representatives] are just a secretary. The Secretariat takes care of reports and documents of the meetings, and helps to support data and information needed during the meeting. ... [At the meeting], the representative can give information and data, but he cannot say why you don't do this and that. That is not his job. He may give facts about countries that have not done, but he cannot make pressure on those countries or make any decision. He does not have rights to do it.<sup>44</sup>

In the case of AIA, a senior economic official expressed the work of the ASEAN Secretariat in this way,

the Secretariat works as a secretary for AIA, but there is no an AIA unit in the Secretariat. It is the Bureau for Investment and Trade [who takes care of AIA activities]. They send people to meetings, take meeting notes, make papers, but they will not give opinions. They can provide detail from the previous meetings, but will not give suggestions in the meeting. ... Before the meeting, the Secretariat will prepare documents and papers for members. At the end of the meeting, they will draft a report and distribute it to each member.<sup>45</sup>

It is certain that the authority of ASEAN Secretariat to monitor and initiate exists only in the written document. Currently, ASEAN members do not allow empowering the Secretariat in practice. In fact, ministers or national officials have never transferred authority to the Secretariat. The above Figures 5.1-5.3 explicate that the ASEAN Secretariat always functioned as a coordinating party, which is placed outside the hierarchy of ASEAN authority.

The head of the Secretariat is the ASEAN Secretary-General.<sup>46</sup> The Secretary-General was promoted to receive the same status as an ambassadorial posting in the 1980s. This was upgraded to a ministerial status that allows the Secretary to join meetings with ministers, but he had no authority to

<sup>44</sup> The author interviewed with an economic official on August 3, 2006 in Bangkok, Thailand.

<sup>45</sup> The author interviewed with an economic official on August 11, 2006 in Bangkok, Thailand.

<sup>46</sup> The first Secretary-General was from Indonesia, Lt. General Hartono Rekso Dharsono. A position was a two-year term, rotated among the members alphabetically. The nominees of the position must be approved by the ASEAN Standing Committee and Foreign Ministers. At the present, the position is a five-year term, rotated by the alphabetical name of the member countries. Based on a competitive basis, the member country will select nominees and make a decision through its domestic procedure.



make decision. The Secretary General's authority of monitoring and initiating was not fully exercised. The position of the Secretary-General has been overwhelmed by politics. For example, the Secretary-General has academic dovetails with research institutes in Indonesia, Singapore, Thailand, Malaysia, and the Philippines to do research as requested. However, the Secretary is the one who sometimes censors academic reports made to the higher level of authority. At least one of the studies on the establishment of the ASEAN Economic Community (AEC) has been frozen because it is claimed to be "too far from the way that bureaucrats think."<sup>47</sup>

### ***1.2.3. Dispute Settlement Mechanism (DSM)***

ASEAN members have been using an avoidance of conflict to mollify their problems under friendly consultations. This approach is entrusted under the principle of the ASEAN Way and the policy of non-interference. ASEAN always has a desire for "soft" integration and promoted institutions to manage conflicts in the region.<sup>48</sup> However, ASEAN successfully created a political Dispute Settlement Mechanisms (DSM) under the 1976 TAC and an economic DSM under the 1996 DSM agreement.

In the political sphere, ASEAN members can set up a "High Council" under the TAC, consisting of representatives from each member at the ministerial level. The High Council can be activated when the bilateral consultation between the two disputing countries fails to find a solution. The Council can become a body that gives recommendations to settle the dispute. However, its recommendations will not contain any element of legal status; therefore, the High Council only serves as a consultative body. ASEAN has never used this system to solve any political dispute among ASEAN members. This fact does not mean that Southeast Asian countries have not had any dispute

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<sup>47</sup> The author interviewed with an ASEAN institutional expert on June 27, 2006 in Jakarta, Indonesia.

<sup>48</sup> Hassan S. Kartadjoemena, "ASEAN and the International Trading System: Regional Trade Arrangement vs. the WTO," in *ASEAN Beyond the Regional Crisis: Challenges and Initiatives*, ed. Mya Than (Singapore: Institute of Southeast Asian Studies, 2001).

after they became members of ASEAN. Interestingly, there are three dispute cases placed outside the regional DSM body. The three cases were settled at the International Court of Justice (ICJ).<sup>49</sup> The first case was between Cambodia and Thailand on the issue of Temple of Preah Vihear (Angkor Wat) in 1959, resolved in 1962, when ASEAN had not yet been formed. The latter two cases were between Malaysia and Indonesia on the issue of sovereignty over Pulau Litigan and Pulau Sipadan; and between Malaysia and Singapore on the issue of sovereignty over Pedra Branca/ Pulau Bau Puteh, Middle Rocks, and South Ledge—which happened in 1998 and 2003 respectively. The dispute case between Malaysia and Indonesia was ended in 2002. Another case between Malaysia and Singapore is in process. According to the two disputing cases, the establishment of the High Council as a consultative body was not requested by any party. The failure to implement the High Council could be caused not only by the historical distrust among ASEAN members but also the “ill-equipped”<sup>50</sup> mechanism. In other words, this suggests that ASEAN members have not acquired confidence in using their own DSM mechanism as well as the mechanism itself cannot function to solve conflicts.<sup>51</sup>

Another political DSM body is the “ASEAN Troika,” which is composed of three representatives, namely the former, the present, and the future Chairman of the ASEAN Standing Committee. This body possesses its own decision-making authority and expects to effectively tackle regional problems.<sup>52</sup> The first ASEAN Troika was virtually laid out to solve the Cambodian political clash in 1997. The three Foreign Ministers from Indonesia (Ali Alatas), the Philippines (Domingo Siazon), and Thailand (Surin Pitsuwan) instead were appointed to serve in the Troika to assist the Cambodian election as observers in July 1998, along with the UN commission.<sup>53</sup> The peaceful

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<sup>49</sup> See detail of each case at International Court of Justice Website.

<sup>50</sup> Emmers, "The Indochinese Enlargement of ASEAN: Security Expectations of Outcomes," 80.

<sup>51</sup> Hoang Anh Tuan, "ASEAN Dispute Management: Implication for Vietnam and an Expanded ASEAN," 64-65.

<sup>52</sup> Markus Hund, "From 'Neighbourhood Watch Group' to Community?: The Case of ASEAN Institutions and the Pooling of Sovereignty," *Australian Journal of International Affairs* 56, no. 1 (2002): 112.

<sup>53</sup> ASEAN Troika had meetings with international organizations such as the representative of the UN Secretary-General in Cambodia, and the Friend of Cambodia (FOC) in Bangkok, including King Norodom Sihanouk in

resolution and the international acceptance of the national election in Cambodia were partly claimed to result from the successful mission of the Troika. Conversely, several scholars have seen the Troika visit to Cambodia as a failure, which did not illustrate the authority of this team in dealing with the crisis. In November 1999 after the Cambodia conflict was resolved and the country became a member of ASEAN, Thai Prime Minister Chuan Leekpai pushed for constituting this body at the 3<sup>rd</sup> informal ASEAN Summit in Manila as an official non-permanent body that can occasionally be set up to undertake regional problems as demanded.<sup>54</sup> Its terms of reference were adopted at the 33<sup>rd</sup> AMM in July 2000 in Bangkok with the explicit statement that the Troika is not a decision-making body and intends to cover the issues of peace and security identified and assigned by ASEAN Foreign Ministers.

In the economic sphere, the 3<sup>rd</sup> AFTA council meeting in Indonesia in 1992 allowed the council to provide an institutional mechanism to resolve disputes and provide immediate solution and settlement. This basic consummation was signed under the Framework Agreement on Enhancing ASEAN Economic Cooperation, aiming to assist the implementation of AFTA. Four years later, ASEAN finally established a mechanism to settle economic disputes under the Protocol on Dispute Settlement Mechanism in 1996. The 1996 ASEAN-DSM gave power to senior economic officials to handle dispute cases. The meeting of senior officials would set up a consultative body, but the protocol did not also address how to constitute this body and who should be in it. If the process of consultation fails, the senior officials would raise the issue to economic ministers at the AEM. The economic ministers from disputing countries would not participate in the decision of the AEM. The decision of the AEM on the appeal would be made on "simple majority" and it would be "final and

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Siem Reap. ASEAN had stressed that the formation of Troika to Cambodia was a request from the Cambodian government itself after ASEAN decided to postpone its membership without timeframe. ASEAN Update, "Troika: ASEAN to Monitor Cambodia Elections," 1, no. 1st Quarter (1998): 3. Later on, Hun Sen was upset to the Troika and ASEAN condition to Cambodia. He saw them as non-interfering acts to Cambodian domestic affairs. ASEAN Update, "ASEAN Prepares to Admit Cambodia," 1, no. 1st Quarter (1999): 12.

<sup>54</sup> The Bangkok Post, "Consensus Needed for Troika System", May 18, 2000.

binding on all parties to the dispute.”<sup>55</sup> The 1996 ASEAN-DSM was very loose and substantially insufficient to determine a dispute in the real world case because bureaucratic and political officials would precede every stage in the ASEAN-DSM. In addition, there was no mention about the third party who could be qualified as international law/ trade experts to cooperate in the economic DSM process. The whole process was thus decided through a political means and bureaucratic people. Its punitive measures were very ambiguous. These unclear guidelines did not encourage ASEAN members to use the 1996 ASEAN-DSM to find solutions for economic disputes. Most unsettled disputes were handled by senior officials and sent back for bilateral negotiations.

### ***1.3. Policy Commitment and Political Will***

A weak political will to strengthen ASEAN political institution has kept alive the customs of the ASEAN Way, consensus, and non-intervention by maintaining the enhancement rather than the transferal of national sovereignty to a regional entity. The half-hearted cooperation of the old ASEAN members hampered the development of a closer economic and political cooperation among the members before the enlargement. The unwillingness of ASEAN members to pursue true cooperation had malfunctioned economic activities at the early stage of ASEAN cooperation.<sup>56</sup> In the 1990s, political reluctance to push ASEAN for an institution-based integration did not effectively facilitate the operation of AFTA. For example, the lack of bureaucratic connections and the absence of institution limited administrative capacity to organize a “well-developed administrative apparatus.”<sup>57</sup>

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<sup>55</sup> The Protocol on Dispute Settlement Mechanism in 1996.

<sup>56</sup> Indorf, *Impediments to Regionalism in South-East Asia*, Linda Low, "Multilateralism, regionalism, bilateral and cross regional free trade arrangements: all paved with good intentions for ASEAN?," *Asian Economic Journal* 17, no. 1 (2003), Ravenhill, "Economic Cooperation in Southeast Asia: Changing Incentives.", Stubbs, "Signing on to Liberalization: AFTA and the Politics of Regional Economic Cooperation."

<sup>57</sup> Kjell A. Eliassen and Catherine Borge Mosen, "Comparison of European and Southeast Asian Integration," in *European Union and New Regionalism: Regional Actors and Global Governance in a Post-Hegemonic Era*, ed. Mario Telò (Burlington, VT: Ashgate, 2001), 120.

A weak policy commitment leads to the creation of inadequately detailed agreements and imprecise policy guidelines that in fact leave a gap for political intervention, when members attempt to follow the promising policy. The AFTA agreement contains only 10 Articles with 9 Protocols between 1995 and 2003. Compared to AFTA, the North America Free Trade Area (NAFTA) agreement consists of 8 Parts, 22 Chapters, and 295 Articles including the fields of investment, finance, and DSM. The AIA agreement which is not part of a free trade area in ASEAN has 21 Articles. The ASEAN-DSM agreement in 1996 contains 12 Articles, whereas the NAFTA-DSM is detailed in 33 Articles. Under this circumstance, flexible policy commitment will be allowed.

In a few words, the political willingness of ASEAN leaders and officials in keeping up with the promises for cooperation is weak. The lack of detailed agreements reflects the evidence of weak political willingness and flexible policy commitment. A weak political willingness to integration has contributed to maintaining the ASEAN Way as the nature of ASEAN political institution, and the consensus rule of decision-making process in practice.

## **2. The Development of ASEAN Political Institution: After the Enlargement**

### ***2.1. Nature of Institution***

ASEAN has faced a big challenge after its enlargement in the 1990s. As we investigated in the fourth chapter, CLMV—Cambodia, Laos, Myanmar and Vietnam—prefer to maintain a weak type of ASEAN political institution and the traditional principle of the ASEAN Way, because the weak regional institution can create a buffer between international and domestic clashes, promote government legitimacy under authoritarian regimes, and act as a shelter for international criticism. To preserve its role as the existing buffer and shelter, the ASEAN Way as a nature of the regional institution must be maintained. As pointed out by ASEAN institutionalists, the expansion of membership is a challenge for the process of institutionalization in ASEAN because the new

members are extremely sensitive to any change in the institution that may undermine the principle of the ASEAN Way and the non-interference policy.<sup>58</sup> Hadi Soesastro, Executive Director of CSIS and ASEAN-institutional economist articulated in the interview with the author that “when [the old members discuss] about the ASEAN Charter, the new members are very cautious. They don’t want to change this [principle].<sup>59</sup> Jusuf Wanandi, Vice Chair of CSIS and ASEAN security expert, asserted during the other interview with the author that the new members are concerned if they will lose sovereignty in a more formal institution like a regional community: “The main problem is how to make the new members comfortable and ready to change. The old members are okay. The new members are still a problem. ... They are worried about the impact [of changing institution] on them. So, they are very cautious at this stage.”<sup>60</sup> At least, two events indicate that CLMV is reluctant to change the principles of the ASEAN Way and non-interference: (1) the ASEAN Security Community (ASC) and (2) the ASEAN Charter.

First, CLMV visibly show their reluctance to weaken the ASEAN Way and non-interference policy by not facilitating the progress of outlining the ASEAN Security Community (ASC). In 2003, ASEAN concluded an agreement to tighten security cooperation. The new members do not feel comfortable with the further development of the ASC, especially regarding the idea of peacekeeping capacity proposed by Indonesia.<sup>61</sup> However, the puzzle remains why the new members decided to sign the ASC agreement, which certainly would bring them into trouble. The reasons are, firstly, the ASC agreement is just the outline of an idea, and has not yet been enforced or implemented. Secondly, the label of “Agree First, Talk After” is still active. It means that today’s promise will not

<sup>58</sup> Soesastro, "ASEAN in 2030: The Long View," 280.

<sup>59</sup> The author interviewed with Dr. Hadi Soesastro on June 27, 2006 in Jakarta, Indonesia.

<sup>60</sup> The author interviewed with Dr. Jusuf Wanandi on May 24, 2006 in Jakarta, Indonesia.

<sup>61</sup> Indonesia took the responsibility of writing an implementation proposal. Rizal Sukma proposed to establish an ASEAN peacekeeping capacity, and the target year was set for 2012. See Rizal Sukma, "The Future of ASEAN: Towards a Security Community," in *ASEAN Cooperation: Challenges and Prospects in the Current International Situation Seminar, June 3* (New York: The Permanent Mission of the Republic of Indonesia to the United Nations, 2003).

become a factor for force tomorrow. Thirdly, they know that if at least one of the ASEAN members does not agree with the further detail of the ASC, nothing will happen. The power to disagree still remains forceful under the consensus rule. In other words, the flexibility of the agreement is anticipated and the rule of consensus is still upheld. Lastly, agreeing to the ASC idea is worthier than opposing it. The new members do not try to be too much of a problem for the old ASEAN members, who want to move the institution toward a community and promote this movement as a progressive image of ASEAN to the international community. The uses of such phrases as “human security” and “democratization” in the ASC agreement have in turn created a positive image for not only ASEAN but also CLMV to the West. As anticipated, the new members have not made it any easier for the old members to develop and detail the implementation of the ASC. At the Annual Ministerial Meeting (AMM) in June 2004, CLMV refused the “proposed timetables for democratic rule and the creation of national human rights commissions.”<sup>62</sup> It is clear that CLMV did not lose anything from signing this agreement that expresses only an idea without a framework, a timetable and a plan for implementation.

Second, the initial movement for developing ASEAN institution had begun among old members before the 1990s enlargement. Again, at the 39<sup>th</sup> ASEAN Ministerial Meeting (AMM) in Kuala Lumpur in July 2006, Malaysian Prime Minister Badawi addressed to support the 2005 EPG to “think out of the box” and explore “bold and visionary ideas” for the strengthening of ASEAN and its institutional framework. Indonesia, Malaysia, the Philippines, and Singapore have been very keen to accept the report by the 2005 EPG to establish the ASEAN Charter, which recommends narrowing down the scope of the ASEAN Way. Singapore and the Philippines at present are the most enthusiastic ones calling for the binding of the ASEAN institution. Singapore is ready for the process of accelerating the ASEAN economic community because of its domestic politics is securely

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<sup>62</sup> Ronald Bruce St John, *Revolution, Reform and Regionalism in Southeast Asia: Cambodia, Laos and Vietnam* (New York: Routledge, 2006), 187.

controlled by the central government and it is the most advanced economy in the region. Singapore's view is also clearly reflected in the interview with the former Foreign Minister and the current government advisor S. Jayakumar that ASEAN has no choice but to change, because if it does not, "ASEAN will become one of those organizations which will slowly fade into the sunset."<sup>63</sup> The Philippines, which has the most developed system of democracy and the closest relationship with the United States compared to other countries in Southeast Asia, has a clear interest in using the ASEAN Charter to improve issues of human rights and democratization in ASEAN, especially in regard to Myanmar. For Indonesia, the current government has been actively practicing democracy. In ASEAN activities and meetings, the increased role of Indonesia in protecting human security and democratization in the region has been observed, which may influence the government to back up the Philippines' interest. Similar to Singapore, Malaysia has also been active in improving the ASEAN institution in response to its economic interests. For Thailand, the country, which was one of the most vigorous members along with the Philippines in the efforts to improve human rights and democratization in the 1990s, has temporarily shifted its position from a progressive to a neutral one, after the military coup has ruled the country since September 2006.

Even though the support of the old members for a formal regional institution is caused by different reasons, the old members tend to be more open to change as compared to the new members. On the other hand, CLMV countries have revealed their disagreement to formalize the ASEAN institution under the new styles of regional management—including a voting system, a suspension of membership, and a reward and sanction systems, whereas the old members are the main supporters of those new methods. Vietnamese Deputy Prime Minister and Foreign Minister Pham Gia Khiem implicitly expressed his concern about the EPG recommendations on the ASEAN Charter in regard to the principles of consensus versus voting, and the role of the ASEAN Secretary-General. He

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<sup>63</sup> Channel News Asia [Singapore], "ASEAN Must Make Tough Decisions to Reinvent Itself: DPM Jayakumar," January 5, 2007.



reaffirmed that the Charter should stick to the fundamental principle of non-interference and consensus, which means that there should not be “regulations to expel or suspend membership from the group, but warning measures should be made for serious violations of the Association’s principles or agreements.”<sup>64</sup> At the 12<sup>th</sup> ASEAN Summit in the Philippines in January 2007, after the ASEAN Foreign Ministers agreed to support the EPG recommendations as a blueprint for drafting the Charter, some of the members “were not happy with the host [Philippines]’s idea.”<sup>65</sup> Laos and Myanmar were identified as the unhappy members concerned with the voting system.<sup>66</sup> Furthermore, the military government of Myanmar has publicly advertised its preserved sovereignty after joining ASEAN and issued an explicit warning against any changes in the non-interference policy.<sup>67</sup> As notably pointed out by Denis Hew, ASEAN-institutional economist, “some of the new member countries would like things as they are, especially non-intervention with domestic affairs. At the same time, some of the old member countries want some change because they want more integration. The existing structure cannot accommodate the high level of integration.”<sup>68</sup>

So far, the development in nature of ASEAN institution has been trapped in a transitional period, where the difference in interests between the old and new members is increasingly divided in the negotiations of drafting the ASEAN Charter. The old members are more ready to abandon the restrictions of the ASEAN Way in some issues as discussed in the above Section 1.1. On the other hand, the new members are not prepared to give up the ASEAN Way. CLMV countries are thus playing the role of a resistance to the change, in favor of preserving the tradition. Among them,

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<sup>64</sup> Vietnam Agency News, "ASEAN Ministers Move Closer to Charter after 2-day Meeting," March 3, 2007.

<sup>65</sup> Kavi Chongkittavorn, "ASEAN Leaders Set to Endorse 50-page Charter Blueprint," *The Nation*, January 12, 2007.

<sup>66</sup> Ibid.

<sup>67</sup> Maung Aung Myoe, *Neither Friend nor Foe: Myanmar's Relations with Thailand Since 1988: View from Yangon* (Singapore: Institute of Defence and Strategic Studies 2002), 7. Regarding the pressure to change the nature of ASEAN institution by old members, the military-controlled-media even criticized that “some ASEAN Foreign Ministers were being presumptuous.” Ibid.

<sup>68</sup> Interviewed Dr. Denis Hew at the Institute of Defense and International Studies (IDSS) on March 27, 2006 in Singapore.

Vietnam has been seen to be the leader of the new members due to its role in slowing down the further discussion on the ASC and rejecting to replace the principle of the ASEAN Way. As asserted by Ralf Emmers, ASEAN security expert, “some of the original member countries are not very comfortable with [initiatives]. But [we receive] a lot of resistance coming from the new member countries. A lot of leadership comes from Vietnam,” while Cambodia and Laos are following Vietnam’s position.<sup>69</sup> Besides these two matters—the ASC and the ASEAN Charter, Vietnam and the other new members explicitly revealed their similar position on defending the ASEAN Way and non-interference policy when Vietnam took over the ASEAN Chairmanship in 2000, discussed in the following Section 2.2.3. In short, the ASEAN Way and non-interference thus remain preserved as a primary nature of the ASEAN institution, after considering the impact of the enlargement. The members recognize the need to change the nature of the ASEAN institution, but this recognition has not yet translated into a successful action with the resistance from the new members.

## ***2.2. Structure of Institution***

### ***2.2.1. Organizational Structure and Decision-Making Process***

The organizational structure of ASEAN has not physically changed in the chart, according to the enlargement in the 1990s. The above diagrams in Figures 5.2 and 5.3 remain the same. Nevertheless, off the structure, the so-called CLMV Summit and the CLMV Ministerial Meeting (foreign ministers meeting) were born. These meetings are organized by the four new members and held before the ASEAN Summit take place each year. These forums could be places for the new members to strategize their position before meeting with the old members at the ASEAN Summit. The meetings have never been pressed and reported publicly by any new members or ASEAN. However, they are officially recognized by ASEAN and scheduled as one of the meeting programs

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<sup>69</sup> The author interviewed with Ralph Emmers at the Institute of Defense and International Studies (IDSS) on March 30, 2006 in Singapore.

during the ASEAN Summit event. Whether the record of the meetings exists or not is likely to classify as a highly confidential matter. According to the author's interviews, no one seems to know what was going on or even what agendas were discussed in the CLMV Summit and Ministerial Meetings, except the leaders and foreign ministers of the CLMV. Besides these two meetings, the organizational structure has been unchanged after the enlargement.

Considering economic bodies after the enlargement, the SEOM has been given more power. The SEOM tend to have more responsibility and authority in negotiating, overseeing, and finalizing several policies involving economic integration and narrowing development gap (NDG) projects between old and new members.<sup>70</sup> The SEOM is also the body that monitors the ASEAN Integration System of Preference (AISP), which is the program that gives privilege to the new members in terms of tariff reductions.<sup>71</sup> As a result, the SEOM's consultation power to the ministers and authority to command lower-ranking economic officials have been expanded and strengthened. This fact suggests that the impact of enlargement has indirectly empowered the role of senior economic officials in dealing with economic integration after the enlargement. As Narongchai and Soesastro commented in the earlier section, the SEOM is likely to have a political heart to deal with economic affairs.

In terms of decision-making, the new members have strictly used the consensus rule during the meetings in a political area. According to my interview with a former member of the 2001 EPG, the ASEAN Way and the consensus formula are tightly cemented among the new members, leading to a difficulty in dealing with the subjects of sovereignty, domestic politics, and human rights during ASEAN meetings. In retrospect he said that, "political sensitivity is very high in the meeting. I remember in one of the EPG meetings. I talked about interference and non-interference that we have to accept interference in the case of human rights, and we have to make a position on it. The Laotian delegate, [who] is a good friend of mine, threatened by saying to me if you continued on that topic, I

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<sup>70</sup> The discussion of narrowing development gap projects and AISP can be found in Chapter Seven.

<sup>71</sup> The old members offer to unilaterally cut their tariffs in particular products to be between 0-5 percent for individual new members.

will walk out of the meeting. So, of course, I stopped it.”<sup>72</sup> Under the consensus rule, if any member refuses to discuss any issue, the leader of the meeting will not continue further conversation on that topic. The discussion will be ended without a conclusion. As we observe that the CLMV prefers the traditional principle of the ASEAN Way and non-interference policy, consensus thus tends to be a method to safeguard their preferences. Supporting by my interviews with ASEAN officials, this rule has been found by the officials to be the most important factor to help the new members survive in the current transitional period of the ASEAN institution. CLMV strongly stick to the consensus rule especially during the AMM as well as other ASEAN meetings related to the subjects of politics and security.<sup>73</sup>

In economic meetings, consensus is still also a priority rule in the decision-making process after the enlargement. However, ASEAN members have seriously realized the lethargic characteristic of consensus that hampers economic integration in the region. One of the recommendations written by the HLTF suggested that ASEAN should consider other options when there is no consensus in an economic area to reduce the gap between old and new members. The 1980 Singaporean idea of “ASEAN minus x” was thus revitalized. The “ASEAN minus x” approach has been technically applied in the cases of AFTA and AIA. Under the AFTA scheme, ASEAN allows the CLMV to have different deadlines to achieve their tariff reduction. This is because they generally have a lower level of economic development than the old members and joined ASEAN after the old members have been under the tariff reduction program for more than 3 to 5 years. CLMV thus cannot complete their tariff reduction on the same deadline as the old members. In the case of AIA, the new members have been allowed to have more time to preserve a privileged status for their own national investors. With this technical reason, the Singaporean decision-making method was finally activated. ASEAN

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<sup>72</sup> The author interviewed with a formal member of EPG on June 19, 2006 in Jakarta, Indonesia.

<sup>73</sup> In the subject of military and security, the meeting is suggested to be much more proactive without a participation of officials from the Ministry of Foreign Affairs. The political concern and sensitivity during the meeting are often instigated by those officials.

officials also claimed that this approach has significantly resolved the process of ASEAN decision-making. In addition, this approach has been applied in other economic areas such as services.<sup>74</sup> However, in theory the “ASEAN minus x” approach is still based on a consensus rule because all ten members have to make a consensual agreement to accept a project and then allow who will go first and who will join later.

Another economic decision-making approach pointed out during my interviews is the so-called “two plus x,” which was proposed by Singapore and Thailand at the 9<sup>th</sup> ASEAN Summit in Bali in 2003. This approach is initiated on a bilateral basis. Under this method, consensus is not required and other members can join later. So far, because of an inadequate level of participation and enthusiasm, other members—except the initial two members—are not convinced of the benefits of joining the extended bilateral deals. Denis Hew stresses that the “two plus x” could be problematic since there is no guideline even if this idea could foster economic integration.<sup>75</sup> Hitherto, this “two plus x” approach has not been more than a bilateral type of cooperation.

Overall, the 1990s enlargement to some degree liberates the traditional way of ASEAN decision-making process in economic affairs (adopting the “ASEAN minus x” and the “two plus x” approaches), and also puts the accent on different approaches to cope with different issues in economics and politics. However, those changes have not yet acquired an adequate position to efficiently handle economic affairs. For example, the “two plus x” approach certainly gives a new flavor to the ASEAN decision-making process due to an absence of requirement for consensus, but the absence of regulation greatly undermines members’ confidence to use this approach. Consensus is thus still a primary rule used in both economic and political meetings. The political style in economic decision-making and economic bodies has remained after the enlargement. Even though

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<sup>74</sup> In addition to the technical cases like AFTA, AIA and other agreements such as services, ASEAN has applied this approach in the “ASEAN Single Window” project. The project aims to create an electronic custom check system in order to facilitate a faster way to enter import goods into the country. The Philippines and Thailand have initiated to go ahead with this system, and the rest of the members can start their project later.

<sup>75</sup> The author interviewed Dr. Denis Hew on March 27, 2006 in Singapore.

the degree of political domination might be reduced by rising economic significance, politics is still a preferred method of ASEAN to maintain amicable relationships between the old and new members. In a few words, the impact of enlargement has not yet brought about an integrative institution, where the new styles of management such as voting system and a penalty system are active. The new members have resisted to any change and not been ready to move further than the “ASEAN minus x” method, which still lingers on the consensus rule.

### ***2.2.2. ASEAN Secretariat***

The structure of the Secretariat was scheduled to re-bifurcate in June 2006 corresponding with the impact of enlargement and the goal of creating an ASEAN community. However, the new map of the ASEAN Secretariat has not yet been released publicly. According to the author’s interviews with Secretariat staffs, the structure would be divided into three areas following the three pillars of the ASEAN community—security, economics, and socio-culture. Moreover, the possible establishment of an FTA unit (trade negotiations with dialogue and non-dialogue partners), a trade facilitation unit (customs), an investment unit, and a legal studies unit may be created under the new structure of the ASEAN Secretariat as well.<sup>76</sup> Under the most recent structure of the ASEAN Secretariat in Figure 5.4, the so-called IAI (Initiative for ASEAN Integration) unit was created after the enlargement, directed by the Deputy Secretary-General on economic cooperation. The IAI unit is responsible for enhancing ASEAN capacity in coordinating and supporting the projects for narrowing the development gap between old and new members under the IAI agreement, signed at the 4<sup>th</sup> ASEAN Informal Summit in Singapore in November 2000.<sup>77</sup>

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<sup>76</sup> The author interviewed with an ASEAN Secretariat staff on May 26, 2006 in Jakarta, Indonesia.

<sup>77</sup> The IAI projects contain two phases, which aim to build soft infrastructure (capacity building in domestic institutional, legal and regulatory frameworks) and hard infrastructure (physical constructions such as roads, railways, and ICT systems) in CLMV. See more discussion about IAI in Section 3.3.6, Chapter Seven.

After the enlargement, the ASEAN Secretariat has obviously faced more political restrictions caused by the new members, and the Secretary-General turned to practice more responsibilities that are similar to the ones of the Minister of Foreign Affairs. Technically, the Secretary-General is supposed to have significant roles in ASEAN activities such as that of the “innovator, mediator, and the personified ‘conscience’ of ASEAN.”<sup>78</sup> Moreover, he has also “assumed more political independence internally and externally.”<sup>79</sup> Practically as the result of the enlargement, the Secretary-General has been overwhelmed with diplomatic and political interests. At the international level, the Secretary-General has presented himself as a spokesman for the ASEAN governments responding to international concerns in the region. Regarding the Myanmar problem—for example, the current ASEAN Secretary-General Ong Keng Yong made known Myanmar’s authoritarian rule as a threat to regional peace in a response to the UN resolution outside of ASEAN in 2006.<sup>80</sup> He also asserted that the failure of Myanmar’s political reforms no longer made it possible for ASEAN to defend it. This implies that ASEAN supports pushing the issue of Myanmar into the UN Security Council, which is against the position of the Chinese and Russian governments. But just about half year later, at the ASEAN Summit in January 2007 the Secretary-General re-posed ASEAN in an ambiguous stance, that “there is no official ASEAN position” on Myanmar’s human rights climate, and “it’s up to the individual states” to deal with the issue. In line with his statements, it is obvious that his job is to promote the good will of ASEAN to the international community and politically preserve the use of the ASEAN Way at home. The profession of the Secretary-General is politically overriding, which essentially requires him working more closely with Foreign Ministers than other ministers, especially under the more politically intense issues from the new members.

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<sup>78</sup> Hund, "From 'Neighbourhood Watch Group' to Community?: The Case of ASEAN Institutions and the Pooling of Sovereignty," 114.

<sup>79</sup> Ibid.

<sup>80</sup> Zaid Ibrahim, "Comment: ASEAN can Do More for Change in Myanmar," *New Straits Times*, July 30, 2006.

Regarding the perception of the Secretariat staffs, the staffs have unequivocally expressed the way to handle issues at the ASEAN Secretariat by strictly utilizing the principle of the ASEAN Way. Even though they have recognized that the ASEAN Way slows down the process of regional integration, at this moment there is no other choice for them. The political and diplomatic atmosphere at the ASEAN Secretariat is firmly embraced, and the practice of the ASEAN Way by the Secretariat staffs is a great deal. The author had some difficulty in interviewing the ASEAN Secretariat staffs in the issues of ASEAN enlargement and political situations related to the new members. Also, the author found that the staffs at the Secretariat are even more conservative and careful of making any contact with outsiders as compared to the officials at the ASEAN Ministries of Foreign Affairs. The staffs from old member countries are very concerned with talking about new members, and the staffs from new member countries basically cannot handle any question related to the enlargement and politics in ASEAN. They are extremely cautious to answer any question that may touch on political sensitivities.

Furthermore, the most acknowledgeable problems of the Secretariat that affect its poor performance are the lack of staffs and budgets to improve and expand the Secretariat. This problem has been recognized in ASEAN literature since the 1970s<sup>81</sup> and is still evident in my interviews. The national officials have complained about an insufficient support of information by the Secretariat staffs, while in turn showing their understanding that the Secretariat have been overloaded with work. As concisely stressed by a Secretariat staff, "there is always a problem at the ASEAN Secretariat—both technical and administrative staffs. It could be because of the budget constraint. It depends on ASEAN members. They may think that it is still okay to just add more work to the staffs, while not increasing budgets to hire more people at the Secretariat."<sup>82</sup> The Secretariat has had a financial

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<sup>81</sup> For instance, Anwar, *Indonesia in ASEAN: Foreign Policy and Regionalism*, Indorf, "ASEAN: Problems and Prospects, Occasional Paper No. 38.", Indorf, *Impediments to Regionalism in South-East Asia*, Irvine, "Making Haste Less Slowly: ASEAN from 1975.", Tay, "Institutions and Processes: Dilemmas and Possibilities".

<sup>82</sup> The author interviewed with an ASEAN Secretariat staff on June 2, 2006 in Jakarta, Indonesia.



constraint before enlargement and even more after the enlargement, as reflected in this statement of an economic staff,

It is like wearing [a *sarong*].<sup>83</sup> ... [T]he size of the sarong is the same, but we are getting taller. So if you cover the lower part [of the body], the higher part will be exploded. We are trying to get an allocation of the *sarong* as balanced as possible.<sup>84</sup>

So far, ASEAN members have pledged very small budgets in order to recruit staffs and improve the efficiency of the Secretariat.<sup>85</sup> In 2005, the total ASEAN financial budget was approximately US\$ 8 million. This accounted for 0.005 percent of the total of ASEAN government revenues, whereas the EU members have annually contributed around 1 to 2 percent of their total governments' revenues to the EU budget.<sup>86</sup> In 2006, more than 500 ASEAN meetings were held, which required the Secretariat staff to travel around the region very often, as compared to 77 meetings between 1980 and 1981, and 90 meetings between 1979 and 1980. According to the ASEAN Secretariat, the organization has approximately 100 staff members ranging from the Secretary-General to Assistant Program Officers.<sup>87</sup> Among one hundred, around 10 of them are hired from CLMV, who seem at present have a connection with their governments or have worked with government before. On the other hand, the staffs from old members are likely to be independent from their governments.

In short, the impact of ASEAN enlargement in the 1990s has made changes in the ASEAN Secretariat. First, the structure of the Secretariat has added a new unit, IAI, along with a big plan to restructure the organization after accepting the new members. Second, politics has influenced and

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<sup>83</sup> Sarong is a big piece of fabric which is worn like a skirt by both men and women. A sarong is worn by wrapping around the wrist.

<sup>84</sup> The author interviewed with an ASEAN Secretariat staff on May 26 2006 in Jakarta, Indonesia.

<sup>85</sup> Michael G. Plummer, "Creating an ASEAN Economic Community: Lessons from the EU and Reflections on the Roadmap," in *Roadmap to an ASEAN Economic Community*, ed. Denis Hew (Singapore: Institute of Southeast Asian Studies, 2005), 41.

<sup>86</sup> ASEAN-Institutes of Strategic and International Studies, "The ASEAN Charter: Memorandum No. 1," in *ASEAN-ISIS Conference* (Bali, April 18: ASEAN-ISIS [Unpublished], 2006), Appendix 3.

<sup>87</sup> According to the ASEAN Secretariat. 99 staffs are positioned: One Secretary-General, Two Deputy Secretary-General, Four Directors, 14 Assistant Directors and Program coordinators, 23 Senior Officers, 27 Program officers, and 28 Assistant Program Officers.

come to play a bigger role in operating the ASEAN Secretariat from the top to the bottom. The ASEAN Way has been emphasized as a means to carry on ASEAN affairs at the Secretariat without other choices. The ASEAN Secretary-General has dominantly played a diplomatic and political role at the international meeting to represent ASEAN's good will while practicing the ASEAN Way at home. The ASEAN Secretariat has become more and more like the Ministry of Foreign Affairs of ASEAN. It is due to the constraint of CLMV in politics that the Secretariat is much more concerned about political sensitivities within the organization and carefully making contact with outsiders. The staffs are extremely careful of making comments on politics in CLMV, and always suspicious to the questions. Third, the prolonged problem of budget and staff obviously explains that ASEAN has not given serious importance to investment in the development of the ASEAN Secretariat. Politics has controlled the ASEAN Secretariat before the enlargement, and after the enlargement the Secretariat has been even more preoccupied with political taboos, coming from the new members. Turning the ASEAN Secretariat into a centralized body or even empowering it as a supranational entity will hardly happen in the near future.

### ***2.2.3. Dispute Settlement Mechanism (DSM)***

After the enlargement, the High Council has still never been used in practice. In the case of the ASEAN Troika, Thailand expressed its concern that the Troika could be paralyzed due to the domestic constraints of the new members, when members become the Chairman of the ASEAN Standing Committee as mentioned earlier. As a result, Thailand tried to put pressure on conditioning the Troika's terms of reference by including an alternative that any ASEAN Foreign Minister could activate the process of consultation towards the dispatch of a Troika, besides the Chairman of the

ASEAN Standing Committee.<sup>88</sup> Ultimately, Thailand succeeded in adding this condition in the Troika terms of reference in 1999.

Despite the Thai condition in the Troika terms of reference, Vietnam successfully controlled ASEAN agenda on blocking a creation of the ASEAN Troika to mediate in Myanmar because the AMM in Hanoi in 2000 was manipulated by Vietnamese political constraints and the Vietnamese socialist government did not support an interference policy.<sup>89</sup> This situation did not vitalize the discussion on improving the ASEAN institution, but in turn emphasized the ASEAN tradition. In regard to the situation at the AMM in Hanoi the then ASEAN Secretary-General Rudolfo Severino stated, "ASEAN has slipped into its worst times both in reality and in perception," whereas other participants were disappointed about the lack of progress at the Hanoi meeting.<sup>90</sup> Moreover, the accession of Myanmar itself has "played its part in stymieing the formation of rules on the functioning of the troika."<sup>91</sup> In fact, Vietnam had never agreed with ASEAN to send the ASEAN Troika to Cambodia in 1999. But that time Vietnam had just joined ASEAN for a few years and could not hamper the strong force to establish the Troika by the Philippines and Thailand. However, Vietnam publicly sent an official message to show its disagreement with ASEAN and its sympathy with Cambodia.

In terms of economic disputes, the Protocol on Enhanced Dispute Settlement Mechanism in 2004 replaced the Protocol on DSM in 1996, which upgraded the ASEAN-DSM to a more sophisticated mechanism. The 2004 DSM was framed under the recommendations of the HLTF on an ASEAN economic community. The HLTF recommended strengthening ASEAN institution by legalizing the new system of DSM by claiming to emulate the model of the WTO-DSM. According

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<sup>88</sup> The Bangkok Post, "Thailand Ends Term with a Good Record," September 28, 2000.

<sup>89</sup> Dosch and Ta Minh Tuan, "Recent Changes in Vietnam's Foreign Policy: Implications for Vietnam-ASEAN Relations," 205.

<sup>90</sup> Oppositely, the AMM in Manila was praised by many observers for its vigorous debate on the development of ASEAN. Ibid.

<sup>91</sup> Haacke, *ASEAN's Diplomatic and Security Culture: Origins, Development and Prospects*, 223.

to the Protocol, three stages of the new DSM are consultation, panel, and appellate review. The members can choose to start from the first stage, consultation, or go to other stages directly. At the stage of consultation, the dispute must be reported to the SEOM for a notification. The SEOM will request for beginning a process of consultation. If the 60-day process after the date of receipt of the request cannot resolve the dispute or one party does not respond to this request, the consultation system then fails to perform. This unsolved case will be reported again to the SEOM in order to carry on the DSM process. Then, the panel will be established by the SEOM to set up a team to search for facts and provide recommendations. This report will be submitted to the SEOM within 30 days. If the dispute remained uncertain after the submission of recommendations by the panel, an appellate body will be arranged by ASEAN Economic Ministries to hear appeals from panel cases. Seven persons will be selected by the ministers to serve the appellate body for the four-year period.<sup>92</sup> The recommendations such as compensation and the suspension of concession and other obligations from the appellate body are legally binding.

Looking at the details of the Protocol closely, the SEOM is the most powerful body, which can have the authority to (1) establish consultation and panel bodies and (2) adopt reports of the consultation panel and the appellate bodies. The SEOM can also reject moves to establish those bodies and not adopt those reports by consensus as well. In other words, the SEOM has the supreme authority to intervene in the legal process of the ASEAN-DSM. Throughout the DSM process, the SEOM thus can always use its political influence to terminate the DSM process at each stage. In addition, the SEOM is the body that authorizes or rejects the suspension of concession and other obligations by the request of any party invoked under the covered agreements.<sup>93</sup> Certainly, it is clear that the highest power of the DSM is in the hands of the senior officials. With this fact, the 2004

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<sup>92</sup> Persons who are selected are an expertise in law, international trade and covered agreement and do not association with any government.

<sup>93</sup> The 2004 Protocol on enhanced DSM covers 47 ASEAN economic agreements and all future economic agreements. See all covered agreements on Appendix I in the 2004 Protocol.

DSM is not any different from the 1996 DSM. The only difference is that the 2004 DSM has formally constituted the clear process of conflict management, in addition to solidly empowering the senior officials or the political influence in the DSM process. The similarity of the ASEAN-DSM to the WTO-DSM as claimed by national officials has not convinced any ASEAN members to use their new DSM more. As an international economic-AFTA law expert, Zakir Hafez, asserts that ASEAN does not learn from the mistakes of the GATT-DSM that dispute settlement can work effectively only under circumstances free of political influences—“sadly, [AFTA] economic disputes are expected to be resolved by political bodies like the SEOM and the AEM.”<sup>94</sup>

Since the establishment of DSM in 2004, ASEAN members have not requested to use the ASEAN-DSM. In other words, the ASEAN-DSM has not been tested in a real dispute case. Based on the author’s interviews with government officials, they are reluctant to settle a dispute through DSM because they are afraid that this confrontational behavior will create a bad feeling and hurt their diplomatic and political relationship. An ASEAN Secretariat staff at a legal unit expressed why members do not use the ASEAN-DSM,

the members understand that there is a need for rule base norms. That’s how economic affairs carry out these days. Whatever your intentions are you just put them in paper. Even though there is a problem, they still want to settle things by using the ASEAN Way. ... They still feel that ASEAN from the day one means to be a consensus building thing—mediating. The ASEAN feeling is still there.<sup>95</sup>

Another senior economic official expressed that “ASEAN countries are brothers and sisters. This sense is amazingly strong. Why? I don’t know. Everyone tries to avoid using DSM all the time and in any case.”<sup>96</sup> In fact, the author argues that the political influence in the DSM process is likely to be a factor that makes members distrust the system. Instead of going through the ASEAN-DSM,

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<sup>94</sup> Zakir Hafez, *The Dimensions of Regional Trade Integration in Southeast Asia, International Law and Development Series* (Ardsley, New York: Transnational Publishers, 2004), 176-77.

<sup>95</sup> The author interviewed with an ASEAN Secretariat staff on May 31, 2006 in Jakarta, Indonesia.

<sup>96</sup> The author interviewed with an economic senior official in Bangkok, Thailand.

paying for the cost of the DSM process, and waiting for a result for as long as 445 days<sup>97</sup>, it might be better off for the complainant country to solve the dispute through bilateral negotiations. This is because even though it may take a lot of time to find a solution or compromise, this way will not hurt the two members' political relationship. Moreover, considering the fact that the SEOM could discard the decision of even the appellate review at the final stage, the complainant country may not want to take a risk by wasting not only time but also money to wait for the uncertain results. Rather, the country may be better off by using the bilateral negotiation or the WTO-DSM instead of the ASEAN-DSM. After all, the current ASEAN-DSM does not encourage any member to try this new system as a pilot case.

With regards to the DSM, the ASEAN Secretariat's responsibilities are to "assist the panels and the appellate body on the legal, historical and the procedural aspects ...", and "assist the SEOM to monitor and maintain surveillance of the implementation of the findings and recommendations of the panel and appellate body reported adopted by the SEOM," written in the 2004 Protocol on DSM. As a result, a legal unit was established under the ASEAN Secretariat, which takes care of the legal advice, technical supports, and other jobs above. This unit is very tiny because of the lack of staffs and budgets. During the author's visit at the Secretariat in Summer 2006, there was only one staff assigned in this unit. It is obvious that the incapability of the ASEAN Secretariat cannot facilitate the DSM process.<sup>98</sup> In terms of financial resources, in 2005 the ASEAN-DSM fund gained an initial support of US\$ 333,000 from every member equally.<sup>99</sup> During the negotiation of the 2004 DSM, CLMV revealed that they were finding it difficult to ensure that a sufficient number of experienced lawyers serve on the DSM.<sup>100</sup>

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<sup>97</sup> See Article 15 of the 2004 Protocol for maximum timeframe of the DSM process.

<sup>98</sup> Narongchai Akrasanee and Jutamas Arunanodchai, "Institutional Reforms to Achieve ASEAN Economic Integration," in *Roadmap to an ASEAN Economic Community*, ed. Denis Hew (Singapore: Institute of Southeast Asian Studies 2005), 66.

<sup>99</sup> The ASEAN Secretariat, *Annual Report 2004-2005* (Jakarta: ASEAN, 2005), 34.

<sup>100</sup> The author interviewed with an economic senior official on June 12, 2006 in Jakarta, Indonesia.

In brief, the political DSMs—the High Council and ASEAN Troika—have not been supported by the new members. Vietnam had blocked the establishment of an ASEAN Troika in the case of Myanmar. The bilateral negotiation and non-interference policy have strictly been confirmed as the nucleus of conflict management in the region. In the economic DSM, the more legalized personality of the DSM was successfully established under a binding rule base, but did not reflect as a result of the enlargement or an initiative of the new members. Nevertheless, the senior economic officials have the power to interfere throughout the DSM process. Both the economic and political DSMs have not been tested in the real case scenario. It is clear that ASEAN has not indeed stepped across the transitional period of institutional changes.

### ***2.3. Policy Commitment and Political Will***

At present, ASEAN members still need to improve their willingness and commitment in planning an ASEAN community. To pledge their commitments to policy implementation of agreements, suggestions have been made to enforce a punishment and reward system as an alternative. Denis Hew, however, argues that “at this point in time, there is not enough political will among some of the new member countries to change the existing and strengthen the existing structure”<sup>101</sup> due to political and economic reasons. The political constraints of CLMV at the domestic level do not make them comfortable to give up their sovereignty in domestic affairs. In the same vein, CLMV are the immature market-oriented economies where communist, military, and strongman networks substantially preserve their control over economic activities at the domestic level. Hence, legalizing ASEAN institution may not yet be the best choice for CLMV to follow,

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<sup>101</sup> The author interviewed with Dr. Denis Hew on March 27, 2006 in Singapore.

which face “the greatest concern over sovereignty costs.”<sup>102</sup> Miles Kahler further analyzes that “[CLMV] are likely to serve as a drag on future legalization within ASEAN.”<sup>103</sup>

During ASEAN meetings, CLMV have not showed enough initiative and enthusiasm, as observed by officials from the old member countries. They do not have the political will to be creative, but only protect their own interests. Narongchai described that, “they have no ambition. They are very modest—Cambodia, Laos and Vietnam. They know that if they follow ASEAN, they will grow faster.”<sup>104</sup> On the other hand, some officials have realized the differences among the new members. They described that Vietnam has already become a very active and more outspoken member in the subject of economic cooperation during the economic meetings, whereas Laos is the quietest member during the economic meetings, but is quite outspoken in the political or security meetings that involve the issue of national sovereignty. Besides the increasing participation of Vietnam during the economic meetings, Vietnam has also taken the leadership role among the new members in political meetings to protect their preferences. Vietnam openly revealed its disagreement to formally institutionalize the ASEAN decision-making process by rejecting a voting system in drafting the ASEAN Charter. In the opinion of ASEAN expert Suchit Boonbongkan at the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) in Bangkok, recently Vietnam has been growing and attempting to have a bigger role in ASEAN; on the contrary, Myanmar has been solely concerned with its own domestic problems, and Laos and Cambodia have still been very small and not yet looking to lead ASEAN projects, but only protecting their own economic and political interests.<sup>105</sup> Wanadi supports his argument that “the new members do not contribute [much]. They

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<sup>102</sup> Kahler, “Legalization as Strategy: the Asia-Pacific Case,” 569.

<sup>103</sup> *Ibid.*: 569.

<sup>104</sup> The author interviewed with Dr. Narongchai Akrasanee on July 12, 2006 in Thailand.

<sup>105</sup> The author interviewed with Dr. Suchit Boonbongkan on August 23, 2006 at the ASEAN-ISIS in Bangkok, Thailand. During the track II (academic) meetings, Suchit added that Myanmar does not participate much and the participants from Myanmar come from the Ministry of Foreign Affairs, not an academic institute. At the ASEAN-ISIS meeting in 2006 regarding the ASEAN Charter, Myanmar was the only member that did not get involved. Kaw Chong Guan, ASEAN Scholar at IDSS in Singapore, explained that the participation from



only protect their own interests against intervention. They are not taking the leader in the discussing issue. In most cases, they are not so active. In some cases, [if] they have an interest in, for example Mekong project, they are very active. They avoid talking about issues related to sovereignty and security.”<sup>106</sup>

As we observe from the beginning of this Chapter, only the old members have had an initial role in forming ASC, AEC, and other institutional changes including the ASEAN Charter. In contrast, the new members have played the silent role at the beginning of signing agreement, and then took more negative positions at the time of planning guidelines or policy implementation. The existing weak ASEAN institution can thus be significantly identified by a lack of political will. After the enlargement, this situation does not get better, especially when the old members start to have a political will to improve the institution, but the new members are not ready to do so. The impact of enlargement in turn becomes a barrier to develop the institution due to the new members’ political unreadiness.

Some government officials from the old member countries have expressed their discontent with the sluggish movement of ASEAN after the 1990s enlargement—they have mentioned this as the “free rider” problem. Some new members benefit from being an ASEAN member, and at the same time they practice a very authoritarian type of policy. They are using ASEAN as a “shield for international pressures without delivering anything positive in return. Myanmar is a glaring example of this.”<sup>107</sup> In reality, old and new members may not get along very well all the time due to their different opinions in changing the ASEAN Way and developing the regional institution. Nevertheless, the impression that the author get from the interviews with ASEAN officials is that the

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Cambodia and Laos is low due to a lack of human resources and a “fear of colonization by Thailand.” He added that the ASEAN scholars from the old members are still on a driving seat in the meetings. Among the old members, Brunei also has a shortage of human resources like Cambodia and Laos, but better in education. The author interviewed with Mr. Kaw Chong Guan at IDSS in Singapore on April 12, 2006.

<sup>106</sup> The author interviewed with Dr. Jusuf Wanadi on May 24, 2006 in Jakarta, Indonesia.

<sup>107</sup> Zaid Ibrahim, “Comment: ASEAN must Push Myanmar,” *New Straits Times*, January 18, 2007.

feeling as described as being in the same “family” and like “brothers and sisters” is very strong. The officials have clearly acknowledged the problems caused by the new members and shown their frustration to some degree. Along with that line, they have also expressed their understanding of the delays and problems caused by domestic political constraints in the new member countries; and they have tended to accentuate their patience at the end. Ultimately, the old members have unquestionably accepted the necessity of having the new members in making big contributions to building a peaceful Southeast Asian region and a dynamic economic region since their accession to the Association. As asserted by Narongchai, among the new members Myanmar may be the biggest factor that delays the process of ASEAN integration; however, ASEAN’s decision to accept Myanmar is worthy.<sup>108</sup>

### **3. Conclusion**

In the beginning, a formal style of regional institution did not suit ASEAN members’ purposes because ASEAN was only as ambitious as being an association, not a community or union. The construction of regional relationships has been known as the “ASEAN Way.” The prolonged utilization of this principle for nearly four decades has allowed the ASEAN Way to be the distinctive principle as compared to the principle of non-interference adhered to by the UN Charter and other regional arrangements. The ASEAN Way of behavior directed by political factors has constructed a loose/ weak type of ASEAN institution.

For a long time, ASEAN members have realized the need to improve the weak ASEAN institution regarding its nature, structure, and commitment. Several attempts to improve a formal ASEAN institution have been evident, but were solely initiated by old members. The most recent one has been the attempt to establish the ASEAN Charter, which expects to contribute to the legalization

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<sup>108</sup> He further mentioned that the accession of Myanmar especially benefits Thailand the most because of closer economic cooperation between the two governments and transnational cooperation in drugs trafficking and border security.

of ASEAN institution. Considering the preference of the new members, the accelerated process of institutionalization by the old members is likely to be weighed down. In practice, we also found that the new members have been obstacles rather than supporters in the moves to develop a formal institution. They refuse to weaken the principle of the ASEAN Way and replace a consensus rule with a voting system. The political willingness of the new members does not support a formal institution, but preserves a more traditional ASEAN institution, which is weak and unbinding. The overall development of ASEAN political institution is summarized below in Table 5.1.

The nature and commitment of ASEAN political institution have remained unchanged due to the strong resistance from the new members. With regard to the structure of the institution, the most dynamic component of the institution has been to suggest small changes in the decision-making process and legally establish the DSM. The “ASEAN-minus-x” approach has been implemented after the 1990s enlargement to give privilege to the new members to have the longer deadlines for tariff reduction than the old members. This is also applied in other cases such as AIA and services agreements. Thus far, the “ASEAN-minus-x” has not significantly shown its other special characteristics, besides an ordinary exemption or privilege that the new members should receive when they join a new grouping. Also, the use of the ASEAN-minus-x still needs to be preceded by a consensus from all members in regard to who can go first and who will follow. Several national officials and ASEAN Secretariat staffs always claim the establishment of the 2004 ASEAN-DSM as a successful case in ASEAN institutional change. This legal body certainly contradicts the beliefs of non-interference, consultation, consensus, and bilateral and friendly negotiations, because under a rule-based body members should not sit down and try to make a compromise.<sup>109</sup> In other words, strengthening the DSM was expected to weaken the ASEAN Way of behaviors.<sup>110</sup> At this point, the

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<sup>109</sup> The author interviewed with an ASEAN Secretariat staff at a legal unit on May 31 2006 in Jakarta, Indonesia.

<sup>110</sup> Narongchai Akrasanee and Jutamas Arunanodchai, "Institutional Reforms to Achieve ASEAN Economic Integration," 70.

legalization of the institution is presented, but the question is whether ASEAN members will practically activate this body against the conventional use of the ASEAN Way. In fact, the legal unit under the ASEAN Secretariat has not been activated to perform any legal case practically. The DSM body itself has never been tested in a real case scenario. ASEAN members have avoided using it because of the fear of damaging political relationships as well as the low confidence in using a political-free DSM. As we know, ASEAN agreements do not promise future implementation. Therefore, even though the ASEAN-DSM is already legally binding, nobody is willing to use it. Few things in the structure of ASEAN institution have technically been adopted, but not yet been practically performed.

More than ten years since ASEAN started to expand its membership to accepting CLMV, the development of institution has in fact moved toward the trend of a formal institution, but has not achieved its goal yet. Many things have changed, but not everything is active. The changes have been mostly on paper. As we examine, this ten-year period of institutional development after the 1990s enlargement is certainly not static, but many times we observe that ASEAN members are going two steps forward and another step backward. The recognition of institutional development is presented, but the political will is not committed. However, this chapter does not conclude that without the enlargement ASEAN institution should have successfully been a formalized institution. Instead, the study suggests that the impact of enlargement or the accession of CLMV has so far not facilitated the development of ASEAN institution toward a formal and legalized mode, but become a resistor rather than a supporter to that development. Many cases have shown that political constraints and sensitivities in CLMV are the limitation of the institutional changes. Therefore, this analysis of ASEAN institutional development after the enlargement reveals that ASEAN institution has not successfully shifted to a new paradigm. The institution is still caught in the transitional process.

**Table 5.1: Summary of Changes in ASEAN Political Institution before and after Enlargement**

Components of ASEAN Political Institution	Changes toward a Formal Institution	
	Before the Enlargement	After the Enlargement
<b>1. Nature</b> 1.1 The ASEAN Way	Attempting to adopt flexible engagement and enhanced interaction, but it failed.	Pushing for narrowing the scope of the ASEAN Way by old members.  Resisting to the change in the ASEAN Way by new members.
<i>Status</i>	<i>The ASEAN Way</i>	<i>Remaining unchanged</i>
<b>2. Structure</b> 2.1. Organizational Structure  2.2. Decision-making Process  2.3. ASEAN Secretariat  2.4 Dispute Settlement Mechanism	Domination of Foreign Ministers and political officials  Consensus  Conducting administrative and coordinating works. Lacking staffs and finance. Lacking an ability to initiate projects and monitor policy implementation.	Domination of Foreign Ministers in institutional change and domination of senior officials in economic affairs  Consensus and ASEAN-minus-x (based on consensus)  Lacking staffs and finance. Lacking an ability to initiate projects and monitor policy implementation. Establishing a Legal Unit. Having responsible for dealing with international comments as a Ministry of Foreign Affairs of ASEAN.
<i>Status</i>	<i>Weak structure Political domination</i>	<i>Mostly remaining unchanged. Decision-making process is still under consensus rule, and DSM is never tested.</i>
<b>3. Commitment</b> 3.1. Political Commitment	Strongly upholding the ASEAN Way and an informal type of institution.	Pushing for an institutional change by old members.  Resisting to an institutional change by new members.
<i>Status</i>	<i>Weak Commitment to a formal institution</i>	<i>Remaining unchanged</i>

## CHAPTER SIX

### POLICY COORDINATION IN THE CASES OF AFTA AND AIA

Economic integration generally refers to the elimination of restraints on economic activities between countries. Four different levels of integration are a free trade area, a customs union, a common market, and an economic union. Some economists have also recognized a political union as the highest level of integration. In the economic analysis of integration, statistics related to factors such as intra-regional trade can be used to explain levels of economic concentration. In the neo-liberal institutionalism of International Relations (IR), an international institution is regarded as a potential indicator of economic integration. A positive relationship between institution and integration is assumed: a low level of institutionalization leads to a low level of integration. In this study, policy coordination—which reveals important information for understanding the non-economic barriers to economic integration in a trading bloc—is examined as a way to explain this relationship. Policy coordination consists of three elements: negotiation, compliance, and conflict management.

Even though the level of global economic interdependence is high and the movement of free trade is expanding globally, nation states are not always committed to free trade<sup>1</sup> because the protection of domestic industries is hard to eliminate. An international or regional institution can help to reduce trade barriers; in a free trade bloc, national policies must comply with regional economic policies and frameworks. International or regional institutions can thus force individual member countries to keep their promises to free trade agreements, developing principles, policies, and mechanisms that allow varying national interests to converge. The institutions can also help to resolve cooperative problems by improving the quality of information exchange, monitoring the

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<sup>1</sup> Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton, N.J.: Princeton University Press, 2001), 82-84.

states' behaviors, providing a reliable stage for negotiations, reducing transaction costs and future uncertainties, and solving any issues of cheating or non-compliance.<sup>2</sup> If an institution is effective, it will provide "a clear structure for formulation, administration, interpretation and enforcement of rules."<sup>3</sup> In contrast, an ineffective institution cannot manage regional activities successfully. The institution then cannot control states' behaviors and displays signs of collective problems such as a low level of policy compliance and a flexible enforcement of rules. The lack of managerial capability in operating regional activities and solving problems shows that the structure of the institution is loose and unbinding—a situation known as "low institutionalization." The opposite term, "high institutionalization," suggests that the institution is more effective to conduct activities and solve problems under a formal and binding structure.

In ASEAN, the member countries have launched cooperative policies and projects to foster their economic complementarities under a free trade area. Economic integration has become not only the next goal of economic achievement for the old ASEAN members but also a major contributor to economic development for the new ASEAN members. The most two advanced projects for economic integration in ASEAN are the ASEAN Free Trade Area (AFTA) and the ASEAN Investment Area (AIA). These two projects are legally binding under written agreements. Their main goals are the removal of trade barriers and the elimination of foreign discrimination in domestic investment. Ajit Singh, the former Secretary-General of ASEAN, stated in 1997 that "AFTA plus AIA is the way to go" and can keep ASEAN in a competitive position in the world economy.<sup>4</sup>

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<sup>2</sup> Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, Robert O. Keohane, "The Demand for International Regimes," in *International Regimes*, ed. Stephen D. Krasner (Ithaca: Cornell University Press, 1983).

<sup>3</sup> Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables," *International Organization* 36, no. 2 (1982).

<sup>4</sup> ASEAN Update, "Excerpts from the Speech of Dato' Ajit Singh, Secretary-General of ASEAN, presented at the High-Level Round Table for the Formulation of a Strategic Plan for Cooperation and Promotion of Foreign Direct Investment in ASEAN, 24-25 February 1997, Kuala Lumpur, Malaysia," no. 1, January-April (1997).

In the view of neo-liberal institutionalism, ASEAN as a regional institution has an impact on the economic integration and policy coordination of AFTA and AIA. Chapter Five identifies that the type of ASEAN political institution has not significantly changed after the enlargement. The ASEAN political institution is still in transition, which is characterized by an unbinding and informal nature, a consensus decision-making process, and a political-biased dispute settlement mechanism. The analysis shows that the diversity after the enlargement has developed into resistance to high institutionalization due to the concerns of losing national sovereignty in controlling domestic affairs and destabilizing domestic politics.

As the last stage in the qualitative analysis, this chapter will further examine the policy coordination of AFTA and AIA, considering the elements of ASEAN political institution. This will help to discern the institutional weaknesses of economic integration in ASEAN. This chapter is divided into three sections. The first two sections will discuss the cases of AFTA and AIA respectively. Policy coordination (negotiation, policy compliance, and conflict management) will be analyzed and summarized in the third section.

### **1. ASEAN Free Trade Area (AFTA)**

The first attempt to form a limited free trade area in 1971 failed in negotiation among the ASEAN Foreign Ministers. During the 1970s, the Philippines and Singapore were the only two ASEAN members that were vigorous to create a Preferential Trade Agreement (PTA) in Southeast Asia.<sup>5</sup> The ASEAN-PTA was launched in 1979. However, Indonesia, Malaysia, and Thailand in particular were reluctant to implement the PTA policy because many of their industries were not ready to open for and to compete with foreign products. The successful negotiation of a free trade area among ASEAN member countries came in 1992 after informal negotiations between Thailand

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<sup>5</sup> Poon-Kim, "A Decade of ASEAN, 1967-1977," 767.



and other members were concluded.<sup>6</sup> The ASEAN Free Trade Agreement (AFTA) contains main three measures for trade liberalization: (1) reducing tariff rates under the Common Effective Preferential Tariff (CEPT), (2) eliminating Non-Tariff Barriers (NTBs) such as quantitative restriction, and (3) creating trade facilitations such as the harmonization of standards, the reciprocal recognition of tests and certification of products (MRA), and the removal of barriers to foreign investments.<sup>7</sup> The first measure has been the most developed. NTBs and other measures are still in the process of negotiation and policy formulation. The removal of barriers to foreign investment was separately re-endorsed under the AIA agreement.

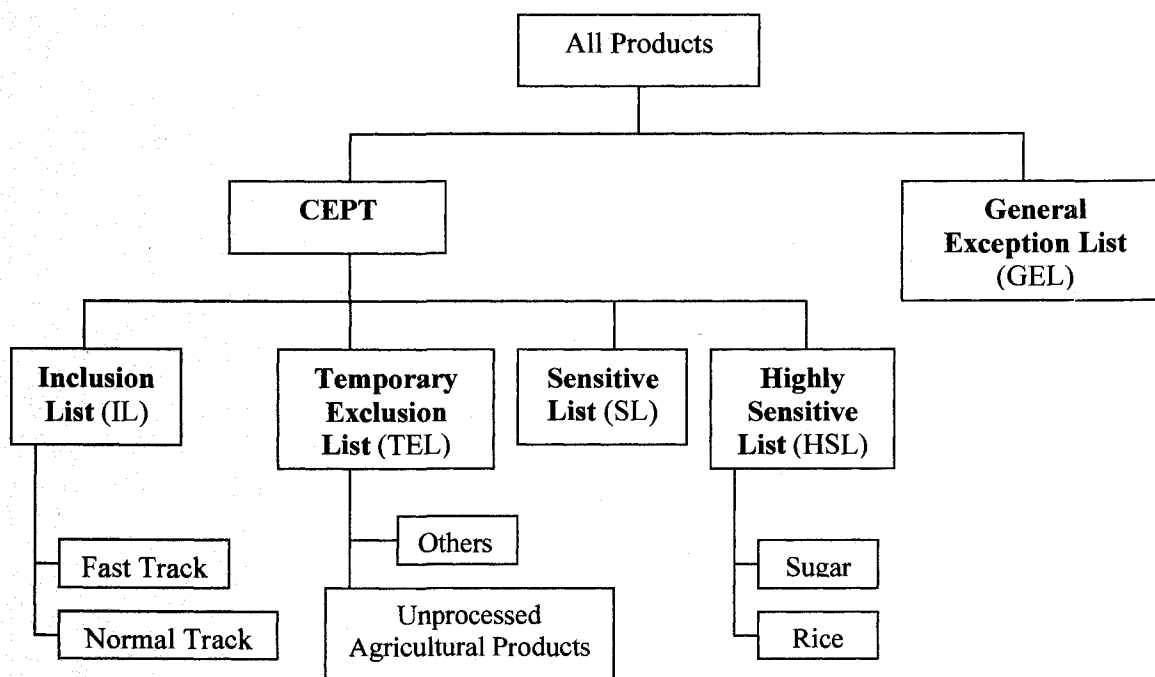
Figure 6.1 illustrates the current map of the AFTA-CEPT. Five categories of products are classified under the AFTA scheme: Inclusion List (IL), Temporary Exclusion List (TEL), Sensitive List (SL), Highly Sensitive List (HSL), and General Exception List (GEL). In IL, fifteen industrial products are included in the fast track program: vegetable oils, cement, chemicals, pharmaceuticals, fertilizer, plastics, rubber products, leather products, pulp, textiles, ceramic and glass products, gems and jewelry, copper cathodes, electronics, and wooden and rattan furniture. Tariff rates on the above products must be reduced to between 0 and 5 percent earlier than the rest. Originally the products in the TEL category were unprocessed agricultural, which were not ready to start an immediate tariff reduction but were to be moved to IL at a later date. Some manufactured or industrial products have since been placed in the TEL category after members requested extensions of their tariff reduction deadlines. For example, Malaysia held automotive products under the TEL until 2005. SL is the category that absorbs all protected or sensitive agricultural products. In HSL, only sugar and rice from Indonesia and sugar from the Philippines have been approved by the AFTA Council to be categorized in HSL since 1999.

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<sup>6</sup> As explained in the process of creating AFTA in Chapter Five, the idea of AFTA was originally produced from Singapore. According to former Thai Minister of Commerce Narongchai Akrasanee, Thailand acted as a negotiator to persuade other ASEAN counterparts. The AFTA agreement was finally signed in 1992.

<sup>7</sup> The ASEAN Free Trade Area Agreement in 1992.

**Figure 6.1: Map of the AFTA-CEPT**



At the time of the CEPT negotiation, ASEAN members created separate CEPT lists and submitted them to the ASEAN Economic Minister meetings for approval. For the first two to three years after establishing AFTA, ASEAN member countries continued to negotiate the exact implementation and the rules of enforcement. Simultaneously, the tariff reduction was solely based on voluntary acts by ASEAN members. This indicates that AFTA members did not negotiate the details of implementation in the first place. The improvement of the AFTA schedule was officially re-announced in 1995 with a new plan to accelerate the tariff reduction schedule and include unprocessed agricultural products in the AFTA scheme. Likewise, of the new ASEAN members' CEPT lists were submitted on an individual basis, not as a unified package.

**Table 6.1: Initial CEPT Submissions by CLMV**

Country	Inclusion List	Temporary Exclusion List	Sensitive List	General Exception List	Total
Cambodia (Line)	3,114	3,523	50	134	6,821
(%)	45.7	51.6	0.7	2.0	100.0
Laos (Line)	553	2,820	96	102	3,571
(%)	15.5	79.0	2.7	2.9	100.0
Myanmar (Line)	2,355	2,987	21	108	5,471
(%)	43.0	54.6	0.4	2.0	100.0
Vietnam (Line)	1,633	1,189	26	165	3,013
(%)	54.2	39.5	0.9	5.5	100.0

Source: ASEAN Secretariat

Table 6.1 illustrates the initial submission of the CEPT lists by CLMV. The products placed in IL were requested to immediately reduce tariffs. Vietnam put more than 50 percent of its total products in IL, whereas Laos had only 15 percent of its total products in IL. Cambodia and Myanmar had initially included 43 percent and 45 percent of their products in IL, respectively. Based on this Table, more than half of the total products in Cambodia, Laos, and Myanmar were in TEL. For Vietnam, the products in TEL were around 40 percent of its total products. Years after the initial submission, old and new ASEAN members agreed on the exact IL, TEL, and SL tariff reduction schedules for the new members, shown in Tables 6.2 and 6.3.

The below tariff reduction schedule for the new members can acquire a flexible condition similar to the schedules of the old members. The new members can exclude their products from the IL and move to the TEL or SL category in the future without penalty. This flexibility implies that policy compliance with AFTA may not be strictly followed by members, potentially leading to conflicts and disputes among them. Evidently, at least four major conflicts and renegotiations have been caused by the problem of non-compliance: (1) Indonesia and Philippines's agricultural goods, (2) Vietnam's agricultural goods, (3) Malaysia's automotive industry, and (4) Vietnam's automotive industry, which will be explained below.

**Table 6.2: Tariff Reduction Schedule of Products in IL**

ASEAN Member	Track	Old Timetable	New Timetable
<b><u>Old Members</u></b>			
ASEAN-6	<b><u>Fast Track</u></b>		
	Tariffs of $\leq 20\%$	0-5% by 2000	0-5% by 1998
	Tariffs of $> 20\%$	0-5% by 2003	0-5% by 2000
	<b><u>Normal Track</u></b>		
	Tariffs of $\leq 20\%$	15% by 2003 10% by 2005 0-5% by 2007	0-5% by 2000
	Tariffs of $> 20\%$	20% by 2001 15% by 2003 10% by 2005 0-5% by 2007	20% by 1998 0-5% by 2003
<b><u>New Members</u></b>			
Vietnam	Tariffs of $\leq 20$	0-5% by 2003	-
	Tariffs of $> 20$	0-5% by 2006	-
Laos and Myanmar	Tariffs of $\leq 20$	0-5% by 2005	-
	Tariffs of $> 20$	0-5% by 2008	-
Cambodia	Tariffs of $\leq 20$	0-5% by 2007	-
	Tariffs of $> 20$	0-5% by 2010	-

Source: ASEAN Secretariat and compiled by the author from ASEAN documents

The following subsections will discuss policy coordination in four sectors: (1) food and live animals, (2) manufactured and raw materials for industries, (3) electronics, machineries, vehicles, and parts, (4) all sectors, and (5) NTBs. The CEPT data for 2003, which is the projected year of tariff reduction for the old members and Vietnam, are not accessible. The author thus uses the CEPT schemes of 2002 (the year before the deadline) and 2006 (the most recent available data) to make comparisons as a substitute.

**Table 6.3: Specific Timetable for Completing Tariff Reduction under the CEPT**

ASEAN Member	Tariff Reduction Target in IL	
	0%	0-5%
<b><u>Old Members</u></b>		
ASEAN-6	60% of IL by 2003	100% of IL by 2003
<b><u>New Members</u></b>		
Vietnam	Not fixed % of IL by 2006	80% of IL by 2003
Laos and Myanmar	Not fixed % of IL by 2008	80% of IL by 2005
Cambodia	Not fixed % of IL by 2010	80% of IL by 2007

Source: Compiled by the author from ASEAN documents

### ***1.1. Food Products and Live Animals***

The majority of people in Southeast Asian countries (except Brunei and Singapore) are associated with the production of agricultural goods. The tariff reduction program in the agricultural sector can prominently affect several economic and political interest groups in the countries, and is thus politically very sensitive. At the beginning of the AFTA negotiation in the early 1990s, unprocessed agricultural products (UAPs) were not in the original CEPT scheme. Only processed agricultural products were included in the agreement. The UAPs are divided into three group listings: Immediate Inclusion List (IL), Temporary Exclusion List (TEL), and Sensitive List (SL). The UAPs in the immediate IL needed to reduce tariffs to 0-5 percent by 1996 and should complete the program by 2003. The UAPs in the TEL were scheduled to be transferred into IL in 1997 and should complete the transfers by 2003. By the same year, the tariffs of these products should also be reduced to 0-5 percent. These two conditions were applied only to the old members. The UAPs in the SL have a separate schedule with a later deadline.

Table 6.4 reveals the tariff reduction schedule of the agricultural products in the SL category. The deadline to complete tariff reduction in this category to 0-5 percent is 2006 for the old members, 2013 for Vietnam, 2015 for Laos and Myanmar, and 2017 for Cambodia. The agricultural products in SL are the last ones among all products to reach a tariff rate of 0 percent and can be untouched until the year of the deadline. The above schedule also indicates that the earliest year that ASEAN will possibly achieve free trade area status could be by the year 2017. In addition to the tariff reduction, ASEAN also agreed to eliminate quantitative restrictions and other NTBs by the same deadlines used for the agricultural products in the SL.

**Table 6.4: Final Phasing of Sensitive and Highly Sensitive Lists into Inclusion List under the CEPT**

ASEAN Members	Beginning by	Completing by
<b><u>Old Members</u></b>		
ASEAN-6	January 1, 2001	January 1, 2010
<b><u>New Members</u></b>		
Vietnam	January 1, 2004	January 1, 2013
Laos and Myanmar	January 1, 2006	January 1, 2015
Cambodia	January 1, 2008	January 1, 2017

Source: The Protocol on the Special Arrangement for Sensitive and Highly Sensitive Products in 1999

Table 6.5 demonstrates the transfers of agricultural products from the TEL and SL to the IL. By 2002, the old members had placed more than 90 percent of their total agricultural products in IL. By 2006, Malaysia, Singapore, and Thailand had completely transferred all agricultural goods from TEL to IL. Indonesia continued to protect rice and sugar by keeping 17 tariff lines in SL and 2 in HSL in 2006. For the new members, around 32 percent of Cambodia's total agricultural products were in IL in 2002 and increased to 79 percent in 2006. Vietnam left 11 percent of its total

agricultural tariff lines out of the IL category in 2002, and less than 1 percent remained in 2006.<sup>8</sup> As a result, Vietnam had a higher proportion of its agricultural products in IL than Indonesia and the Philippines in 2006. Myanmar also increased the share of agricultural products in IL from around 62 percent in 2002 to 93 percent in 2006. Among the new members, Laos showed the least improvement in terms of transferring tariff lines in the agricultural sector, with 30 percent of its total agricultural products remaining outside IL in 2006.

**Table 6.5: Tariff Lines of Agricultural Products under the 2002 and 2006 CEPT Schemes, percentage (HS1-14)<sup>9</sup>**

Country	IL 2002		Outside IL 2002	IL 2006		Outside IL 2006
	Fast Track	Normal Track		Fast Track	Normal Track	
Brunei	-	97.4	2.6	99.7		0.3
Indonesia	-	99.4	0.6	97.5		2.5
Malaysia	-	91.7	8.3	100.0		0.0
Philippines	-	99.3	0.7	97.6		2.4
Singapore	-	100.0	-	100.0		0.0
Thailand	-	99.0	1.0	100.0		0.0
Cambodia	-	31.6	68.4	-	78.9	21.1
Laos	-	55.8	44.2	70.0		30.0
Myanmar	-	62.2	37.8	-	93.4	6.6
Vietnam	-	88.8	11.2	99.6		0.4

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

**Table 6.6: MFN and CEPT Rates of Agricultural Products in 2002 and 2006, percentage (HS1-14)**

Country	Tariff Rates in IL (2002)		Outside IL 2002	Tariff Rates in IL (2006)		Outside IL 2006
	MFN	CEPT		MFN	CEPT	
Brunei	0	0	*	0*	0	n/a
Indonesia	0-20*	0-20	*	0-20*	0-5	*
Malaysia	0-30	0-20	0-5*	<u>0-40*</u>	<u>0-150</u>	-
Philippines	3-65	3-45*	50	1-50	0-40*	0-50
Singapore	0	0	-	0	0	-
Thailand	0-60*	0-5	40-60*	<u>0-65*</u>	<u>0-40</u>	-
Cambodia	0-35	0-20	0-50	0-35	0-20	0-35
Laos	5-40	4-30	5-40	5-40	2-10	5-40
Myanmar	0-15	0-15	0-15	0-15	0-15	0-15
Vietnam	0-50	0-20	1-30	0-50	<u>0-40</u>	5-10

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

\* Include a para-tariff measure

\* Underlined-italic numbers indicate a wider band of the CEPT rates.

<sup>8</sup> The less than one percent product is shown as poppy seed.

<sup>9</sup> The products in HS 1-14 are live animals, meat and edible meat, fish, dairy products, live trees, edible vegetables, edible fruits, coffee, tea, cereals, products of the milling industry, oil seeds, resins, and vegetable plaiting materials.

Table 6.6 shows the comparison between MFN and CEPT tariff rates in IL and outside IL in 2002 and 2006. Interestingly, Malaysia completely transferred all agricultural products into IL by 2006. However, the CEPT rates in its IL ranked from 0 to 150 percent, while the MFN rates were between 0 and 40 percent. The most protected products in the agricultural sector in Malaysia are local and seasonal fruits in Southeast Asia. For example, the tariff rate for *pisang* (a kind of banana) is 150 percent, 120 percent for pineapples, 70 percent for rambutan, and 60 percent for mangosteens. Similarly, Thailand moved all sensitive agricultural goods to its IL but retained tariffs of up to 40 percent on certain products such as coffee and orchids in 2006. Indonesia improved by reducing tariffs in IL from 0-20 percent in 2002 to 0-5 percent in 2006, whereas the Philippines reduced its range from 0-45 to 0-40 percent. However, both received privileges to protect their sugar and rice under the HSL category until 2010. Among the new members, Vietnam enormously eliminated tariff lines in TEL and SL, and moved them to IL. However, its CEPT tariff rates in IL increased from 0-20 to 0-40 percent. Dairy products (meat and eggs) and Thai rice (Jasmine rice or *Hom Mali*) were imposed tariffs of 40 percent. In Cambodia and Myanmar, the range of the CEPT tariff rates did not change from 2002 to 2006, while Laos's tariff range dropped from between 4-30 to 2-10 percent. Protected under the SL category were live animals such as pigs and ducks in Cambodia, rice and fruits in Laos, and coffee and rice in Myanmar. In terms of policy compliance, the deadlines for reducing tariff rates of sensitive products in the CEPT will not arrive until 2010 for the old members and 2013-2017 for the new members. However, so far most members (including new members) have generally advanced their tariff reduction schedules, with some setbacks in certain products.

Regarding conflict management in the agricultural sector, there are two cases that were renegotiated. Among the old ASEAN members, Indonesia and the Philippines were highly concerned about the effects of tariff reduction on two products: rice and sugar. Indonesia's backtracking tariff reduction on rice and sugar was an issue to renegotiate among ASEAN members in the late 1990s. From 1994 onward, Indonesia pulled fifteen unprocessed agricultural products such as rice, sugar,



soybeans, and wheat out of TEL and moved them back to SL. As a major agricultural exporter, Thailand threatened to withdraw its 44 agricultural products from AFTA in retaliation.<sup>10</sup> Finally, in 1999 the *Protocol on Sensitive and Highly Sensitive Products* was adopted for the benefit of Indonesia. The agreement allows the rice and sugar of Indonesia and the sugar of the Philippines to be categorized in a "Highly Sensitive List." The final tariff rates of these two products should be reduced to 0-20 percent, instead of 0-5 percent by 2010. Hadi Soesastro pointed out that the result of this negotiation allowed Indonesia to "enjoy indefinite tariff protection."<sup>11</sup>

It is clear that Indonesia and the Philippines gained from the results of this negotiation, while Thailand lost. The question was why Thailand did not request to use an ASEAN-Dispute Settlement Mechanism (DSM) to recover its loss or receive compensation. First, the Thai government did not want to jeopardize its political relationships with Indonesia or with the Philippines and Malaysia, both of which supported Indonesia's delay. Second, Thailand was afraid that the request for the DSM could create a negative effect on the exportation of other products to those countries that had started to enjoy low tariff rates under the AFTA scheme. Third, the ASEAN-DSM itself had no credibility. According to the DSM agreement in 1996, if Thailand requested a panel, the same group of people who were senior economic officials would serve on the panel committee. Thus, there would be no difference between using and forgoing the DSM. At the end, the whole process of negotiation in this case took almost five years, starting in 1995 and ending in 1999.

After Indonesia's success in delaying its agricultural products, Vietnam also requested a domestic protection of its sugar industry until 2010 as well as Thai rice or *Hom Mali* was classified as a sensitive product in Vietnam in 2005. Indonesia and the Philippines received the privilege; why not Vietnam? Without a doubt, this request was easily approved by ASEAN members. Similarly, there was no way for Thailand to put pressure on Vietnam by requesting a DSM procedure. If Thailand

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<sup>10</sup> Hadi Soesastro, "Challenges to AFTA in the 21st Century," in *One Southeast Asia in a New Regional and International Setting*, ed. Hadi Soesastro (Jakarta: Center for Strategic and International Studies 1997), 90.

<sup>11</sup> *Ibid.*

had raised this issue against Vietnam, it would have automatically applied to Indonesia and the Philippines as well. Even though the DSM procedure was improved in 2004, senior economic officials can still intervene in the DSM procedure in any stage, as discussed in Chapter Five. The Thai government cannot thus receive compensation or even make retaliation as mentioned in the international trade theory due to the impact of political sensitivity among ASEAN members and the insufficient mechanisms of the ASEAN institution to protect the members.

In addition to Indonesia's rice, Laos and Myanmar also put several important agricultural products such as rice in SL. As we know, Laos and Myanmar are not full market economies. Both governments are monopolies that control the domestic production, price, and market. The government of Myanmar has full power to import or not to import rice, depending on its domestic situation of demand and supply in the rice market. A request to extend the domestic protection of rice to Laos and Myanmar is thus possible; and if there is a case, the request should effortlessly be approved by other ASEAN members since Indonesia, the Philippines, and Vietnam were earlier granted this protection. As reflected by a senior economic official, "among ASEAN-6, [non-compliance] has already happened. If one day Vietnam or any new members cannot follow the schedule, it will not be a [surprising] story."<sup>12</sup>

Under the existing weak ASEAN institution, ASEAN does not have an effective mechanism or system to make fair compensation to the "guardian" and punish the "violator." Instead, the guardian becomes a loser and the violator becomes a winner. It is clear that ASEAN does not have power to stop members from violating the rules. After the enlargement, the new members have accepted and accentuated this situation.

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<sup>12</sup> An interview with a senior economic official in August 2006 in Thailand.

### ***1.2. Manufactured and Raw Materials for Industries***

The products discussed in this section are manufactured and raw materials for industries, grouped in the Harmonized System (HS) 40-48 and HS 50-59. Some of the products in HS 40-48 are rubber products, leather products, and pulp and paper; and in HS50-59 are textile yarn, cotton, silk, fibers, and fabrics. Most products are listed in the 15 fast track, which aims to accelerate manufactured production in ASEAN. The deadline of tariff reduction in these products complies with the regular tariff reduction program in the above Tables 6.2 and 6.3, which means all of the tariff lines in HS 40-48 and HS 50-59 had to be transferred into the IL category for the old members and Vietnam by 2003, and all of the tariff lines in IL have to be cut down to 0-5 percent by the same year for the old members. According to all tariff lines tables, fast and normal tracks had been merged into one category under the ILs of the old members, including Laos's and Vietnam's, by 2006.

Tables 6.7 and 6.8 summarize the implementation of tariff reduction in this sector. Most ASEAN members prioritize their economic growth in manufacturing industries such as garments, consumer electronic and non-electronic products, and parts. Importing cheap raw or manufactured materials helps to reduce the cost of production and can increase the scale of production. The tables illustrate that the old members transferred all of the products in HS 40-48 and HS 50-59 to IL and reduced tariffs to 0-5 percent without problem. As discussed in Chapter Four, Laos promoted duty-free raw materials and intermediate goods for re-export because of the government's attempts to increase the country's capacity in manufactured production for export as well as re-export. Laos notably finished transferring these products to IL very fast. Vietnam transferred all products of HS50-59 to IL and reduced tariffs to 0-5 percent in 2006 as promised. Vietnam also reduced the tariffs of the products in HS 40-48 to 0-5 percent in 2006. However, about 6 percent of the products in HS 40-48—identified as rubber products—were excluded from IL and classified in General Exclusion List (GEL) with tariff rates between 3 and 50 percent, shown in Table 6.9.

**Table 6.7: Tariff Lines of Manufactured Materials under the 2002 and 2006 CEPT Schemes, percentage (HS40-48)**

Country	IL 2002		Outside IL 2002	IL 2006		Outside IL 2006
	Fast Track	Normal Track		Fast Track	Normal Track	
Brunei	41.5	58.5	0.0	100.0		0.0
Indonesia	20.5	79.5	0.0	100.0		0.0
Malaysia	13.8	86.2	0.0	100.0		0.0
Philippines	21.0	79.0	0.0	100.0		0.0
Singapore	41.2	58.8	0.0	100.0		0.0
Thailand	-	100.0	0.0	100.0		0.0
Cambodia	26.9	17.0	56.2	32.9	44.8	22.3
Laos	-	19.9	80.1		100.0	0.0
Myanmar	38.4	37.3	24.4	31.0	63.3	5.7
Vietnam	-	79.9	20.1		94.6	5.4

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

**Table 6.8: Tariff Lines of Manufactured Materials under the 2002 and 2006 CEPT Schemes, percentage (HS50-59)**

Country	IL 2002		Outside IL 2002	IL 2006		Outside IL 2006
	Fast Track	Normal Track		Fast Track	Normal Track	
Brunei	100.0	-	0.0	100.0		0.0
Indonesia	90.4	9.6	0.0	100.0		0.0
Malaysia	99.9	0.1	0.0	100.0		0.0
Philippines	15.6	84.4	0.0	100.0		0.0
Singapore	100.0	-	0.0	100.0		0.0
Thailand	-	100.0	0.0	100.0		0.0
Cambodia	-	36.4	63.6	82.5	1.4	16.1
Laos	-	96.3	3.7		100.0	0.0
Myanmar	18.5	53.6	27.9	20.5	77.0	2.5
Vietnam	-	57.4	42.6		100.0	0.0

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

**Table 6.9: MFN and CEPT Rates of Manufactured Materials in 2002 and 2006, percentage (HS 40-48)**

Country	Tariff Rates in IL (2002)		Outside IL 2002	Tariff Rates in IL (2006)		Outside IL 2006
	MFN	CEPT		MFN	CEPT	
Brunei	0-20	0-5	-	0-20	0-5	-
Indonesia	0-20	0-10	-	0-20	0-5	-
Malaysia	0-40*	0-20	-	0-40*	0-5	-
Philippines	0-15	3-10	-	0-15	0-5	-
Singapore	0	0	-	0	0	-
Thailand	0-50*	0-10	-	0-40*	0-5	-
Cambodia	0-35	0-20	7-50	0-35	0-20	7-35
Laos	5-40	1-30	5-30	5-40	0-10	-
Myanmar	0-20	0-15	0.1-15	0-20	0-15	1
Vietnam	0-50	0-20	3-50	0-50	0-5	3-50

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

\* Include a para-tariff measure

Among the new members, Cambodia remained the most protected in HS 40-48 and HS 50-59 with the highest percentage of tariff lines outside of IL and the highest tariff rate (20 percent) in the

CEPT, as shown in Table 6.10. The Cambodian government has been known to invest in rubber plantations and the rubber industry, suggesting a higher level of national protection and making it more difficult to liberalize tariff barriers. Cambodia has also guarded particular kinds of fabrics to protect the garment industry. Besides Vietnam and Cambodia, Myanmar has also protected its rubber industry and placed it in TEL. Generally, it is easier to liberalize trade barriers for manufactured and raw materials than for other sectors such as the agricultural and automotive sectors. Serious non-policy compliance and conflicts, including renegotiation, have not so far been notably found in this sector.

**Table 6.10: MFN and CEPT Rates of Manufactured Materials in 2002 and 2006, percentage (HS 50-59)**

Country	Tariff Rates in IL (2002)		Outside IL 2002	Tariff Rates in IL (2006)		Outside IL 2006
	MFN	CEPT		MFN	CEPT	
Brunei	0-10	0-5	-	0-10	0-5	-
Indonesia	0-15	0-5	-	0-15	0-5	-
Malaysia	0-30	0-20	-	0-30	0-5	-
Philippines	0-15	3-5	-	0-15	0-5	-
Singapore	0	0	-	0	0	-
Thailand	0-30	1-5	-	0-30*	0-5	-
Cambodia	7-35	7-15	7-35	7-35	<u>5-20</u>	7-35
Laos	5-20	5-15	5-20	5-20	2-3	-
Myanmar	0-20	0-20	0-20	0-20	0-15	0.5-3
Vietnam	0-40	0-20	0-40	0-40	0-5	-

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

\* Include a para-tariff measure

\* Underlined-italic numbers indicate a wider band of the CEPT rates.

### **1.3. Electronics, Machineries, Vehicles, and Parts**

Electronics, machineries, and parts (HS 84-85) are part of the 15 fast track products. Vehicles and parts (HS 87) have just been liberalized recently after Malaysia finally reduced its tariff rate in this sector in 2005. However, the deadline for tariff reduction for these products is the same as the deadline for manufactured and raw materials for industry. The old members plus Vietnam were scheduled to cut tariff barriers in the entire IL to 0-5 percent by 2003, as shown in the above Tables 6.2 and 6.3. This implies that 100 percent of tariff lines in HS 84-85 and HS 87 had to be cut down to 0-5 percent by that year.

**Table 6.11: Tariff Lines of Electronics and Machineries under the 2002 and 2006 CEPT Schemes, percentage (HS84-85)**

Country	IL 2002		Outside IL 2002	IL 2006		Outside IL 2006
	Fast Track	Normal Track		Fast Track	Normal Track	
Brunei	26.2	73.8	0.0	100.0		0.0
Indonesia	17.7	82.3	0.0	100.0		0.0
Malaysia	27.4	72.6	0.0	100.0		0.0
Philippines	11.4	88.6	0.0	100.0		0.0
Singapore	19.1	80.9	0.0	100.0		0.0
Thailand	-	100.0	0.0	100.0		0.0
Cambodia	8.9	58.6	32.5	9.2	67.2	23.6
Laos	-	77.7	22.3	99.8		0.2
Myanmar	19.5	36.1	44.4	20.5	79.2	0.3
Vietnam	-	92.7	7.3	100.0		0.0

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

**Table 6.12: Tariff Lines of Vehicles under the 2002 and 2006 CEPT Schemes, percentage (HS87)**

Country	IL 2002		Outside IL 2002	IL 2006		Outside IL 2006
	Fast Track	Normal Track		Fast Track	Normal Track	
Brunei	-	15.1	84.9	25.5		74.5
Indonesia	-	99.3	0.7	100.0		0.0
Malaysia	-	50.0	0.0	100.0		0.0
Philippines	-	100.0	0.0	100.0		0.0
Singapore	-	100.0	0.0	100.0		0.0
Thailand	-	100.0	0.0	100.0		0.0
Cambodia	-	8.4	91.6	-	49.3	<u>50.7</u>
Laos	-	16.7	83.3	64.7		<u>35.2</u>
Myanmar	11.3	62.3	24.4	2.1	97.8	0.1
Vietnam	-	53.5	46.5	79.0		<u>21.0</u>

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

\* Underlined-italic numbers indicate a wider band of the CEPT rates.

All old members (except for Brunei) successfully transferred all products in HS 84-85 and HS 87 into IL, which means there are no more products outside of the CEPT scheme in 2006, as shown in Tables 6.11 and 6.12. Table 6.12 shows that Brunei has protected its automotive and parts industry, which makes the government hold most products of this industry under TEL. Around 85 percent of the total tariff lines in HS 87 were laid outside of IL in 2002, and 74.5 percent in 2006. Vietnam successfully moved all product lines in HS 84-85 from TEL to IL by 2006 as promised in the agreement. However, Vietnam could not move all products in HS 87 to IL. Those products were identified as parts and components for vehicles. Vietnam has prohibited secondhand vehicles, vehicle parts, and right-hand vehicles. Laos has been liberalizing particularly in assembling industries by

offering a 1 percent tariff rate on equipment and materials and a duty-free on products for assemblies, but protecting products in HS 87. Therefore, its tariff lines in electronics, machineries, and parts (HS 84-85) were almost all transferred into IL (99.8 percent) in 2006, while only 65 percent of automotive products and parts were placed in IL. Myanmar, on the contrary, has vastly lifted tariff barriers on both the automotive and manufacturing industries. Almost 100 percent of its products in HS 84-85 and HS 87 were moved from TEL to IL in 2006. Cambodia has still preserved national protection in these sectors. Thus, the government has not opened up its domestic market as much as the other new members. The Cambodian government holds more than half of the products in the automotive industry in TEL, while liberalizing a few more in electronics and machineries.

**Table 6.13: MFN and CEPT Rates of Electronics and Machineries in 2002 and 2006, percentage (HS 84-85)**

Country	Tariff Rates in IL (2002)		Outside IL 2002	Tariff Rates in IL (2006)		Outside IL 2006
	MFN	CEPT		MFN	CEPT	
Brunei	0-20	0-10	-	0-20	0-5	-
Indonesia	0-15	0-10	-	0-15	0-5	-
Malaysia	0-50*	0-20	-	0-50	0-5	-
Philippines	0-15	5-15	-	0-15	0-5	-
Singapore	0	0	-	0	0	-
Thailand	0-30	0-20	-	0-30*	0-5	-
Cambodia	0-35	0-20	7-35	0-35	0-20	7-35
Laos	5-20	1-15	5-40	5-40	<u>0-20</u>	5
Myanmar	0-20	0-15	0-15	0-20	0-15	1-10
Vietnam	0-50	0-20	0-50	0-100	0-20	-

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

\* Include a para-tariff measure

\* Underlined-italic numbers indicate a wider band of the CEPT rates.

In terms of tariff reduction, the old ASEAN members reduced their tariff rates from 0-20 percent in 2002 to 0-5 percent in 2006 (Table 6.13). Most new members kept their tariff rates the same: 0-20 percent in both years. Vietnam had not reduced its tariffs in HS 84-85 below 5 percent in 2006 as promised. Laos increased its CEPT rate by 5 percent in some sensitive products, but advanced by moving almost all tariff lines from TEL to IL and cutting tariffs in both MFN and CEPT rates in 2006. In HS 87, Table 6.14 shows that the automotive industry is quite sensitive for both old and new members. This is a sector that a country wants to invest in and protect in order to create a

national industry because the development of this sector can contribute to enormous revenues from exporting automobiles and parts, serving a domestic demand, as well as spilling over to develop other economic sectors. In 2002, Malaysia, Brunei, and Indonesia placed their automotive products in TEL with tariff rates as high as 300 percent, 200 percent, and 80 percent respectively. Cambodia and Laos moved more products in HS 87 from TEL to IL in 2006, and reduced the tariffs of those products from 40 to 20 percent. However, their MFN rates were higher than the CEPT rates by 20 percent in Cambodia and 30 percent in Laos, and several products are still in TEL with tariff rates as high as 100 percent in Cambodia. Myanmar increased its MFN rate by 10 percent and kept its CEPT rate the same. Vietnam is obviously currently pursuing a protectionist policy toward the automotive industry because the elimination of tariff reductions in this sector has been very slow. The MFN rate of Vietnam was increased by 50 percent from 2002 to 2006. The 2006 MFN rate thus became 150 percent, while maintaining the same CEPT rates, 0-20 percent. Notably, many members promoted tariff reduction within ASEAN by cutting the tariff rates, while substituting this loss of import tariff revenues by increasing their MFN tariff rates in certain products.

**Table 6.14: MFN and CEPT Rates of Vehicles in 2002 and 2006, percentage (HS 87)**

Country	Tariff Rates in IL (2002)		Outside IL 2002	Tariff Rates in IL (2006)		Outside IL 2006
	MFN	CEPT		MFN	CEPT	
Brunei	0-20	0-5	0-200	0-20	0-5	15-20
Indonesia	0-80	0-5	0-80*	5-80*	0-5	-
Malaysia	0-200	0-20	0-300	0-60	0-5	-
Philippines	3-30	3-20	-	0-30	0-5	-
Singapore	0	0	-	0	0	-
Thailand	0-80	0-20	-	0-80*	0-5	-
Cambodia	0-15	0-10	0-120	<u>0-35</u>	<u>0-20</u>	7-35
Laos	5-10	5-7	5-40	<u>5-40</u>	<u>2-20</u>	<u>10-40</u>
Myanmar	0-30	0-30	1-40	<u>0-40</u>	0-15	5
Vietnam	0-100	0-20	0-100	<u>0-150</u>	0-20	0-100

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

\* Include a para-tariff measure

\* Underlined-italic numbers indicate a wider band of the CEPT rates.

In the automotive sector, two conflicts between (1) Malaysia and Thailand, and (2) Vietnam and Thailand occurred. A dispute arose between Malaysia and Thailand when Malaysia did not



transfer its automotive products from TEL to IL or reduce the tariff rates to between 0 and 5 percent as promised. Helen Nesadurai called this conflict and negotiation "far more threatening" than the one in agriculture.<sup>13</sup> The delay of the Malaysian automotive industry hurt not only ASEAN members but also the image of the whole ASEAN automotive sector. A warning came from Ford Motor Company in the form of its slowdown to invest in ASEAN as a result of an unpromising implementation of AFTA. In a chain reaction, other U.S. firms in telecommunications and services also postponed their investment decision in ASEAN due to this problem.<sup>14</sup>

Among ASEAN members, Thailand—as one of the fastest growing exporters in the automotive industry in the region—could be most affected as a result of the delay policy of Malaysia. Thailand claimed that the Malaysian delay policy would make its automotive industry unable to export to Malaysia, leading to a loss of its revenues. Hence, the Thai government threatened to withdraw tariff reduction on the import of palm oil from Malaysia. However, the government decided not to pursue the retaliation due to the excessive domestic demand for Malaysian palm oil.<sup>15</sup> After that, Thailand challenged Malaysia to invoke this issue as an emergency safeguard instead of requesting a delay without showing that the AFTA implementation could damage Malaysia's import-competing sector.<sup>16</sup> Several meetings and negotiations between Malaysia and Thailand did not produce a successful conclusion. Nevertheless, ASEAN permitted Malaysia to delay reductions in tariffs under the *Protocol Regarding the Implementation of the CEPT Scheme Temporary Exclusion List* even though ASEAN members did not agree with Malaysia's delay policy. Malaysia thus becomes the first country to use this protocol to delay tariff reduction and extend the production of its national automobile industry.<sup>17</sup> Similar to the case of agriculture, Thailand did not have the power to bargain because the ASEAN institution does not have a mechanism to guard the complier. As

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<sup>13</sup> Nesadurai, *Globalisation, Domestic Politics, and Regionalism: The ASEAN Free Trade Area*, 156.

<sup>14</sup> *Ibid.*

<sup>15</sup> *Ibid.*, 157.

<sup>16</sup> *Ibid.*

<sup>17</sup> Soesastro, "The ASEAN Free Trade Area: A Critical Assessment," 42.

mentioned earlier, the DSM is not effective due to the loophole for political intervention. In this case, Indonesia and Thailand together requested compensation to Malaysia in 2001. Thailand proposed that Malaysia could compensate by importing approximately 600,000 tons of rice each year.<sup>18</sup> The negotiations were again held several times between the two countries without conclusion. Malaysia finally decided to deny the rights of Thailand to receive compensation because the Malaysian government did not accept estimated data of car export to Malaysia shown by Thailand.<sup>19</sup> Thailand consequently planned to increase import tariff rates against Malaysian cars in 2005, as stated by Apiradi Tantraporn, Director-General of the Trade Negotiations Department.<sup>20</sup> However, Malaysia had already started to reduce its tariffs on the automotive industry in January 2005 before the retaliation plan of Thailand was imposed. At this moment, this issue is still not resolved. The issue of non-tariff barriers (NTBs) becomes a new problem between Thailand and Malaysia in the automotive industry in 2006, discussed below in the NTBs section. This dispute between Malaysia and Thailand has resulted in time-consuming negotiations for more than five years.

The second conflict is between Vietnam and Thailand. Vietnam planned to reduce tariffs on motorcycles and parts in 2003 from 30-50 percent to 20 percent, but it failed to do so. In the same year Vietnam asked to delay tariff cuts on 14 items in the same product group until 2008. Besides national protection of this industry, another reason that Vietnam provided for the delay was related to the issue of domestic accidents. Vietnam claimed that it faced a high accident rate on its roads and wanted to reduce imports on motorcycles to help control accidents caused by motorcycles.<sup>21</sup> A senior economic official of Vietnam discussed this issue with other senior economic officials from other ASEAN members at an informal meeting. At the end, ASEAN members agreed to pass Vietnam's request at the formal meeting. "There is no solution in DSM because this is an ASEAN Way of

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<sup>18</sup> Woranuj Maneerungsee, "Setback for Thai-Malaysian Negotiations," *The Bangkok Post*, September 7, 2001.

<sup>19</sup> The author interviewed with a senior economic official on August 3, 2006 in Bangkok, Thailand.

<sup>20</sup> Phusadee Arunmas and Woranuj Maneerungsee, "Malaysian Car Taxes Seen as Unfair," *The Bangkok Post*, January 22, 2005.

<sup>21</sup> The author interviewed with a senior economic official on June 12, 2006 in Jakarta, Indonesia.

negotiation,” stated by one of the senior negotiators.<sup>22</sup> Vietnam, however, compensated by issuing tariff cuts on 36 products to Thailand, accounting for US\$ 10 million or 392 million baht.<sup>23</sup> This conflict was resolved after two years of negotiation.

#### ***1.4. All Sectors and Summary of Tariff Reduction Implementation***

The CEPT dataset in 2003 is inaccessible, which prohibits the author from reporting the percentages of tariff lines in IL and outside of IL in the promised year. However, the joint media statement at the 17<sup>th</sup> meeting of the AFTA council in September 2003 in Phnom Penh reveals that Brunei, Malaysia, and Singapore reduced tariffs to 0 percent for 60 percent of the total products in IL, as scheduled. Thailand promised to achieve this target within that year. The Indonesian government asked to delay its deadline from 2003 to 2004. The Philippines reported that it had a legal constraint in implementing this commitment, but would try to meet the target of 60 percent in 2003. However, some delays of tariff reduction by reversing products from IL to TEL or HSL were sugar and rice from Indonesia, sugar from the Philippines, and automotive products from Malaysia. These cases were evidently confirmed policy non-compliance under the 2003 schedule of the old members. On the other hand, the 2003 schedule of Vietnam to cut tariffs to 0-5 percent for 80 percent of items under the IL cannot be assessed because the CEPT data for that year is not available and the report on the AFTA Council Meeting does not address Vietnam’s implementation. Moreover, Vietnam promised to start reducing tariffs on IL products to 0 percent in 2006. However, Vietnam requested a delay in tariff reductions for automotive products and sugar, and reversed rubber products from IL to GEL. Laos and Myanmar successfully cut tariffs to 0-5 percent by 2005 with a target of 80 percent under the IL, and both will start to reduce tariffs to 0 percent next year. Cambodia is required to reduce tariffs in IL to 0-5 percent in 2007; however, the data CEPT of Cambodia in 2007 has not yet

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<sup>22</sup> Ibid.

<sup>23</sup> The Bangkok Post, "Vietnam Set to Accelerate Tariff Reductions on 36 Products ", December 18, 2004.

publicly been available. The tariff reduction schedule of each member is regularly submitted to the ASEAN Secretariat around June or July of each year, but also can be postponable. Table 6.15 summarizes policy compliance under the AFTA scheme.

**Table 6.15: Evaluation of Policy Non-Compliance under the AFTA Scheme**

ASEAN Member	Tariff Reduction Target in IL	
	0%	0-5%
<b><u>Old Members</u></b>		
<b>ASEAN-6</b>	60% of IL by 2003	100% of IL by 2003
<i><u>Confirmed Non-compliance</u></i>	<i><u>Indonesia - Backtrack Transferring 15 products.</u></i>	<i><u>Request to delay in rice and sugar from Indonesia, sugar from the Philippines, and automotive products from Malaysia.</u></i>
<b><u>New Members</u></b>		
<b>Vietnam</b>	Not fixed % of IL by 2006	80% of IL by 2003
<i><u>Confirmed Non-compliance</u></i>	<i><u>Request to delay in automotive products and sugar, and to backtrack transferring rice and rubber to IL.</u></i>	<i><u>Data not available</u></i>
<b>Laos and Myanmar</b>	fixed % of IL by 2008	80% of IL by 2005
<i><u>Confirmed Non-compliance</u></i>	<i><u>N/A</u></i>	<i><u>None</u></i>
<b>Cambodia</b>	Not fixed % of IL by 2010	80% of IL by 2007
<i><u>Confirmed Non-compliance</u></i>	<i><u>N/A</u></i>	<i><u>Data not available</u></i>

In 2006, Singapore and Thailand already moved all of their products in all sectors to IL, illustrated in Table 6.16. Less than 1 percent of the total product lines have remained outside IL for Malaysia and the Philippines, 1 percent for Indonesia, and around 7 percent for Brunei, as illustrated. The new members are following the same track. They have shown improvement in transferring the

products in TEL and SL into IL from 2002 to 2006. Less than 2 percent of the total product lines have been listed outside IL for Myanmar, 3 percent for Vietnam, 6 percent for Laos, and 25 percent for Cambodia. Regarding overall tariff rates, Table 6.17 reveals that Malaysia, the Philippines, and Thailand have maintained CEPT rates of higher than 20 percent after moving their TEL products to IL. Those products are listed under HS 1-14 (agricultural products). Malaysia still highly protects its local and seasonal fruits such as pineapples (120%) and *pisang* (150%), while Thailand keeps the CEPT rate as high as 40 percent in protecting local coffee producers and orchid farmers, and the Philippines protects meat products. The rest of the old members have already reduced their CEPT tariff rates to 0-5 percent. Indonesia's rice and sugar and the Philippines' sugar are protected until 2010.

Among the new members, Vietnam has still not reduced some products in IL, including components of vehicles, rice, and dairy products. By 2010, Vietnam will liberalize its sugar industry. Cambodia, Laos, and Myanmar cut tariffs above 20 percent in IL in 2006. Nevertheless, several products remain in TEL and SL, including rice, coffee, fruits, rubber, sugar, and vehicles. In particular, many Cambodian products remained in TEL, accounting for around 23 percent in 2006. Also, only 19 percent of Cambodia's total products under IL possessed the tariff range of 0-5 percent in the same year. In this situation, it will be extremely difficult for the Cambodian government to accomplish its tariff reduction schedule in 2007. Cambodia has promised to transfer all products from TEL to IL and cut tariffs to 0-5 percent for 80 percent of items under IL, which means that 2,447 products in TEL have to be transferred into IL and as many as 4,500 products have to reduce tariffs to 0-5 percent within a year. New delays and renegotiations may be expected from Cambodia.

In sum, ASEAN members do not have much difficulty in liberalizing non-sensitive products, which is complementary to their national economic policy. In the case of sensitive products, on the other hand, ASEAN members have backtracked products in IL to TEL and HSL several times, and

unilaterally maintained high tariff rates on domestic sensitive products. The pattern of these behaviors has become perfunctory, and it is accepted by the new members.

**Table 6.16: Tariff Lines of All Sectors under the 2002 and 2006 CEPT Schemes, percentage**

Country	IL 2002		Outside IL 2002	IL 2006		Outside IL 2006
	Fast Track	Normal Track		Fast Track	Normal Track	
Brunei	38.4	58.2	3.3	92.7		7.3
Indonesia	28.9	70.0	1.1	98.9		1.1
Malaysia	30.7	65.9	3.4	99.3		0.7
Philippines	18.2	81.4	0.5	99.4		0.5
Singapore	37.6	62.4	0.0	100.0		0.0
Thailand	-	99.9	0.1	100.0		0.0
Cambodia	16.3	29.4	54.4	27.1	47.8	25.1
Laos	-	59.1	40.9	93.8		6.2
Myanmar	12.2	53.3	34.6	13.7	84.7	1.6
Vietnam	-	85.7	14.3	96.7		3.2

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

**Table 6.17: MFN and CEPT Rates of All Sectors in 2002 and 2006, percentage**

Country	Tariff Rates in IL (2002)		Outside IL 2002	Tariff Rates in IL (2006)		Outside IL 2006
	MFN	CEPT		MFN	CEPT	
Brunei	0-30	0-10	0-200*	0-30*	0-5	0-30*
Indonesia	0-80*	0-20	0-170*	0-80*	0-5	0-170*
Malaysia	0-200*	0-20	0-300*	0-60*	<u>0-150*</u>	0-30*
Philippines	0-65*	0-45*	10-65	0-65	0-40	0-50
Singapore	0	0	-	0	0	-
Thailand	0-80	0-20	-	0-80*	<u>0-40</u>	-
Cambodia	0-50	0-30	0-120	<u>0-35</u>	0-20	0-35
Laos	5-40	1-30	5-40	5-40	0-20	5-40
Myanmar	0-30	0-30	0-40	<u>0-40</u>	0-20	0-15
Vietnam	0-100	0-20	0-100	<u>0-150</u>	<u>0-50</u>	0-100

Source: Author's calculation from the 2002 and 2006 AFTA-CEPT datasets

\* Include a para-tariff measure

\* Underlined-italic numbers indicate a wider band of the CEPT rates.

### 1.5. Non-Tariff Barriers (NTBs)

Non-Tariff Barriers or NTBs are identified in the AFTA agreement as quantitative restrictions and other measures that hamper free trade activities in ASEAN. The original agreement says that the members have to phase out quantitative restrictions as soon as the products start to enjoy concession, and phase out all other NTBs in five years after the enjoyment of concession applicable to the products. At the 5<sup>th</sup> ASEAN Summit in 1995 in Bangkok, ASEAN members agreed to set clear

deadlines for the old members and for Vietnam. The elimination of NTBs should have been completed by the old members in 2003 and by Vietnam in 2006. However, in reality it could not be done, and exact guidelines on how to eliminate NTBs do not exist. The private sector has complained about the problems of NTBs that prevent them from exporting goods to ASEAN countries. The NTBs tremendously hurt exporting businesses because this type of tariff is not obviously written. The issue of transparency in ASEAN thus started to be a real problem after the tariff rates had been reduced.

ASEAN members decided to establish a central committee of ASEAN, the so-called ASEAN Consultative Committee on Standards and Quality (ACCSQ), which is responsible for promoting the harmonization of product standards in 20 product groups.<sup>24</sup> These products include manufactured consumer goods, and parts of electronics and appliances. The harmonization of standards was created to respond to the high growth of intra-ASEAN trade in this sector. Agricultural goods are more problematic because it is difficult for every country to have the same standard of health and food safety. The use of NTBs in several cases has served as a political mechanism to prevent the importation of agricultural goods in favor of farmer unions. On the other hand, small farmers who face NTB problems may not file complaints to the authority. Most reported cases are likely to come from manufacturing exporters rather than small or medium agricultural exporters.

In 2003 at the 17<sup>th</sup> AFTA Council Meeting, the ASEAN Economic Ministers attempted to solve this problem of transparency by deciding to create a database on Non-Tariff Measures (NTMs) in order to clarify the types of NTBs used in ASEAN. The ministers asked their officials to work on

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<sup>24</sup> The twenty products are air conditioners, refrigerators, radio, telephone, television, video apparatus, printed circuits, monitor and generators, monitor and keyboard, mounted piezo-electric crystal, diodes, parts of TV and radio, loudspeakers and parts, inductors, capacitors, resistors, switches, cathode-ray tube, rubber gloves, and rubber condoms. The harmonization of standards is relevant to international standards set by the International Standards Organization (ISO), International Electrotechnical Commission (IEC) and International Telecommunications Union (ITU).

“instituting a quick-response/reaction system to resolve the implementation problems.”<sup>25</sup> At the same time, the ASEAN Secretariat was promoted as a center for NTB complaints or notifications, providing a direct point of contact for the private sector through the ASEAN Secretariat website. Most complaints about NTBs, of course, went through the trade office of each country, not the ASEAN Secretariat. The data collection on NTB complaints by nature is very hard to gather. At the same time, all ASEAN countries do not systemize the records, as well as the ASEAN Secretariat does not have the power to command or request the organization of the data collection system. The analysis of NTBs by the ASEAN Secretariat is very limited,<sup>26</sup> as shown in Table 6.18. There was only one table presenting the number of NTBs in ASEAN sourced from the ASEAN Secretariat. Also, the difficulty of data collection and NTB elimination is partly due to a lack of clarification under the AFTA agreement.<sup>27</sup> NTBs are not tangible like tariffs. Therefore, without clear criteria and agreement, ASEAN will not be able to tackle this problem.

**Table 6.18: Prevalence of NTBs Applied in ASEAN Countries, 1995**

Non Tariff Barriers	Number of Tariff lines affected
Customs surcharges	2,683
Additional surcharges	126
Single channel for imports	65
State trading administration	10
Technical masures	568
Product characteristics requirement	407
Marketing requirement	3
Technical regulations	3

Source: AFTA Reader (1996)

<sup>25</sup> The joint media statement of the 17<sup>th</sup> AFTA Council in September 2003 in Phnom Penh, Cambodia.

<sup>26</sup> Adam McCarty, "Vietnam's Integration with ASEAN: Survey of Non-Tariff Measures Affecting Trade, UNDP-Funded Research Report No. 8, VIE/95/015," (UNDP, 1999), 23.

<sup>27</sup> The author interviewed with a senior economic official on August 03, 2006 in Bangkok, Thailand.



**Table 6.19: Classification of NTBs in ASEAN, 2004-2006**

		Type of NTBs				
HS	Description	Automatic Licensing	Non-Automatic Licensing	Application Permit	Import Permit	Import Control
0-14	Unprocessed Agricultural Products (UAP)	I, S	B, MY, <u><b>C, MM</b></u>	B, S	B, T	
	Rice and Rice Seed		MY	B, S	T	MY
17	Sugar	I	B, MY, <u><b>V</b></u>	MY, S	B	I
40-48	Wood and Timber		MY		B	
50-59	Manufactured Materials	I				
84	Machinery and Mechanical Appliances; Parts	I	MY, T		T	B
85	Electrical Machinery and Equipment; Parts	I, S	MY, <u><b>V</b></u>		B	B
87	Vehicles		MY, T	B	T	

		Type of NTBs				
HS	Description	Technical Measures- Technical Regulations/ Quality Standard	Quantity Control/ Restriction/ Quota	Minimum Price	Monopoly	Total Prohibition
0-14	Unprocessed Agricultural Products (UAP)	B, I, MY, P, T, <u><b>C, L, MM, V</b></u>	B, I, MY, P, S, <u><b>V</b></u>			B, MY, S
	Rice and Rice Seed	B, I, MY, P, <u><b>V</b></u>	B, P		I, MY, P	
17	Sugar	I, P, <u><b>V</b></u>	B, I, MY, P			
40-48	Wood and Timber	I, P, <u><b>MM</b></u>	B			T, <u><b>V</b></u>
50-59	Manufactured Materials		<u><b>V</b></u>			<u><b>V</b></u>
84	Machinery and Mechanical Appliances; Parts	I, S, <u><b>V</b></u>	I, MY	<u><b>V</b></u>		T, <u><b>V</b></u>
85	Electrical Machinery and Equipment; Parts	P, S, <u><b>L, V</b></u>	B, I, P, S	<u><b>V</b></u>	I	I, MY, <u><b>V</b></u>
87	Vehicles	B, S, T, <u><b>L, V</b></u>	B, MY, S	<u><b>V</b></u>		S, T, <u><b>V</b></u>

Source: Compiled by the author from the ASEAN NTBs database.

The letters in the table denote the first letter of ASEAN member countries.

MY refers to Malaysia and MM refers to Myanmar.

Underlined-bold-italic letters represent the ASEAN new members.

In Table 6.19, the author classifies the available database on NTBs and illustrates the latest picture of ASEAN-NTBs identified by individual country members. Most NTBs of ASEAN members are concentrated on three measures: (1) technical measures, technical regulations, and quality standards, (2) quantity control and restriction quota, and (3) non-automatic licensing. The most protected goods in NTBs are in the agricultural sector. Thailand and Brunei require an import permit in several sectors. Only Vietnam imposes a minimum price on import goods such as electronics, machinery, and parts. Only Indonesia and Singapore allow automatic licensing in several sectors, except the products of rice, wood, and vehicles. Myanmar, Indonesia, and the Philippines reportedly have monopolies in rice production, and Indonesia in some products under electrical machinery and equipment industry.

Six ASEAN members have decided to use total prohibition measures for certain product categories. Brunei, Myanmar, and Singapore prohibit certain types of unprocessed agricultural products such as opium. Vietnam does not allow importing used products such as cars, engines, electrical goods, and clothes. Thailand also prohibits used cars, engines, and electrical appliances. Singapore bans a particular kind of automotive clutch, and Indonesia forbids used electrical machinery. Cambodia has so far classified only 29 products (HS 1-14) to which NTBs apply. The low number of NTBs in Cambodia could be explained by the existing high tariff rates under the AFTA scheme. NTBs will be created in the future when its CEPT rates need to be cut. However, the Cambodian government will have to report its NTBs to other ASEAN members, and the process of identification will take quite some time.

At least one case of conflicts caused by NTBs has already triggered a bitter relationship between old members. The automotive dispute between Malaysia and Thailand did not end after Malaysia cut tariffs to 0-5 percent in automotive products in 2005. Thailand has not reciprocated to cut tariffs in those products to 5 percent for Malaysian vehicles and parts. Thai officials claimed to receive complaints from automobile exporters that could not export their products to Malaysia even

after the Malaysian tariff reduction to 5 percent in 2005.<sup>28</sup> Besides a tariff barrier, Malaysia also requires an import license and may impose quantity restrictions on vehicles and parts. The investigation and negotiation will be launched between the two parties again. According to the author's interview, the process of this dispute settlement will be the same as before: based on a bilateral negotiation and unlikely to use the ASEAN-DSM. To eliminate NTBs solely depends on a unilateral act. Other members can find out the restriction on NTBs only if their exporters file complaints, which means that their businesses are already damaged.

The conflict resolution on NTBs is mainly case by case, and there is no clear method to manage the conflict in ASEAN. Based on the joint media statement of the 20<sup>th</sup> meeting of the AFTA Council in August 2006 in Kuala Lumpur, the ASEAN Economic Ministers have learned about more trade problems that were identified as NTBs rather than tariff rates. The ministers suggested strengthening a peer review mechanism in order to enhance transparency in NTBs. Nevertheless, this mechanism cannot solve the problem after the problem has already occurred. Also, in the long run, after all tariff rates have been eliminated, NTB problems (which are more difficult to solve) will become a new headache for ASEAN because ASEAN does not currently have a clear policy guideline to eliminate NTBs, an efficient mechanism to enforce the agreement (mainly relying on a peer review), or an efficient mechanism to resolve a complicated conflict.

## **2. ASEAN Investment Area (AIA)**

The first agreement on ASEAN investment was the *Promotion and Protection of Investments*, signed in 1987. The purposes were to stimulate the flow of technology and private investment among ASEAN members and to direct the study of a regional mechanism to formulate investment guidelines. ASEAN members have recognized a regional advantage to enhancing investments within ASEAN

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<sup>28</sup> Ibid.

and outside ASEAN since that time. At the 5<sup>th</sup> ASEAN Summit in 1995, the members agreed to create the ASEAN Investment Area (AIA). Senior economic officials were assigned to negotiate and outline the AIA agreement. After more than two years of negotiation, the AIA agreement was finally ready for ASEAN members to endorse in 1998. Three schedules for AIA action plans were established in the agreement: (1) cooperation and facilitation program, (2) promotion and awareness program, and (3) liberalization program.

Schedule I is the cooperation and facilitation program. The main actions of this schedule are to increase the transparency of investment rules, regulations, policies, and procedures through publications; to establish a database for ASEAN industries and technology suppliers; and to cooperate in the development of human resources, infrastructure, and information technology. Funds for regional activities such as the establishment of an investment database and human development trainings (especially in CLMV) mainly come from sources outside the region such as the EU, Japan, UNDP, UNESCAP, and the World Bank (WB). For instance, ASEAN arranged a workshop on enhancing the investment climate in CLMV in 2006, aiming to give special training to CLMV's officials in formulating and implementing policies. The WB offered to sponsor this workshop in terms of money and technical staffing. Cooperation among ASEAN, Japan, and UNCTAD created the so-called Working Group on Foreign Direct Investment (WGFDIS) in 2000 under the supervision of the Coordinating Committee on Investment (CCI).<sup>29</sup> The WGFDIS launched several workshops to build ASEAN-FDI statistics and improve data quality. In 2005, the WGFDIS successfully released several statistical publications such as an ASEAN investment report for 2004 and an ASEAN-FDI database.

Schedule II is the promotion and awareness program. The purpose of Schedule II is to organize investment promotion activities. The activities are not about strategizing for the investment

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<sup>29</sup> The CCI is the body that reviews and implements AIA policy measures. It also works closely with senior economic officials to pursue ASEAN-FTA negotiations. The CCI meeting is held every two to three weeks.

project per se, but they are seminars, workshops, exhibitions, and consulting training programs. Participation is unilateral and voluntary. It has been reported that Singapore is the most active member in investment meetings. At the AIA-CCI meetings, Singapore will typically carry its investment plan to the meeting and ask whether the other ASEAN members want to join Singapore's exhibition plan.<sup>30</sup> For example, ASEAN decided to participate in investment promotion missions held in major developed countries such as the EU, Japan, and the United States, which followed an initial idea of the former Singaporean Prime Minister Goh Chok Tong in 1999.<sup>31</sup> This type of missions is short-lived and ended in a day or a week.

**Table 6.20: Deadlines for Phasing out the TEL under the AIA Scheme**

End Date	Manufacturing	Agriculture, Fishery, Forestry, mining, and services
Jan 1, 2003	ASEAN 6 + Myanmar	N/A
Jan 1, 2010	Vietnam, Laos and Cambodia	ASEAN 6
Jan 1, 2013	N/A	Vietnam
Jan 1, 2015	N/A	Laos and Myanmar

Source: ASEAN Secretariat

In Schedule III, the liberalization program, ASEAN members promise to give national treatment to ASEAN investors by 2010 and non-ASEAN investors by 2015.<sup>32</sup> Investment discrimination in the manufacturing sector will have to be eliminated earlier than in other sectors (agriculture, fishery, forestry, mining, and services). Table 6.20 shows the different deadlines for

<sup>30</sup> The author interviewed with a senior economic official on July 13, 2006 in Nontaburi, Thailand.

<sup>31</sup> The joint media statement of the 7<sup>th</sup> AIA Council Meeting in September 2004 in Jakarta.

<sup>32</sup> The original target deadline is 2020. The AIA Council Meeting in 2004 agreed to comply with the *ASEAN Framework Agreement for the Integration of Priority Sectors*. The eleven priority sectors are also accelerated for investment liberalization: agro-based products, air travel, automotives, e-ASEAN, electronics, fisheries, healthcare, rubber-based products, textiles and apparels, tourism, and wood-based products. Later, logistics was added to the list.

phasing out sectors in the TEL.<sup>33</sup> As a new member, Myanmar agreed to open its domestic market for foreign investment in the manufacturing sector by January 2003, which is the same deadline as the old members. Cambodia, Laos, and Vietnam have the same deadline to liberalize their manufacturing sector by 2010. By the same year, the old members will lift their protection and discrimination in all sectors. After all, Vietnam will relax the sectors in TEL by 2013, and Laos and Myanmar by 2015. Sensitive investment sectors have not yet established a schedule for investment liberalization.

As addressed in the AIA agreement, the liberalization program (schedule III) is subject to the unilateral elimination of restrictive investment measures. Individual action plans are undertaken to promote *freer* flows of capital, skilled labors, professionals, and technology in ASEAN. AIA has a so-called negative list, which discloses the sectors that are not welcome to invest in the country. Having a negative list creates non-transparency because the negative list does not clarify the status of the unlisted sectors. So, AFTA and AIA differ on this point. AFTA uses a positive list, indicating particular products for tariff reduction. In contrast, AIA has a negative list, indicating particular investment sectors for domestic protection. Instead of a regional plan, each ASEAN member follows its individual plan and negative list. A summary of AIA individual progress under Schedule III (liberalization program) is provided in Table 6.21.

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<sup>33</sup> The TEL in AIA is not the same list as the TEL in AFTA.

**Table 6.21: Summary of AIA Individual Progress Reports under Schedule III, 2004-2005**

<b>Country</b>	<b>Activity and Progress</b>
Brunei	<ul style="list-style-type: none"> <li>* Not allow full and majority foreign ownership on the activities relating to national food security and the use of local resources (agriculture, fisheries and food processing). Industries for total export can be 100% foreign-owned.</li> <li>* No national treatment provisions.</li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>* Open Pesticide industry for ASEAN investors</li> <li>* Allow foreign investors to establish a joint venture with Indonesian investors. No requirement on minimal amount of investment (equity plus loan).</li> <li>* Allow 100% of shares owned by foreign citizen and/or entities, with some shares sold to Indonesian citizens no later than 15 years after the initial investment.</li> <li>* No restriction on local content and technology requirements (except relating to environmental issues).</li> <li>* Allow employment of non-Indonesia citizens only if the position (experts and managers) cannot be filled by Indonesians.</li> <li>* Reserve some activities, e.g., fishery, forestry, television and radio broadcasting, newspaper and magazines, retailers (mall and supermarket), market research services, and medical services, only for domestic enterprises.</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>* Allow 100% foreign equity in all new investments, as well as investments for expansion/diversification projects in manufacturing sector.</li> <li>* No restriction on local content and technology in manufacturing sector.</li> <li>* Facilitate work permits to foreign workers in manufacturing sector.</li> <li>* No export condition is imposed on new/expansion/diversification projects in manufacturing sector.</li> </ul>
Philippines	<ul style="list-style-type: none"> <li>* No restriction on local content.</li> </ul>
Singapore	<ul style="list-style-type: none"> <li>* Allow 100% foreign ownership, except for certain sensitive sectors for national security purposes.</li> <li>* No restriction on local content and export requirements.</li> <li>* Apply a 20% corporate tax rate to both domestic and foreign companies.</li> <li>* Encourage companies to repatriate their foreign income into Singapore.</li> <li>* Allow tax exemption to Limited Liability Partnerships (LLPs) and MNCs holding functions in Singapore on a case-by-case basis.</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>* No restriction on local content and export requirements.</li> </ul>
Cambodia	<ul style="list-style-type: none"> <li>* Phase out TEL for manufacturing sector and opening up telecommunication sector.</li> <li>* Require the use of local content and the generation of high value-added products to get privilege from government.</li> <li>* Provide visa and work permits for managers, technicians, and skilled workers, as well as their spouses and dependents.</li> </ul>
Laos	<ul style="list-style-type: none"> <li>* Allow 100% foreign equity in all sectors except natural resources and hydro-power sector, which can be negotiated as a joint venture with the government.</li> </ul>
Myanmar	<ul style="list-style-type: none"> <li>* Allow 100% foreign equity ownership.</li> <li>* Allow 35% foreign equity in a joint venture with local partners.</li> </ul>
Vietnam	<ul style="list-style-type: none"> <li>* Deregulate technology requirements.</li> </ul>

Source: Compiled by the author from the AIA individual plans at ASEAN Secretariat website.

The above table represents the major national investment policies of each ASEAN member, submitted to the AIA unit at the ASEAN Secretariat. The Philippines and Thailand do not provide extensive reports on their progress in unifying investment policy. Therefore, with this reason when foreign investors want to invest in ASEAN members, they will not go to meet AIA staff, but the Board of Investment or the Investment Committee of that country for information and consultation. Investment privileges and promotions are often determined by the host country on a case-by-case basis. A particular kind of investment can even receive a privilege outside of the written policy.<sup>34</sup> Among all members, Singapore is the most liberalized in investment policy. The government already opens up for services even though the other ASEAN members do not. Like Vietnam and Laos, Cambodia especially is still in the process of endorsing new investment laws and amending the existing ones in order to improve its investment environment. For Myanmar, many cases of direct investment depend on law as well as military approval.

At the ASEAN Secretariat, the AIA unit is a coordinating unit that sets up meetings and training for ASEAN members. The AIA unit basically serves as a secretary to coordinate AIA programs and meetings, including posting the investment information of each country on the ASEAN Secretariat website. The ASEAN Secretariat does not have a legal status. As explained by a Thai senior economic official at the department of investment, “at the meeting, the ASEAN Secretariat’s job is a secretary—taking notes, providing information on previous meetings, agreements, and rules, and taking an issue to study. The Secretariat cannot give suggestion and check the implementation.”<sup>35</sup> The status of the AIA and AFTA units is thus similar, as discussed in detail in Chapter Five.

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<sup>34</sup> The author interviewed with a senior economic official on August 11, 2006 in Bangkok, Thailand.

<sup>35</sup> The author interviewed with a senior economic official on July 13, 2006 in Nontaburi, Thailand.



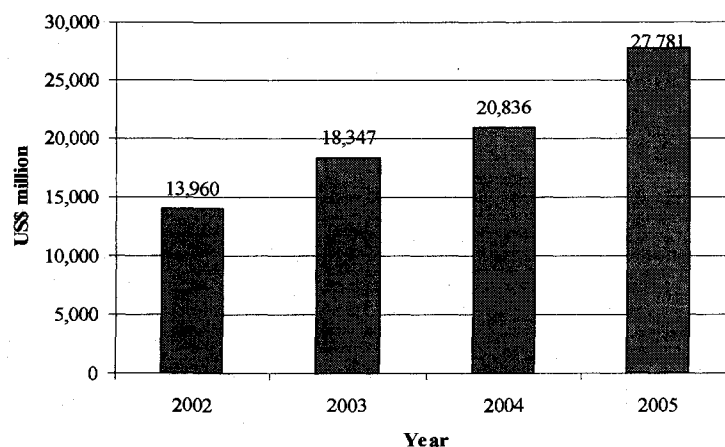
An assessment of the AIA programs has never been done after completing exhibitions and trainings.<sup>36</sup> In fact, we cannot relate the growth of inward or outward investment in ASEAN to the promotion and liberalization programs under the AIA. Due to the short-term nature of these programs, AIA cannot determine the long-term result of, for example, intra-ASEAN investment or total ASEAN investment inflows. In other words, we can never conclude that the high volume of investment in ASEAN is caused by the number or/and quality of AIA programs. It is the implementation of AIA depends solely on each country when it is ready to take action. A member unilaterally reviews its own negative list. No comments have been made by ASEAN members on other members' negative lists.<sup>37</sup> AIA clearly has no mechanism to check policy compliance. A senior economic official explicitly expressed that "every member agrees with the AIA framework, but it still depends on each country's implementation. At the individual country level, we do not know actually how strictly [the members] are following the policy as promised." The same official asserted that "we have a clear-cut answer that the implementation of AIA does not have to result in an increase in investment."<sup>38</sup> However, the AIA report at the annual AIA Council Meeting always claims the increasing volume of investment as a result of the AIA programs. Figure 6.2 shows an increase in approved manufacturing FDI in ASEAN from US\$ 13,960 million in 2002 to US\$ 27,781 million in 2005, which was claimed to be a successful outcome of AIA implementation. Regarding conflict management in investment, no investment dispute has been brought to the AIA table. Investment conflicts are always solved at the bilateral level and so far have never asked to use the existing ASEAN-DSM.

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<sup>36</sup> The author interviewed with a senior economic official on August 11, 2006 in Bangkok, Thailand.

<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

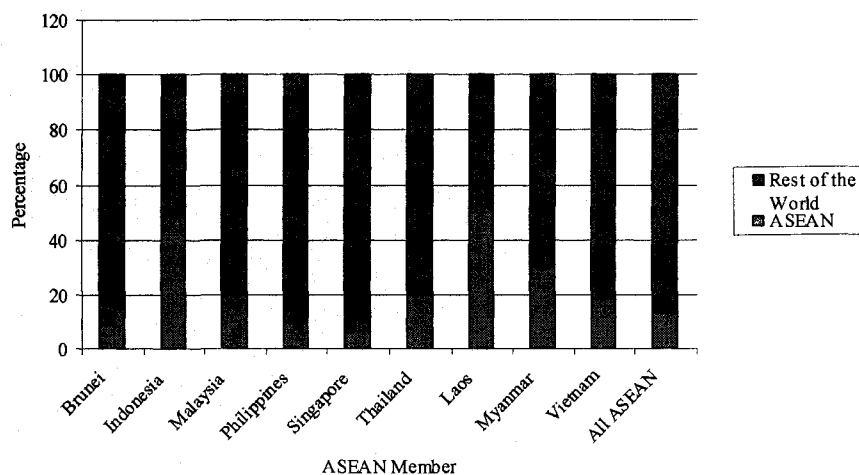
**Figure 6.2: Approved Manufacturing FDI in ASEAN, 2002-2005, US\$ million**

Source: ASEAN FDI Database 2006

According to the author's interviews with senior economic officials, Singapore is the most active member and Myanmar is the least active member during the AIA-CCI meetings. Several times the new members as well as the Philippines could not join the meetings. The new members are also less likely to initiate any investment projects.<sup>39</sup> Their absence shows that either they do not have enough budgets to attend many meetings in a year or they do not benefit from attending the meetings. In general, AIA projects mainly emphasize to attract investment flows from outside of ASEAN sources in order to stimulate the existing trend of extra-regional investment inflows into ASEAN (Figure 6.3). As we know, investment is very important to economic development, especially for the new members who are seeking to get more investment inflow to help their economic growth. However, the frequent absences of the new members at the AIA-CCI meetings could, to some extent, show their low enthusiasm for joining and complying with AIA policy and reflect the quality of overall AIA projects in the eye of some ASEAN members.

<sup>39</sup> Ibid.

**Figure 6.3: Share of Intra-ASEAN FDI in FDI Inflows into ASEAN Members, 1995-2003, percentage**



Source: ASEAN Statistical Pocketbook 2005

When asked about the goal of becoming an ASEAN economic community with a free or *freer* flow of capital to achieve a single market, several senior economic officials responded that ASEAN would not be able to reach that goal under the existing institutional mechanism. At present, investment protection in ASEAN is still very high. The reformation of investment regulations essentially depends upon national laws, which ASEAN does not have the power to command members to change. However, it was reported that only the Philippines voluntarily changed its domestic laws to comply with the AIA program.<sup>40</sup> AIA has a weak mechanism for directing investment due to the ineffectiveness of the negative lists, the short-lived nature of its projects, unilateral and voluntary action, and its lack of power to influence changes in domestic laws and institutions. The greatest problem is the lack of a mechanism to check policy implementation. Some of the officials further added that members tend to compete with each other to get investment from foreign investors. The unification of investment policy is thus much more difficult than the unification of trade policy. Even though AIA does not provide any special treatment to foreign

<sup>40</sup> Ibid.

investors, the benefit of AIA is recognized by the officials as a way to promote a good image of ASEAN (including individual ASEAN members) in the eyes of foreign investors, and to provide a stage for senior officials to talk about several issues.<sup>41</sup>

### **3. Policy Coordination**

#### ***3.1. Negotiation***

The lack of precise detail in an agreement permits members to later renegotiate in terms of the detail of the agreement, the policy outlines, and the case of exemption. Both AFTA and AIA have been renegotiated after the agreements were signed. In addition to trade and investment, services are also in the process of negotiation among ASEAN members to open their domestic markets. ASEAN has several projects and agreements with an amazing tone of liberalization that certainly contribute to a good image of ASEAN. Since liberalizing agreements will give credibility to ASEAN in the world economic community, ASEAN does not want to delay in signing the agreements and promote them to the world. Also, due to the consensus decision-making method in ASEAN, the negotiation process will take quite a long time to consummate the implementation outlines and schedules. Therefore, ASEAN always first signed major agreements soon and left out detail to be renegotiated later. The policy outlines and enforcement in AFTA took around two years to finish after the first agreement was signed. Likewise, the negotiation process to decide the AIA schedule took three years after the agreement.

The most important mark of ASEAN agreements is flexibility in policy implementation. AFTA provides an emergency safeguard mechanism (similar to the WTO safeguard mechanism), as does AIA. When a member cannot keep a promise in policy compliance, a renegotiation will occur between the violator and the guardian. In ASEAN, the guardian will try to compromise rather than

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<sup>41</sup> The author interviewed with a senior economic official on August 11, 2006 in Bangkok, Thailand.

pursuing retaliation against the violator.<sup>42</sup> In the case of a rice dispute between Indonesia and Thailand, the Thai government threatened to withdraw 44 agricultural products if Indonesia transferred rice from a normal track in IL to SL. However, Indonesia did transfer rice to SL, but Thailand did not retaliate. Under the ASEAN political institution, Thailand and other ASEAN members (guardians) chose to not impose any sanction or retaliation because the intolerance of Indonesia's deviant behavior may have harmed a political relationship and created a negative impact on other cooperative areas.<sup>43</sup> The most serious and famous negotiation in AFTA is the automotive dispute between Malaysia and Thailand. When Malaysia requested a delay in tariff reduction in its automotive industry, Thailand threatened to ban the importation of Malaysian palm oil. The result is identical to Indonesia's case. Malaysia delayed its tariff reduction in this sector, whereas Thailand could not ban Malaysia's palm oil due to its domestic demand.

In both negotiation cases, the guardian did not receive compensation from the violator. This clearly shows that the bargaining power of the guardian is very weak under the ASEAN institution because the reward and punishment system is absent. The violator is thus the winner, and the guardian becomes the loser. As a result, an economic negotiation in ASEAN does not always reflect a pure win-win situation under the ASEAN institution. In the above cases, Thailand did not retaliate because the government might expect to win from exporting other products to Indonesia. Retaliation might hurt the political relationship, which could lead to other trade barriers against Thai products. The same logic might apply to the Malaysia and Thailand dispute. However, the political/security incentive might be more obvious in the case of Malaysia. As a next door neighbor, Malaysia could

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<sup>42</sup> Nesadurai, *Globalisation, Domestic Politics, and Regionalism: The ASEAN Free Trade Area*, 152.

<sup>43</sup> Nesadurai analyzes ASEAN to be in a compliance bargaining situation where the violator and the guardian compromise over disputes.

cooperate with Thailand to control the South Muslim separatists.<sup>44</sup> Thus, Thailand might lose revenues in an automotive export but expect to maintain a good relationship with Malaysia.

AIA does not have a real characteristic of negotiation, but rather of consultation. As expressed by a Thai senior economic official at the department of investment, the “nature of the [AIA] meeting is not negotiation, but it is a request for cooperation by a country.”<sup>45</sup> AIA has a schedule of policy implementation to lift investment discriminations and barriers, but it cannot press a member to follow the schedule. The flexibility to implement is known to be very important so that agreement can be reached by all members. After each member submits its negative list and individual AIA plan, it is up to the other members to review the list and plan. The advanced framework of investment policy in Singapore can be a model for other ASEAN members to follow, but there is no pressure to do so. Negotiation or bargaining does not happen for investment liberalization in AIA because all domestic reforms, such as investment laws and regulations, are controlled by the national government. The AIA policy cannot be unified as the AFTA policy is if the individual national laws of investment are not unified. As mentioned in the AIA section, the major projects of AIA are to create investment database and publications, human development training programs, and investment promotion fairs. These projects launch only investment promotion activities, not investment strategy per se, and they are short-lived. Thus, AIA is a body of consultation, not of negotiation.

### ***3.2. Policy Compliance***

Uncertainty in an agreement creates a limitation for governments to follow and comply with the agreement.<sup>46</sup> Policy compliance in the AFTA and AIA agreements primarily relies on unilateralism, especially in AIA due to the complication of domestic investment laws and regulations.

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<sup>44</sup> Malaysia was claimed by some Thai politicians to send financial support to or provide places to hide for the separatists.

<sup>45</sup> The author interviewed with a senior economic official on July 13, 2006 in Nontaburi, Thailand.

<sup>46</sup> Christer Jonsson and Jonas Tallberg, "Compliance and Post-Agreement Bargaining," *European Journal of International Relations* 4 (1998): 371-408.

AFTA and AIA have their own schedules for enforcement, and they are flexible. ASEAN does not have a regional body to monitor policy compliance. A peer review is thus encouraged by ASEAN members to track compliance.

At the ASEAN Secretariat, a trade unit collects the tariff reduction schedules submitted by ASEAN members. However, this unit does not obtain authority from ASEAN members to check policy compliance. A peer review is instead used to check the implementation of AFTA. The progress in tariff liberalization has been evident in non-sensitive products. However, the problem of non-compliance frequently happens in sensitive products. Without a reward and sanction system, ASEAN does not have a mechanism to control state behaviors. Punishment as a result of non-compliance is not guaranteed. Therefore, unilateral acts and non-compliance are acceptable and easily done in AFTA. After the ASEAN enlargement, Vietnam joined with Indonesia in delaying the elimination of tariff reduction on an agricultural product without compensation.<sup>47</sup> However, in the case of the motorcycle industry, Vietnam compensated Thailand's loss in export to Vietnam under a bilateral negotiation. To some extent, Indonesia's deal becomes a keystone to ASEAN to accept other delayed products in the agricultural sector. The behavior of the old ASEAN members is replicated by the new members as a way to implement policy under the weak institution. Cambodia and Laos, which have some difficulty in transferring agricultural products from SL to IL, may also follow suit. The issue of NTBs is predicted to create more problems of non-compliance when tariff reduction is completed. At the moment, some complaints from the private sector have shown that some ASEAN products cannot be exported because of NTBs even though tariff rates are already low.

For AIA, policy compliance completely relies on the national governments. Giving national treatments to foreign investors involves changes in domestic laws and institutions, over which ASEAN does not have power. Thus, there is no way that AIA will be unified unless ASEAN

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<sup>47</sup> During the author's interview with Narongchai Akrasanee, he addressed a problem of non-compensation as a problem of diplomatic and political domination over economic issues at the ministerial level at the AFTA meeting.

members decided to pursue a self-governing action to change domestic regulations and atmosphere. As a result, the ASEAN institution does not have a way to check AIA policy compliance, and even a peer review does not exist in AIA. Markus Hund clearly suggested that AIA does not have an independent body to direct unconditional implementation.<sup>48</sup> He further added that the AIA mechanism will not hold in times of crisis because it is easy to withdraw participation under the AIA framework. In the previous section, senior economic officials were quoted, saying that ASEAN members do not comment or check on other members' negative lists and individual AIA plans. They do not see much advantage to the AIA programs in terms of promoting a regional strategy in order to create a regional production base as ASEAN had officially planned. Instead, the AIA programs are likely to serve as individual strategies to gain investment from outsiders. So far, no single regional strategy has been put forward by the AIA meetings as a collective action. Therefore, the AIA program is likely to aim at building up individual strengths rather than a regional strength in investment.

### ***3.3. Conflict Management***

As discussed in Chapter Five, the process of economic DSM can start from low-ranked official meetings to the ASEAN Economic Ministerial meeting if the bilateral talk does not work out. The higher-ranked official meetings are likely to assuage tension, but not to judge about the case. This state behavior is understood by conflict avoidance and non-confrontation under the principle of the ASEAN Way, which does not positively contribute to effectiveness in conflict management. ASEAN members view disputes as bilateral conflicts, which could be managed by the disputants themselves instead of solving them through the regional mechanism.<sup>49</sup> The institution has a small

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<sup>48</sup> Hund, "From 'Neighbourhood Watch Group' to Community?: The Case of ASEAN Institutions and the Pooling of Sovereignty," 107.

<sup>49</sup> Narongchai Akrasanee and Jutamas Arunanodchai, "Institutional Reforms to Achieve ASEAN Economic Integration," 65. They gave an example of the bilateral negotiation between the Philippines and Thailand,



role and a low capacity in providing information. Since the establishment of ASEAN-DSM, none of ASEAN members has requested the use of this tool. They are reluctant to settle a dispute through the DSM because this confrontational behavior will create bad feeling and hurt their diplomatic and political relationships.

In the case of AFTA, the guardian presents a mock strategy to retaliate against the violator rather than going through the ASEAN-DSM. However, due to political concerns the guardian always withdraws its threat and accepts the violator's deviant behaviors. This situation demonstrates that the ASEAN-DSM is inefficient to protect the rights of the guardian. The resolution for conflict management is a compromise between the disputants with or without compensation. The *Protocol on the Special Arrangement for Sensitive and Highly Sensitive Products* in 1999 was the outcome of conflict management. In particular, ASEAN decided to set up a highly sensitive list as a new category in order to allow delays in Indonesia's rice and sugar and the Philippines' sugar. ASEAN also created the *Protocol Regarding the Implementation of the CEPT Scheme Temporary Exclusion List* in 2000 to approve the delay in Malaysia's automotive sector. Later on, Vietnam exempted sugar and automotive products from tariff reduction. Regarding the issue of a third party, other ASEAN members are not likely to be in a position to mediate because the ASEAN political institution does not provide a safe channel for them to take part. Jumping into a bilateral dispute may only hurt the third party economically and politically.

Under the AIA agreement, investment disputes should be settled through the same DSM as trade disputes. Of course, no ASEAN members have so far requested the use of the ASEAN-DSM to resolve investment disputes. Investment disputes are more complicated in terms of levels: government and government, government and private sector, and private sector and private sector.

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which made market distortions. The Philippines agreed to increase its rice import quota, and continued protecting its high tariff rates on sugar.

At the AIA-CCI meetings, investment disputes have never been raised.<sup>50</sup> The disputes are usually settled outside of the AIA mechanism under the national or international court. AIA itself does not deal with the problem of investment conflict. Hund additionally asserted that the AIA Council Meeting held every year does not play the role of supranational judiciary in investment conflicts either.<sup>51</sup> He therefore concluded that the AIA system is “ruleless-based management and regulations with no punitive measures.”<sup>52</sup>

#### **4. Conclusion**

The analysis of AFTA and AIA in this chapter shows that the ASEAN political institution cannot control state behavior where control is most needed. Three components of policy coordination—negotiation, policy compliance, and conflict management—are ineffectively performed under the ASEAN political institution. Table 6.22 summarizes the characteristics of low policy coordination in ASEAN. At the negotiation stage, renegotiation is a pattern after the ASEAN agreements. The consensus decision-making process in ASEAN creates the flexibility of agreements. Renegotiations in policy outlines and details always come after the agreement is signed. In the dispute negotiation, the guardian does not have power to bargain, which makes the guardian a loser and the violator a winner. The ASEAN institution does not have mechanisms to protect the guardian and punish the violator.

At the policy compliance stage, peer review is used in AFTA. A level of policy compliance in tariff reduction of non-sensitive products under the AFTA scheme is substantially outstanding by both old and new members. However, non-compliance in the tariff reduction schedule of sensitive

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<sup>50</sup> The author interviewed with a senior economic official on August 11, 2006 in Bangkok, Thailand.

<sup>51</sup> Hund, "From 'Neighbourhood Watch Group' to Community?: The Case of ASEAN Institutions and the Pooling of Sovereignty," 107.

<sup>52</sup> *Ibid.*: 108.

products is also frequent. With the uncertain mechanisms of the ASEAN institution to check policy implementation and to guarantee a reward and sanction system, it becomes easy not to comply with the AFTA scheme in sensitive products. The delays of Indonesia's rice and sugar and Malaysia's automotive products become examples for the new members to follow because those cases demonstrate that ASEAN members will tolerate deviant behaviors or non-policy compliance with or without compensation. Cambodia, which has retained a huge volume of tariff lines in its Temporary Exclusion List, has a high chance of delaying products in the 2007 schedule. In AIA, there is no regional body to check policy compliance, or even a peer review. The implementation of AIA depends solely upon unilateral and voluntary acts.

At the conflict management stage, the ASEAN-DSM has shown in the cases of AFTA and AIA that it does not have credibility to resolve trade and investment disputes. The most prolonged case of the automotive dispute between Malaysia and Thailand has been going on for more than five years, and the resolution has not been found yet. However, Malaysia and Thailand have not requested to use the system. The dispute resolution among ASEAN members is mainly pursued bilaterally, without a third party to mediate the conflict. Members may not have to compensate other members if they do not follow the agreement. The reward and sanction system is ambiguous. In short, policy coordination among ASEAN members is low in the cases of AIA and sensitive products in AFTA. The ASEAN political institution, which has a small role of controlling state behaviors, cannot promote a higher level of economic integration after the enlargement. This chapter also identifies the problem of NTBs as a future headache for ASEAN economic integration because it involves more complicated and technical issues than tariff rates, and ASEAN has not yet made solid plans to tackle this problem.

**Table 6.22: Summary of Policy Coordination in AFTA and AIA**

<b>Policy Coordination</b>	<b>Assessment</b>
<b><i>Negotiation</i></b>	<ul style="list-style-type: none"> <li>* Several renegotiations</li> <li>* Compromise (No voting)</li> <li>* No bargaining power for the guardian</li> </ul>
<b><i>Policy Compliance</i></b>	<ul style="list-style-type: none"> <li>* Peer review in AFTA</li> <li>* No peer review in AIA</li> <li>* Unilateral and voluntary implementation</li> </ul>
<b><i>Conflict Management</i></b>	<ul style="list-style-type: none"> <li>* Bilateralism (No room for a third party)</li> <li>* Prolonged unsolved conflicts</li> <li>* Uncertainty in a reward and sanction system (No guarantee of compensation and penalty)</li> </ul>

## CHAPTER SEVEN

### THE PROBLEMS OF ASEAN INSTITUTION AND POLICY IMPLICATIONS

This chapter aims to discuss two main aspects: problems of ASEAN political institution and policy recommendations. In the first section, the problems of ASEAN political institution will be discussed according to the examination of ASEAN policy coordination in the previous chapter. This reveals that the region institution of ASEAN has three major problems: the inefficient decision-making method, the inefficient regional bodies, and the insufficient budget. Weak political will and policy commitment has considerably contributed to the creation and existence of these problems. Based on the empirical result in Chapter Three, it shows that intra-ASEAN trade after the ASEAN enlargement in 1990s was a statistical significance. Thus, the question of whether ASEAN needs to be a more formal type of regional institution will be analyzed. This will also lead to the explanations of ASEAN long-term concerns and ASEAN's position in a wider scope of regional cooperation—for example with East Asia countries.

In the second section, this chapter will suggest recommendations to reform the ASEAN institution in hoping to improve policy coordination in the long term. This reformation will expect to cut the role of high politics in economic affairs as well as to establish a more efficient style of regional management and cooperation. These policy implications endeavor to promote economic integration in the Southeast Asian region through the role of regional institution, which are synthesized from the case studies of AFTA and AIA examined in this research project and the Eminent Persons Group's (EPG) recommendations on the creation of the ASEAN Charter.

## **1. Weak Institution and Its Long-Term Concerns**

### ***1.1. ASEAN Institutional Problems***

Three key weaknesses are rooted in the institutional deficiencies of ASEAN—nature, structure, and commitment. First, the decision-making method used in the negotiating process in ASEAN is only consensus. This commonly leads to either a slow agreement or an agreement without a clear policy outline. The consequences are ambiguity in policy implementation and further renegotiation. This type of negotiating process has been operating in both political and economic spheres. In the EU, the political decision-making process is still made through consensus. However, the economic meetings differently employ a voting technique to move issues more quickly and efficiently. In ASEAN, the political decision-making method remains overshadowed in the economic meetings.

In the history of ASEAN, Southeast Asian cooperation was formed by the negotiation among foreign ministers. Since its formation in 1967, ASEAN Foreign Ministers have retained their higher authority than other ASEAN ministers in ASEAN affairs, even though their authority has declined after ASEAN Economic Ministers established their own meeting. Persistently, foreign ministers, not economic or other ministers, have retained their power in controlling the direction of developing ASEAN institution. The most recent evidence is the establishment of the ASEAN Charter. The ASEAN Charter was outlined under the recommendations of the Eminent Persons Group (EPG), which consists of a formal president, a formal foreign minister, and formal senior foreign affairs officials. The current phase of drafting an official ASEAN Charter is also through the negotiations among current foreign ministers and senior political officials. At the final stage, the endorsement of the ASEAN Charter scheduled in late 2007 will also be ratified by the agreement of only foreign ministers, not the economic or other ministers. Thus, the political side of ASEAN institution has clearly protected the rule of consensus. It is likely to be true that the decision-making method that gives more favor to politics is not likely to ensure optimal benefits in economics.

Second, ASEAN does not have an elected/ appointed delegation as a supranational entity that is given the authority to make its own decision, besides the heads of governments. However, the author does not expect ASEAN to fill this lack at this moment because ASEAN has so far never attempted to reach this goal in any way. Nevertheless, ASEAN has not gone beyond the traditional intergovernmental body, which means that every decision has to be taken care of by only a bureaucratic authority. The structural institution of ASEAN is thus very sluggish and promotes obsequiousness. The authority to ensure policy compliance of ASEAN members has not been transferred from the intergovernmental body to any regional body. The ASEAN Secretary General and the ASEAN Secretariat do not have the mandate to initiate projects and check policy implementation as written under the agreement. As the formal ASEAN Secretary General Rodolfo C. Severino<sup>1</sup> expressed, the Secretary General's power "is too circumscribed ... to fulfill [the] mandate. Therefore, the ASEAN Secretariat cannot authoritatively call for compliance with ASEAN agreements or initiate arrangements or other actions to advance ASEAN's purposes." AFTA compliance has solely been checked through a peer review. AIA compliance is in force only because of voluntarily participation. If there is a case of non-compliance, ministers will then be the only authority to decide what to do, during their formal and informal meetings, which are held only once or twice annually. ASEAN has a dispute resolution mechanism which is legalized and supposed to act independently in managing conflicts. The problem of this first legal body of ASEAN is caused by political attitude in the legal body, damaging the credibility of the ASEAN-DSM. The senior economic officials are set as a very significant player in the DSM process who can have the authority to establish consultation and panel bodies, and to adopt reports of the consultation panel and the appellate bodies. The senior officials can also reject moves to establish those bodies and not adopt the reports by consensus as well. In other words, the senior officials have the supreme authority to

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<sup>1</sup> Rodolfo C. Severino [Complied by], *Framing the ASEAN Charter: An ISEAS Perspective* (Singapore: Institute of Southeast Asian Studies, 2005), 6.

intervene in the legal process of the ASEAN-DSM.<sup>2</sup> In addition, the ASEAN-DSM process remains unreachable to the private sector and individual businesses. As mentioned before in the earlier chapters and in several other works, the ASEAN-DSM has not been requested, so far, to solve any trade conflict by ASEAN members.

Third, ASEAN has been embroiled in the problem of financial and technical support to develop a regional institution. As discussed in Chapter Five, ASEAN has a low financial budget to recruit and train the ASEAN Secretariat staffs; but their workload is increasing after the enlargement in the 1990s.<sup>3</sup> Annually, ASEAN members contribute only 0.005 percent of the total of ASEAN government revenues, compared to 1 to 2 percent in the EU.<sup>4</sup> The deficiency of financial support reflects, to a large extent, the poor political commitment of ASEAN members to strengthen the role of the institution and empower the ASEAN Secretariat.

### ***1.2. High Intra-ASEAN Trade vs. Low Policy Coordination: The Rise of Institution?***

The statistical result in this research project suggests that intensification of intra-ASEAN trade after the enlargement is statistically significant, and AFTA is likely to have a positive effect on the improvement of intra-ASEAN trade. Nevertheless, “[t]he AFTA framework lacks the institutional structure to provide a desirable degree of stability,”<sup>5</sup>—such as no independent authority to force compliance, an ambiguous reward and sanction system, a consensus decision-making method, and poor commitment, and political willingness. Several institutional deficiencies of AFTA and AIA have been obvious. As reflected in the current ASEAN Secretary-General Ong Keng-Yong’s speech at the World Economic Forum in 2006, by praising the achievement of AFTA while

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<sup>2</sup> See more detailed discussion in Section 2.3.2. in Chapter Five.

<sup>3</sup> See more detailed discussion in Section 2.2.2. in Chapter Five.

<sup>4</sup> ASEAN-Institutes of Strategic and International Studies, "The ASEAN Charter: Memorandum No. 1," Appendix 3.

<sup>5</sup> Hund, "From 'Neighbourhood Watch Group' to Community?: The Case of ASEAN Institutions and the Pooling of Sovereignty," 105.



suppressing the importance of ASEAN institution, he stated “[w]e are not so much working on institutions. We are working on various mechanisms that start off informally and then develop into something more substantial.”<sup>6</sup>

Based on the ASEAN experience, does a regional institution matter to economic integration? The answer is “yes.” The regional institution helps to ensure the participation of the members, take care of the deviant behaviors of member states, provide solutions to solve collective problems, and develop deeper economic cooperation/ integration. But, why is intra-ASEAN trade still significant? In the short term, ASEAN can enjoy the growth of the intra-ASEAN trade after the enlargement without the development of ASEAN institution. This is because: (1) the acceleration of tariff reduction under the AFTA-CEPT scheme can bring fast economic growth for CLMV economies and stimulate intra-ASEAN trade, (2) the linkage of the private sector between old and new members is boosted, and (3) the interconnection of regional production base within East Asia notably expands. In particular, when the new members started to drop tariff rates tremendously from, for example, more than 100 percent to around 20 percent in manufactured industries and lift some degree of import prohibitions in agricultural products under the AFTA scheme, this substantial reform certainly stimulates the strength of intra-ASEAN trade among ASEAN members. However, ASEAN still needs a strong institution in the long term.

The conventional literature of Asian regionalism has laid out the roles of globalization and the private sector to explain the growth of interdependence on trade relationships among East Asian economies since the late 1980s, especially with the expansion of complementary economic network between Japan and other Asian nations.<sup>7</sup> The regional economic integration in Asia is characteristically webbed by informal means such as ethnic Chinese business networks and sub-contracting small-and-medium companies. The role of the private sector is thus a driven factor to

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<sup>6</sup> Noticias.Info [Spain], "Go Regional But Not At The Expense Of Global Responsibilities," June 16, 2006.

<sup>7</sup> See Peter J. Katzenstein, "Regionalism in Comparative Perspective," *Cooperation and Conflict* 31, no. 2 (1996), Katzenstein and Shiraiishi, eds., *Network Power: Japan and Asia*

build up a regional production network in Asia, while the institutional-led regionalism in the European region is a government-to-government project to stimulate economic integration. Some scholars thus suggest that informal institutions have not only facilitated trade and investment but also reduced the need for formal cooperation in East Asia.<sup>8</sup>

The recent literature on Asian regionalism, however, has suggested that the above trend is being challenged because of developments after the Asian Financial Crisis in 1997 and the ASEAN enlargement in the late 1990s—suggested by this study. The formal cooperation and structured regionalism are strikingly enhanced by the devastating consequences of the 1997 crisis, and the growing force of the regional integrating market. The crisis is a huge wake-up call to revive formal cooperation among East Asian countries, both to strengthen their liquidity capability with the collaboration of giant economies like Japan and China, and to accelerate and regulate the existing growth of regional production networks through political means. In terms of financial cooperation, bilateral swap agreements have been initiatively made through political arrangement in Chiang Mai, Thailand, the so-called Chiang Mai Initiative. In terms of trade cooperation, several bilateral Free Trade Agreements (FTA) such as those between ASEAN-China, Brunei-China, and Japan-China were launched to be regulated by the government. Calling for regular meetings among governments to discuss their common interests and problems is undoubtedly a new pattern of state behaviors in East Asia, which is a deviation from the tradition. At the same time, the economic weaknesses of the United States has been exposed and it is “no longer to be the reliable spearhead of global economic growth” during the War on Iraq.<sup>9</sup> Ellen Frost points out that the unhealthy American economy

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<sup>8</sup> Michael Borrus, Ernst Dieter, and Stephan Haggard, eds., *International Production Networks in Asia: Rivalry and Riches?* (London: Routledge, 2000), Richard Doner, "Regionalization and Regionalism in Southeast Asia: Implications of the Disk Drive and Auto Industries," in *The Annual Meeting of the Association for Asian Studies* (Chicago: March 22-25, 2001), Natasha Hamilton-Hart, "Asia's New Regionalism: Government Capacity and Cooperation in the Western Pacific," *Review of International Political Economy* 10, no. 2 (2003).

<sup>9</sup> Ellen L. Frost, "Economic Integration: Implication of Regional Economic Integration," in *Strategic Asia 2003-04: Fragility and Crisis*, ed. Richard Ellings and Aaron L. Friedberg (Seattle: The National Bureau of ASian Research 2003), 403.

worries Asian leaders, and their strategy is to be integrated. ASEAN Plus Three (China, Japan and Korea) and East Asian Summit (ASEAN Plus Three including Australia, India, and New Zealand) have been developed, and now the members recurrently meet in a formal form of government-to-government commitments. Although the two forums have not created a tangible and central institution or a delegation, the shift from unstructured toward more structured regionalism is already a noteworthy feature in East Asia.

In ASEAN, economic cooperation among the members has been inspired under intergovernmental projects for quite some time. ASEAN is practically the most developed institutional cooperation in East Asia although its institution has been marked as a weak association, as compared to the EU. Certainly, with the existing business network in Southeast Asia stimulated by overseas investments particularly from the Japanese conglomerates and the European Multinational Corporations (MNC), AFTA policy perfectly came to advance this interconnection especially among the old members. In the aftermath of the ASEAN enlargement, AFTA has begun its reform to liberalize the private sector in the socialist states such as Vietnam and Laos, or in the states ruled by "strongmen" such as Cambodia. AFTA is thus seen as a stepping stone to open those markets in CLMV to collaborate with free trade and globalization, rather than enhancing the existing strong network of small and medium enterprises like in the case of ASEAN and East Asian economies. The result of joining ASEAN directly and indirectly creates an upslope economic production and growth in the new members. The participation of CLMV in intra-ASEAN trade is clearly under a strong influence of state-led projects such as AFTA and other ASEAN policies.

So, does ASEAN need a strong institution to create economic integration after the enlargement? There is no doubt that ASEAN needs structured regionalism which supports a market-driven factor to grow the complementary condition of regional production network with the backing of government-to-government programs. ASEAN can initiate economic integration in the beginning, but it can never cope with the variations in domestic government capacity, the multifaceted problems

of regional affairs, the complicated conflicts in trade issues such as NTBs, customs, Mutual Recognition Arrangements (MRAs), and the establishment of Special Economic Zones (SEZs). Without the appropriate functions of regional institution, the withdrawal of the participation in trade liberalization by the non-full market economies such as Laos and Myanmar may be possible and the growth of economic integration may not be sustained. The development of a higher integrative phase such as the goal already set by ASEAN to become an economic community by the year 2015 can never be achieved.

In the scope of ASEAN Plus Three, ASEAN needs to be a strong regional institution to hold a unified voice in this economic pool—aligned with Japan, China, and Korea. If ASEAN is divided, its bargaining power will diminish. Japan and China are competing in terms of economic size and historical enmity to embrace a leadership in ASEAN Plus Three. Due to the complicated scene of battling for the leadership between China (perhaps Korea) and Japan, some experts have seen ASEAN's advantage in taking a driver's seat in this arrangement. On the other hand, several experts also do not completely agree with this advantageous position of ASEAN. Nevertheless, if ASEAN has a strong institution with the higher level of economic integration, it could yield two advantages for ASEAN. First, the higher demand for structured regionalism in East Asia could possibly be led by ASEAN as an experienced institution to construct a form of cooperative functions in ASEAN Plus Three. In this way, ASEAN will continue to keep its influential status on the institutional architecture of regionalism in East Asia. Second, ASEAN with the higher level of integration (let's say a full free trade area or even a semi-single market) could be seen as a more integrated, enlarged, and unified market. The direction of getting closer to the integrated market will upgrade ASEAN's economic position in East Asia, not only in terms of possessing a huge consumer destination, but also as a significant investment and production network. In the view of regionalists, ASEAN has no choice but to integrate with China while strengthening its competitiveness in the world economy and investment. Expanding its network and empowering its regional characteristic do help to balance the power of

Japan, China and Korea, but also create a channel to integrate with the powerful economic resources. Thus, ASEAN's strategy is to strengthen and maximize the pressures of market forces for integration with the support of the institutional factor.<sup>10</sup>

### ***1.3. ASEAN's Long-Term Concerns under the Weak Institution***

ASEAN is in a position that needs economic integration to empower its economic strength and expand its regional network outside of ASEAN. The backlash of the low level of managerial ability in policy coordination can affect its long-term integration. The foreseen difficulties are in (1) NTBs management, (2) conflict and crisis management, and (3) economic community building.

First, the economic benefit of AFTA is statistically evident, especially in the latest years of the test. The tariff reduction is eliminated more each year; however, it does not indicate that ASEAN will be free of trade barriers. McKinsey Management was hired by ASEAN to study the barriers of economic integration in Southeast Asia. Its report in 2003 asserted that ASEAN had many types of Non-Tariff Barriers (NTBs) involved with several trade facilitation problems such as standardization and customs.<sup>11</sup> The report also implicitly revealed the difficulty of eliminating these problems related to the insufficient institution of ASEAN. NTBs, which are more complicated to measure, are likely to be applied as a new tool to continually preserve and hide domestic protections. The hard part is that NTBs will be extremely difficult to measure and eliminate if ASEAN is not lucid enough to identify their characteristics, draw the eliminating process and outline, and create the strong institutional apparatus to manage future conflicts. After all, tariff rates have to comply with the zero percent tariff scheme, NTBs are expected to appear more. In the long-term situation, ASEAN thus needs to improve its institution to be able to create effective negotiation, a compliance body, and conflict resolution to motivate the sustained growth and significance of intra-ASEAN trade.

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<sup>10</sup> Hank Lim, "An Integrated Roadmap for East Asian Economic Integration," in *The 2nd Annual Conference of the Network of East Asian Think-Tanks, August 16-17* (Bangkok: 2004), 9.

<sup>11</sup> The latest classification of NTBs is tabled by the author in Table 6.19, Chapter Six.

Second, Lloyd Gruber asserts that, “[i]f the rules of the game are clear, if compliance is easily monitored, and, most importantly, if the future stream of cooperative benefits or ‘payoffs’ is expected to be substantial, members of the enacting coalition would presumably have strong incentives to honor one another's commitments from the outset.”<sup>12</sup> But when institutional mechanisms such as a dispute settlement mechanism, a reward and sanction system, and an enforcement of rules are vague, the cost of integration and uncertainty will be high. Policy compliance is not always committed and the level of compliance depends on individual countries. Conflict management relies on the level of tolerance of the losers. ASEAN members who comply with the AFTA tariff reduction scheme are not guaranteed compensation when other members violate the AFTA rules. ASEAN is an example of a trading group that allows a winner-loser scenario, reflecting the overemphasis of neo-liberal institutionalism on the mutual gains of international cooperation. Several times, the AFTA violators become winners (no penalty) and the AFTA compliers become losers. This situation is in equilibrium (the cooperation still continues) when the losers accept their inferior position by knowing that being in the group is better than being left out.<sup>13</sup> Conflict management is thus dependent upon the level of toleration instead of justice. However, the disequilibrium or non-cooperation will happen when the cost of being the loser in the group is more than its expected benefit. In cases of crises, the member countries could reverse AFTA policy if there are domestic political or economic crises because of the absence of penalties and strict commitments. The strength and growth of intra-ASEAN trade will not be endurable if the institutional factor does not function.

The capacity to build an economic community is the third long-term concern of ASEAN institution. ASEAN discerns that the less fragmented market or the higher level of economic integration in Southeast Asia will give them higher efficiency in production, and greater trade and investment opportunities. And when the level of economic activities in the region is high and

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<sup>12</sup> Lloyd Gruber, *Ruling the World: Power Politics and the Rise of Supranational Institutions* (Princeton, NJ: Princeton University Press, 2000), 8.

<sup>13</sup> *Ibid.*, 7-8.

complex, institution will be more essential to manage regional activities. An ASEAN agenda to transform itself to an economic community is officially set by the year 2015. It is clear that ASEAN does not want to be just a weak or informal institution, and that the members are ambitious to reach the top level of economic integration. What has ASEAN done so far to accomplish this goal?

According to the Bali Concord II agreement (2003), “the [ASEAN Economic Community] AEC is based on a convergence of interests among ASEAN members to deepen and broaden economic integration efforts through existing and new initiatives with clear timelines.” At the 12<sup>th</sup> ASEAN Summit in January 2007, it was agreed to accelerate the establishment of the AEC from the year 2020 to 2015. The timelines are clear, but how to reach the goal is formless. ASEAN has not given a clarification of the building process and method. A “single market” and a “production base” were referred in the Vientiane Action Program to establish the AEC, which is officially defined as “*free* flow of goods, services and skilled labor, and a *freer* flow of capital.”<sup>14</sup> This definition of the AEC does not satisfy ASEAN officials and scholars in its actual meaning because policy outlines have not been released. According to my interviews, some ASEAN officials were of the opinion that ASEAN tried to create a single market of the ASEAN style. Others said ASEAN did not want to be a single market, but just a regional production base. Some even perceive the AEC just as a game plan to only promote economic growth in ASEAN, instead of taking it as a real deal. The ASEAN style of single market has remained much in doubt.

Nevertheless, ASEAN members agreed in the Bali Concord II that they need to have new institutional mechanisms to strengthen the implementation of its existing economic initiatives (AFTA, AIA, and other agreements), accelerate regional integration in the priority sectors, facilitate the movement of business persons and skilled labors, and improve the existing ASEAN dispute settlement mechanism to ensure the expeditious and legally binding resolution of any economic disputes. As a result, ASEAN has made a decision to establish the ASEAN Charter to construct its

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<sup>14</sup> The Vientiane Action Program (VAP) in 2004-2010.

legal characteristics at the first stage; and hopefully the policy outlines of the AEC will be scheduled next. According to the EU commission report on EU-ASEAN investment, ASEAN's style of negotiation and type of institution "cannot be served a single market requirement."<sup>15</sup> Both old and new members know that a single market will never happen if the ASEAN institution does not change. In my interviews with ASEAN officials, secretariat staffs and experts, nobody believes that ASEAN can achieve the goal of the AEC or the single market without changes in the existing institution. ASEAN should do three fundamental things to reduce this long-term concern of the uncertainty of the AEC. First, ASEAN should launch a special committee to build the AEC, consisting of specialists in regional economics, not politics. Second, ASEAN should authorize the committee to draft the in-depth policy implementation, collaborating with the definition of the AEC. Third, ASEAN should create the ASEAN Charter that serves not only political but economic purposes to enhance the economic functions in ASEAN institution. The Charter should allow the institution to equip different mechanisms in order to manage economic and political issues separately. The following section will discuss the EPG's recommendations to improve ASEAN institution, as well as provide an alternative to strengthen the institution synthesized from this research project.

## **2. Strengthening ASEAN Institution and the Charter**

At the 11<sup>th</sup> ASEAN Summit in Kuala Lumpur in 2005, the ASEAN leaders formed the Eminent Persons Group (EPG) to recommend building the ASEAN Charter. The report of recommendations on the Charter by the EPG<sup>16</sup> was submitted at the 12<sup>th</sup> ASEAN Summit Meeting in January 2007. The establishment of the Charter can help reform ASEAN by emphasizing the missing

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<sup>15</sup> European Commission, *New Business Opportunities for EU Companies in the ASEAN Area*, 16.

<sup>16</sup> The EPG consists of ten representatives from ten ASEAN members: Dr. Aun Porn Moniroth (Cambodia), Nguyen Manh Cam (Vietnam), Professor S. Jayakumar (Singapore), Ali Alatas (Indonesia), Tun Musa Hitam (Malaysia), Fidel V. Ramos (the Philippines), Khamphan Simmalavong (Laos), M. R. Kasemsamosorn S. Kasemsri (Thailand), Dr. Than Nyun (Myanmar), and Pehin Dato Lim Jock Seng (Brunei).



characteristics of the institution such as a legal status, a people-oriented organization, a market-driven integration, a consolidation of democracy, and an ASEAN identity.<sup>17</sup> The EPG agrees to empower the legal personality of ASEAN as a binding institution in terms of the “capacity to own property, enter into contracts, and for ASEAN to sue and be sued.”<sup>18</sup> From the fundamental stage, the EPG advises ASEAN to adopt the new set of values of democracy, human rights, freedom, and ASEAN identity. Furthermore, the recommendations have clearly illustrated their “rejection of unconstitutional and undemocratic change of government,”<sup>19</sup> and their willingness to adjust the traditional use of non-intervention (the ASEAN Way) in transnational problems. In an extremely progressive and surprising development, the ten representatives of EPG from each ASEAN member especially from the new members have agreed to these fundamental changes. Due to the lack of progress in democratization in Myanmar, the absence of a political shift from a socialist to a democratic system in Laos and Vietnam, and a temporary alteration from a democratic to military state in Thailand, the above values sound more surrealistic. Nevertheless, at least it probably could serve as a good measure to advance ASEAN in the future.

The EPG goes on to present the picture of ASEAN community by strengthening three pillars—ASEAN Security Community, ASEAN Economic Community, and ASEAN Socio-Cultural Community—, responding to the announcement of the Bali Concord II in 2003. All three combined are advancing to develop ASEAN into an “ASEAN Union,” addressed by the EPG report.<sup>20</sup> Although the development of ASEAN in the EPG report is likely to converge into an arrangement similar to the European integration, ASEAN cannot become an institution like the EU. ASEAN has a desire to take the same direction as the EU, but it has not agreed to emulate the same pattern as the EU. In the EPG report, several things have been recommended to follow the EU style of

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<sup>17</sup> ASEAN-Institutes of Strategic and International Studies, "The ASEAN Charter: Memorandum No. 1."

<sup>18</sup> The ASEAN Secretariat, "Report of the Eminent Persons Group on the ASEAN Charter," (Jakarta, December: ASEAN, 2006), 44.

<sup>19</sup> *Ibid.*, 2.

<sup>20</sup> *Ibid.*, 15.

organization, but without a supranational body. For example, there have been suggestions to change the names of regional bodies, although their functions have considerably remained the same. The following discussion will present the major substance of the EPG report and comment on its recommendations. Later, the author will attempt to provide another way to amend ASEAN institutional problems in order to fill the loopholes of the recommendations. However, the author will not suggest that ASEAN replicate a supranational institution like the EU. It is beyond the imagination and the ability of ASEAN members to fulfill the unifying conditions of this option in a short- or even a medium-range term. Besides the above fundamental principles, the other two major commendations are in the areas of structure and facilitation. The new structural power of ASEAN institution suggested by the EPG is laid out in Table 7.1.

## ***2.1. EPG's Recommendations***

### ***2.1.1. Structure of Institution***

The three problems of the existing ASEAN institution as acknowledged in the EPG report are the inefficient ASEAN meetings, the absence of a mechanism to oversee and coordinate policy compliance, and the insufficient apparatus to deal with the increasing numbers of transnational issues. The recommendations can be divided into three types as classified by the structure of the institution: (1) regional bodies, (2) a decision-making method, and (3) a conflict resolution mechanism.

***Regional Bodies*** – the EPG suggests that the ASEAN summit, where the ASEAN leaders meet once a year, should be replaced by the *ASEAN Council* and held at least twice a year. The Council will deliberate guidance and take policy decisions on all issues; and have the right to suspend membership upon the request of member states and the recommendation of the ASEAN Foreign

Ministers.<sup>21</sup> This Council is the supreme policy-making organ of ASEAN. However, the meeting agenda and the proposal to suspend and restore rights and privileges will have to be prepared and recommended by the ASEAN Foreign Ministers. This condition implies that the ASEAN Council does not have real supremacy without the support of the foreign ministers. It also suggests that the political side of ASEAN will continue to dominate the structure of the ASEAN institution. Economic affairs that may involve the issue of suspension will have to receive permission from or pass the request through foreign ministers before reaching the ASEAN Council as well. The *Councils of the ASEAN Security Community, the ASEAN Economic Community, and the ASEAN Socio-Cultural Community* are named to replace the existing ASEAN Foreign Ministerial, the ASEAN Economic Ministerial, and the ASEAN Social and Development Ministerial meetings. They can help set agendas for the ASEAN Council meeting, but cannot request to suspend membership without passing through the foreign ministers. Their functions will, to a great extent, be the same that are implementing decisions from the ASEAN Council and submitting policy recommendations to the ASEAN Council. They will not be the decision-making body at the ministerial level in the EPG report due to a lack of superiority in its own affairs including the suspension of rights and privileges, and so forth.

ASEAN Committees consists of the *ASEAN Standing Committee* and the *Committees of the ASEAN Security Community, the ASEAN Economic Community, and the ASEAN Socio-Cultural Community*. These bodies are occupied by senior officials who support the work of the councils, implement and submit policy recommendations, and assist the ministerial level councils to prepare for the ASEAN Council meeting. The ASEAN Standing Committee is responsible for deliberating policy on budgetary and administrative matters, which is directly subordinated under ASEAN Foreign Ministers. *ASEAN Permanent Representatives* was nullified in the 1980s, but will be relived under the EPG recommendation. The group will be gathered from the ten ASEAN ambassadors to

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<sup>21</sup> Ibid., 31-32.

Indonesia to represent their respective governments at the meetings of the ASEAN Committees. It is not clear how their reunification is necessary to the improvement of the ASEAN institution. Only, it is obvious that this will amplify the weight of politics in ASEAN institution.

The EPG report recommends that the *Secretary-General of ASEAN* should be promoted to have the equal status as ministers and acquire more authority in managing external relations such as signing “non-sensitive agreements on behalf of ASEAN member states, designated at the UN, and at other international, regional and sub-regional forums,”<sup>22</sup> and conducting “discussions and negotiations on behalf of ASEAN with other international bodies.”<sup>23</sup> The role of the Secretary-General will clearly be more diplomatically and politically dominant in the EPG report. The Secretary-General will work closely with the Ministries of Foreign Affairs in administering ASEAN-international relations as well as assist ASEAN Foreign Ministers to prepare for meetings of the ASEAN Council. Regarding the intra-regional responsibilities, the *ASEAN Secretariat* will serve as an administrative body to facilitate and coordinate all meetings of the Councils and all Councils of Community (security, economics, socio-cultural, and external relations). To do that, the EPG suggests giving the Secretary-General the abilities to “harmonize, facilitate and monitor progress in implementation of all approved ASEAN activities and report non-compliance to the Council, initiate plans and programs of activities, bring to the attention of the ASEAN council, councils of community and ASEAN committees.”<sup>24</sup> These functions are the same as the existing job descriptions of the Secretary-General written in the previous ASEAN agreements. However, the current organizational structure of the Secretariat does not have any effective body to perform these functions. His ability to monitor and initiate exists only in the written documents because ASEAN members have never allowed strengthening the ASEAN Secretariat in practice.

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<sup>22</sup> Ibid., 19.

<sup>23</sup> Ibid., 36.

<sup>24</sup> Ibid.

Under the EPG recommendations, the Secretary-General will have the new authority to bring issues to the attention of the ASEAN Council, report on cases of non-compliance, and direct *ASEAN Institute*. The EPG recommends launching ASEAN Institute to serve as a research body outside of the ASEAN Secretariat to perform policy research and strategic planning, which is directed under the Secretary-General. All three aspects will enhance the new power of the Secretary-General and be a gear to develop ASEAN institution. But there are two points of concern that may paralyze those new functions. The most important anxiety is that the foreign ministers will dominate the Secretary-General and other ministerial-level councils, as clearly demonstrated in Table 7.1.

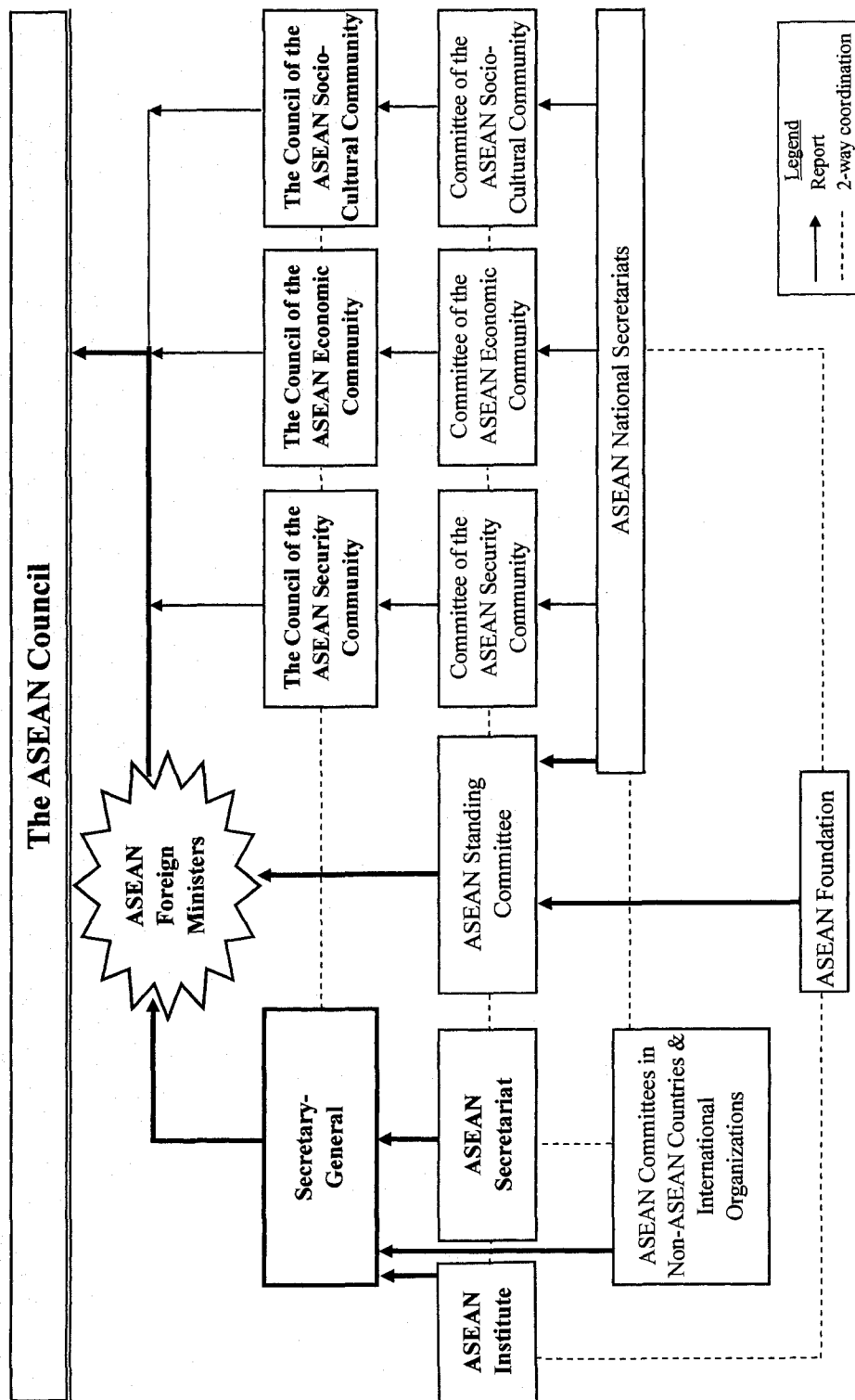
As analyzed in Chapter Five, ASEAN Foreign Ministers are the most powerful club which has controlled the movement of ASEAN institution from its inception. The EPG report does not reduce their power, but it is likely to increase together with the increasing power of the Secretary-General. Not only will the Secretary-General recommend dealing with international relations and working closely with the Ministries of Foreign Affairs of the ASEAN members, but also the Secretary-General is officially directed under the ASEAN Foreign Ministers body. The questions hence are in two parts: firstly, how will the Secretary-General proficiently check policy compliance with no political intervention if he is placed under the direction of the traditional-political body? And secondly, how he will exercise his economic and political powers when he is professionally trained to deal with matters that are political in nature? Table 7.1 shows that ASEAN Foreign Ministers authoritatively control half the ASEAN organizational chart, including that of the Secretary-General and the ASEAN Standing Committee. The Secretary-General is responsible for directing ASEAN Institute and the ASEAN Secretariat, whereas the ASEAN Standing Committee is in charge of organizing the ASEAN Foundation and ASEAN National Secretariats. In other words, ASEAN Foreign Ministers have power over (1) the distribution of the entire ASEAN budget, (2) the administrative and coordinating works at the regional and domestic levels, (3) the report of policy compliance, and (4) the research and policy conducted by ASEAN Institute. All this is in addition to

their power over the advice to suspend membership which other ministers do not possess. Therefore, the power of the Secretary-General can be suppressed by the politics, which could lead to ineffectiveness in overseeing policy compliance and directing a research institute.

The Secretary-General is identified as the person to report policy compliance. The question, which the EPG did not answer, is who is actually responsible for checking policy compliance. Certainly, it cannot be the Secretary himself. The arms and legs of the Secretary-General are the AFTA unit, AIA unit, and other units in the ASEAN Secretariat, which are actually not mentioned to be given more power. However, they should be empowered to do the independent and effective work for the Secretary. In addition, the affiliation between the Secretary and the active research institutes in Indonesia, the Philippines, Singapore and Thailand already exists in practice. However, the current problem observed by the author's interview is that the Secretary-General had decided not to submit some study reports to the bureaucrats. The reason for rejecting the study is because the report was too progressive and politically sensitive. This situation can happen again under the new structure that the EPG proposes due to political domination. Moreover, the sources that the EPG proposes to fund ASEAN Institute are from the business sector and outside ASEAN. Considering the political censorship to the result of the report, it is hard to believe that ASEAN institute will easily get a contribution from the business groups.

Importantly, nowhere in the EPG report defines the function of the body of ASEAN Foreign Ministers, which appears as the second highest-ranking body after the ASEAN Council in the organizational chart. It is obvious that the EPG, which is the group of officials related to political affairs and Ministries of Foreign Affairs, has overlooked the task of delineating and restraining the power of foreign ministers in their recommendations.

Figure 7.1: Organizational Structure and Power of ASEAN Institution (EPG)



**Decision-Making Method** - The EPG suggests that the decision-making process in ASEAN could be taken through a voting method “either on basis of a simple majority, or on the basis of a 2/3<sup>rd</sup> or 3/4<sup>th</sup> majority.”<sup>659</sup> This method can be applied when the issues to be decided are not sensitive, such as in the fields of security and foreign policy, or when consensus cannot be achieved in other areas.<sup>660</sup> The report of the EPG does not specifically define “sensitive issues.” This allows space for different interpretations and a possible future problem. Moreover, the above statement illustrates that the consensus rule will still be a primary method of the decision-making process, because voting can be considered only if consensus cannot solve the issues and these issues must not be sensitive. Constituting a voting system will strengthen the ASEAN institution in a way that helps to exercise a dispute settlement mechanism and a reward and sanction system. As a result, this will require ASEAN members to transfer individual sovereignty to enhance a regional entity and manage regional issues and policies more effectively. At this point, a voting method is just an option, and this does not guarantee that the member states will use it to resolve problems. The question of whether this option will be used to manage future problems is hence critical for the investigation of the actual development of ASEAN institution, if this aspect in the Charter is ratified.

**Conflict Resolution Mechanism** - The EPG recommendation has reemphasized the role of conflict resolution of the ASEAN Dispute Settlement Mechanism (DSM) under the 2004 Protocol. The DSM also can report directly to the ASEAN Council if a member country fails to comply with its decision, which could later on lead to the request for a suspension of membership by a conflict-stricken member, if they so desire. However, the actual problems of the ASEAN-DSM examined in Chapter Five are not reviewed in the EPG report. The technical issue of the DSM itself, which is structured by the official and political power, creates a credibility trap. The senior officials overwhelm the process of DSM, briefly discussed in the first section of this Chapter. The risk of

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<sup>659</sup> Ibid., 41.

<sup>660</sup> Ibid.



political intervention and the value of the ASEAN Way discourage ASEAN members to settle the problems, and leave the loose ends unattended. This core problem indicates the unproductive and incorrect characteristics of the ASEAN-DSM, which needs to be fixed to improve the operation of ASEAN institution in resolving, not avoiding conflicts

### ***2.1.2. Facilitations***

The EPG recommends having two budgetary sources for operating the ASEAN Secretariat and other activities of ASEAN institution, and narrowing the development gap. The first budgetary type will depend on contributions by ASEAN members based on an equal contribution in line with the mutual voice and treatment. The second budgetary type will be mainly expected from the private business sector and external sources like the United Nations, the World Bank, and other ASEAN partners as a special fund for closing the development gap among ASEAN members, especially between old and new members. Nevertheless, some members can also make a voluntary contribution for regional development efforts, if they wish.

## ***2.2. Alternative Recommendations***

Six points are recommended to unblock the clogged bottleneck of the ASEAN institution. These recommendations endeavor to improve the effectiveness of ASEAN institution in policy coordination in reference to policy negotiation, compliance, and conflict management by fixing the EPG's recommendations.

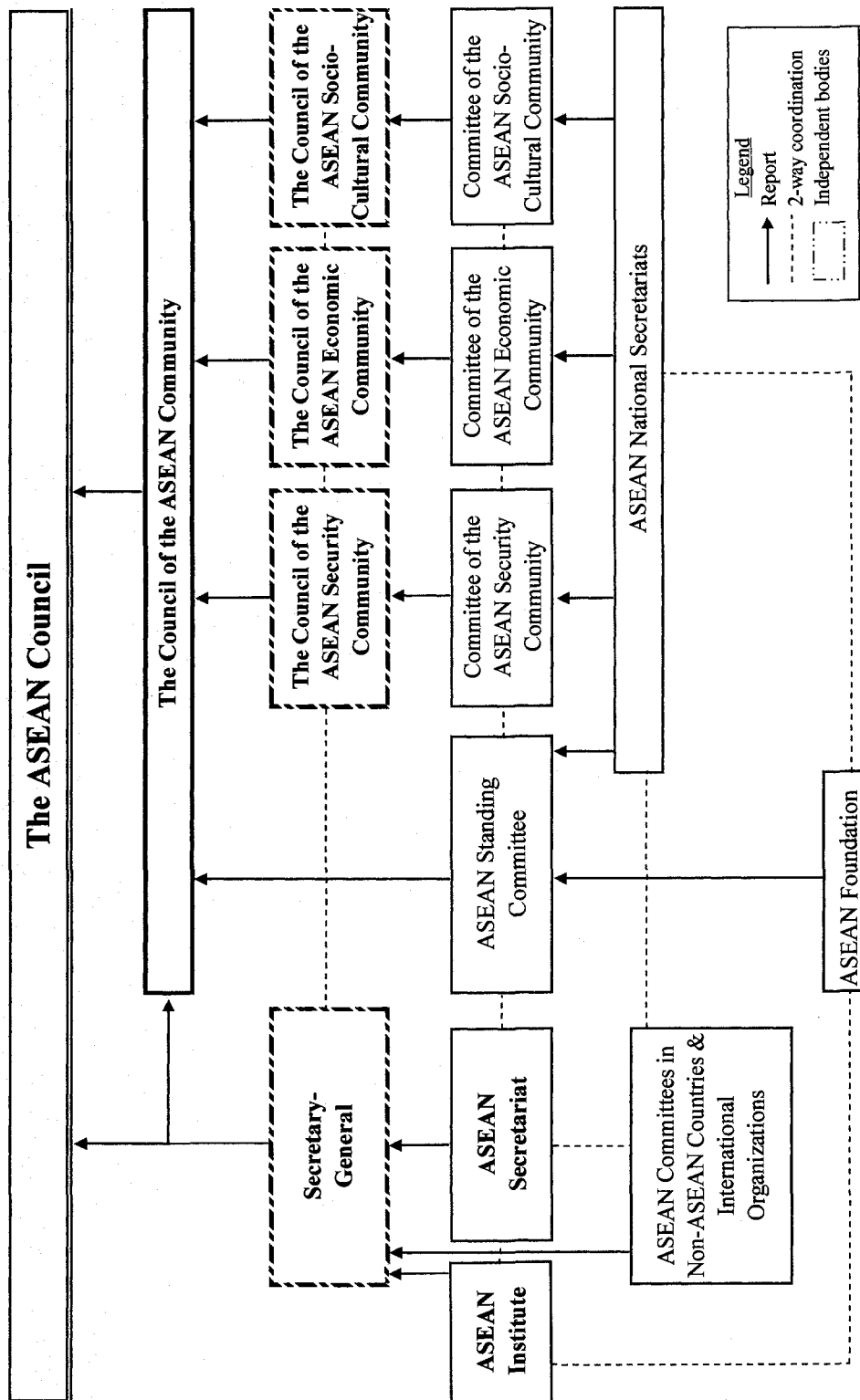
### ***2.2.1. Defining and Reducing the Power of ASEAN Foreign Ministers***

First of all, ASEAN should allow other parties in building the ASEAN Charter. Not only political officials, but also economic officials and academic scholars should be involved in advising and drafting the reformation of ASEAN institution. It would be almost impossible to create a "bold

and visionary” policy with the limited sources of thoughts. Also, it is hard to believe that the prolonged power of political officials will be diminished in the institution without the involvement of second or third parties in the process. Other parties will help to balance the power of politics in the ASEAN institution. As we see from the EPG’s recommendations, the political elements dominate the structure of ASEAN institution. The ASEAN Foreign Ministers body is drawn in the map of the organizational power structure, but their actual responsibilities are not mentioned anywhere. The frightening implication is that the ASEAN Foreign Ministers can intervene everywhere.

The study suggests reducing the influence of the foreign ministers body by making their power equal to that of the other ministers. Table 7.2 shows the restructured ASEAN institution, as compared to Table 7.1. The foreign ministers body should not have the sole authority to recommend the suspension and restoration of ASEAN membership, to allocate ASEAN budgetary and administrative matters, and to direct the Secretary-General of ASEAN. This body should be under the Council of the ASEAN Security Community and have the same rights and privileges as the other ministerial-level bodies. All three ministerial councils (security, economics, and socio-culture) would have mutual voice to set the agendas for the ASEAN Council meeting with the assistance of the ASEAN Secretariat and the Secretary-General. Agreeing with the EPG’s recommendation, it is appropriate to allow the Secretary-General to bring issues to the attention of the ASEAN Council openly. For the budgetary matters, the balancing feature of a regional body should be introduced under the combination of all parties from all three councils, in addition to an administrative team of the Secretary-General. The final budgetary plan could be approved by the ASEAN Council which should meet twice a year as the EPG suggested. The declining importance of the foreign ministers’ block would unlock information flows and enhance information exchange between the Secretary-General, the ministerial bodies, and the ASEAN Council.

Figure 7.2: Organizational Structure and Power of ASEAN Institution (Alternative)



### ***2.2.2. Separating Economic and Political Decision-Making Processes***

The political type of decision-making method should not overwhelmingly occupy the structure and rules of ASEAN institution. Regarding the technical problem in the field of politics and security, the definitions of the sensitive and non-sensitive issues should be discussed openly by the political players in ASEAN under the Council of the ASC, whether they be decided by voting or consensus. On the other hand, this problem should not remain an obstacle to the advancement of the voting system in the other councils. This study recommends employing the different methods in the different areas of meetings.

In the political field, consultation and consensus can be maintained and regularly used in the decision-making process. In the economic field, consultation and voting can be initiated separately to hasten the decision-making process. Thus, the Council of the ASEAN Economic Community should be able to find its own appropriate strategies and methods to deal with economic issues separate from the political way currently under operation in the Council of the ASEAN Security Community. Each ministerial council should have an independent authority to pursue its own affairs, make decisions, grant rewards, and implement sanctions or penalties without any interference from the other councils. However, the issue of suspending membership will still need to be made through the approval of the ASEAN Council. This makes the Council of the AEC or any others that are ready to integrate a little closer to the type of supranational entity; it will also ensure more freedom. AFTA and AIA Councils are placed under the Council of the AEC which should employ the same decision-making methods in the negotiating process. At the senior official level, the committees of the ASC, the AEC, and the ASCC should work and coordinate closely with the ASEAN Secretariat. For example, the committee of the AEC should closely collaborate with the AFTA and AIA units; at the same time these units should be permitted to check policy compliance and report it directly to both the committee and the council.

### ***2.2.3. Empowering the Independent ASEAN Secretariat and Secretary-General***

The problem with ASEAN policy coordination is the absence of a policy compliance body that has actual power to point out cases of violation and report it to a higher body. The ASEAN Secretariat can take this responsibility and play the role of an independent and fair regional body. According to the ASEAN Secretariat staff, the existing AFTA unit in the ASEAN Secretariat has a job description to check policy compliance, but it is not equipped with the authority to do the job. Since one of the current tasks of AFTA unit is to gather information on tariff reduction schemes from each member, the unit could further work on ensuring policy compliance. So far, the senior officials have seen the ASEAN Secretariat as their secretary who has no rights to suggest policies or check implementation. This situation should be changed. AFTA/ AIA units should be treated more equally with the senior officials and remain independent from national interests.

The ASEAN Secretariat should also be empowered along with the increasing power of the Secretary-General. To strengthen them, the initial requirement is that the Secretary-General remains independent from the directions of the foreign ministers, but also work in close collaboration with them and other ministers. Secondly, ASEAN has to invest in improving the quality and quantity of the ASEAN Secretariat staffs by increasing the administrative budget and encouraging the policy of open recruitment from outside the ASEAN nations. Like the other representatives from the security, economic, and socio-cultural councils, the Secretary-General should have a role in deciding his budgets for financing the ASEAN Secretariat and ASEAN Institute at the ASEAN Standing Committee meeting. The independent Secretary-General can directly contribute to the independence of the ASEAN Secretariat and ASEAN Institute, which would lead to more effectiveness in checking policy compliance, and conducting academic and policy research.

#### ***2.2.4. Eliminating the Power of Senior Officials in the DSM Process***

Based on the analysis in Chapters Five and Six, it is certain that the senior officials have too much power in the DSM process. They can impede the DSM process, which in turn critically discredits the 2004 protocol. In that scenario, the legal status of the 2004 DSM becomes unattractive to the ASEAN members. This study strongly suggests amending the most updated protocol in 2004 by cutting back the pressure of the senior officials in the DSM process. The senior economic officials should not have the ability to decide to either adopt or reject the reports of the consultation panel and the appellate bodies. Instead of the ASEAN officials, experts and independent referees should, be more involved in the process in order to construct a transparent, accountable, and fair DSM.

#### ***2.2.5. Increasing Participation of the Private Business Groupings***

The most progressive aspect in the EPG's recommendations is to the importance given to the participation of civil society groups. The recommendations substantially liberalize the state-centric organization of ASEAN toward a people-oriented organization. The EPG's report increases the participation of all stakeholders in civil society, including the Parliamentarians for ASEAN State Members (AIPA)<sup>661</sup>, human rights groups, private business groups, civil society organizations, and other interest groups. The recommendation creates a direct channel for these groups to communicate with ASEAN officials and the Secretary-General at the ministerial-level councils and even at the ASEAN Council on a regular basis. This study also strongly supports the recommendation of the EPG that adding the function of civil society in ASEAN institution will benefit ASEAN's operation.

#### ***2.2.6. Creating a Strategic Plan and Connecting ASEAN Policies***

In addition to the above recommendations, this chapter suggests the creation of linkages between the current developmental programs, and the ASEAN trade and investment policies to

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<sup>661</sup> AIPA is renamed after its previous designation, the ASEAN Inter-Parliamentary Organization (AIPO).

promote better policy coordination in the institution. AFTA and AIA are the main trade and investment promotion policies of ASEAN. In addition, ASEAN created two developmental programs aiming to assist the new members in utilizing AFTA policies. The first is ASEAN Integration System of Preference (AISP), which was the result of the 15<sup>th</sup> AFTA Council Meeting to unilaterally extend tariff preference to ASEAN new members beginning January 1, 2002. The procedure began from a request made by the new members to receive a special preference on particular products from individual old members. Based on a bilateral and voluntary basis, the old members will decide to allow lower tariff rates in the products proposed by the new members. In 2003, the 17<sup>th</sup> AFTA council meeting in Phnom Penh revealed the first set of information on the progress in AISP that 1,196 tariff lines in CLMV were eligible for tariff preferences in the six old members.<sup>662</sup> The problem occurs when the utilization of AISP is recognized to be low.<sup>663</sup> In 2006, some of the old members such as Thailand ended the AISP program to Vietnam after its economy improved vastly with liberalization and thus showing less difficulty to cut tariffs under AFTA.<sup>664</sup>

The second program is called Initiative for ASEAN Integration (IAI), aiming to narrow the development gap between the old and new members. The IAI action plan for 2002-2008 is divided into two types: soft infrastructure and hard infrastructure. The plan aims to achieve (1) basic infrastructure, (2) human capital development, (3) information and telecommunication technology, and (4) capacity building for regional economic integration. Soft infrastructure (Phase I) conducts works in the areas of training human capital, and assisting policy, institutional, legal and regulatory frameworks. Hard infrastructure (Phase II) involves physical building projects such as roads,

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<sup>662</sup> The 17<sup>th</sup> AFTA Council Meeting Statement in Phnom Penh on September 1, 2003.

<sup>663</sup> The 18<sup>th</sup> AFTA Council Meeting Statement in Jakarta on September 2, 2004.

<sup>664</sup> According to Vietnam Net Bridge's interview with Vietnamese WTO negotiators, Vietnam expected to be recognized as a full market economy by the WTO in the next 12 years, which will put Vietnam in a disadvantageous position in the event of anti-dumping conflicts and lawsuits. However, China and Korea already recognized that Vietnam is a market economy. Vietnam Net Bridge, "Two Hours with WTO Negotiators", January 17, 2007. In the early 2007, ASEAN Economic Ministers joined the above announcement to recognize Vietnam as a full market economy at the 13<sup>th</sup> ASEAN Economic Ministers Retreat Meeting in Brunei.

railways, and information and communication technology systems.<sup>665</sup> It was reported that 44 out of 100 projects in the IAI work plan were to be completed in 2005.<sup>666</sup> In 2006, the report addressed that 87 out of 132 projects have been completed.<sup>667</sup> The six old members have so far contributed US\$ 28.24 million to those projects.<sup>668</sup> Among them, Singapore gave the most (US\$ 21 million). Malaysia (US\$4.08 million) and Brunei (US\$1.5 million) are the second and the third highest donors. On the other hand, Thailand contributed only US \$ 0.48 million to regional programs, and made heavy investments of around US\$ 100 million on bilateral projects between 1996 and 2004.<sup>669</sup> ASEAN has so far received US\$16.9 million from ASEAN dialogue partners and international agencies.<sup>670</sup> Most action plans funded by the above sources focus on soft rather than hard infrastructure.<sup>671</sup> The soft infrastructure constitute of short-lived projects such as English training, computer training, and technical infrastructure training courses for governmental officials in CLMV, and is not meant for private, civil, or business groups. The implementation of hard infrastructure is apparently lagging behind with the limited sources of funding.

Due to the lack of interest from donors in small economies like Cambodia and Laos, these countries have less chances to get funding in hard infrastructure projects. Besides this problem, the weak inter-agency coordination and implementation, and the insufficient quality of training courses were reported to the ASEAN Secretariat. Furthermore, the lack of ownership and participation from CLMV themselves on IAI projects has recently been brought up as one of the most important concerns. The report on the mid-term review of the IAI work plan addresses that "CLMV countries need to participate more actively at every stage, from the conception of formulation of projects to

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<sup>665</sup> Initiative for ASEAN Integration Unit, "Bridging the Development Gap among Members of ASEAN," (The ASEAN Secretariat).

<sup>666</sup> ASEAN Secretariat, *Annual Report 2004-2005*, 7.

<sup>667</sup> Initiative for ASEAN Integration Unit, "Progress of IAI Work Plan: Status Update " (The ASEAN Secretariat 2006), 1.

<sup>668</sup> *Ibid.*, 2.

<sup>669</sup> *Ibid.*, 2-3.

<sup>670</sup> *Ibid.*, 3.

<sup>671</sup> ASEAN Secretariat, *Annual Report 2004-2005*, 47.



their implementation and monitoring, and to their final completion. It also means that CLMV countries themselves must provide some contributions to the IAI projects whether in cash or kind.<sup>672</sup>

Without doubt, these fundamental problems should be fixed by support from all parties.

Another aspect pinpointed by this study is that ASEAN should create a *strategic plan* to support their economic complementarities on particular industries by bolstering reform investment rules under AIA, accelerating tariff reduction under AFTA, and providing technical training and infrastructure under IAI to foster the growth of their regional advantages. For instance, the empirical test on intra-ASEAN trade in Chapter Three supports the existing significance of trade relations in the machinery and transport equipment (SITC 7) sector among the old ASEAN members with the increased participation of the new members, especially Vietnam. Fragmentation of production is natural to the machinery and transport equipment sector, which contributes to the creation of a regional production network. ASEAN can take this piece of information as a starting point and do further research analysis to identify particular industries in this category to be promoted by state cooperation. Then, ASEAN can facilitate this network by accelerating tariff reduction under AFTA. An AIA project designed to promote and liberalize investment policies in those industries can help boost the expansion of this network with the flow of technology transfer. An IAI project can be another arm and leg to facilitate and reduce the gap in infrastructure and human development in the most needed and strategic sector. Also, the IAI projects should enlarge from the government-government training to incorporate the government-business, and business-business training as well.

Nevertheless, this linkage among AFTA, AIA, and IAI policies under a strategic program can be successfully launched and operated only if the ASEAN institution is developed as recommended. Without an effective policy coordination beginning from negotiation, compliance and conflict resolution, the strategic program cannot perform and will face the same problems as AFTA and AIA projects. Therefore, the most important and first step is to liberalize and institutionalize ASEAN.

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<sup>672</sup> The ASEAN Secretariat, "Mid-term Review of Initiative for ASEAN Integration (IAI) Work Plan."

Then, ASEAN will be equipped with the effective mechanism and bodies to strategize the linkage of the ASEAN policies to maximize a market-driven force and create a deeper level of economic integration among members. As suggested by the Director of the Trade Negotiations Department at the Thai Ministry of Commerce, Apiradi Tantraporn, “to build a single production base, [ASEAN] needs a strategic plan to support this force.”<sup>673</sup>

### **3. Conclusion**

ASEAN members have weak political will and policy commitment to create a formal and strong regional institution. The three fundamental problems—the inefficient decision-making method, the incompetent regional bodies, and the inadequate financial support—were identified based on the examination of policy coordination in the previous chapter. These are not the short-term problems that can negatively affect the growth of intra-ASEAN trade.

However, in the long run these three fundamental problems can cause a decline in intra-ASEAN trade and a possible withdrawal of members’ participation in the future. Under the weak regional institution, ASEAN members can initiate intergovernmental-led projects. Nevertheless, they cannot manage with the variations in domestic government capacity, the multifaceted issues of regional cooperation, and the complicated trade measures such as NTBs, harmonization, and customs. As a result, the growth of economic integration that can contribute to the economic growth may not be sustained.

In a wider scope, ASEAN members are interested in extending their cooperation with East Asian economies. ASEAN Plus Three was finally concluded as a result of the Asian financial crisis in 1999 and broadened after the ASEAN enlargement in the late 1990s. This arrangement is a new kind of government-to-government commitment for East Asia leaders; on the other hand, ASEAN

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<sup>673</sup> An interview with Apiradi Tantraporn, the Director of the Trade Negotiations Department in August 2006, Thailand.

members are more experienced working under a regional type of cooperation. If ASEAN becomes a strong institution with the higher level of economic integration, this could generate two advantages for ASEAN. First, ASEAN can influence the institutional architecture of regionalism in East Asia. Second, ASEAN will develop into a larger and more integrated market and production base— attracting more trade and investment from outside the region.

This chapter suggests six points to improve the ASEAN institution. First, ASEAN needs to define and reduce the power of ASEAN Foreign Ministers. Second, ASEAN needs to separate economic and political decision-making processes by empowering the independent councils of the ASEAN community—security, economics, and socio-culture. This will allow a faster and more efficient method such as voting operated in economic meetings. Third, ASEAN needs to empower the ASEAN Secretariat and the Secretary-General, and create a working atmosphere of independence and free politics. This will help them to transparently oversee policy compliance. Fourth, ASEAN needs to reduce the power of senior officials in the DSM process. Fifth, ASEAN needs to encourage participation of the private business groups, civil society organizations, and other professional organizations in formulating regional policies and strategies. Lastly, ASEAN needs to link regional policies such as AFTA, AIA, AISP, and IAI by strategizing them as a one solid project in order to promote a regional production network. Without the functional improvement in the institution, ASEAN may not be able to continue stimulating intra-ASEAN trade when NTBs and other technical trade measures come to play a more important role in preventing trade flows—after cutting all tariff rates; and ASEAN can never fulfill its dream of becoming an economic community.

## CHAPTER EIGHT

### CONCLUSION

The impact of ASEAN enlargement on economic integration can be understood in political and economic terms. As a result of the expansion, the regional market expanded with the addition of nearly 300 million people. This combined with higher regional investment is expected to create a higher level of regional economic integration. The lack of domestic infrastructure, the lack of domestic and transnational transportation within and between members, and the lack of human capital development obviously pose barriers to economic integration. In particular, the weak structure and institution of ASEAN regionalism itself may be one of the major obstacles to regional economic integration that creates ineffective integrative policies. The trend of intra-ASEAN trade has been increasing since the 1990s; however, the trade share of the new members is still small. So, what is the actual impact of ASEAN enlargement on economic integration in terms of intra-ASEAN trade and policy coordination after CLMV joined ASEAN?

I divided the research into two major parts. The first part is conducted by a quantitative method, the so-called gravity model. This part examines the impact of ASEAN enlargement on intra-ASEAN trade. The second is the qualitative part, which considers ASEAN political institution as a key in the equation of the impact of ASEAN enlargement and policy coordination. The qualitative framework is formulated by the theories of neo-liberal institutionalism and liberal intergovernmentalism in International Relations (IR), and the interaction at the domestic, regional, and international levels. The findings have shown concerns with the weak role of ASEAN institution in managing economic integration, especially in the long term. Furthermore, the prolonged status of the weak institution, which allows easily ignoring policy compliance and maintaining high national

sovereignty, has further created doubt whether a force for ASEAN institutionalization is possible or even necessary if the political will of ASEAN members remains impotent.

## **1. The Impact of ASEAN Enlargement on Economic Integration:** **Intra-ASEAN Trade and Policy Coordination**

### ***1.1. ASEAN Enlargement and Intra-ASEAN Trade (Quantitative)***

One reason for ASEAN membership expansion is the expectation that CLMV will strengthen intra-ASEAN trade. This statement is quantitatively tested through a statistical approach, the so-called gravity model. This approach predicts the trade relationships between countries, as well as enables a comparison of relationships among regional trading arrangements. Several economists have employed the gravity model approach to experiment with ASEAN trade data in various time periods, but without considering CLMV's influence. Jeffrey Frankel and Shang-Jin Wei have also run the same model using the early 1990s panel data set of ASEAN.<sup>1</sup> However, they tested three out of the four new ASEAN members (excepting Myanmar) as an influential parameter of an ASEAN trading arrangement before they became official members. This point makes their work important as one of the very earliest statistical studies of trade participation by new ASEAN members.

Frankel and Wei's work illustrates three findings. First, ASEAN (six old members) has significantly influenced an increase in intra-ASEAN trade and generated trade creation rather than trade diversion. Second, ASEAN as a regional trade arrangement did not have an "independent effect" on its own strength of intra-regional trade based on the panel data of the early 1990s. The growth of intra-ASEAN trade relied heavily on the growth of East Asian economies. Third, Indo-Chinese economies or CLV did not have statistical significance to influence the growth of intra-ASEAN trade due to the small size of their economies and the lack of economic linkages to

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<sup>1</sup> Frankel and Wei, *ASEAN in Regional Perspective*.

international trade. Regarding the issue of trade participation, Frankel and Wei concluded that the new members (CLV) might not have had much influence to contribute to the growth of the intra-ASEAN trade *before* the ASEAN expansion.

The empirical results of Chapter Three, which tested a new data set of ASEAN in the late 1990s and early 2000s, suggest changes in ASEAN's trade trend. First, the ASEAN enlargement (accession of CLMV) significantly influences intra-ASEAN trade. Vietnam has a significant impact on intra-ASEAN trade—especially in the food and live animals, and the manufactured goods sectors. The involvement of Cambodia, Laos, and Myanmar has become significant after the enlargement, but their impact is much smaller compared to Vietnam. Second, although the influence of East Asian economies is still significant to the growth of intra-ASEAN trade under new panel data, ASEAN as a trading group has begun to show an “independent effect” that influences its own intra-regional trade. The empirical result further shows that trade among old ASEAN members has a stronger tie particularly in the machinery and transport equipment sector. This study concludes that three factors have notably reinforced intra-ASEAN trade after the ASEAN enlargement. They are: (1) the significance of Vietnam's accession, especially in the food and live animal sector and the manufactured goods, (2) the strong connection of old members in the machinery and transport equipment sector, and (3) the increasing significance of CLM's participation in overall trade.

The ASEAN Free Trade Area (AFTA) receives credits for the successful reduction of import tariffs especially in manufactures, and machinery and transport equipment industries. ASEAN has accelerated the AFTA schedule in major industries to reinforce the web of economic complementarities. The tariff reduction under AFTA has led to the strengthening of intra-ASEAN trade among old members, and between old and new members as supported by the above empirical interpretations. However, the deeper level of liberalizing agricultural and other sensitive products such as eliminating all tariff and non-tariff barriers under AFTA is doubtful due to the weak type of ASEAN institution that does not have effective regional mechanisms to check policy compliance,

protect guardians, and punish violators. To ensure that ASEAN can accomplish the goal of becoming a full free trade area and continue experiencing the sustained growth of intra-ASEAN trade, the effectiveness of regional policy and regional institution needs to be improved. This improvement is required because the institutional-political factor will determine AFTA compliance and reinforce the participation and commitment of the members in the long term.

### ***1.2. ASEAN Enlargement and Policy Coordination (Qualitative)***

The term economic integration in Chapters Four to Six (qualitative) refers to “policy coordination,” instead of “intra-ASEAN trade.” In the qualitative section, the institutional-political factor intervenes in the impact of ASEAN enlargement on economic integration. This relationship demonstrates that the impact of ASEAN enlargement may sustain or even worsen the weakness of ASEAN political institution, and the weak ASEAN political institution may lead to the impeding of regional policy coordination. Policy coordination in this study refers to the effectiveness of policy negotiation, policy compliance, and conflict management. The relationship between institution and policy coordination is likely to be a positive one. In other words, the stronger the institution, the higher the degree of policy coordination or economic integration.

Three levels of interaction—domestic, regional, and international—shape this qualitative relationship; and the study has set up three stages of analysis to explain it. Chapter Four is the first stage where the author looks at the variation of ASEAN members’ preferences after the enlargement by stressing on identifying the preferences of the new ASEAN members. The old members are not the main subjects of this analysis. Therefore, the study does not profoundly illustrate their preferences as it does for the new members. However, the history of several attempts to fix ASEAN institution by some old members in addition to the recent debate on formalizing ASEAN institution—the old members have strongly shown their support to adopt the new managerial methods such as a voting system and a reward and sanction system under the ASEAN Charter—is clear evidence that

their preference for a type of regional institution has shifted from an informal toward a more formal type. Chapter Five demonstrates the second stage that analyzes the type of ASEAN institution after the enlargement. Chapter Six investigates the effectiveness of policy coordination under the ASEAN institution in the case of AFTA and ASEAN Investment Area (AIA).

### *1.2.1. Identifying the New Members' Preferences (Stage One)*

At its core, Chapter Four explains why CLMV countries joined ASEAN and what type of ASEAN institution is preferred by them at three levels of interactions—domestic, international, and regional. CLMV countries decided to join ASEAN because first they want to acquire legitimacy and diplomacy at the international level. This will allow them to be on the negotiating table with the West, and access to global market and international aid. Second, CLMV countries want to use ASEAN as a stepping stone for trade liberalization and a bridge to connect them to the capitalist economies. Third, CLMV countries are interested in the principles of the ASEAN Way and non-interference. These principles will not force them to transfer their national sovereignty to a regional institution. ASEAN also cannot put sanction or pressure on domestic affairs. Their political systems can freely exercise without ASEAN intervention.

To maintain the strongman system of Cambodia, the Socialist system in Laos and Vietnam, and the military system in Myanmar, CLMV governments feel safer to be under the weak or loose ASEAN institution. Supporting a weak type of regional institution will help CLMV countries to hold on to their domestic sovereignty when their political regimes are challenged by pressures from economic reforms and political liberalization. The ASEAN institution can perform as a “buffer zone” or “comfort zone” at a time when the domestic-global interdependence threatens the stability of the domestic regimes. Joining ASEAN has thus low or almost no risk.



### ***1.2.2. Changing ASEAN Political Institution (Stage Two)***

The ASEAN Way and the non-interference policy characterize the nature of ASEAN institution, which adores independence, the avoidance of conflict, and informal interconnection. The structure of ASEAN institution is loose and informal. ASEAN does not have a legal status. The decision-making process is based on consensus and intergovernmental negotiation. The delegation of supranational organization as elected in the European Union (EU) has not been accepted as the practical role for a regional institution in Southeast Asia due to the fear of losing national sovereignty. However, the development of ASEAN political institution has not been static. The shift in the preferences of the old ASEAN members has been recognized as a force for legalizing the institution.

Chapter Five scrutinizes three components of ASEAN political institution after the enlargement. The analysis looks at changes in the institution that are caused by the enlargement and/or initiated by the new members. The first component is the nature of ASEAN institution, known as the ASEAN Way, and non-interference. A historical analysis of ASEAN institution illustrates that the old members, especially the Philippines and Thailand, had initiated several attempts to change the nature of the institution from constructive engagement to flexible engagement *before* the enlargement. But the attempts were unsuccessful. *After* the enlargement, the old members, especially Indonesia, have lately increased their enthusiasm to develop ASEAN institution by agreeing to surrender some degree of sovereignty in exchange for the improvements in human rights, democratization, and deeper cooperation in transnational issues such as terrorism, natural disasters, and migration. On the other hand, we have not been aware of the initiative of CLMV on these issues due to their low key in the ASEAN meetings. According to the author's interviews with ASEAN officials and scholars, the new members are extremely sensitive to the changes in the existing nature of the ASEAN institution and tend to resist them.

The structure of the institution is the most dynamic component of ASEAN institution. First, the "ASEAN-minus x" approach has been adopted and implemented as a special treatment to the new

members to have longer deadlines for tariff reduction under AFTA and other policies. Nevertheless, the “ASEAN-minus x” approach is still based on a consensus rule which means that every member has to agree on who will go ahead with the plan, and who will follow along. Also, the approach does not demonstrate any special characteristic, besides an ordinary exemption for the new members who since ASEAN did not equalize economic and political diversities between the old and new members before granting new membership. Second, the Dispute Settlement Mechanism (DSM) was finally formed under a legal process. The DSM, however, is not a consequence of the enlargement. The ASEAN-DSM is legalized, but never used because the nature of the ASEAN Way overrides the formality of conflict management. Moreover, the uncertainty of DSM itself, which is mostly involved with governmental officials and bureaucrats, does not sufficiently ensure the fairness and effectiveness of the DSM process. Regarding the reformation of ASEAN institutional structure, among the old members Singapore has shown its certain position. On the other hand, the new members have so far not initiated a change or opposed the adoption of the ASEAN-minus-x approach and the ASEAN-DSM because the approach is created to help the new members to acclimatize to the new environment while the ASEAN-DSM is not an obligatory means for conflict management.

The last component is commitment. Both old and new members have not, to a large extent, demonstrated their commitment and political will to strengthen ASEAN institution. However, pushing for institutional changes by the old members may seemingly sound better than the opposing for changes by the new members. The nascent trend of ASEAN institution has been subdued to some extent by the result of a higher diversity in ASEAN after the enlargement. Nevertheless, this chapter does not suggest that without the enlargement the old ASEAN members would have already created a formal type of ASEAN institution. Nor does it conclude that the enlargement is the most and the only substantial factor to explain the failure of ASEAN in crossing the transitional period of institutional development. The chapter instead suggests that the enlargement has developed a resisting factor for an institutional change, and so far it does not provide evidence that helps fostering the process of

institutional development. In other words, the enlargement has become an influential factor for sustaining the existing weak ASEAN institution, and has created more difficulty for ASEAN to change.

### ***1.2.3. Performing the Role of Institution in Policy Coordination (Stage Three)***

Chapter Six examines the cases of AFTA and AIA in terms of policy coordination which operates under the ASEAN political institution. The three components of policy coordination are negotiation, policy compliance, and conflict management. The conclusion of this chapter exposes the ineffectiveness of ASEAN institution in negotiating for concrete and clear policy guidelines, checking policy implementation, and resolving regional economic conflicts and problems. The collective action of members is low. Low institutionalization makes ASEAN unable to create a leading role in initiating regional policies and solving disputes among ASEAN members. At the negotiation stage, a consensus rule in the decision-making process creates the flexibility of the agreements. Renegotiating on policy outlines and details always occurs after the agreement is signed. In the dispute negotiation, the compliers or guardians do not have the power to bargain—hence they finally become losers, and the violators are in turn the winners.

At the policy compliance stage, a peer review is used in AFTA. The level of policy compliance by both old and new members in tariff reduction of non-sensitive products under the AFTA scheme is outstandingly high. However, non-compliance in the tariff reduction schedule of sensitive products is at the same time frequent with no effective regulation to handle the problems. With the uncertain mechanism of ASEAN institution to check policy implementation and to guarantee a reward and sanction system, it is the possibility to not comply with the AFTA scheme in sensitive products. The worry of non-compliance has increased when new members such as Vietnam started to follow the old members' behaviors to delay their sensitive products. Moreover, Cambodia has a huge number of its tariff lines remaining in the Temporary Exclusion List (TEL) which has a

high chance for a delay in tariff reduction. In the case of AIA, there is no regional body to check policy compliance as in the case of AFTA. However, the AIA mechanism is looser and less functional. The implementation of AIA simply depends upon a unilateral and voluntary act.

At the conflict management stage, the ASEAN-DSM has the authority to make legal judgments. However, no AFTA and AIA conflicts have been through the DSM process. Bilateral negotiations are always set among disputers which are also the regular scenario in other trading organizations. However, the conflicts in ASEAN are prolonged and remain unresolved. Furthermore, the members are not encouraged to go through the DSM as in the case of the automotive dispute between Malaysia and Thailand. The reward and sanction system is ambiguous because the violators may not have to comply with compensation.

In short, the role of ASEAN institution to manage regional activities is very low and limited. The authority and ability of ASEAN to unify state behaviors and tackle their deviations is weak. The problems of implementing AFTA beyond tariff reduction, such as the lack of standardization and harmonization, and the issue of non-tariff barriers which are more complicated for regional cooperation will easily produce loose ends in the long run under this weak institution. The new goal of ASEAN to become an economic community or even a free trade area is thus extremely questionable.

## **2. Policy Implications**

The question to be asked is whether it is necessary to institutionalize ASEAN since the members have shown their lack of political will to develop ASEAN institution. It may or may not be necessary depending on the preferences of ASEAN members. At this moment, it seems that ASEAN members have lagged political will to formalize their regional institution which clearly reflects their non-urgent sense of creating economic integration. Recently, the shift in the preferences of the old

members has been recognized, but their actions need to be more solid, while the whole sense of economic integration also needs to stem from the new members. The shift in preferences of ASEAN members will determine the questions of when, whether, and how to change ASEAN institution and unify ASEAN members' behaviors.

Thinking beyond the issue of "necessity," what are the expected benefits if ASEAN members formalize their ASEAN institution? Institutionalization will contribute to strengthen ASEAN in two aspects. First, ASEAN can sustain the strength of its intra-regional trade as well as stimulate a regional network in complementary industries. A formal type of regional institution will help to stimulate the reform of government policies and narrow them under a more unified trade standards and measures. The end of the AFTA tariff reduction will expect to cause the rise of NTBs and other technical problems. An effective regional body to check policy compliance and a transparent DSM body will ensure the participation of ASEAN members in AFTA and other regional economic policies; and it can be launched only under the rules-based institution. Second, institutionalized ASEAN can empower its leadership at the ASEAN Plus Three forum and the East Asian Summit. The strong institution with the higher level of economic integration can ensure ASEAN's important role in designing an institutional architecture and shaping the pattern of intergovernmental cooperation in East Asia.

This research project further suggests six points of policy implications for the improvement of ASEAN institution as a long-term goal. These implications support ASEAN to be a formal type of institution, which believes to create effectiveness in policy coordination and contribute to higher economic integration. Six recommendations are explained as follows:

First, ASEAN should define and narrow the power of political officials in economic affairs, especially the overpowering status of ASEAN Foreign Ministers. To define the power of ASEAN Foreign Ministers will draw a certain line and clarify their responsibility in political, not economic

affairs. This situation will help ASEAN to unlock information flows which has been kept and influenced by the political side.

Second, ASEAN should generate the different methods of decision-making processes in economic and political meetings. The consensus method can continue to be used in the political meetings. However, the voting method can be utilized in the economic meetings. The choice to exercise either consensus or voting should be independently initiated by its own council (security, economics, and socio-culture). Currently, the political side has dominated the development of ASEAN institution including the style of decision-making process in economic affairs.

Third, the ASEAN secretariat and the Secretary-General can monitor policy compliance and initiate cooperative projects under the ASEAN agreements. However, in practice they do not have ability to do their jobs. ASEAN should empower them to be independent from the political pressures and make them to be an effective body in order to oversee policy implementation and pioneer new projects—cooperating with research institutes.

Fourth, ASEAN should eliminate politics in the economic DSM by reducing the power of senior officials in its process. The senior officials should not be authorized to adopt or reject the result of the panel and/or appellate review. This will help restore members' confidence in the ASEAN-DSM and eliminate the possibility of political intervention.

Fifth, ASEAN should allow increasing the participation of the non-governmental groupings in the process of forming regional policies and agendas. ASEAN does not have an election for appointing representatives in the ASEAN parliament like in the EU. The regional policies and strategies therefore are solely decided by the heads of the states. The involvement of the private business groups and other civil society organizations can assist ASEAN to set agendas in a more practical and holistic way.

Sixth, ASEAN should make a connection among ASEAN policies such as AFTA, AIA, IAI, and AISP, and establish a strategic plan. The strategic plan itself will target to stimulate the

complementary industries through the above ASEAN policies. The specific plan should be drawn to reinforce the complementarities of ASEAN economies and take advantages of those to create a regional/global production base.

### **3. Future Research Agenda**

The future research agenda can be carved up into two parts. The first part is an analysis of the development of ASEAN institution after the creation of the ASEAN Charter. When ASEAN endorsed the ASEAN Charter in November 2007 to commemorate the 40<sup>th</sup> ASEAN anniversary, the indication is that ASEAN would step into a new period under the formal and legalized rules. The questions to examine are (1) what are the contexts in the ASEAN Charter? (2) does the ASEAN Charter strengthen the ASEAN institution? and (3) can the ASEAN institution converge the pattern of state behaviors, leading to greater policy coordination? These three questions will indicate whether ASEAN will be able to move beyond the transitional period in which it has been trapped for forty years. Regarding policy coordination, future conflicts among ASEAN members will be a real test for the development of ASEAN institution in terms of values, mechanisms, and commitments. Importantly, when the deadlines of tariff reductions in agricultural products are due, how will ASEAN solve the problem of non-compliance? Will the ASEAN institution be able to protect the compliers and punish the violators? Will the ASEAN institution be able to manage the more complicated problems of non-tariff barriers in the future?

At the domestic level, either political liberalization or depression in old and new members can influence changes in state behaviors and perceptions toward the regional institution. This dissertation has focused on identifying the preferences of the new members, in relation to their political systems and international factors. Nevertheless, their preferences can alter, in response to the future changes in domestic and/or international factors. This research project does not investigate

in depth the old members' preference in supporting the strong and legalized ASEAN institution at the domestic level. This gap can be filled with future research to understand political changes in those members and their roles in ASEAN, especially in regard to Indonesia's return to a potential leadership position, and the declining leadership of Thailand.

At the international level, it is anticipated that the roles of globalization and international politics in stimulating economic and political liberalization will rise and have a greater effect on the economies of CLMV and other members. After Vietnam successfully joined the WTO since 2007, the important question is not if Vietnam will divert trade with ASEAN. The issue is how ASEAN as an institutional grouping can utilize this new linkage between Vietnam and the international market to stimulate the ASEAN production base, while pushing for other new members to enter into the WTO to receive the same benefits. The most challenging problem for ASEAN is how the institution can manage Myanmar's isolated position in the international market and community. Will ASEAN be able to pull Myanmar out of the vicious cycle of poverty and military regime under the ASEAN Charter? This is the biggest challenge facing ASEAN when the Charter is ratified by ASEAN members at domestic level. Thus, it is important to observe whether the new values of democracy, human rights, and freedom which are written in the Charter will be enacted in Southeast Asia.

The second part of the future research agenda is to narrow the empirical study of intra-ASEAN trade. The empirical test in Chapter Three reveals the significance of intra-ASEAN trade in the food and live animal sector, the manufactured sector, and the machinery and transport equipment sector after the ASEAN enlargement. The big picture emerging from Chapter Three shows that ASEAN enlargement tends to bring trade creation and has the potential to create a regional production base with appropriate regional policies and cooperation. The study suggests the strong tie among old ASEAN members in the machinery and transport equipment sector. This piece of information can guide to the next step of the research project by emphasizing the study on particular industries in the sector. Can this network expand to include the new members? What are the



fundamental factors that will strengthen this regional production network? These questions can be used to plan an economic policy and strategy in order to improve integration and policy coordination in ASEAN. A more detailed policy formulation and outline can be generated after narrowing the study into specific industries. The advance in research on this issue can additionally formulate a “strategic plan” for ASEAN and connect AFTA, AIA, and IAI policies to be more corresponsive.

In sum, the future research agenda will focus on (1) examining the development of ASEAN institution in the era of the ASEAN Charter and its relationship to policy coordination, and (2) narrowing the empirical study of intra-ASEAN trade to identify the specific industries and formulate policy outlines and linkages as a strategic plan for higher economic integration in ASEAN.

In 2007, ASEAN became forty years old and successfully endorsed the ASEAN Charter to construct its legal personality. However, the strong role of ASEAN institution in managing regional affairs has remained highly problematic under the ASEAN Charter. As we have seen, policy compliance in ASEAN has been flexible, the legal ASEAN-DSM has never been practically exercised, and deviant ASEAN members have never been punished. Having the Charter thus does not guarantee that ASEAN will automatically become a fully formalized institution and possess active institutional mechanisms. Therefore, the form of and the details in the Charter will need to be profoundly investigated to predict the future development of ASEAN institution and its potential and actual performance in promoting higher economic integration in ASEAN.

## Appendix A

Table A.1: RCA Values (1990-1995 Average)

Name	SITC Code	BRN	IDN	CBD	LAO	MYS	MYM	PHL	SGP	THA	VNM
Live animals	00	0.00	0.00	0.00	1.30	1.80	0.20	0.00	0.00	0.10	0.00
Meat and meat preparations	01	0.00	0.10	0.00	0.00	0.00	0.00	0.00	0.00	1.40	0.10
Dairy products and birds' eggs	02	0.00	0.30	0.00	0.00	0.30	0.00	0.00	0.20	0.10	0.80
Fish, crustaceans, etc	03	0.00	3.40	1.60	0.10	0.70	9.50	3.70	0.50	8.70	11.30
Cereals and cereal preparations	04	0.00	0.10	0.60	0.10	0.20	3.30	0.10	0.20	3.30	6.60
Vegetable and fruit	05	0.00	0.60	0.10	0.20	0.30	8.30	4.50	0.10	3.10	1.50
Sugars, sugar preparations	06	0.00	0.50	0.00	0.00	0.50	0.50	3.30	0.10	7.00	0.80
Coffee, tea cocoa, spices	07	0.00	4.80	1.20	7.00	1.30	1.70	0.40	0.60	0.80	9.20
Feeding stuff for animals	08	0.00	1.00	0.00	0.00	0.60	1.40	1.30	0.20	1.60	0.10
Misc. edible products	09	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Beverages	11	0.00	0.00	0.00	0.00	0.10	0.00	0.10	0.30	0.10	0.10
Tobacco and tobacco manuf.	12	0.00	0.80	0.00	0.00	0.10	0.10	1.00	0.40	0.80	0.10
Hides, skins and furskins, raw	21	0.00	0.10	3.30	4.10	0.10	1.90	0.00	0.00	0.10	2.70
Oil seeds, nuts, kernels	22	0.00	0.10	7.60	0.50	0.10	16.70	0.50	0.10	0.10	7.00
Crude Rubber	23	0.00	12.10	64.50	0.00	10.80	7.50	0.50	1.80	14.20	3.40
Cork and wood	24	0.00	2.40	48.00	53.90	9.20	45.40	0.70	0.30	0.20	3.60
Pulp and waste paper	25	0.00	0.60	0.00	0.00	0.00	0.00	0.50	0.20	0.10	0.00
Textile fibers	26	0.00	0.20	1.90	0.10	0.30	0.30	0.40	0.10	0.70	0.70
Crude fertilizer	27	0.00	0.30	0.00	0.30	0.30	0.10	0.40	0.20	1.20	0.30
Metalliferous ores	28	0.10	2.80	2.80	3.90	0.40	1.70	3.80	0.40	0.10	1.00
Crude animal and veg mat.	29	0.00	0.50	2.30	3.40	0.30	2.40	1.20	0.50	1.40	3.10
Coal, coke and briquettes	32	0.00	3.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.10
Petroleum and petrol products	33	6.40	2.60	0.00	0.00	1.10	0.10	0.10	1.90	0.10	2.90
Gas, natural and manuf.	34	40.30	14.40	0.00	0.00	3.00	0.00	0.70	0.20	0.00	0.00
Electric current	35	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Animal oils and fats	41	0.00	0.60	0.00	0.00	1.20	0.00	0.30	0.20	0.00	0.00
Vegetable fast and oils, refined	42	0.00	6.20	0.00	0.00	15.20	0.00	11.60	1.70	0.10	0.80
Animal or veg fats and oils, pro'd	43	0.00	2.70	0.00	0.00	16.20	0.00	3.60	1.50	0.70	0.00
Organic chemicals	51	0.00	0.30	0.00	0.10	0.20	0.10	0.20	0.80	0.10	0.00
Inorganic chemicals	52	0.00	0.00	0.00	0.00	0.60	0.00	0.00	4.00	0.10	0.00
Dyeing and tanning materials	53	0.00	0.20	0.00	0.00	0.20	0.10	0.00	0.70	0.30	0.00
Medicinal and pharm. Products	54	0.00	0.10	0.00	0.00	0.10	0.00	0.10	0.30	0.10	0.00
Essential oils and resinoids	55	0.00	0.40	0.00	0.00	0.40	0.00	0.20	0.50	0.30	0.30
Fertilizers	56	0.00	1.10	0.00	0.00	0.40	0.00	1.50	0.10	0.00	0.10
Plastics in primary forms	57	0.00	0.10	0.00	0.00	0.20	0.00	1.50	0.10	0.10	0.00
Plastics in non-primary forms	58	0.00	0.10	0.00	0.00	0.20	0.00	0.10	0.70	0.30	0.10
Chemical materials and products	59	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Leather, leather manuf.	61	0.00	0.60	0.00	0.90	0.10	0.00	0.30	0.10	2.00	0.40
Rubber manuf.	62	0.00	0.40	0.20	0.00	0.80	0.00	0.20	0.30	0.90	1.30
Cork and wood manuf.	63	0.00	18.50	0.00	3.60	3.60	0.90	2.00	0.60	1.10	1.10
Paper and paper board	64	0.00	0.50	0.00	0.00	0.20	0.00	0.10	0.30	0.20	0.10
Textile yarn, fabrics and articles	65	0.00	1.60	0.10	0.10	0.40	0.00	0.40	0.20	1.20	1.80
Non-meallic mineral manuf.	66	0.10	0.40	0.00	0.00	0.40	3.40	0.40	0.20	1.90	0.40
Iron and steel	67	0.00	0.20	0.00	0.30	0.20	0.10	0.10	0.20	0.20	0.70
Non-ferrous metals	68	0.00	0.60	0.00	0.00	0.40	0.20	1.10	0.30	0.10	0.40
Manuf. of metals	69	0.00	0.30	0.00	0.00	0.40	0.00	0.30	0.60	0.60	0.30
Power-generating machinery	71	0.00	0.00	0.00	0.00	0.70	0.10	0.50	2.20	1.00	0.10
Mach specialized for parti indus.	72	0.00	0.20	0.00	0.00	2.90	0.00	2.50	2.40	1.30	0.10
Metalworking machinery	73	0.00	0.10	0.00	0.00	0.10	0.00	0.10	0.20	0.10	0.10
Industrial mach and eqpt	74	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Office and data processing mach	75	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Telecom apparatus and eqpt	76	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Elect mach and appliances	77	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Road vehicles	78	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Other transport equipment	79	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Prefab bldgs and construction	81	0.00	0.20	0.00	0.00	0.30	0.00	0.90	0.20	0.80	0.10
Furniture, and parts	82	0.00	2.00	0.10	0.20	0.90	0.10	2.20	0.40	1.80	0.90
Travel goods, handbags	83	0.00	0.50	0.50	0.10	0.20	0.00	2.00	0.10	2.80	3.50
Articles of apparel and clothing	84	0.40	2.10	4.80	8.10	1.40	1.50	4.40	0.50	2.20	3.10
Footwear	85	0.00	4.60	0.10	0.10	0.30	0.10	1.50	0.10	2.90	4.00
Profess and scientific instru	87	0.70	0.10	0.00	0.00	0.60	0.00	1.00	0.80	0.70	0.10
Photo apparatus and watches	88	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Misc manuf articles	89	2.00	0.40	0.10	0.10	1.40	0.10	1.00	1.20	1.90	0.30

Source: Fusase and Martin (2001)

**Table A.2: RCA Values (2000-2004 Average)**

Name	SITC Code	BRN*	CBD*	IDN	LAO*	MYS	MYM*	PHL	SGP*	THA	VNM
Live animals	00	0.00	0.58	0.39	6.58	0.69	2.73	0.05	0.01	0.23	0.13
Meat and meat preparations	01	0.01	0.00	0.05	0.01	0.04	0.01	0.01	0.01	1.83	0.20
Dairy products and birds' eggs	02	0.00	0.07	0.25	0.11	0.22	0.02	0.25	0.09	0.26	1.07
Fish, crustaceans, etc	03	0.02	1.31	3.71	0.04	0.56	9.44	1.59	0.08	7.66	12.38
Cereals and cereal preparations	04	0.00	0.17	0.19	0.56	0.21	2.25	0.13	0.15	3.16	4.33
Vegetable and fruit	05	0.01	0.04	0.47	0.74	0.20	8.87	1.77	0.10	1.63	2.10
Sugars, sugar preparations	06	0.00	0.00	0.47	0.02	0.44	0.58	0.88	0.14	4.67	0.79
Coffee, tea cocoa, spices	07	0.00	0.00	4.30	10.04	0.89	0.54	0.10	0.81	0.24	7.17
Feeding stuff for animals	08	0.00	0.00	0.55	0.03	0.37	0.68	0.30	0.13	1.33	0.14
Misc. edible products	09	0.01	0.00	0.84	0.05	0.94	0.01	0.46	0.50	1.56	1.07
Beverages	11	0.00	0.01	0.04	0.19	0.20	0.14	0.11	0.50	0.22	0.08
Tobacco and tobacco manuf.	12	0.00	0.49	1.30	0.06	0.69	0.75	0.54	1.23	0.27	0.84
Hides, skins and furskins, raw	21	0.11	0.07	0.03	0.97	0.06	0.11	0.04	0.17	0.03	0.26
Oil seeds, nuts, kernels	22	0.00	0.18	0.12	0.62	0.05	3.18	0.01	0.03	0.06	1.15
Crude Rubber	23	0.01	9.67	13.91	2.07	5.26	3.89	0.41	0.86	18.10	7.53
Cork and wood	24	0.01	0.73	1.39	56.36	2.73	32.53	0.13	0.12	0.50	0.45
Pulp and waste paper	25	0.02	0.00	3.77	0.06	0.00	0.02	0.33	0.13	0.63	0.00
Textile fibers	26	0.05	0.30	0.88	0.69	0.28	0.38	0.19	0.12	1.27	0.19
Crude fertilizer	27	0.01	0.00	0.75	1.98	0.21	1.02	0.25	0.19	1.76	0.32
Metalliferous ores	28	0.15	0.00	4.53	0.96	0.11	0.55	0.85	0.25	0.26	0.31
Crude animal and veg mat.	29	0.00	0.06	0.54	3.60	0.14	1.04	0.82	0.27	0.61	0.85
Coal, coke and briquettes	32	0.00	0.00	8.92	1.32	0.00	1.17	0.00	0.00	0.00	1.98
Petroleum and petrol products	33	7.91	0.00	1.83	0.03	0.97	0.07	0.18	1.17	0.41	2.66
Gas, natural and manuf.	34	36.16	0.00	7.50	0.24	3.22	14.99	0.07	0.16	0.32	0.00
Electric current	35	0.00	0.00	0.00	0.00	0.05	0.01	0.00	0.00	0.00	0.04
Animal oils and fats	41	0.00	0.00	0.09	0.00	0.02	0.01	0.02	0.28	0.07	0.04
Vegetable fast and oils, refined	42	0.00	0.04	14.35	0.00	13.21	0.01	4.60	0.36	0.42	0.64
Animal or veg fats and oils, pro'd	43	0.00	0.02	4.25	0.16	17.10	0.48	0.97	0.74	1.00	0.06
Organic chemicals	51	0.00	0.00	0.80	0.01	0.63	0.01	0.10	1.85	0.51	0.07
Inorganic chemicals	52	0.00	0.00	0.61	0.32	0.26	0.02	0.18	0.21	0.24	0.07
Dyeing and tanning materials	53	0.00	0.00	0.34	0.01	0.38	0.02	0.08	1.06	0.27	0.06
Medicinal and pharm. Products	54	0.00	0.01	0.06	0.01	0.03	0.02	0.02	0.28	0.08	0.02
Essential oils and resinoids	55	0.00	0.00	0.69	0.10	0.33	0.04	0.16	0.77	0.69	0.34
Fertilizers	56	0.00	0.00	1.07	0.00	0.68	0.00	0.61	0.02	0.13	0.27
Plastics in primary forms	57	0.00	0.00	0.63	1.89	0.75	0.00	0.08	0.40	1.83	0.03
Plastics in non-primary forms	58	0.00	0.00	0.61	0.03	0.51	0.00	0.21	0.99	0.61	0.15
Chemical materials and products	59	0.00	0.03	0.30	0.01	0.56	0.02	0.12	0.91	0.59	0.24
Leather, leather manuf.	61	0.01	0.04	0.42	0.43	0.11	0.01	0.04	0.21	1.68	0.26
Rubber manuf.	62	0.00	0.00	1.07	0.10	0.54	0.07	0.27	0.36	1.59	0.37
Cork and wood manuf.	63	0.00	1.04	8.86	3.05	3.21	1.75	0.76	0.13	1.12	0.89
Paper and paper board	64	0.00	0.01	2.15	0.01	0.22	0.01	0.14	0.20	0.53	0.20
Textile yarn, fabrics and articles	65	0.04	0.45	2.14	0.07	0.45	0.15	0.31	0.24	1.10	0.77
Non-meallic mineral manuf.	66	0.15	0.00	0.60	0.28	0.33	0.59	0.23	0.21	1.10	0.45
Iron and steel	67	0.01	0.00	0.37	0.15	0.41	0.14	0.03	0.20	0.54	0.12
Non-ferrous metals	68	0.01	0.00	1.13	0.08	0.50	0.90	0.62	0.49	0.30	0.07
Manuf. of metals	69	0.02	0.05	0.41	0.05	0.45	0.01	0.18	0.42	0.76	0.29
Power-generating machinery	71	0.01	0.01	0.28	0.04	0.26	0.02	0.07	0.44	0.61	0.12
Mach specialized for parti indus.	72	0.01	0.13	0.10	0.03	0.26	0.01	0.15	0.86	0.17	0.12
Metalworking machinery	73	0.00	0.01	0.04	0.02	0.22	0.00	0.21	0.67	0.23	0.03
Industrial mach and eqpt	74	0.01	0.02	0.19	0.02	0.36	0.01	0.15	0.62	0.86	0.05
Office and data processing mach	75	0.01	0.00	0.78	0.00	3.62	0.01	3.86	3.59	2.20	0.41
Telecom apparatus and eqpt	76	0.01	0.01	1.18	0.02	2.53	0.03	0.69	1.39	1.27	0.14
Elect mach and appliances	77	0.00	0.00	0.50	0.00	2.86	0.04	4.77	3.30	1.62	0.27
Road vehicles	78	0.00	0.03	0.11	0.60	0.05	0.00	0.27	0.09	0.47	0.08
Other transport equipment	79	0.15	0.02	0.06	0.00	0.13	0.06	0.12	0.38	0.17	0.02
Prefab bldgs and construction	81	0.00	0.01	0.35	0.02	0.21	0.02	0.31	0.17	0.64	0.15
Furniture, and parts	82	0.00	0.14	2.46	0.17	1.51	0.62	0.83	0.06	1.30	1.76
Travel goods, handbags	83	0.00	0.21	0.80	0.03	0.06	0.76	1.80	0.15	2.00	3.48
Articles of apparel and clothing	84	3.52	22.57	2.38	12.36	0.70	9.15	1.98	0.38	1.66	3.74
Footwear	85	0.01	2.54	3.06	2.12	0.17	1.43	0.20	0.15	1.49	11.49
Profess and scientific instru	87	0.02	0.01	0.05	0.02	0.62	0.02	0.17	0.97	0.24	0.07
Photo apparatus and watches	88	0.09	0.04	0.28	0.00	0.80	0.01	0.99	1.30	1.05	0.18
Misc manuf articles	89	0.32	5.15	0.56	0.00	0.60	0.08	0.41	0.91	1.05	0.46

Source Coxhead (2006), and the author's calculation from UNComtrade remarked by asterisk.

Appendix B  
Table B.1: All Sectors Result (SITC 0-9), Revision 2

	Without Fixed Costs		ASEAN Without Vietnam		ASEAN Plus Vietnam		ASEAN Plus CTM		ASEAN10 w/CTM	
	1991	2005	1996	2005	1996	2005	1996	2005	2005	2005
log( $\sigma_{ij}$ )	0.88 *** (3.431)	0.76 *** (25.09)	0.85 *** (31.77)	1.09 *** (52.42)	0.74 *** (26.20)	1.06 *** (52.03)	0.74 *** (25.59)	1.06 *** (50.91)	1.06 *** (51.41)	1.06 *** (51.62)
log( $\sigma_{ij}^2$ )	0.53 *** (10.53)	0.58 *** (9.16)	0.65 *** (12.91)	0.59 *** (13.77)	0.70 *** (11.66)	0.62 *** (14.79)	0.72 *** (11.97)	0.62 *** (14.73)	0.63 *** (15.15)	0.60 *** (14.11)
log( $\sigma_{ij}^3$ )	0.04 (0.78)	0.02 (0.56)	0.06 (1.46)	-0.01 (-0.45)	0.09 (1.50)	-0.02 (-0.54)	0.08 (1.44)	-0.05 (-0.76)	-0.02 (-0.55)	-0.05 (-0.95)
log( $\sigma_{ij}^4$ )	-0.63 *** (-4.47)	-0.82 *** (-7.78)	-0.29 *** (-2.57)	-0.74 *** (-7.78)	-0.21 (-1.61)	-0.57 *** (-6.00)	-0.22 * (-1.70)	-0.57 *** (-5.82)	-0.53 *** (-5.32)	-0.63 *** (-6.55)
banker <sub>ij</sub>	1.16 *** (4.13)	1.12 *** (3.43)	1.23 *** (4.50)	1.29 *** (4.17)	1.34 *** (4.36)	0.39 * (1.76)	1.30 *** (4.19)	0.34 (1.51)	0.37 * (1.67)	0.39 * (1.74)
language <sub>ij</sub>	0.44 *** (2.29)	-0.01 (-0.85)	0.72 *** (3.82)	0.47 ** (2.14)	0.46 ** (2.15)	0.77 *** (4.88)	0.51 ** (2.36)	0.82 *** (3.44)	0.83 *** (5.32)	0.72 *** (4.47)
ASEAN	1.94 *** (5.07)	2.59 *** (6.54)	1.92 *** (7.53)	0.66 (1.42)	1.06 *** (2.63)	1.49 *** (5.13)	0.13 (0.55)	0.98 *** (3.44)	1.24 *** (4.28)	1.39 *** (4.01)
ASEAN+3				2.20 *** (8.63)	2.71 *** (9.48)	1.12 *** (5.24)	2.94 *** (10.00)	1.23 *** (5.59)	1.15 *** (4.99)	1.19 *** (5.58)
EU	0.37 (1.49)	-0.44 (-1.47)	0.41 * (1.82)	0.58 * (1.88)	0.62 ** (2.83)	0.68 *** (2.97)	0.57 * (1.84)	0.69 *** (2.93)	0.74 *** (3.18)	0.60 *** (2.61)
NAFTA	-0.58 (-0.71)	-0.95 (-0.98)	0.19 (0.27)	-0.38 (-0.41)	-0.39 (-0.43)	0.45 (0.65)	-0.38 (-0.41)	0.48 (0.68)	0.49 (0.71)	0.42 (0.60)
MERCOSUR	0.65 (1.06)	0.37 (0.52)	1.43 *** (2.66)	1.62 ** (2.34)	1.65 ** (2.40)	1.71 *** (3.25)	1.62 ** (2.32)	1.77 *** (3.32)	1.83 *** (3.47)	1.57 *** (2.95)
ANDEAN	1.08 ** (2.22)	1.50 *** (2.61)	1.66 *** (3.47)	2.52 *** (4.53)	2.56 *** (4.65)	2.41 *** (5.77)	2.51 *** (4.47)	2.52 *** (5.57)	2.47 *** (5.83)	2.28 *** (5.36)
Adj R-squared	0.77	0.70	0.84	0.73	0.73	0.84	0.72	0.84	0.84	0.84
F-Statistics	253.83	182.57	433.26	185.77	184.97	405.95	184.97	392.77	393.66	405.04

\* denotes statistical significance at 10% level

\*\* denotes statistical significance at 5% level

\*\*\* denotes statistical significance at 1% level

t-statistics reported in the parentheses

Table B.2: Food and Live Animal Sector (SITC 2), Revision 2

	Without East Asia				ASEAN Without Vietnam				ASEAN Plus Vietnam				ASEAN Plus CJM				ASEAN10 w/af CJMV			
	1991	1996	2005	2005	1991	1996	2005	2005	1996	2005	2005	2005	1996	2005	2005	2005	2005	2005		
log( <i>grlp<sub>t</sub></i> )	0.74 *** (22.28)	0.72 *** (20.52)	1.02 *** (31.67)	1.02 *** (31.67)	0.73 *** (21.73)	0.79 *** (19.63)	1.02 *** (31.79)	1.02 *** (31.79)	0.70 *** (20.10)	0.70 *** (20.10)	1.02 *** (31.79)	1.02 *** (31.79)	0.68 *** (19.23)	0.68 *** (19.23)	1.02 *** (30.87)	1.02 *** (31.18)	1.01 *** (31.63)	1.01 *** (31.63)		
log( <i>repta<sub>t</sub></i> )	0.36 *** (5.36)	0.30 *** (3.90)	0.32 *** (4.90)	0.32 *** (4.90)	0.41 *** (5.96)	0.39 *** (5.07)	0.29 *** (4.47)	0.29 *** (4.47)	0.37 *** (4.91)	0.37 *** (4.91)	0.29 *** (4.47)	0.29 *** (4.47)	0.43 *** (5.63)	0.43 *** (5.63)	0.30 *** (4.55)	0.31 *** (4.68)	0.27 *** (4.09)	0.27 *** (4.09)		
log( <i>difflngh<sub>t</sub></i> )	0.34 *** (5.42)	0.29 *** (4.19)	0.11 ** (2.24)	0.11 ** (2.24)	0.35 *** (5.63)	0.30 *** (4.45)	0.32 ** (4.47)	0.32 ** (4.47)	0.31 *** (4.60)	0.31 *** (4.60)	0.32 ** (4.47)	0.32 ** (4.47)	0.31 *** (4.47)	0.31 *** (4.47)	0.11 ** (2.04)	0.12 ** (2.18)	0.10 * (1.85)	0.10 * (1.85)		
log( <i>distance<sub>t</sub></i> )	0.82 *** (-6.60)	0.88 *** (-6.57)	0.91 *** (-6.92)	0.91 *** (-6.92)	0.68 *** (-4.64)	0.69 *** (-4.66)	1.07 *** (-7.57)	1.07 *** (-7.57)	0.65 *** (-4.24)	0.65 *** (-4.24)	1.07 *** (-7.57)	1.07 *** (-7.57)	0.68 *** (-4.48)	0.68 *** (-4.48)	1.07 *** (-7.31)	0.10 *** (-6.74)	0.10 *** (-6.74)	1.14 *** (-8.05)	1.14 *** (-8.05)	
<i>border<sub>t</sub></i>	0.97 *** (2.77)	0.93 *** (2.52)	0.53 * (1.64)	0.53 * (1.64)	1.04 *** (2.98)	0.95 *** (2.58)	0.42 (1.29)	0.42 (1.29)	1.02 *** (2.76)	1.02 *** (2.76)	0.42 (1.29)	0.42 (1.29)	0.96 *** (2.62)	0.96 *** (2.62)	0.43 (1.32)	0.48 (1.48)	0.42 (1.28)	0.42 (1.28)		
<i>language<sub>t</sub></i>	0.40 * (1.71)	0.52 ** (2.08)	0.82 *** (3.59)	0.82 *** (3.59)	0.58 ** (2.10)	0.68 *** (2.83)	0.68 *** (2.95)	0.68 *** (2.95)	0.65 *** (2.58)	0.65 *** (2.58)	0.68 *** (2.95)	0.68 *** (2.95)	0.75 *** (2.95)	0.75 *** (2.95)	0.76 *** (3.30)	0.79 *** (3.43)	0.60 ** (2.56)	0.60 ** (2.56)		
ASEAN	1.46 *** (3.12)	2.47 *** (5.37)	0.95 *** (2.59)	0.95 *** (2.59)	0.91 * (1.77)	1.04 * (1.87)	1.38 *** (4.22)	1.38 *** (4.22)	1.75 *** (3.51)	1.75 *** (3.51)	1.78 *** (4.22)	1.78 *** (4.22)	0.26 (0.55)	0.26 (0.55)	0.77 * (1.94)	1.58 *** (3.22)	1.69 *** (3.40)	1.69 *** (3.40)		
ASEAN+5					0.76 ** (2.35)	1.45 *** (4.27)	-0.34 * (-1.73)	-0.34 * (-1.73)	1.17 *** (3.44)	1.17 *** (3.44)	-0.34 * (-1.73)	-0.34 * (-1.73)	1.65 *** (4.74)	1.65 *** (4.74)	-0.22 (-0.67)	-0.56 * (-1.67)	-0.39 (-1.23)	-0.39 (-1.23)		
EU	0.35 (1.13)	0.21 (0.62)	0.69 ** (2.09)	0.69 ** (2.09)	0.59 * (1.75)	0.51 (1.59)	0.49 (1.43)	0.49 (1.43)	0.58 (1.59)	0.58 (1.59)	0.49 (1.43)	0.49 (1.43)	0.45 (1.53)	0.45 (1.53)	0.95 *** (3.39)	0.58 * (1.66)	0.38 (1.13)	0.38 (1.13)		
NAFTA	-0.38 (-0.38)	-0.79 (-0.24)	-0.01 (-0.01)	-0.01 (-0.01)	-0.24 (-0.24)	-0.51 (-0.48)	-0.07 (-0.07)	-0.07 (-0.07)	-0.55 (-0.52)	-0.55 (-0.52)	-0.07 (-0.07)	-0.07 (-0.07)	-0.51 (-0.47)	-0.51 (-0.47)	-0.51 (-0.58)	-0.10 (-0.09)	-0.09 (-0.09)	-0.09 (-0.09)		
MERCOSUR	0.98 (1.30)	0.83 (1.04)	1.36 ** (2.06)	1.36 ** (2.06)	1.27 + (1.67)	1.30 (1.59)	1.36 + (1.88)	1.36 + (1.88)	1.34 + (1.66)	1.34 + (1.66)	1.36 + (1.88)	1.36 + (1.88)	1.29 (1.58)	1.29 (1.58)	1.11 * (1.68)	1.45 + (1.89)	1.19 (1.57)	1.19 (1.57)		
ANDEAN	0.67 (1.06)	1.41 ** (2.20)	2.05 *** (3.37)	2.05 *** (3.37)	0.95 (1.50)	1.79 *** (2.75)	1.88 *** (3.09)	1.88 *** (3.09)	1.87 *** (2.89)	1.87 *** (2.89)	1.79 *** (2.75)	1.79 *** (2.75)	1.77 *** (2.70)	1.77 *** (2.70)	1.71 *** (2.24)	1.95 *** (3.15)	1.72 *** (2.88)	1.72 *** (2.88)		
Adj R-squared	0.61	0.60	0.59	0.59	0.61	0.57	0.59	0.59	0.57	0.61	0.57	0.59	0.56	0.59	0.59	0.59	0.59	0.59		
F-Statistics	112.57	100.23	113.51	113.51	101.26	88.91	104.37	104.37	90.90	90.90	104.37	104.37	87.28	104.20	103.85	103.85	103.85	103.85		

\* denotes statistical significance at 10% level

\*\* denotes statistical significance at 5% level

\*\*\* denotes statistical significance at 1% level

t-statistics reported in the parentheses

Table B-3: Manufactured Goods by Materials (SITC 6), Revision 2

	Without East Asia		ASEAN Without Vietnam		ASEAN Plus Vietnam		ASEAN Plus OLM		ASEAN8 w/CLMV		
	1996	2005	1996	1996	2005	1996	2005	1996	2005	2005	
log(gdp)	0.91 *** (31.82)	0.79 *** (24.24)	1.12 *** (45.38)	0.89 *** (31.37)	0.77 *** (24.86)	1.03 *** (35.22)	1.03 *** (45.40)	0.76 *** (24.53)	1.09 *** (44.57)	1.09 *** (44.84)	1.03 *** (45.20)
log(mgta)	0.37 *** (6.33)	0.43 *** (6.20)	0.51 *** (10.17)	0.47 *** (8.11)	0.57 *** (8.53)	0.55 *** (8.49)	0.53 *** (10.88)	0.58 *** (8.89)	0.54 *** (11.06)	0.55 *** (11.25)	0.53 *** (10.64)
log(difflogftj)	0.03 (0.54)	4.85 (-0.00)	0.08 * (-1.81)	0.05 (0.97)	0.03 (0.57)	0.04 (0.74)	0.08 * (-1.92)	0.03 (0.55)	0.08 * (-1.92)	0.07 * (-1.80)	0.09 ** (-2.11)
log(distance)	-0.61 *** (-5.57)	-0.71 *** (-5.69)	-0.73 *** (-6.81)	-0.39 ** (-2.36)	-0.11 (-0.81)	-0.08 (-0.61)	-0.53 *** (-4.87)	-0.10 (-0.70)	-0.52 *** (-4.68)	-0.90 *** (-4.34)	-0.57 *** (-5.18)
border <sub>ij</sub>	1.00 *** (3.26)	1.28 *** (3.65)	0.71 *** (2.71)	1.09 *** (3.71)	1.44 *** (4.34)	1.48 *** (4.49)	0.80 *** (3.15)	1.46 *** (4.39)	0.77 *** (3.04)	0.80 *** (3.17)	0.79 *** (3.11)
language <sub>ij</sub>	0.26 (1.26)	-0.016 (-0.05)	0.55 *** (3.04)	0.49 ** (2.42)	0.46 ** (1.98)	0.45 * (1.95)	0.63 *** (3.54)	0.50 ** (2.19)	0.67 *** (3.76)	0.68 *** (3.85)	0.61 *** (3.37)
ASEAN	2.10 *** (5.06)	2.84 *** (6.46)	1.80 *** (6.21)	0.40 (0.92)	0.65 (1.30)	1.12 ** (2.52)	0.85 *** (2.59)	0.12 (0.29)	0.64 ** (2.01)	0.87 *** (2.66)	0.78 * (1.75)
ASIANFI				2.15 *** (7.65)	3.02 *** (9.92)	2.85 *** (9.31)	1.54 *** (6.39)	3.15 *** (10.00)	1.58 *** (6.30)	1.47 *** (5.68)	1.62 *** (6.74)
IU	0.95 *** (3.99)	0.34 (1.07)	0.87 *** (3.36)	1.48 *** (5.11)	1.36 *** (4.15)	1.41 *** (4.32)	1.25 *** (4.77)	1.36 *** (4.08)	1.26 *** (4.76)	1.31 *** (4.91)	1.20 *** (4.56)
NEFTA	-0.51 (-0.58)	-0.88 (-0.86)	0.05 (0.04)	-0.12 (-0.15)	-0.25 (-0.26)	-0.27 (-0.28)	0.36 (0.47)	-0.24 (-0.25)	0.37 (0.47)	0.37 (0.47)	0.34 (0.44)
MERCOSUR	1.11 * (1.68)	0.43 (0.55)	1.54 *** (2.54)	1.78 *** (2.75)	1.73 ** (2.35)	1.77 (2.42)	1.92 *** (3.25)	1.73 ** (2.33)	1.98 *** (3.32)	2.04 *** (3.43)	1.84 *** (3.11)
ANDEAN	1.71 *** (3.24)	2.24 *** (3.65)	2.46 *** (4.84)	2.25 *** (4.37)	3.24 *** (5.51)	3.30 *** (5.64)	2.75 *** (5.57)	3.25 *** (5.44)	2.78 *** (5.58)	2.85 *** (5.73)	2.67 *** (5.41)
Adj R-squared	0.73	0.66	0.79	0.74	0.68	0.69	0.79	0.68	0.79	0.79	0.79
F Statistics	204.45	146.73	304.43	191.75	150.54	151.39	282.65	149.86	279.25	279.65	281.66

\* denotes statistically significant at 10% level

\*\* denotes statistically significant at 5% level

\*\*\* denotes statistically significant at 1% level

t-statistics reported in the parentheses.

Table B.4: Machinery and Transport Equipment Sector (SITC 7), Revision 2

	Without East Asia				ASEAN Without Vietnam				ASEAN Plus Vietnam				ASEAN Plus Vietnam w/CEIMV			
	1991	1996	2005	1996	1991	1996	2005	1996	2005	1996	2005	1996	2005	2005	2005	
log(gdp)	1.08 *** (32.21)	0.83 *** (23.75)	1.20 *** (44.56)	1.00 *** (31.40)	0.79 *** (24.48)	0.80 *** (24.96)	1.17 *** (44.44)	0.79 *** (24.25)	1.17 *** (43.65)	0.79 *** (24.25)	1.17 *** (43.65)	0.85 *** (25.69)	1.17 *** (44.07)	0.86 *** (25.69)	1.17 *** (44.48)	
log(gdpjt)	0.66 *** (10.04)	0.73 *** (9.89)	0.81 *** (14.62)	0.79 *** (11.85)	0.90 *** (12.78)	0.90 *** (13.02)	0.84 *** (15.66)	0.90 *** (13.02)	0.85 *** (15.69)	0.92 *** (13.12)	0.85 *** (15.69)	0.92 *** (15.69)	0.92 *** (15.69)	0.85 *** (15.95)	0.82 *** (15.20)	
log(diffgdpjt)	0.06 (1.08)	0.09 (1.27)	-0.09 (-2.01)	0.09 (1.51)	0.14 (2.26)	0.15 (2.47)	-0.09 (-2.06)	0.14 (2.17)	-0.10 (-2.17)	0.14 (2.17)	-0.10 (-2.17)	-0.09 (-2.01)	-0.09 (-2.01)	-0.11 (-2.36)	-0.11 (-2.36)	
log(diffgdpjt)	-0.25 ** (-2.04)	-0.45 *** (-3.37)	-0.48 *** (-4.05)	0.17 (1.20)	0.27 * (1.85)	0.31 ** (2.15)	-0.24 ** (-1.98)	0.31 ** (2.10)	-0.23 * (-1.88)	0.31 ** (2.10)	-0.23 * (-1.88)	-0.18 (-1.44)	-0.18 (-1.44)	-0.18 (-1.44)	-0.31 ** (-2.54)	
trade <sub>t</sub>	1.33 *** (3.85)	1.54 *** (4.09)	0.59 ** (2.07)	1.32 *** (4.47)	1.85 *** (5.26)	1.92 *** (5.54)	0.74 ** (2.66)	1.89 *** (5.35)	0.69 ** (2.44)	1.89 *** (5.35)	0.69 ** (2.44)	0.73 *** (2.61)	0.73 *** (2.61)	0.73 *** (2.61)	0.70 ** (2.51)	
language <sub>t</sub>	0.23 (1.01)	-0.19 (-0.76)	0.52 *** (2.60)	0.56 ** (2.41)	0.38 (1.56)	0.37 (1.56)	0.62 *** (3.14)	0.46 * (1.90)	0.67 *** (3.41)	0.46 * (1.90)	0.67 *** (3.41)	0.69 *** (3.53)	0.69 *** (3.53)	0.69 *** (3.53)	0.54 *** (2.72)	
ASEAN	2.82 *** (6.05)	3.65 *** (7.77)	2.36 *** (7.26)	1.11 ** (2.22)	1.21 ** (2.30)	1.85 ** (3.96)	1.51 ** (4.12)	1.89 ** (3.96)	0.95 ** (2.64)	1.89 ** (4.12)	0.95 ** (2.64)	1.94 *** (3.64)	1.94 *** (3.64)	1.94 *** (3.64)	1.72 *** (4.00)	
ASEAN8	2.21 *** (6.85)	3.48 *** (10.83)	3.28 *** (10.25)	2.21 *** (6.85)	3.48 *** (10.83)	3.28 *** (10.25)	1.69 *** (6.30)	3.57 *** (10.73)	1.82 *** (6.52)	3.57 *** (10.73)	1.82 *** (6.52)	1.66 *** (5.75)	1.66 *** (5.75)	1.66 *** (5.75)	1.72 *** (6.44)	
EU	1.00 *** (3.19)	0.08 (0.08)	0.69 ** (2.41)	1.67 *** (5.02)	1.25 *** (3.62)	1.32 *** (3.85)	1.14 *** (3.91)	1.30 *** (3.70)	1.14 *** (3.86)	1.30 *** (3.70)	1.14 *** (3.86)	1.23 *** (4.13)	1.23 *** (4.13)	1.23 *** (4.13)	1.04 *** (3.61)	
NAFTA	0.19 (0.20)	-0.50 (-0.46)	0.48 (0.53)	0.60 (0.61)	0.20 (0.20)	0.18 (0.17)	0.81 (0.94)	0.20 (0.20)	0.83 (0.95)	0.20 (0.20)	0.83 (0.95)	0.83 (0.95)	0.83 (0.95)	0.83 (0.95)	0.80 (0.92)	
MERCOSUR	1.56 ** (2.09)	0.007 (0.01)	1.51 ** (2.25)	2.40 *** (3.22)	1.51 * (1.95)	1.56 ** (2.04)	1.98 *** (3.02)	1.56 ** (2.04)	2.03 *** (3.02)	1.56 ** (2.04)	2.03 *** (3.02)	2.14 *** (3.23)	2.14 *** (3.23)	2.14 *** (3.23)	1.85 *** (2.85)	
ANDAN	1.64 *** (2.77)	1.40 ** (2.14)	1.59 *** (2.94)	2.34 *** (3.93)	2.54 *** (4.10)	2.62 *** (4.28)	1.97 *** (3.74)	2.56 *** (4.08)	1.97 *** (3.70)	2.56 *** (4.08)	1.97 *** (3.70)	2.09 *** (3.93)	2.09 *** (3.93)	2.09 *** (3.93)	1.85 *** (3.53)	
Adj R-squared	0.76	0.68	0.80	0.77	0.71	0.71	0.81	0.71	0.80	0.71	0.80	0.80	0.80	0.80	0.81	
F-Statistics	238.88	161.66	329.82	227.33	168.41	170.05	311.69	167.44	305.05	167.44	305.05	307.01	307.01	307.01	311.67	

\* denotes statistically significant at 10% level  
 \*\* denotes statistically significant at 5% level  
 \*\*\* denotes statistically significant at 1% level  
 t-statistics reported in the parentheses.

## Appendix C

Table C.1: Data Summary

	VARIABLE	MEAN	STD. DEV.	MIN	MAX
1991	VOL OF TRADE	4.53E+09	3.60E+10	0	9.07E+11
	GDP	6.98E+11	1.61E+12	2.17E+09	7.04E+12
	NGDP	11935.59	8532.64	548	28109
	DIFFNGDP	10375.94	7445.318	11	27561
	DISTANCE	6523.668	3856.366	130	16839
1996	VOL OF TRADE	7.05E+09	2.76E+10	931	3.33E+11
	GDP	1.02E+12	2.00E+12	1.35E+09	8.27E+12
	NGDP	13266.23	9162.205	786	31022
	DIFFNGDP	11027.99	7887.105	52	30236
2005	VOL OF TRADE	7.61E+09	2.85E+10	0	4.80E+11
	GDP	1.13E+12	2.44E+12	9.00E+09	1.11E+13
	NGDP	17816.72	14028.14	1700	66703
	DIFFNGDP	15089.11	12702.8	36	65003

Table C.2: Data Sources

Trading Arrangements	Countries
ASEAN	Brunei, Cambodia, Laos, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam
ASEAN Plus Three	Ten ASEAN countries, China, Japan and Korea
EU	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom
NAFTA	Canada, Mexico, and the United States
MERCOSUR	Argentina, Brazil, Paraguay, Uruguay and Venezuela
ANDEAN	Bolivia, Columbia, Ecuador and Peru
Years	Time Dimensions
1991	Before ASEAN enlargement
1996	Vietnam's accession
2005	After completed enlargement
Variables	Sources
Volumes of trade	The United Nations Comtrade
GDPs and per capita GDPs	World Development Indicators
Common Languages	CIA World Factbook
Distance	The U.S. Department of Agriculture Rural Utilities Service



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