



# **Regional Integration in Southeast Asia**

**Kim Hyung-Jong**

**Department of Southeast Asian Studies**

**University of Malaya**

**Kuala Lumpur**

**2005**

Perpustakaan Universiti Malaya



A511839835

---

## **Acknowledgements**

This study would not have been possible without the advice, contributions and cooperation of several individuals. First and foremost, I would like to record a very special thanks to Professor Dr. Mohammad Raduan Mohd Ariff, my supervisor, for permitting and encouraging me to carry out this study. No words can adequately express the extent to which I am indebted to him. I should also like to acknowledge Puan Mala Selvaraju, my co-supervisor. Her patience, encouragement and sincere concern sustained me every step of the way and I would not have been able to complete this research without her continued guidance and support. I should also like to thank Dr. Bala Subramaniam who kindly served as my initial supervisor and was responsible in helping me to lay the foundation of the study.

During my period of stay in Malaysia, I was fortunate to have had access to the excellent resources and facilities of the University of Malaya and in particular the Asia-Europe Institute's Resource Centre. I wish to express my sincere thanks to Professor Dato' Dr. Shaharil Talib and Dr. Giovanni Capannelli for their kindness in providing insightful instruction, suggestions and valuable guidance. I also wish to extend my sincere thanks to Mr. Hong Seok-Jeong for his comments on this study. I must express

special thanks to Encik Ibrahim bin Ismail for his help in editing my draft chapters. I am also indebted to Encik Hanafi Hussin, lecturer at the Southeast Asian Studies Department, for his support in many ways. I also express thanks to Mr. Rou Seung Yoan and MS. Kim Keum Hyun for their concern and support. I also express special thanks to Bibi Azlilee binti Abdualah for her priceless friendship.

Many other individuals contributed to this study in one way or other and I am grateful to all of them: Chung Ji Yeon, Jong Yem Chun, and Wong See Wan.

My deepest appreciation goes to my wife Suny and beloved son Yeon-Wu for their trust, love and presence. Finally, to my parents, I express my sincere thanks for their encouragement and patience throughout my stay in Malaysia. Without their love, faith, help and support, this work would not have been possible. I dedicate this thesis to them.

I acknowledge the support of the **KASEAS-AUN Exchange Fellowship** for providing the funds for this research.

## **ABSTRACT**

This study aims to examine the concept and phenomenon of regional integration in Southeast Asia as expressed mainly through the Association of Southeast Asian Nations (ASEAN). ASEAN which has contributed to regional peace and stability has been recognized as a successful regional institution. ASEAN, which initially aimed to strengthen regional cooperation rather than to pursue regional integration, has started seeking a new direction towards regional economic integration under a new world order characterized by globalization and the end of the Cold War, although many challenges lie ahead. This study reveals major trends that indicate the degree of regional integration particularly in the economic field, and investigates its limitations and challenges.

## **ABSTRAK**

Tujuan tesis ini ialah untuk konsep dan fenomena integrasi serantau di Asia Tenggara seperti yang dinyatakan melalui kesatuan negara-negara Asia Tenggara (ASEAN). ASEAN yang menyumbang kepada kerukunan dan kemantapan serantau dikenali sebagai sebuah institusi serantau yang berjaya. ASEAN, yang dahulu lebih menumpukan ke arah 'Kerjasama Serantau' mana integrasi serantau tidak diutamakan, kini telah mula mencari arah baru menumpu kepada integrasi ekonomi serantau di bawah order dunia baru yang dicetuskan oleh globalisasi selepas tamatnya perang dingin, walaupun banyak cabaran berada di hadapaanya. Kajian ini menunjukkan beberapa aliran penting yang menandakan tahap integrasi serantau terutamanya dalam bidang ekonomi serta menyelidiki batasan-batasan dan cabaran-cabaran.

# CONTENTS

## **Chapter 1 Introduction -----1**

- 1.1 Research Objectives
- 1.2 Research Questions and Scope of Study
- 1.3 Research Methodology
- 1.4 Definition of Terms
- 1.5 Structure of Thesis

## **Chapter 2 A Framework: Theories of Regional Integration----14**

- 2.1 Introduction
- 2.2 Regional Integration and Theory
  - 2.2.1 Political Approaches to Regional Integration
  - 2.2.2 Economic Approaches to Regional Integration
- 2.3 Theoretical Approach to Regional Cooperation in Southeast Asia
- 2.4 Conclusion

## **Chapter 3 ASEAN and the Road towards Regional Integration in Southeast Asia -----48**

- 3.1 Introduction
- 3.2 Overview of Southeast Asia
- 3.3 Regional Cooperation in Southeast Asia during the Cold War Era
  - 3.3.1 Pre-ASEAN Period: Background of Regional Cooperation
  - 3.3.2 The Creation of ASEAN and the Cold War
- 3.4 ASEAN in Post-Cold War Era
  - 3.4.1 World Environment Change and ASEAN
  - 3.4.2 Enlargement of ASEAN
  - 3.4.3 Towards Regional Integration
  - 3.4.4 ASEAN Plus Three
  - 3.4.5 Inter-regional Cooperation: A Case of ASEM
- 3.5 Conclusion

## **Chapter 4 Economic Cooperation and Regional Integration-----92**

- 4.1 Introduction
- 4.2 ASEAN Free Trade Agreement and Trade Issues
  - 4.2.1 Common Effective Preferential Tariff (CEPT) Scheme
  - 4.2.2 Intra-ASEAN Trade
  - 4.2.3 Domestic Interests and AFTA
  - 4.2.4 Bilateralism and AFTA
  - 4.2.5 East Asia and Trade Issues
- 4.3 Investment and ASEAN
  - 4.3.1 Investment and AFTA
  - 4.3.2 FDI Trend
  - 4.3.3 Intra-ASEAN FDI
  - 4.3.4 Foreign Direct Investment and China
- 4.4 Regional Cooperation in Financial and Monetary Fields
  - 4.4.1 Cooperation in Financial Sector
  - 4.4.2 The Idea of a Common Currency
- 4.5 Conclusion

## **Chapter 5 The challenges for Regional Integration-----151**

- 5.1 Introduction
- 5.2 The Security Environment
- 5.3 ASEAN Way and Non-Intervention Policy
  - 5.3.1 Development of ASEAN Way and Non-Intervention Policy
  - 5.3.2 Challenges for Non-interference and ASEAN Way
  - 5.3.3 The Modification of ASEAN Way and Non-intervention Policy
- 5.4 Leadership Problems
- 5.5 Other Issues in Regional Integration
  - 5.5.1 Social Dimension in ASEAN
  - 5.5.2 Other projects for Regional Cooperation
- 5.6 Conclusion

## **Chapter 6 Conclusion-----190**

**Appendix-----196**

- Appendix 1. The ASEAN Declaration (Bangkok Declaration), Thailand, 8 August 1967
- Appendix 2. Treaty of Amity and Cooperation in Southeast Asia, Indonesia, 24 February 1976
- Appendix 3. DECLARATION OF ASEAN CONCORD II (BALI CONCORD II), Indonesia, 8 October 2003
- Appendix 4. Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994

**Bibliography-----216**



## Tables

2.1	Main Types of International Economic Integration-----	31
3.1	General indicators of Southeast Asian countries-----	54
3.2	Selected ASEAN Major Economic Indicators, 2002-----	56
3.3	APEC and ASEM in Comparative Perspective-----	86
4.1	Average AFTA / CEPT Tariff Rates-----	98
4.2	Number of Tariff Lines in the Tentative 2003 CEPT Package-----	99
4.3	Merchandise trade of selected regional integration arrangements, 2002-----	102
4.4	US-ASEAN Trade 2003-----	103
4.5	ASEAN-5 and the U.S economy-----	104
4.6	Intra-AEAN Trade and GDP by country, 1996-2000-----	107
4.7	Unprocessed agricultural products by Category in 1995-----	108
4.8	Motor vehicle sales in ASEAN-----	114
4.9	The Weight of Intra-Regional Trade in East Asia-----	121
4.10	ASEAN's major ongoing bilateral agreement negotiations at regional level-----	125
4.11	Foreign Directive Investment Flows to Selected Regions 1989 – 2001-----	132
4.12	Intra-regional FDI flows in developing Asia, 1999-2001-----	133
4.13	Intra-ASEAN FDI share of total FDI by host country, 1995-2000-----	134
4.14	FDI in ASEAN from ASEAN by Source Country, 1995-2000-----	135
4.15	FDI inflows to major Asian economies, 2001 and 2002-----	138
4.16	Impact of a Slowdown in China's demand on selected ASEAN Economies-----	141

## ABBREVIATIONS

AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
APEC	Asia-Pacific Economic Cooperation
APT	ASEAN Plus Three
ARF	ASEAN Regional Forum
ASA	Association of South-East Asia
ASA	ASEAN Swap arrangement
ASC	ASEAN Security Community
ASEAN	Association of Southeast Asian Nations
ASP	ASEAN Surveillance Process
BSA	Bilateral Swap Arrangement
BTA	Bilateral Trade Agreement
CBU	Completely Built-Up
CKD	Completely Knocked-Down
EAEC	East Asian Economic Caucus
EAEG	East Asian Economic Grouping
EAGA	East Asian Growth Area
EEZ	Exclusive Economic Zone
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
IMF	International Monetary Fund
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
IPE	International Political Economy
ISA	Internal Security Act
KMM	Kumpulan Mujahideen Malaysia
MILF	Moro Islamic Liberation Front
MNC	Multi National Corporation
NAFTA	North American Free Trade Agreement
NTBs	Non-tariff barriers
ROOs	Rules of Origins
SEATO	South-East Asian Treaty Organization
TAC	Treaty of Amity and Cooperation
UNDP	UN Development Program
WTO	World Trade Organization
ZOPFAN	Zone of Peace, Freedom and Neutrality