

Chapter 1

Introduction

1.1 Research Objectives

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). For the purpose of this study, it will examine and conceptualize factors of achievement or failure followed by a review of political and economic theories on regional integration. Emphasis will be given to the development, structure, activities and the nature of regional integration in the region. ASEAN, that 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, but has started seeking a new direction towards regional economic integration under the new world order characterized by globalization and the end of the Cold War, although many challenges lie ahead. Under the new circumstances characterized by globalization, emerging major trade blocs in other regions, increasing bilateral trade agreements, and threats of terrorism vis-à-vis regional security, the drive towards regional integration in the region is facing new challenges

1.2 Research Questions and Scope of Study

With evidence of emerging regional integration in Southeast Asia, this study will investigate its evolution and challenges centering on the economic aspect. Fundamental research questions are as follows:

1) Does regional integration exist in Southeast Asia? Given the situation that there are leaders of countries and other actors who are still very reluctant to hand over national sovereignty to a supranational organization, the concepts of regional integration in Southeast Asia are still open to debate. However, as major changes towards regional integration, particularly in the economic field are under process, this study will try to find and conceptualize the evolution of regional integration in the region.

2) If regional integration exists, what are the advantages of regional integration over other forms and strategies of international interaction? And what have been the effects of the world environment on regional integration in Southeast Asia? Integration theories have been criticized for having given insufficient emphasis to factors in the international environment that affect the integration process.¹ Regional cooperation or regional integration in Southeast Asia has been fuelled in response to external influence rather than reflecting a gradual internal process. For instance, the establishment of ASEAN in the period of the Cold War implies that the world environmental factor contributed to regional integration. Indeed, most importantly, Asia's economic crisis in 1997-1998 has revealed the structural problems of the world's capitalist system and has accelerated the debate on regional integration in East Asia. These facts emphasize the

¹ According to Joseph Nye, conceptual distinctions should be made among categories of catalysts, the external environment in which integration take place, and the types of discontinuities in the integrative process. J.S. Nye, *International Regionalism: reading*, Boston: Little, Brown, 1968, pp.333-349.

relationship between world level factors and regional integration. The investigation of this issue will be based on two assumptions: first, economic difficulties make political leaders more concerned towards integration; second, the creation of regional integration process produces linkage effects in other area.

3) When and why do actors decide to participate in regional integration schemes?

The basic assumption is that regional cooperation can be a choice for policymakers to increase absolute or relative gains and/or the result of different international forces. They could consider several strategies and options, which are theoretically based on a number of concepts such as unilateralism, bilateralism, regionalism, and multilateralism.

4) What is the role of political and domestic factors in the process of regional integration? In comparison with the European Union (EU) case, ASEAN can be considered as an informal regional integration.² The loose institution and structure reflects a network based integration³ or the 'ASEAN Way' without supranational authority or deep institutionalization. It will be based on the assumption that from the viewpoint of individual nations, they approach the matter of regional integration strategically in order to improve their own prosperity. For instance, in the process of implementing AFTA, most countries want to protect their infant industries, which could delay its full implementation and damage mutual trust.

5) Finally, when summarizing and recapitulating the major points, the study will identify some implications for ASEAN's strategies and principles for regional integration.

² Kjell defines the formal integration as that formalized by the establishment of institution and common regulations in order to control the relation ship among nation-states. Kjell A. Eliassen and Catherine Borve Monsen, 'Comparison of European and Southeast Asian Integration', Mario Telo ed., *European Union and New regionalism*, Hants: Ashgate, 2001, p. 121.

³ *Ibid.*, p.119.

It should be noted that the main task of this study is not to defend a certain project or ideology of ASEAN, or for that matter regional integration in Southeast Asia, but to try to understand more about the complex dynamics of contemporary regional integration in the region focusing on an economic perspective.

1.3 Research Methodology

For the purpose of this study, priority will be given to the theoretical works based on various political and economic regional integration theories. Most concepts and theories in regional integration were formulated and have been developed along with the evolution of the European Union, while Southeast Asia has relatively been behind in these studies. In the study of politics, one of the main tasks has been to analyze the forces that cause the formation and integration of political communities. Particularly in the process of European integration, various perspectives and theories on regional integration have been developed. In general, the studies of regionalism or regional integration use international political economy (IPE) since the phenomenon of regionalism has been caused and developed not only through the economic sense but also, and even more importantly, by the willingness of political actors. The old debates between liberalism or neo-liberalism and realism or neo-realism has continued and developed to explain regionalism, while the functionalist and neo-functionalist approaches were designed to explain European integration. Constructivism, as a relatively new perspective, has become one of the contending theories. Besides these political economy approaches, many economic concepts and theories have been used to explain the principles of

regionalism or regional integration such as customs union theory, optimal currency area theory, and fiscal federalism, which focus on trade, finance, and fiscal integration respectively. An investigation of regional integration in Southeast Asia requires not only an examination of previous theories but also efforts to seek more suitable explanations.

Needless to say, regional integration is a complicated trend and process, which is being pursued multi-dimensionally. It is not only in terms of disciplines which need to adapt history, sociology, politics, and economics, but also at the analytical level, it includes multilateral, regional, sub-regional, national, and even individual considerations.

With this premise in mind, this study attempts an inter-disciplinary approach to regional integration in Southeast Asia. It needs inter-subjective explanations because inevitably each region or government has its own interests.

Thus, various studies and official documents will be used to develop a more general understanding. Primary data will be based on statistical data collected by governments of ASEAN countries and related international organizations, ASEAN Secretariat, International Monetary Fund, World Bank and others through their publications and websites.

1.4 Definition of Terms

Before attempting to review regional integration theories, we need to clearly define the term 'regional integration' as it is being used with similar or broader terms such as regionalism, regionalization, and regional cooperation.⁴ In this study, regional integration, regionalism, and regional cooperation are not contradictory terms or concepts, but rather, each term will be used to indicate different features based on the discussion that follows.

The concept of region is based on geographical proximity and specificity. From an economic viewpoint, preferential trading agreements and a customs union have been the major factors in defining a region. In this sense a region may refer to a subset of countries that have a policy designed to reduce trade barriers between them regardless of how far they are located from each other. Meanwhile, political factors used to play an important role in forming a region, especially during the Cold War such as the North Atlantic Treaty Organization (NATO) and the Organization of African Unity (OAU). Since the late 1980s with end of the Cold War, sub-regional and micro-regional organizations or cooperation have increased i.e., the Baltic Council of Ministers and the Golden Triangle in Southeast Asia. The gap between physical or geographical regions and functional regions has also decreased.

⁴ Similarly, there are diverse definitions and interpretations in which the concept of globalism is used. Globalism can be seen as an ideology promoting worldwide organization and the corresponding vision of a borderless world. Globalization refers to the process of the compression of the world driven by market expansion, a global production pattern, cultural homogenization as well as fragmentation, and functional logic. Michael Schulz, Fredrik Söderbaum and Joakim Öjendal, 'A framework for understanding regionalization', Michael Schulz, Fredrik Söderbaum and Joakim Öjendal eds., *Regionalization in a Globalizing world*, London: Zed, 2000, p.19.

The concept of regionalism is in the interests of national leaders and students of international relations. While the geopolitical perspective stresses regionalism with a geographic framework, from the practical point of view, it reflects more a general phenomenon denoting formal projects as well as processes in the broadest possible sense. It may bring together countries that are geographically apart.⁵ In a narrow and operational sense, regionalism represents the body of ideas, values and concrete objectives that are aimed at creating, maintaining or modifying the provision of security and wealth, peace and development within a region. The term 'regionalism' can be used to cover a variety of phenomena.

It can be categorized into five notions: regionalization; regional awareness and identity; regional interstate cooperation; state-promoted regional integration; and regional cohesion.⁶ Regionalization refers to the growth of often undirected societal and economic integration. It also can be defined as a process of change from relative heterogeneity and lack of cooperation towards strengthened cooperation, integration, convergence, coherence and identity in a variety of fields such as culture, security, economic development and politics, within a given geographical area.⁷ In comparison to the concept of regionalism, regionalization has been often described as the consequence of conscious policy of states or sub-state regions to coordinate activities and arrangements, which can be defined as regionalism.⁸ In this context, regionalization can be defined as

⁵ William Yen Chuko, *Concepts of Regionalism in Southeast Asia*, Ph.D. Thesis. New York University, 1965. See Introduction.

⁶ Kjell A. Eliassen and Catherine Borve Monsen, 2001, pp.113-118.

⁷ Michael Schulz, Fredrik Söderbaum and Joakim Öjendal, 2000, pp.19-20.

⁸ Wyatt-Walter, A., 'Regionalism, Globalization, and World Economic Order', Fawcett and Hurrell eds., *Regionalism in World Politics: Regional Organization and International Order*, Oxford: Oxford University Press, 1995, p.77.

the outcome of state-led regionalism. However, considering the multidimensional phenomenon of regionalism, the concepts of regionalism and regionalization should allow inclusion of non-state actors in their conceptual debates. Regional awareness and identity can be found in terms of language and rhetoric despite their inherent vague definitions. They reflect more historical and cultural factors.

Regional cooperation can be defined in a wider sense. It refers to the process in which governments or other actors within a region act together for mutual interest and benefit in certain fields such as infrastructure or environment. Such cooperation can be pursued to solve common tasks despite differences in other fields. It can be used either the within a formal process with institutionalization or in a loose structure.⁹

While regional cooperation can be either formal or informal in nature, regional integration refers to the legal and institutional relationships within a region with more focus on market and economic transactions. State-promoted integration includes the coordinated policy to deal with economic cooperation within a region. However, usage of the term regional integration is still controversial as it practically refers to a deeper process than regional cooperation. The term regional integration means “the coming together of separate state of other political units under a common authority”¹⁰ or “the voluntary linking in the economic domain of two or more formerly independent states to the extent that authority over key areas of domestic regulation and policy is shifted to the

⁹ Michael Schulz, Fredrik Söderbaum and Joakim Öjendal, 2000, pp.19~20.

¹⁰ Paul R. Viotti and Mark V. Kauppi, *International Relations Theory*, Boston: Allyn and Bacon, 1999, pp.481- 482.

supranational level.”¹¹ Basically, integration means becoming a part of the whole or being accepted into it. It is a multidimensional concept, which can be broken down into economic, political, and social integration. Economic integration refers to the formation of a transnational economy. In the narrow sense regional integration refers to economic integration as the process by which barriers to flows of goods, services, and capital are reduced, allowing the freer play of market forces. This process, which can be spontaneous or induced by trade liberalization agreements among governments, has been described as “shallow” integration. It is distinguished from “deep” integration, which is seen to occur when governments alter domestic policies to harmonize policies or converge with the economic performance of their partners. Political integration refers to the formation of a transnational political system, often involving a minimum degree of transfer of sovereignty or functions to a supranational organization. The formation of a transnational society can be described as social integration including cultural and identity issues. Despite the conceptual distinctions, from the practical point of view, it should be pointed out that the three different perspectives of integration are not clearly divisible and even occur simultaneously. In particular, the boundaries of both concepts of deep integration and political integration are still vague, as the achievement of deep integration or even shallow integration needs political will and support from civil society. Finally, regional cohesion refers to the possibility of creating a cohesive and consolidated unity through the combination of the four categories.

To explain the process of regional cooperation in Southeast Asia, most studies have accepted the terms such as regionalism or regional cooperation that stressed the

¹¹ Walter Mattli, *The Logic of Regional Integration*, Cambridge: Cambridge University Press, 1999, p.41.

major characteristics of ASEAN- the lack of institutionalization and the consensus based decision-making mechanism. Thus, those terms have been distinguished from the terms used for the regional integration of the EU. It is obvious that once a region starts the process of economic cooperation, especially Free Trade Area (FTA) or monetary cooperation, it needs a firmer mechanism to handle the administrative procedures, and more importantly, to settle disputes among members, even though it is not necessary to follow the theoretical steps.¹² Economic cooperation involves basically rules based agreements which need to be developed to handle potential disputes among members. Members of ASEAN that developed its regionalism based on the state-oriented policy signed its free trade agreement (AFTA) in 1992. Even after the signing of the AFTA, the leaders considered it as a mean to strengthen their competitiveness in the world rather than for the integration of its members,¹³ while some senior officials and scholars started talking about regional integration. A senior officer from Singapore said 'integration is our final objective', and Singapore's Prime Minister Goh Chok Tong expressed his optimistic view on that the ASEAN's co-operative framework will reach at the level of the European counterpart.¹⁴ Moreover, the economic crisis in 1997-98 had major effects on the countries in the region and could potentially delay or even derail economic cooperation in the region. It however stimulated active cooperation in the financial field and even expanded its scope to East Asia including Japan, China, and South Korea. The most significant agreement was the Chiang Mai Initiative in 2000, which planned to

¹² In the staged model of Balassa, the progressive movement towards a free trade area, a customs union, a common market, monetary union and finally total economic integration. See Chapter 2.

¹³ Suthiphan Chirathivat, 'A Step Towards Intensified Economic Integration', Wolfgang Moellers and Rohana Mahmud eds., *ASEAN Future Economic and Political Cooperation*, Kuala Lumpur: ISIS, 1993, p.15.

¹⁴ Jörn Dosch, 'The post-Cold War development or regionalism in East Asia', Fu-Kuo Liu and Philippe Régnier eds., *Regionalism in East Asia: Paradigm Shifting?* London: Routledge, 2003, p.37.

establish a system of currency swaps among ASEAN and Japan, China, and South Korea. ASEAN agreed to establish the FTA with China by 2010. Furthermore, it is actively seeking similar FTAs with Japan as well as South Korea.

Even in the political area, the need for removal or at least adjustment to the non-intervention policy was brought about by the emergence of threats of terrorism in the region. Since the tragedy of the World Trade Center in 2001 and the Bali terror in 2002, the region of Southeast Asia has been highlighted as a training camp for terrorists and a direct target of terrorism. Countering the potential terror threat needs intergovernmental and regional security cooperation. Since the deepening of regional economic cooperation in the fields of trade and finance as well as cooperation in political security are generally notified, the term regional integration has resurfaced to explain the pattern of regional cooperation in Southeast Asia. This viewpoint strengthened after the Bali Summit in 2003, which adopted the master plan for the creation of an economic community by 2020. The concept of the ASEAN Economic Community aims to achieve a single production base and market and calls for a free flow of goods, services and investments. This will be discussed in detail in Chapter 4. The agreement lays the foundation for closer security and economic bonds and establishes 'three pillars': the ASEAN Security Community, ASEAN Economic Community and ASEAN Socio-cultural Community.

1.5 Structure of Thesis

The subsequent chapters will be organized as follows:

Chapter 2 is a literature review of international relations theory on regional cooperation or regional integration contrasting the realist, liberal and constructivist perspectives. This study takes an inter-disciplinary approach on regional integration in Southeast Asia using regional integration theory. It will examine the achievement and/or failure of regional cooperation in Southeast Asia through a review of political and economic theories on regional integration.

Chapter 3 will review the background and the evolution of regional integration in Southeast Asia and test the hypothetical framework. The chapter will briefly review the progress of regional cooperation based on two phases: the Cold War and post-Cold war era. In particular, it will focus on the post Cold War period, since the world political economy changed and ASEAN shifted its focus from politics and security to economic cooperation. In a similar context, the concept of East Asia will be reviewed. At the inter-regional level, the case of ASEM will also be investigated.

Chapter 4 will assess economic cooperation or movement towards regional integration with the focus on the trade, investment and financial sectors. When investigating the case of AFTA, multilateralism and bilateralism will also be discussed. Seeking a bilateral FTA is still a controversial issue as it could undermine the effective implementation of AFTA. With the trade and investment related issues, the level of cooperation in the financial and monetary sectors will be evaluated.

Chapter 5 will reveal several challenges that were caused and could be solved by political factors. The issues of security, leadership problems, and political stability and willingness based on the so-called ASEAN way which could pose major challenges for the success of regional integration will be investigated. In addition, the social dimension will be considered.

Finally, chapter 6 concludes with the summary by recapitulating the major points of the study, and examines the implications for ASEAN's regional integration.