

ASEAN'S MOVES TOWARDS ECONOMIC INTEGRATION

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ABSTRACT

Regionalism has been major issue in global political economy in the recent decades. This essay emphasizes on ASEAN (Association of Southeast Asian Nations) as one example of a regional association which is moving toward economic integration. especially after the WTO had been set up. It will try to find out the motivation of ASEAN for wanting an economic integration. The question here will be whether the implementation of the WTO or the emergence of economic powers in Asia such as China and India has been the reason for ASEAN to move into an integrated economy. From here I shall argue that in ASEAN's case, the latter seems to be more convincing than the former. Having discussion among scholars, from both optimistic and pessimistic perspectives regarding the success of ASEAN Economic Community (AEC), it can be argued that the implementation of the AEC may represent the realisation of ASEAN as a single market. The ongoing process for the implementation of the AEC illustrates ASEAN's moves towards deeper integration. Despite the rationale on the benefits of a regional trade agreement over multilateralism, the emergence of China as a new economic power in Asia is indeed the motivation for ASEAN to integrate their economy. The ASEAN states are aware of the need to consolidate their regional economy in order to have a balance trade with China and therefore may maintain ASEAN's competitiveness in global trade. However, it is still a long way for ASEAN to have a single market.

Keywords: ASEAN, regionalism, economic integration

Regionalism has been major issue in global political economy in the recent decades. Gilpin suggests that the growing preference for economic regionalism or regional trade agreements (RTAs) has made 'a significant impact on the shape of the world economy' (2001, p.341). Whilst Gilpin highlights that the establishment of the European Single Market in 1986 has marked the growing of new regionalism, Ravenhill points out that the set up of the World Trade Organization (WTO) has stimulated growing regional trade agreements (Ravenhill, 2008a). According to WTO's data, 214 RTAs had been ratified by the end of 2006. Among political economics scholars, this trend has become an interesting fact to be explored. Why did states prefer to set up RTAs after the WTO had been established? Some scholars such as Ravenhill argue that the motive of governments in joining RTAs is more political than economic reason (Ravenhill, 2008a).

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This essay will focus on ASEAN (Association of Southeast Asian Nations) as one example of a regional association which is moving toward economic integration, especially after the WTO had been set up. It will try to find out the motivation of ASEAN for wanting an economic integration. The question here will be whether the implementation of the WTO or the emergence of economic powers in Asia such as China and India has been the reason for ASEAN to move into an integrated economy. From here I shall argue that in ASEAN's case the latter seems to be more convincing than the former.

Ravenhill suggests that 'ASEAN in the form of the ASEAN Free Trade Area (AFTA) is regionalism in 'minilateral relationship': this refers to a formal process of intergovernmental collaboration between two or more states on a geographically concentrated basis' (Ravenhill, 2008a, p.174-175). ASEAN was founded on 8 August 1967 by five Southeast Asian countries, namely, Indonesia, Malaysia, the Philippines, Singapore and Thailand. These five countries signed the ASEAN Declaration which is also known as the Bangkok Declaration. Later on other five countries in the region joined this association: Brunei Darussalam joined ASEAN on 7 January 1984, Viet Nam on 28 July 1995, Laos and Myanmar on 23 July 1997 and Cambodia on 30 April 1999.

Originally ASEAN was established to maintain peace and stability among its members and this organization has produced convincing evidence in achieving its goals (Nesadurai, 2008). Despite some political tensions between its members, ASEAN claims that this association has contributed to the prevention of conflict in the region by respecting norms for inter-state relations, forming networks of cooperation among leading policy makers, and developing a regional consciousness among the members. ASEAN can state that no two ASEAN members have ever gone to war with each other (Know Your ASEAN, 2007). ASEAN is proud of their ASEAN Way as a successful method to keep the bond between their members in maintaining stability within the Southeast Asia region.

However, since 1992, along with the establishment of AFTA, ASEAN has been considered to make a move to establish Preferential Trade Agreements (PTA). Before AFTA was established, the members of ASEAN had already signed a Preferential Trading Arrangement in 1977. Within this Preferential Trading Arrangement, products from and trade among ASEAN members were given a preferential tariff by tariff reduction. Therefore their prices are lower than those of non-ASEAN members (Low, 2004). Low suggests that 'the ASEAN Preferential Trading Arrangement was a first step



to economic integration via an item-by-item approach to preferential reduction of tariffs among members to induce intra-regional trade' (2004, p.17). Despite of some economic differences among its members and the blow of the Asian financial crisis during 1997-1998, AFTA is a further step for ASEAN to achieve economic integration as it was finally realized during 2003. As Mahani (2002) argues, even though the region was hit by the financial crisis, ASEAN economic integration initiatives kept on track which is shown by the ability of the members in keeping up the set up schedules such as the Common Effective Preferential Tariff (CEPT) as one initial step for the implementation of AFTA.

The ASEAN goal of deeper economic integration seems to be more obvious when ASEAN members in the Ninth Summit in 2003, agreed on Bali Concord II with one goal to establish the AEC (ASEAN Economic Community). The members agreed 'to create a stable, prosperous and highly competitive ASEAN economic integration in which there is a flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020' (ASEAN Secretariat, 2003). Despite two others pillars in Bali Concord II on security and socio-cultural issues, this economy commitment of ASEAN members has been considered as an effort toward deeper integration. The AEC structure has been seen as a model for a 'single market'.

From here, a question arises about the motives of ASEAN in deciding to create a single market. Is the establishment of a multilateral trade agreement in the shape of the WTO motivating ASEAN to undertake economic integration? Or is the emergence of new economic powers in Asia such as China and India, the reason for ASEAN to consolidate their economies? The issue of regionalism versus multilateralism (WTO) has become a debate among political economy scholars. Bhagwati (1991) discusses whether regionalism has been a 'stumbling block' or a 'building block' for multilateralism. The experience of the European Union (EU) has been considered as one successful story of regionalism. Its development from a custom union to a common market and common currency seems to be an attractive model for other regions to follow. When a multilateral trade agreement in the form of the General Agreement on Tariffs and Trade (GATT) during the 1990s showed an unsatisfactory result, governments turned to look at regional trade schemes in order to maintain their economy (Gilpin, 2001). This action was taken by the United States and other North American governments to establish the North American Free Trade Area (NAFTA) as well as by Asian governments in forming



AFTA. When GATT was replaced by the WTO, even more regional trade agreements have been undertaken by governments.

Why have governments been attracted to regionalism over multilateralism? Gilpin (2001) presents political and economic theories related to regionalism. According to Gilpin, the economic explanation refers to the work of Jacob Viner in which states may gain more economic benefits within regional trade. According to this new thinking about economic integration, firms will not only enjoy access to regional trade but also will improve their competitiveness towards firms outside the region. Political theories try to explain that states attempt to seek more bargaining power if they join a regional trade agreement. Regarding these two perspectives on regionalism, Gilpin argues that although economic theories offer a sufficient explanation on economic benefits, the political motivations seems to be more convincing on why governments to establish regional trade agreement (Gilpin, 2001).

Ravenhill (2008a) suggests that the motivations for governments to join regional trade agreements are on political and economic. On political motivation, governments see regionalism as an economic scheme to achieve political purposes, as Ravenhill notes, 'the improvement of inter-state relations and/or the enhancement of security within a region' (2008a, p. 178). Another political benefit of regionalism is that the cooperation within the region may boost the credibility of their members to attract foreign investors to invest in the region. Regionalism has been even more attractive for developing countries or less developed countries. This is because the governments of these states may use their regional association to establish a significant 'bargaining tool' with transnational corporations or other states outside the region (Ravenhill, 2008a).

On economic motivation, Ravenhill suggests one economic benefit of regional trade agreement is that governments believe that their domestic producers will gain more profits within regional trade than global. He also emphasizes that states find it easier to settle on some issues within regionalism than multilateralism. Another economic benefit, as Ravenhill states, is that regionalism may encourage investors to invest within the regional market. On the question of which motivation is most compelling, Ravenhill also remarks that the main motivation of governments to join regional schemes of cooperation is political rather than economic.

These above explanations may illustrate the motivation for governments to opt for regionalism rather than multilateralism. Moreover, the liberalization of global trade through multilateral trade agreements shows less satisfactory results. Referring to the





process of multilateral trade agreements, there were more unsuccessful results than successful ones. The difficult process of GATT and the painful process of the Uruguay Round during the late 1980s have been seen as one consideration for governments to look at regional trade agreements. Once the WTO was established to replace GATT, governments were even more motivated to have regional arrangements to face global trade liberalization. Ravenhill (2008a) articulates that governments which support trade liberalization see that regionalism offers less complicated agreements compared to multilateralism, which consists of larger memberships. He also notices that the establishment of the NAFTA was motivated by the initiative of North American governments to deal with some agreements within the WTO such as on the environment and on foreign direct investment. For governments, regionalism has been seen as a 'shield' to engage with global trade agreements.

Even though some scholars may consider regionalism an obstacle for multilateral trade, the benefits of regionalism seem more convincing for governments in order to achieve economic benefits. The unsatisfactory process of the Doha Round as part of the implementation of the WTO has convinced governments to opt for the regional trade agreements.

In the case of ASEAN, does ASEAN consider the economic benefits or political consideration as their motivation for deeper economic integration? During the early development of ASEAN, the motivation for the leaders of the region was more political than economic. Ravenhill (2008a) suggests that ASEAN was established to endorse economic cooperation in order to avoid conflict within the region during the Cold War era. And ASEAN has been proven to promote regional cooperation that successfully maintains political security among its members. However, the development of international economy and politics during the 1980s and 1990s to some extent influenced ASEAN to move towards deeper integration. The development of EU economic integration, the end of the Cold War in the late 1990s and the implementation of global trade agreement in the form of the WTO can be seen as the factors that encouraged ASEAN to have a deeper integration.

The success of the EU has been considered the motivation of ASEAN to have a similar development. Robles Jr. (2004) suggests that the EU model to some extent attracted the leaders in Southeast Asia to follow the same path. However, when the EU demands a reduction in sovereignty from its members, ASEAN's leaders seem to lose their interest in following the EU. The perspective of ASEAN's leaders changed when the





EU recorded another achievement such as the adoption of the Single European Act in 1986 and the signing of the Maastricht Treaty in 1991 where EU was ready to establish a single market. Robles notes that during the ASEAN summit in Bali (2003), the ASEAN leaders committed to bringing ASEAN toward a single community. ASEAN also has a similar conception with the EU's conception of 'three pillars of integration' as ASEAN has made a commitment to build the 'three pillars' of an ASEAN Security Community (ASC), an ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community (ASCC). Robles quotes from E. Teo that ASEAN attempts to fit itself "into a more streamlined and integrated economic community, along the lines of the European Economic Community in the 1970s" (Robles Jr, 2004, p. 79).

Even though the EU has been a successful model for establishing a single market, there are some differences between the EU and ASEAN, particularly in the economic background of the two regions. The members of the EU had strong and equal domestic economic performances, while the members of ASEAN have a more diverse economic background. Except Singapore, which represents a strong and stable domestic economy, the other members are still dealing with attempts to improve their trade. Robles Jr. (2004) also notes that the structural set up of the EU was different from ASEAN. Despite those differences, the EU's development has been inspired the members of ASEAN to move towards deeper integration.

The end of the Cold War changed the perspective of the ASEAN leaders on global security as well. The absence of competition between two major powers in the world provides more opportunity for the region to have a stronger relationship on the security agenda. Moreover, ASEAN had proven its ability to maintain peace and stability within the region, thanks to the sovereignty/non-interference concept and the ASEAN Way which kept its members from conflict with each other (Nesadurai, 2008). Nesadurai also emphasizes that when the Cold War ended, ASEAN could fit those principles with Western calls for democracy, human rights and trade liberalization.

Despite those changes in the global political economy, another development occurred during the 1980s and 1990s. That is the emergence of China and India as the new major economic powers in Asia. As Ravenhill argues, the ASEAN economies are now facing challenges from their neighbours in the continent. The challenge comes from China as the new attractive site for FDI and India as 'Asia's Next Giant'. This placed ASEAN in a higher competitive trade scheme (Ravenhill, 2008b)





The challenge of the WTO for more liberalized global trade is a real one for ASEAN. However, the economic challenge from China and India has been more convincing for the leaders of the region in the rush for economic integration. The Asian crisis during 1997-98 also played a part in the decision of the ASEAN members to improve their economic cooperation into a strong integrated market. As Robles Jr. argues, the motivation for ASEAN to have a free trade area is to set up Southeast Asia to be 'a production base for the world market, rather than by the promotion of free trade among ASEAN's members' (Robles Jr, 2004, p. 82).

ASEAN obviously cannot deny the remarkable growth of China's economy for the past decades. China also has been predicted to be the new competitor for Japan as the major economic power in Asia. For ASEAN, China has become a new 'very important person' to sit in their exclusive lounge of trade partnership along with Japan and the US. The geographical scheme also becomes one factor for ASEAN to have link with China (Saw Swee-Hock, 2007).

John Wong states that the positive growth of China's economy has been the result of China's membership of the WTO in 2001. He points out that the growth of China's economy has marked 9.8 per cent for the period 2002-05. He emphasizes that since China now is more integrated with the global economy, China's economy has been characterized by increased amounts of foreign direct investment (FDI) and the growth of export-oriented manufacturing. Furthermore, Wong remarks that while the economy of some Asian countries such as South Korea, Thailand and Indonesia experienced, a severe downturn during the Asian crisis in 1997, China's economy was less affected by the crisis. During the crisis, the exports of China only decreased for one quarter only. After the crisis was over, China's economy indicated a stable figure of growth (Wong, in Saw Swee-Hock, 2007).

Another interesting fact on the ASEAN – China economic relationship has to do with the scheme of FDI. China has become a major recipient of FDI from transnational corporations in recent decades. China scored total FDI inflow of US\$60 billion during 2005 (Wong, 2007). This figure indeed cannot be neglected by ASEAN's members. This is because ASEAN struggled to bring back their FDI after the Asian crisis. According to Robles Jr., the FDI inflows to ASEAN countries plunged from \$328 billion in 1997 to \$13 in 1999 because of the financial crisis. In that year, only 17 per cent of total FDI to Asian developing countries went to ASEAN countries, while China received 60 per cent. This figure was the opposite of the figure during the early of 1990s where ASEAN received



60 per cent and China 18 per cent (Robles Jr., 2004, 94). This figure cannot be ignored by ASEAN's members if they attempt to gain benefit from global trade.

Despite the fact that China has been a major economic power in Asia, ASEAN also cannot deny the significant figure of its bilateral trade with China. Chen Wen suggests that the growth of bilateral trade between ASEAN and China from 2000 to 2005 was 26.96 per cent annually. The total trade of ASEAN-China was US\$130.37 billion in 2005. This included US\$55.37 billion for China's exports to ASEAN and US\$75.0 billion for China's imports from ASEAN. From 1993, China experienced a deficit on its bilateral trade with ASEAN (Chen Wen, in Saw Swee-Hock, 2007). China's imports from ASEAN were greater than its exports to ASEAN. As Chen notes, 'China's role as an export outlet is more important than that as an import source for ASEAN now' (Chen Wen, in Saw Swee-Hock, 2007, p.72). Considering these facts, both ASEAN and China have been moving forward to integrate their economic cooperation under a free trade area. In 2001, ASEAN and China signed the 'Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China' as the initiative for the implementation of the ASEAN-China Free Trade Area (ACFTA). ACFTA is expected to be implemented by 2010 for the older ASEAN members and 2015 for the newer members (Chen Wen, 2007).

Chen also emphasizes the benefits of ACFTA's scheme for ASEAN and China. As Chen argues, the first advantage of ACFTA is related to the mutual benefits for both parties. China will need more raw materials and natural resources, which can be offered by ASEAN's countries. Secondly, the integration of ASEAN and China means the elimination of trade barriers will attract more investment and more FDI inflows to the free trade area. Thirdly, ASEAN and China can gain benefit from comparative advantage as they can prioritize their major products. For example, ASEAN may focus on food products while China may concentrate on manufacturing products. However, Chen also asserts some disadvantages may lead to the failure of this free trade area. This challenge relates to the facts that ASEAN's members and China to some extent are still considered as a developing economy and political and security issues may become a hurdle for integration (Chen Wen, 2007).

The presence of China seems to have convinced ASEAN's leaders to establish a free trade area with China and also to move forward into economy integration. Nesadurai points out the domestic impact if the ASEAN states could not maintain their attractiveness to FDI. The leaders of the region are aware that the diversion of FDI can





interrupt their national economic growth. Since economic performance is the base for political legitimacy and national stability, these leaders will attempt to it (Nesadurai, 2008). The ASEAN states think that the integration into one economy can maintain economic growth within the region.

When the scheme of the AEC was launched along with the ASC and the ASCC, it was seen as a step taken by ASEAN to move towards a single economy and at the end to achieve a single community. Peter Lloyd suggests that the terminology of 'single market' derives from the EU, as they established the Single European Acts in 1987 (Lloyd in Tran Van Hoa, 2008). According to Lloyd, a single market means total economic integration where 'there are no border or beyond-the-border laws, regulations or taxes that discriminate against foreign suppliers of goods, foreign service providers and foreign-owned factors' ((Lloyd in Tran Van Hoa, 2008, p.21). Furthermore, Lloyd emphasizes the implementation of 'the Law of One Price' to represent a single market.

Does ASEAN moving towards a single market by the forming AEC? Referring to the Declaration of ASEAN Concord II, ASEAN states that 'the AEC is the realisation of the end-goal of economic integration as outlined in the ASEAN Vision 2020, to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020' (ASEAN Secretariat, 2003). The next section of the declaration emphasizes the goal of a single market. Then ASEAN Secretary General, Mr. Ong Keng Yong, states that 'the AEC will be a single market and production base, characterized by free movement of goods, services, investment, and capital by the year 2020' (Ong Keng Yong, 2003). From the perspectives of the ASEAN executives, the goal of one market seems to be a visible process. On the basis of the benefits from the implementation of a single market, the leaders of the ASEAN states have been convinced that ASEAN definitely can achieve the economic integration.

However, some scholars seem to be pessimistic about the process for a single market for ASEAN. Even though an excellent road map was set for the ASEAN members in achieving the goal of a single market, it still needs a lot of hard work for the ASEAN states to bring it into reality. Ravenhill argues that internal weakness may lead ASEAN into difficulties in achieving economic integration. According to Ravenhill, one weakness of ASEAN is that ASEAN does not have an international legal personality. The ASEAN Secretariat cannot act as a legal representative that can act on behalf of ASEAN's



members. Another weakness is related to 'the proliferation of bilateral FTAs'. Ravenhill notes that individual ASEAN countries have implemented some negotiations with other countries or grouping outside ASEAN (Ravenhill, 2008b).

Mahani also notes that domestic issues within the ASEAN states may become a hurdle for the integration process. He states that 'ASEAN has lost some of its dynamism' (Mahani, 2002, p.1277). He emphasizes that the ASEAN states individually are more focused on to their domestic economy. Some members are pursuing their own economic liberalization purposes and this can put the integration process in danger. Nesadurai points out the governance style of ASEAN may become an obstacle for the integration process. To date, the ASEAN Way has proven to be an effective method to maintain stability in the region. However, once integration takes place, the ASEAN states should cede part of their sovereignty to ASEAN. The members of ASEAN have been long enjoying the privilege of not having their sovereignty interfered with the association (Nesadurai, 2008). Peter Lloyd (2005) suggests that to achieve economic integration, ASEAN is required to fulfil some qualifications which demand fundamental change within the organization.

Another problem faced by the ASEAN states for their goal of economic integration is related to the facts that the members of ASEAN have variety of economies. Some countries such as Indonesia, Malaysia, the Philippines, Singapore, Thailand and Brunei Darussalam may have a well established economy. The problem is related to the newer members -Viet Nam, Laos, Myanmar and Cambodia- which still represent a less developed economy than the older members. Therefore, ASEAN needs to be careful to set up conditions for economic integration that can accommodate all members' economic condition.

In the end, despite those pessimistic explanations for the success of the AEC, it can be argued that the implementation of the AEC may represent the realisation of ASEAN as a single market. The ongoing process for the implementation of the AEC illustrates ASEAN's moves towards deeper integration. Despite the rationale on the benefits of a regional trade agreement over multilateralism, the emergence of China as a new economic power in Asia is indeed the motivation for ASEAN to integrate their economy. The ASEAN states are aware of the need to consolidate their regional economy in order to have a balance trade with China and therefore may maintain ASEAN's competitiveness in global trade. However, it is still a long way for ASEAN to have a single market. The recent development in the global political economy which is





the US financial crisis may lead to a slower process for ASEAN economic integration .The ASEAN states may have proved that they survived from the Asian financial crisis during 1997, but can ASEAN survive the recent economic crisis?

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