

## **Chapter 3**

### **ASEAN and the Road towards Regional Integration in Southeast Asia**

#### **3.1 Introduction**

This chapter aims to review the background of regional cooperation or regional integration and characterize it mainly through the case of ASEAN. Then, the evolution of regional integration in the new regional and world environment will be investigated. Concerning the aim of this study, the first part will briefly review the region, Southeast Asia, to understand the background of regional cooperation or regional integration. The second part of this chapter will investigate regional cooperation in the region and emerging regional integration. This chapter will focus more on the structural and conceptual problems especially since the world political economy changed in the post Cold War era in which ASEAN shifted its focus from political and security issues to economic cooperation. In a similar context, the concept of East Asia will be reviewed, which includes emergence of the ASEAN Plus Three (APT) scheme involving ASEAN and Northeast Asian countries such as China, South Korea, and Japan. The case of ASEM will be discussed as it stimulated regional cooperation in East Asia. Finally, it will try to conceptualize and characterize regional cooperation and integration in the region.

### 3.2 Overview of Southeast Asia

As mentioned in the previous chapter, it was noted that the classical concept of region is based on geographical proximity and specificity. In economic terms, it may refer to a group of countries that have shared policies to reduce trade barriers among them regardless of how far they are located from each other. However, the concept of region remains very loose as subregional and microregional organizations increase.

In fact, as a region, Southeast Asia, was named as a unity mainly by outsiders with specific interests rather than by Southeast Asian themselves. The term Southeast Asia was primarily developed by geo-strategic considerations, which date back to the 1940s.<sup>1</sup> The common usage of the term Southeast Asia has been accepted generally only since the Second World War. During the war, a military alliance between the U.S. and Great Britain which developed the idea of Southeast Asia strategically, established the Allies' military headquarters responsible for Southeast Asia in Ceylon.<sup>2</sup> The region acquired the name by which it is known today when the allied powers organized a Southeast Asia command to fight the Japanese.<sup>3</sup> For the Asians, it was named as "Nanyang" by China, which reflects the Chinese traditional tribute system. "Nanpo" was another name for the region, which was named by Japan, along with the notion of Great Asian Commonwealth. Both the Chinese and Japanese names mean the southern seas

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<sup>1</sup> Philippe Régnier, 'Economic Cooperation in East Asia: Revising Regional Concepts and the Sub-regional Case of ASEAN,' Fu-Kuo and Philippe Régnier eds., *Regionalism in East Asia: Paradigm Shifting*, London: Curzon Publishers, 2001, pp.53-54.

<sup>2</sup> Somsakdi Xuto, *Regional Cooperation in Southeast Asia: Problems, Possibilities and Prospects*, Institute of Asian Studies, Chulalongkorn University, 1973. p.13.

<sup>3</sup> Lukman Thaib, *The Politics and Governments of Southeast Asia*, KL: Golden Book Centre, 1997, p.xi.

which they could reach by sea. Also the region was called "Suvannabhumi" or the land of Gold by the early Indians or was referred to by the Arabs as "Al-Jawi" or the Land of Jawa.<sup>4</sup> In academic works, there was little agreement on the definition of Southeast Asia. There have been some flexible definitions of Southeast Asia. D.G.E. Hall excluded the Philippines from part of Southeast Asia.<sup>5</sup> Gunnar Myrdal regarded Southeast Asia as a subregion of South Asia<sup>6</sup>. Saburo Okita defines Southeast Asia in terms of Japanese economic assistance which goes further to include South Korea, Ryukyu Islands, Taiwan, Ceylon and Afghanistan.<sup>7</sup> More recently, with the emergence of the concept of East Asia that includes Southeast Asia and Northeast Asian countries such as China, Japan, and South Korea, Southeast Asia is often recognized as a sub-region.

With changes in the concept of region, the territory of Southeast Asia has changed. The change in the concept of region has reflected the phenomena of regional cooperation or regional integration in Southeast Asia. The creation of ASEAN and its gradual development led to the totality of Southeast Asia by its enlargement with admission of Cambodia as the tenth and last member state.<sup>8</sup> With the creation of ASEAN-10, Southeast Asia is recognized as a unity by the international society. In order to determine the region of Southeast Asia in which political and historical factors have

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<sup>4</sup> Būdiger Machetzki, 'International and Supranational Problems of Political Regionalism in Southeast Asia,' Bernhard Dahm and Werner Draguhn eds., *Politics, Society and Economy in the ASEAN States*, Hamburg: the Institute of Asian Affairs, 1975, pp.17-18.

<sup>5</sup> In the subsequent editions, the Philippines has been considered as a Southeast Asia countries. According to his work, the Philippines could come clearly into Southeast Asian history since Spain's conquest in the sixteenth century. D.G.E. Hall, a *History of South-East Asia*, Fourth Edition, London: Macmillan, 1994, p.3.

<sup>6</sup> Gunnar Myrdal, *An Inquiry into the Poverty of Nations*, Vol.1, p. 41, Penguin Books, 1968.

<sup>7</sup> Saburo Okita, 'Japanese Economic Assistance in Asia in the 1970's', Paper prepared for the Second Japanese-American Assembly, Japan, September 1969, p.3

<sup>8</sup> Philippe Régnier, 2001, p.54.

played important roles, now more attention is giving to economic concerns. The rapid economic growth of Southeast Asian countries, especially among the original six members during the 1980s and early 1990s as well as sub-regional or regional economic cooperation, stressed the significance of Southeast Asia as a region.

It is generally accepted that the existence of convergence of cultural, economic, social and political factors could sustain the development of regional cooperation or regional integration. Southeast Asia, however, is characterized as a diversity and commonality as shown in Table 3.1. In terms of geography, Southeast Asia can largely be seen as two regions. One is the continental projection, so-called, mainland Southeast Asia comprising Myanmar, Thailand, Laos, Cambodia and Vietnam. Extending some 700 miles (1,100 kilometers) southwards from the mainland into insular Southeast Asia is the Malay Peninsula; this peninsula structurally is part of the mainland, but it also shares many ecological and cultural affinities with the surrounding islands and thus functions as a bridge between the two regions. Insular Southeast Asia includes Malaysia, Singapore, Brunei, Indonesia, and the Philippines. Along with this categorization, religious criteria can be used. In the mainland countries, Buddhism has been practised, while most nations in the archipelago practise Islam.<sup>9</sup> The dominant practice of Islam covers Brunei, Indonesia and Malaysia, while Theravada Buddhism is the official religion in Thailand and Roman Catholicism is the major religion in the Philippines. In the sub-region, there are also some differences such as the practice of Buddhism in the northwestern part of Malaysia as well as Islam in southern Philippines and southern Thailand. However, freedom of religion is assured in all the countries in the region. In linguistics, Southeast

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<sup>9</sup> Lukman Thaib, 1997, p.xii.

Asian countries also show great diversity by having own languages- both Indonesia and Malaysia use Malay, while English and Mandarin Chinese are spoken in Singapore, Tagalog and English in the Philippines, Thai in Thailand, Burmese in Myanmar, Vietnamese in Vietnam, Lao in Laos, and Khmer in Cambodia.<sup>10</sup> (see Table 3.1)

Diversity among the countries is also revealed in the system of government. For instance, the republican structure is adapted in Indonesia, the Philippines and Singapore, while parliamentary democracy with constitutional monarchy in Thailand, federated parliamentary democracy with constitutional monarch in Malaysia, and Sultanate in Brunei. In addition, Laos and Vietnam are led by communist parties and Myanmar is ruled by a military junta.

With their institutional democracy initially affected by their colonial experience, authoritarian governments have characterized the region's government for a long time. In order to secure independence from Western powers, elites in each country aimed to build self-government and participatory government. They needed not only self government but also the support of local people as well as of other states including the superpowers. However, independence was a fact that should not be delayed just because of poor preparation of the participation mechanism<sup>11</sup>, which eventually contributed to the formation of authoritarian governments. Despite the recent changes of governments in some countries such as Indonesia, Thailand, and the Philippines, which were partly caused by the economic crisis in 1997-1998, Southeast Asian countries still remain far

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<sup>10</sup> These facts are taken from the website of ASEAN Secretariat, <http://www.ASEANsec.org>.

<sup>11</sup> Nicholas Tarling, *Nations and States in Southeast Asia*, Cambridge: Cambridge Press, 1998, pp.90-91.

from complete democracy and some of them still suffer from political instability until today. For instance, Singapore and Malaysia do not provide full freedom of speech and rights of organization due to a number of security-related laws. Moreover, Myanmar's human rights issue has been a burden to not only itself but also ASEAN. These political features are rooted in the legacy of colonialism that is commonly experienced except for Thailand. Another factor is that Southeast Asian countries had had kings as the supreme authority. The rule by king, based on religion: Hindu-Buddhist, Confucian, and Islamic traditions, have strengthened the state and military forces. Indeed, these religions have affected the formation of mixed traditions in the region and still remain influential.<sup>12</sup>

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<sup>12</sup> Ibid., pp.13-21.

**Table 3.1 General indicators of Southeast Asian countries**

	<b>Type of Government</b>	<b>Ethnic Groups (% of total population)</b>	<b>Language</b>	<b>Religion</b>
<b>Brunei</b>	Sultanate	Malay 65; Chinese 28; Ibans, Dusuns, other indigenous races 7.	Malay, Chinese	Islam, Confucianism, Buddhism
<b>Indonesia</b>	Presidential government based on the 1945 Constitution	Javanese 85; Sundanese 17; Madurese 10; Other 2	Indonesian	Islam (Major) Christianity, Hinduism
<b>Malaysia</b>	Federated parliamentary democracy with constitutional monarch	Malay 47; Chinese 34; Indians 9.	Malay, English, Chinese, Tamil	Islam (Major), Buddhism, Taoism, Hinduism
<b>Philippines</b>	Republic, with American-Style presidency and two-chamber Congress	Filipino 95; Chinese 2; Others 2.	Filipino, English, Spanish	Buddhism, Christians, Moslem
<b>Singapore</b>	Parliamentary democracy	Chinese 79; Malays 12; Indians 9.	Malay, Chinese, Tamil, English	Confucianism, Buddhism, Islam, Hinduism
<b>Thailand</b>	Parliamentary democracy with constitutional monarch	Thais 85; Karnes, Khmers3; Malays3; Chinese 9.	Thai	Theravada, Buddhism, Islam
<b>Cambodia</b>	Parliamentary democracy with constitutional monarch	Khmers94; Ananmese 10; Laos, Chinese 5.	Khmer	Theravada, Buddhism
<b>Laos</b>	Communist party-led people's republic	Laos 95; Others 5.	Lao, Pali	Theravada, Buddhism
<b>Myanmar</b>	Military	Burmese 75; Indians 9; Karens, Shans, Kachins 7; Chinese 5.	Burmese (official), Shan, Karen, Rakhine, Mon, Kachin, English, Chin	Theravada, Buddhism (89%), Islam, Christianity
<b>Vietnam</b>	Socialist republic	Anamneses 88; Khmers 4; Chinese 6; Other 2.	Vietnamese, Cantonese	Confucianism, Buddhism, Christianity

Source: ASEAN Secretariat, <http://www.ASEANsec.org>

In the economic field, despite the record of high economic growth in past decades, there are still big gaps in terms of economic development among the countries in the region. Singapore occupies the top end of the scale with a Gross Domestic Product (GDP) per capita of US\$ 20,515 in 2002; Malaysia ranks second with US\$ 3,914; Thailand and the Philippines follow with US\$ 2,043 and US\$ 974, respectively, while mainland Southeast Asian countries remain at the low level (See Table 3.2). Concerning the similar economic structure such as the significant role of agriculture except Singapore, high dependency on trade and foreign direct investment, vast natural resources and manpower, economically they often depict competition rather than complementary. Indeed, political leadership in Southeast Asia still remains the foreign investors' main concern. There is a technology gap not only between Southeast Asia and other developed countries but also within the 10-member ASEAN.



**Table 3.2 Selected ASEAN Major economic Indicators, 2002**

	Rate of Growth of Real GDP	GDP Per Capita	GDP per Capita	Inflation Rate Y-O-Y Averaged Period	Current Account Balance as % of GDP	Fiscal Balance as% of GDP
	(%)	(US\$)	(US\$PPP)	(%)	(%)	(%)
Brunei Darussalam	3.2	12,090	18,357	-2.3	86.7	-4.1
Cambodia	5.5	299	1,414	3.3	-2.3	-3.2
Indonesia	3.7	819	3,521	11.9	4.2	-1.8
Lao PDR	5.9	329	1,573	10.2	-1.8	-4.1
Malaysia	4.1	3,914	8,614	1.8	9.6	-5.6
Myanmar <sup>1</sup>	5.0	104	1,269	57.1	0.0	0.0
Philippines	4.4	974	3,994	3.1	5.4	-5.3
Singapore	2.2	20,515	25,990	-0.4	21.5	-1.1
Thailand	5.3	2,043	6,898	0.6	6.0	-1.4
Viet Nam	7.0	439	2,282	3.8	-2.5	-2.4
<b>ASEAN<sup>2)</sup></b>	<b>4.4</b>	<b>1,144</b>	<b>4,230</b>	<b>7.2</b>	<b>n.a.</b>	<b>n.a.</b>

1) Myanmar 2002 is preliminary estimate.

2) GDP per capita USD PPP for ASEAN, excluding Myanmar 2001

Source: ASEAN Secretariat, <http://www.ASEANsec.org>

Under these circumstances, it is often difficult to keep in mind the region's underlying unity. However, modern scholarship has increasingly yielded evidence of broad commonalities uniting the peoples of the region across time. Studies in historical linguistics, for example, have suggested that the vast majority of Southeast Asian languages, even many of those previously considered to have separate origins, either sprang from common roots or have been long and inseparably intertwined. Despite inevitable variation among societies, common views of gender, family structure, and social hierarchy and mobility may be discerned throughout mainland and insular

Southeast Asia, and a broadly common commercial and cultural inheritance has continued to affect the entire region for several millennia.

These and other commonalities have yet to produce a conscious or precise Southeast Asian identity, but they have given substance to the idea of Southeast Asia as a definable world region and have provided a framework for the comparative study of its components. In fact, since the creation of ASEAN and in the process of its enlargement, Southeast Asia has gained perception as a unity in international society. There have not been any major inter-state conflicts or war. Indeed, there hardly can be found any significant economic disputes. With the creation of ASEAN, member states could proceed to make agreement on common interests and to adopt a common stand vis-à-vis other regions. For instance, ASEAN member countries had shown solid cooperation during the Vietnamese invasion of Cambodia, and took a firm stand on the issues of the admission of Myanmar. In the economic field, there have been several cooperation programs even though most of the economic projects have not been successful. The creation of AFTA contributed to strengthening the sense of region in Southeast Asia. Now, Southeast Asia could be considered as a separate entity rather than a group of individual countries, which could strengthen the region's bargaining power in the world economic organizations such as GATT and WTO.

### 3.3 Regional cooperation in Southeast Asia during the Cold War Era

With deliberate observation on the phenomenon of regional cooperation around the world in the past, it may be said largely to have gone through two phases.<sup>13</sup> In the first phase, 1950s to 1960s, regional cooperation had been pursued by political motives. There were two different groups in this period. First, there were numerous attempts among developing countries especially in Africa and Latin America, which mostly failed. The other was integration among developed countries such as federal and European models. In the second phase, 1980s to 1990s, it was inspired by economic motives rather than political. There were new approaches, which include not only deepening of European regional integration and the launch of Mercosur in Latin America among countries that had similar levels of economic development, but also between developing and developed countries such as NAFTA and APEC. More recently, since the collapse of the Cold War and re-emergence of a triadic world system comprising major world power centres namely North America, EU, and East Asia. Indeed, regional cooperation has become a more complex phenomenon revealing inter-connections in bilateral, regional, inter-regional, multilateral cooperation.

Not surprisingly, the case of Southeast Asian regional cooperation has been along these world trends and could be divided into two phases from the long-term viewpoint. In the first phase, the period of the Cold War, there were several attempts to gather countries

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<sup>13</sup> Philippe Régner, 'Economic Cooperation in East Asia: Revising Regional Concepts and the Sub-regional Case of ASEAN,' Fu-Kuo and Philippe Régner eds., *Regionalism in East Asia: Paradigm Shifting*, London: Curzon Publishers, 2001, pp.52-53.

in the region such as the Southeast Asia Treaty Organization (SEATO) in 1954, Anglo-Malayan Defence Agreement (AMDA) in 1957, Association of Southeast Asia, and ASEAN, which were mostly initiated by security concerns. Most of them except ASEAN, however, failed or lived shortly for various reasons. In the second phase, in particular since the end of the Cold War, economic cooperation became a priority for ASEAN. It initiated various programs and schemes such as Preferential Trade Agreement, Industrial Projects, ASEAN Industries Joint Venture, and ASEAN Free Trade Area. With the completion of ASEAN-10 amidst the economic crisis in 1997-98, ASEAN member countries pursued regional integration through the implementation of AFTA as a first step. Indeed, most ASEAN countries are also simultaneously members of inter-regional cooperation forums such as APEC and ASEM and multilateral organization, such as WTO. Furthermore, the bilateral trade agreement is emerging as a controversial issue in regional cooperation.

Keeping this general long-term categorization of regional cooperation or integration in mind, firstly, we will investigate regional cooperation in an earlier period.<sup>14</sup>

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<sup>14</sup> There are more detail definitions of the early period of regional cooperation in Southeast Asia. Arnfinn Jorgensen-Dahl saw the regional cooperation had developed through three phases; first phase from 1945 to 1959 which stressed on major role of Western power such as the United States and Britain in the process of regional cooperation; second phase from 1960 to 1967, which revealed the indigenous grouping; third stage since 1967, the year of creation of ASEAN. See Arnfinn Jorgensen-Dahl, *Regional Organization and order in South-East Asia*, London: Macmillan Press, 1982, pp.9-14.

### 3.3.1 Pre-ASEAN period: Background of Regional Cooperation

The colonial experiences of most Southeast Asian countries except Thailand encouraged the growth of nationalistic political parties; the first Filipino political party, the Nacionalista Party, was founded in 1907, the Moslem party followed by the first Indonesian nationalist organization, Boedi Oetomo or Pure Endeavour in Indonesia. Similarly, the period of colonialism in Burma which was under the British and Indochina under the French saw the birth of nationalist parties or organizations. In these circumstances, Thailand, the only independent country in Southeast Asia had experienced the change from an absolute monarch to a constitutional monarchy with emerging nationalism.<sup>15</sup> Those new governments that inherently sought self-reliance policy in the early days after their independence faced the need to strengthen their own security for preserving sovereignty and to develop their economies for improving welfare. However, they lacked mostly both military and economic capability.<sup>16</sup>

In the rapid change of international relations, after the Second World War, Southeast Asian countries accepted neutralism as a basic foreign policy by restoring ties with former colonizers. When the Cold War started, the world was almost divided into two main blocs. Southeast Asian countries also were not able to be free from this atmosphere as they faced the threats to their security and sovereignty.

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<sup>15</sup> Willan Yen. Chuko, 1965, pp. 21-32.

<sup>16</sup> Nicholas Tarling, 1998, pp.57-63.

Theoretically, the common threat contributed to regional cooperation or creation of alliance in the security field. The ineffectiveness of the United Nations in dealing with increasing conflicts, which was mainly caused by two superpowers, stimulated the creation of regional mechanisms. The Southeast Asian Treaty Organization (SEATO) was established in this sense.<sup>17</sup>

SEATO was a result of the Southeast Asia Collective Defense Treaty, called the Manila pact, signed in Manila on Sept. 8, 1954, by representatives of Australia, France, New Zealand, Pakistan, the Philippines, Thailand, the United Kingdom, and the United States for collective defence to deter the communist expansion in Southeast Asia. There was little disagreement that it was formed to facilitate American intervention in Southeast Asia and in Indochina in particular. The inclusion of Asian countries in the alliance, justified the basis for the military intervention by the U.S., without fear or accusation of reemergence of colonialism.<sup>18</sup> However, while the Asian members of the alliance had hoped for a proactive organization with military capability and with economic functions, the Western powers, France and Britain particularly, wanted a loose consultative arrangement.<sup>19</sup> While Western powers showed reservation on high risks, Asian countries expected security guarantee and economic aid. In particular, Thailand faced external threat from Vietnam's intervention in Laos, expected not only security safeguard but also the increase of American aid by joining an alliance.

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<sup>17</sup> Somsakdi Xuto, 1973, p.29.

<sup>18</sup> Ibid., p. 65.

<sup>19</sup> While Britain concerned a flexible, loose arrangement for the regional coalition rather than high risks on war, France focused on the preservation of its political, economic and cultural privileges in the three Indochina states.

Considering the diversity of members' interests, the adoption of the unanimity rule with veto power would provoke deadlock in a crisis. Indeed, exclusion of countries of major U.S. interest: Taiwan, Japan, South Korea, limited the American commitment to the alliance and the U.S. that originally sought an instrument of unilateral intervention itself showed reservation on the creation of 'Asian NATO', which was relatively less important than NATO.<sup>20</sup> Consequently SEATO did not take any significant role in the Vietnam and Laos issues. Despite its failure as an Asian collective defense, however, SEATO remained until 1975 mainly because it was an American congressional agreement for intervention and cooperation with indigenous states.<sup>21</sup>

The small nations could have generally three choices: to stay out of the blocs led by the superpowers; to join the blocs; or to depend upon the world organization. Even though Southeast Asian countries did have enough ability to maintain independence alone, the escalating Vietnam War and the Cultural Revolution in China urged them to work together. Other regional cooperation in Europe and Middle East could provide belief that regional cooperation would be the best way to protect their independence and to maintain their position in the world.<sup>22</sup>

The establishment of ASA in 1961 among Malaya, the Philippines and Thailand had aimed to further economic and cultural progress through mutual co-operation and

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<sup>20</sup> Leszek Buszynski, *SEATO: the Failure of an Alliance Strategy*, Singapore: Singapore University, 1983, pp.221-226.

<sup>21</sup> Ibid., p. 220.

<sup>22</sup> In the case of Europe, the division into two main groups with the beginning of the Cold War, and the weakness of the main economies of Western Europe contributed the birth of the regional cooperation.

assistance among its members.<sup>23</sup> In the process of ASA, there was another attempt to develop an indigenous regional organization. As a result, the MAPHILINDO was established in 1963, which consisted of three Malay nations: Malaysia, the Philippines and Indonesia. Comparing with SEATO, both initiatives, ASA and MAPHILINDO, originated from within the region and the membership was exclusive. ASA would be significant for understanding of regional cooperation because its birth and demise led to the creation of ASEAN.

The origin of ASA can be traced to the proposition by Malayan Prime Minister, Tunku Abdul Rahman in 1958, which suggested a meeting of Southeast Asian leaders. It was called the 'Southeast Asian Friendship and Economic Treaty' (SEAFET). Despite a shared interest in this proposal between Malaya, the Philippines, and Thailand, and its declaration of economic and cultural aim rather than political aims<sup>24</sup>, it failed to attract other Southeast Asian countries such as Indonesia, Burma, and Cambodia. It could be understood with consideration of fact; while the former three countries were in favour of Western Powers, the rest of them had kept neutralism or non-alliance policy. And it had informal institutional machinery including an annual Foreign Ministers Meeting, a standing committee, three permanent committees in economic, socio-cultural, and technical cooperation and research fields, and individual secretariats. These basic principles and structure of ASA were endowed to ASEAN.

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<sup>23</sup> Somsakdi Xuto, 1973, pp.34-35.

<sup>24</sup> First aim and purpose of the Association, which mention in the Bangkok Declaration is to establish effective machinery for friendly consultations, collaboration and mutual assistance in the economic, social, cultural, scientific and administrative fields. See 'Bangkok Declaration of ASA', 1961.



However, ASA was handicapped from the beginning by its limited size and lack of specific objectives.<sup>25</sup> Its activities had been suspended mainly by disputes between the Philippines and Malaya. The former reluctantly admitted the formation of the Federation of Malaysia in 1963 and the two countries revealed significant differences on Sabah. The three member countries resumed their meeting with the normalization of relationship between Malaysia and the Philippines. It was made possible mainly by the leadership change of the latter in 1965. Due to its relatively short life, ASA also could not complete the approved projects.<sup>26</sup>

The Philippines' proposal to include Singapore, Sarawak and North Borneo as part of Malaya initiated another indigenous forum of Southeast Asia between Indonesia, Malaya and the Philippines, namely, MAPHILINDO, just before the formation of Malaysia in 1963. It also aimed to establish cooperation in the economic and social fields with emphasis on self-reliance against colonialism. However, subsequent to the break in diplomatic relations between Malaysia and Indonesia when the latter adopted the policy of 'confrontation' was the main reason for the failure of the MAPHILINDO idea. Territorial issues between Malaysia and the Philippines also contributed to the failure of MAPHILINDO. Despite the failure, it should be noted that it provided a route for the entry of Indonesia into regional cooperation whose vastness and population could envisage the potential leadership in the region.<sup>27</sup>

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<sup>25</sup> M, Leann Brown, *Developing Countries and Regional Economic Cooperation*, London: Praeger, 1994, p.106.

<sup>26</sup> Somsakdi Xuto, 1973, p.36.

<sup>27</sup> Ibid., p.37.

There were the changes in the leadership of the Philippines in 1965 and Indonesia in 1966. These changes contributed to a new restoration of relationship between Malaysia, the Philippines, and Indonesia. The Marcos administration in the Philippines expressed the intention toward a full normalization of relations with Malaysia as well as support for the resumption of ASA. With the inauguration of Suharto, Indonesian external policies initiated changes toward active involvement in regional issues and even potential leadership in the region.<sup>28</sup>

These trends seem to have strengthened the factors conducive to regionalism through a series of negotiations, which could enhance mutual understanding. It was an important achievement that they formed the first indigenous grouping with some form of institutionalized regional cooperation.<sup>29</sup> In short, despite the failures, in the period of pre-ASEAN the countries of Southeast Asia had started to involve in the international arena on a broad level and initiatives toward regional cooperation in terms of the regional context and priorities, which were incorporated into ASEAN.

### **3.3.2 The Creation of ASEAN and the Cold War**

The change of Indonesian President to Suharto in 1965, who favoured participation in regional organization, marked a turning point in the process of regional cooperation in Southeast Asia. A series of negotiations especially between Malaysia and

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<sup>28</sup> The period of Sukarno leadership, predecessor of Suharto, generally was described as it had been more interested in making role in the international level rather than regional by non-alliance movements. Arnfinn Jorgensen-Dahl, 1982, p.12.

<sup>29</sup> Hong Seok-Jong, 'Regionalism in Southeast Asia: A Study of ASEAN', University of Malaya, Master Degree Thesis, 1992. p.46.

Indonesia to end the confrontation, led to the formation of ASEAN on 8 August 1967 in Bangkok.

The reason for the formation of ASEAN was to stabilize the participating countries' internal and external environment. The original five states namely Indonesia, Malaysia, the Philippines, Singapore and Thailand were all, for different reasons, unstable and needed regional support to be able to channel their energies towards nation-state building. The birth of ASEAN with five member countries however reflected their preference to maintain a high level of individual sovereignty. For the countries of ASEAN, the priority at that time was in the realm of domestic affairs to handle the enormous task of consolidating independence, strengthening the newly acquired statehood and promoting national development.<sup>30</sup> In the case of Indonesia, with change of leadership from Sukarno to Suharto who favoured regional involvement, it started to play a leading role in the region and also to seek a way to promote its economic development through regional cooperation.

For Malaysia, with its experience of disputes with neighboring countries since its independence, joining ASEAN was seen as a means to develop better bilateral relations with the nations in the region. Singapore, which achieved independence just two years before the establishment of ASEAN, needed to secure its sovereignty in the regional community and gain international recognition. For economic purposes such as sources of raw material and a huge market, Singapore had enough reasons to join ASEAN.<sup>31</sup>

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<sup>30</sup> Vinita Sukrasep, *ASEAN International Relations*, Bangkok: Chulalongkorn University, 1989, pp.7-8.

<sup>31</sup> Ibid.

Thailand's growing fear of communist influence was mainly caused by its geographical proximity to Vietnam. ASEAN could be seen as the potential for assistance in its security problems. Thailand has sought a strong regional structure as a counterweight to its US alliance.<sup>32</sup>

The Philippines used regional linkage to strengthen its Asian image. Mainly this identical problem has been caused by its geographical location and its history<sup>33</sup>. Therefore, they needed to develop a framework that could help to build confidence between members, but also to avoid any interference in their domestic affairs.

Along with these domestic needs of ASEAN countries, external factors such as the Cold war also contributed to the creation of ASEAN. In this circumstance, Great Britain declared the intention to withdraw its military power from East of Suez including Malaysia and Singapore. The expansion of its European relationship at the expense of its Commonwealth ties created problems of the balance of power in the region and made Malaysia look for regional support.<sup>34</sup> In addition, the growing fears of spread of Communism by Vietnam and China despite the United States' military involvement, made the leaders of Southeast Asian countries seek regional cooperation.

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<sup>32</sup> Ibid., p.20.

<sup>33</sup> Ibid., p.19.

<sup>34</sup> The impact of withdrawal of Britain's force eventually contributed to the creation of Five Power Defense Arrangements (FPDA) in 1971, which included Britain, Australia, New Zealand, Singapore and Malaysia. It however remained the name without real capability since Western power had started to withdraw their force in the mid-1970s. See Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problems of Regional Order*, Routledge: London, 2001, p.53.

At the time of the creation of ASEAN, there were three objectives:<sup>35</sup> First, to establish good relations in the neighborhood; second, to create a bulwark against the seeming expansion of communism; third and more importantly, to counter internal communist insurgency movements threatening the regimes in all five member countries.

In the early days of ASEAN, developments since its establishment in 1967 can be said that it achieved harmonious and stable environment and built a base for further cooperation even though without concrete institutions. In the political field, the Bangkok Declaration and the ZOPFAN Declaration<sup>36</sup> of 1971 were seen as an expression of ASEAN's determination to free itself from involvement in the competition, rivalry and conflicts between outside powers. In the economic field, ASEAN became a recognized entity. In the socio-cultural field, ASEAN virtually began to create unity in diversity. In the period, which started with the end of the Vietnam War and the holding of the Bali Summit, ASEAN moved towards a stronger regional unity. In the political field, the character of ASEAN as a group for political cooperation was officially recognized. In the economic field, the Bali Summit achieved some progress toward the development of cooperative economic relations among the ASEAN states.

In the era of the Cold War, a major factor for ASEAN's regional cooperation has been the need to stand together against the possible communist advance in the region and

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<sup>35</sup> Joakim Ojendal, 'Southeast Asia at Constant Crossroads: an ambiguous 'New region'', Michael Schulz, Fredrik soerbaum eds., *"Regionalization in a Globalizing World: A comparative perspective on forms, actors and processes"*, Zed Books: London, 2001, p.156.

<sup>36</sup> A Zone of Peace, Freedom and Neutrality (ZOPFAN) was proposed by Malaysia in circumstance indicated change of security of the region followed by loosening external security guarantees including the withdrawal of Britain's force and the new doctrine of the Nixon government in the United States. Amitav Acharya, 2001, p.54.

the external intervention. The polarization of the region into a capitalist and communist sphere, and the birth of ASEAN in the 1960s and early 1970s, clarified the conflict lines and stabilized the domestic situation in most countries. The intense Cold War reduced the conflicts within the ASEAN member countries. However, the need for greater regional economic cooperation has been neglected, and also on the sensitive issue of the presence of foreign powers, there was no common stand.

### **3.4 ASEAN in Post-Cold War Era**

#### **3.4.1 World Environment Change and ASEAN**

Since the end of the Cold War, which is characterized as a collapse of socialist regimes, the phenomenon of regional integration has been rapidly developed. Regional cooperation since 1990s differs from the previous the era in several features. First, the end of the Cold War expelled some limitations such as ideologies and strategic alliances. Second, the U.S. that had kept a negative view on such movements started to engage in regionalization. Third, developing countries participated in the process of regional integration, based on their own views and interests. Fourth, within WTO, regionalism could serve as a sub-regime to settle world trade conflicts and struggles. Along with it, another main trend in world political economy is globalization that has been accelerated within WTO. On the other hand, the world economy can be called a trilateral or tripolar world order comprising North America, Western Europe and East Asia.

The interdependence of the world economy has been intensified through multilateral, regional, and bilateral agreements. The number of agreements at various levels has been increased, especially since the mid-1980s. At the multilateral level, the World Trade Organization (WTO), which was established in 1995 after long negotiations between 1986 and 1993, strengthened the institutionalization of world economy with enhanced enforcement powers. The spread of the democratic system with the end of the Cold War and rapid development of transport and communication technologies were other significant factors to accelerate the liberalization of the world economic order. Along with it, a number of regional agreements have been negotiated and established such as the European Union (EU), the North American Free Trade Agreement (NAFTA), the Asia Pacific Economic Cooperation (APEC) forum, the ASEAN Free Trade Area (AFTA) and so on<sup>37</sup>. And bilateral agreements have been strengthened and pursued between states not only in the region but also worldwide.<sup>38</sup>

Under this new environment, regional cooperation or regional integration in Southeast Asia also marked a milestone in the 1990s. Their main focus of cooperation shifted from the political field to the economic field along with the creation of EU and NAFTA and a relative decline in the possibility of large-scale conflicts. Regional co-operation and trade negotiations which intensified in the Uruguay Round led the ASEAN members to launch concrete economic co-operation measures. Since the Fourth Summit

<sup>37</sup> While these regional agreements have been relatively successes, there have been a number of regional agreement which failed or lagged behind, for instance, A proposed Free trade Area of the America (FTAA), the Asian Clearing Union (ACU), The Common Market for Eastern and Southern Africa (Comesa) and so on.

<sup>38</sup> Bilateral agreements are pursued not only between states in the regions. Singapore and Canada are seeking the creation of a bilateral free trade agreement. *Business Times*, 6 June 2000. Also Japan plans to seek bilateral free trade agreements with South Korea, Singapore, as well as Mexico. *New Straits Times*, 10 January 2000.

in Singapore in 1992, The ASEAN Free Trade Area (AFTA) has been pursued through the Common Effective Preferential Tariff (CEPT) scheme.

There were several factors that contributed to the creation of AFTA. In economic terms, in the fear of a failing Uruguay Round, regional integration increased such as through NAFTA, EU. And most of ASEAN countries faced challenges from new emerging economies and transitional economies. In addition, the launching of APEC in 1989 that could undermine ASEAN, stressed the need to make ASEAN continually relevant. At the regional level, individual ASEAN countries were fast losing their comparative advantage in labour intensive industries and revealed the need to make ASEAN a competitive base for Foreign Direct Investment. Politically, with the end of the Cold War in Indochina ASEAN could pay more attention to economic matters.

### **3.4.2 Enlargement of ASEAN**

The original members- Indonesia, Malaysia, the Philippines, Singapore, and Thailand- have been joined by Brunei, Vietnam, Laos, and Myanmar. With the joining of Cambodia in 1999, ASEAN achieved ASEAN-10, which covers the geographical term, Southeast Asia. However, even when the first enlargement began in 1984, when Brunei became the sixth member state, the general expectation was not that the rest of the regional states- Myanmar, Cambodia, Laos, and Vietnam- could join ASEAN, but there were concerns on the origin of ASEAN and the sentiment against different political



systems. In fact, the origin of the idea of expanding the membership of ASEAN to all ten Southeast Asian countries is unclear, as none of the official documents mentioned it.<sup>39</sup>

There is little disagreement that key points that spurred expansion were the change of regional security environment followed by the end of the Cold War. Vietnam has undergone change, and so have ASEAN countries' attitudes to each other. In addition, with the withdrawal of Vietnam's forces from Cambodian territory in 1989, they launched new reform programmes so called 'doi moi'. Vietnam needed external cooperation for its development. Security concerns were present. Regarding China's military buildup and growing influence in the region, member countries expected that Vietnam could bring benefits to regional security. Vietnam's approach shared some similarity with Myanmar. Negligible ideological constraints, a quasi market economy in the process and participation in world affairs urged Myanmar to join ASEAN. Vietnam gained observer status at the 25<sup>th</sup> ASEAN Ministerial Meeting (AMM) in Manila in July 1992 and signed the Treaty of Amity and Cooperation in Southeast Asia (TAC), a prerequisite to full membership in ASEAN. Laos in 1995 acquired observer status at the 28<sup>th</sup> AMM and expressed its intention to join ASEAN in two years. Vietnam formally joined ASEAN in 1995. In addition, Cambodia gained observer status while Myanmar signed the TAC and applied for observer status, which was granted at the 29<sup>th</sup> AMM. At the 30<sup>th</sup> AMM in 1997, Laos and Myanmar were admitted but Cambodia's entry was

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<sup>39</sup> Even ASEAN once considered the admission of Ceylon (Sri Lanka), Australia, and New Zealand, Herman Joseph S. Kraft, 'ASEAN and Intra-ASEAN Relations: weathering the storm?', *The Pacific Review*, Vol.13. No2. 2000, p.455.

postponed.<sup>40</sup> What had prevented Vietnam and Laos from joining ASEAN were the administrative and personnel difficulties in acquiring familiarity with the complex structures, process, and modus operandi of ASEAN functional cooperation.<sup>41</sup> Despite Myanmar's human rights issues, its entry which was strongly backed by Indonesia and Malaysia has contributed to political solidarity. Cambodia's entry which was delayed due to domestic factors completed ASEAN-10 in 1999.

The ASEAN-6 had clearly recognized the potential strategic advantages and political and economic benefits of expanding the organization to the whole of Southeast Asia. Thus, an enlarged ASEAN could increase its diplomatic and economic weight in the international community. Secondly, it is likely to beef up ASEAN's strategic credibility, enabling it to address regional issues more effectively. Thirdly, ASEAN's market size will increase by 38 per cent (in terms of population) with the entry of the four new members, which can expand regional economies of scale. Fourthly, the regional division of labour is likely to intensify, which may stimulate greater productive specialization and efficiency, potentially reduce inflation pressures, and affect Southeast Asian migration patterns.<sup>42</sup> In addition, rivalry in economic relationships among ASEAN-6 members could be reduced by the entry of four new member countries, which have less developed economies. Hence, it could result in a two-tier system, which has two groups mainly in terms of economic development.

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<sup>40</sup> 'Overview of Association of Southeast Asian Nations', ASEAN Secretariat, <http://www.aseansec.org/64.htm>

<sup>41</sup> Takano Takeshi, 'The ASEAN-10 and Regional Political Relations', Sekiguchi Suelo and Noda Makito eds., *Road to ASEAN-10*, Singapore: Institute of Southeast Asian Studies, 1999, p.20.

<sup>42</sup> Carolyn L. Gates and Mya Than, 'ASEAN Enlargement: an introductory overview', Mya Than and Carolyn L. gates eds. *ASEAN Enlargement: Impacts and Implications*, Singapore: Institute of Southeast Asian Studies, 2001, p.2.

However, these potential benefits would be obtained at the expense of new members as the ASEAN-6 remains far ahead of the newer members in terms of economic development, institutional development, technologies, and integration in global trade and capital markets, among other things. Furthermore, these dichotomies would affect ASEAN's administrative ability, procedure, and its goal of economic integration. It could also be a financial burden to ASEAN in the process of regional integration.<sup>43</sup> The enlargement of ASEAN, which was done based on the 'ASEAN Way' without clear criteria for admission, has also led to strains in external relationships with Western countries over the legitimacy of some countries and human rights abuse particularly in Myanmar. This will be discussed in Chapter 5.

### **3.4.3 Towards Regional Integration**

With the completion of enlargement toward ASEAN 10, ASEAN is seeking to further expand economic relations with Northeast Asia. The ASEAN Summit in Brunei in November 2001, made a milestone in its history by following agreement or discussion. First, an idea of East Asia free trade was suggested by South Korea. This suggestion included the closer intra-regional ties with East Asia under a new East Asian Summit instead of 'ASEAN plus Three'. Agreement was reached on setting up a free trade

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<sup>43</sup> Meanwhile, Malaysia is expected to announce an assistance of US\$1.3mil (RM4.9mil) over the next three years for the poorer ASEAN members, namely Cambodia, Laos, Myanmar and Vietnam. Malaysia has over the years been providing assistance to the four countries in its effort to bridge the gap between the member countries. *The Star*, 5 November 2001.

arrangement between China and ASEAN in 10 years, which was first raised at the Singapore Summit in 2000 by Chinese Premier Zhu Rongji.

Moreover, there was concern that the economic crisis in 1997-98 which had major effects on the countries in the region could delay or even derail the economic cooperation in the region. It however stirred the 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 establish the system of currency swaps among ASEAN and Japan, China, and South Korea.<sup>44</sup>

Recently, ASEAN leaders at their ninth summit at Bali in 2003 agreed to launch the process towards establishing an ASEAN single market and production base within an Asian Economic Community (AEC) which was proposed for the first time at the ASEAN Leaders Summit meeting in Phnom Penh, Cambodia in 2002. The idea of striving for an AEC is one of the three pillars in the Declaration of ASEAN Concord II, also known as the Bali Concord II. The other two pillars cover security (ASEAN Security Community: ASC)<sup>45</sup> and social and cultural (ASEAN Socio-Cultural Community: ASCC)<sup>46</sup> development. In order to facilitate trade and investment flows the AEC will

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<sup>44</sup> The issue of East Asia will be discussed in the following session.

<sup>45</sup> The primary objective of the ASC is to ensure a stable region, where conflicts are peacefully resolved in accordance with the United Nations charter and other international law.

<sup>46</sup> The ASCC aims to enhance ties between member countries in the areas of women's affairs, youth development, healthcare and development of the arts, to foster regional identity.

implement a roadmap for the integration of the financial sector as well. It will also facilitate the movement of businessmen, skilled labour and talents within the region.<sup>47</sup>

The process towards an AEC will be based on existing economic initiatives such as the ASEAN Free Trade Area (AFTA), ASEAN Framework Agreement on Services and ASEAN Investment Area. These include measures to improve and strengthen the Common Effective Preferential Tariffs (CEPT) Rules of Origin by the end of 2004 and eliminate barriers under AFTA. The ministers also recommended the full implementation of the green lane system for CEPT products at all entry points by 2004, and accelerate completion of the Mutual Recognition Arrangements in five priority areas – electrical and electronic equipment, cosmetics, pharmaceuticals, telecommunications equipment and prepared foodstuff within 2004/2005. Other recommendations included encouraging and promoting companies to relocate within ASEAN and special incentives be given as well as establishing a network of ASEAN free trade zones to enable companies to structure their manufacturing processes across member countries and take advantage of their strengths.<sup>48</sup>

Given the fact that the AEC came after a series of negative incidents such as the Severe Acute Respiratory Syndrome (SARS) outbreak, the Bali bombing and rising threats of terrorism, the AEC reflects hope for an economic rebound in the region.

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<sup>47</sup> See 'Declaration of ASEAN Concord II', ASEAN Secretariat, <http://www.aseansec.org/15159.htm>

<sup>48</sup> Ibid.

Indeed, the collapse of the Cancun global trade talks<sup>49</sup> in Mexico in September 2003 just a month before the Bali summit contributed to the agreement to establish AEC. It is similar with the situation when ASEAN agreed to the launch of AFTA in 1992 amidst delays in the Uruguay Round. It showed that ASEAN was seeking alternatives to the multilateral agenda at the regional level in particular when faced with economic hardships in the context of doomed multilateral talks.

In this sense, the AEC can be considered as the desired and ultimate form of integration. It is noted that the need of the ASEAN community based on economic integration has been increased.<sup>50</sup> According to the report conducted by the McKinsey firm which was commissioned by ASEAN in May 2002, economic integration in ASEAN will increase its gross domestic product by US\$30 billion and US\$50 billion per year.<sup>51</sup> Such study will boost the belief that the ASEAN community should build via economic integration a secure and prosperous environment and social and cultural community.

The idea of an AEC, however, is still at an infant stage and it needs a wider and deeper assessment of what it might imply. Based on the experiences of other regions in forming and moving towards a community, several possible types can be suggested. One possible scenario would be forming a 'free trade agreement plus' that includes some

<sup>49</sup> After the conclusion of the Uruguay Round of multilateral trade talks in 1993, it took eight years before launching another round of discussion namely the Doha Round. However, the Doha talks failed in the Mexican city of Cancun in September 2003.

<sup>50</sup> ASEAN secretary-general Ong Keng Yong said, "regional integration in South East Asia and the broader East Asian region is very much under way." *New Straits Times*, 23 March 2004.

<sup>51</sup> See, Adam Schwarz and Roland Villinger, 'Integration Southeast Asia's Economies', *The McKinsey Quarterly*, No.1, 2004.

elements of a common market allowing the free movement of factors of production such as labour and capital.<sup>52</sup> Such an AEC would provide zero tariffs under AFTA without non-tariff barriers and harmonized customs and standards. It would also provide an institutional and legal infrastructure to facilitate the economic integration of ASEAN. Another model could be a common market minus arrangement that includes the creation of a fully integrated market but with reservation for deeper integration.<sup>53</sup> This common market would have free flows of trade, and free mobility of labour and capital, which eventually could lead to the intra-ASEAN liberalization in trade and investment. Indeed, an ASEAN with common external tariffs by 2020 could become a customs union. In the process, institutionalization and the strengthened role of the ASEAN Secretariat will be required.

#### **3.4.4 ASEAN Plus Three**

Theoretically, regional integration is pursued basically on geographical proximity, economic interdependence, political willingness and support for institutionalization. The case of ASEAN, however, shows a relatively low level of economic interdependence and political willingness despite geographical proximity. In practice, economic hardship or crisis stimulated the expansion in regional cooperation towards East Asia through the APT scheme, which has already formed a complex network of economic interdependence.

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<sup>52</sup> This is a proposal by the Institute of Southeast Asian Studies, Singapore. See Concept Paper on the 'ASEAN Economic Community', 26 February 2003.

<sup>53</sup> This is the proposal from ASEAN ISIS Track Two Conveners, 'Towards an ASEAN Economic Community', March 2003. A full text is available at [http://www.aseansec.org/pdf/PIS\\_bali.pdf](http://www.aseansec.org/pdf/PIS_bali.pdf)

The cooperation in trade and financial sectors has been the main focus under the APT framework.<sup>54</sup>

The original concept of APT or East Asia can be traced to the EAEC proposal by Malaysia's Prime Minister Mahathir in the late 1980s. The proposed members of EAEC coincided with the present APT member countries. At that time, it however faced the United States' opposition which was against the idea of a new Asian community excluding Western members. In addition, major potential members, Japan and South Korea, expressed their reservations due to their important partnerships with the U.S.<sup>55</sup> With the US involvement in Asia through APEC, the East Asia grouping could get support from the countries which previously opposed the idea of an East Asian grouping.

It should not be underestimated that ASEAN was actively involved in the process of the creation of East Asia. For stimulating East Asian cooperation<sup>56</sup>, ASEAN initiated the APT scheme. ASEAN invited three countries to the ASEAN informal summit in 1997. At the Hanoi Summit in 1998, the heads of government agreed with regularization of the summit under a situation where most Asian countries suffered due to the economic crisis. They additionally declared their political will for regional cooperation in East Asia by

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<sup>54</sup> Economic issues in APT scheme will be discussed in Chapter 4.

<sup>55</sup> It was proved indirectly as the Singapore Prime Minister said that "The EAEC had always been a Economic Cooperation forum, or APEC, was born instead in the early 1990s, linking 18 founding members on both sides of the Pacific. We wanted to get APEC going, because we were fearful that without APEC, we would not be able to bridge the trade blocs on both sides of the Pacific", *Business Times*, 16 November 2000.

<sup>56</sup> The ASEAN plus three meeting also provided a room for Northeast grouping or cooperation. Just before the third Manila summit, there was three countries' summit that was for the first time in their modern diplomatic history. It was a significant mark for further cooperation among three countries by securing its continuance.



adopting the Joint Statement on East Asia Cooperation at the third APT summit in Manila, 1999.<sup>57</sup>

More notably, the economic crisis in 1997-98 revealed the need for a regional mechanism, which could prevent it from similar crisis. The idea of an Asian Monetary Fund stressed the need for cooperation and harmonization of monetary policy. On trade issues, along with AFTA, some countries sought the way of a free trade area, for instance, recently Japan and Singapore reached agreement on a free trade area. In addition, it has been learnt that Korea and Singapore and China and ASEAN expressed their intentions on trade liberalization among them.

There was no disagreement on expanding trade ties with other countries outside the grouping and further opening up of regional trade. They agreed that the idea of economic community beyond the ASEAN Free Trade Area and the ASEAN Investment Area would be deepened by market liberalization. In this context, the idea of expansion of AEC to East Asia through the creation of an East Asian Economic Community was suggested by former Malaysian Prime Minister Mahathir in 2003.<sup>58</sup> Based on the concept of the AEC, ASEAN would seek its role in that process.<sup>59</sup>

In the midst of recovery from the economic crisis, most Asian countries faced again the economic slowdown mainly due to the US and world economic downturn. The

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<sup>57</sup> 'Joint Statement on East Asia Cooperation', 28 November 1999, ASEAN Secretariat, <http://www.aseansec.org/5469.htm>

<sup>58</sup> Dr Mahathir Mohamad has called on leaders of East Asian nations to stop hiding behind the APT formation and admit that there is a need to establish the East Asian Economic Grouping (EAEG), *New Straits Times*, 4 August 2003.

<sup>59</sup> Former ASEAN Secretary-general Ajit Singh stressed the role of ASEAN in the process of creation of the East Asian Economic Community. He said, "That (East Asian Economic Community) should be ASEAN's vision, and the setting up of the AEC should be an important building bloc towards realizing this vision. *New Straits Times*, 26 September 2003.

impact on East Asia's exports and economic growth has been catastrophic. In the third quarter of year 2001, Singapore's GDP fell by 5.6 percent, Taiwan's by 4.2 percent and other countries (Malaysia, Thailand, Hong Kong, South Korea and even China) also recorded the downturn of GDP. It is expected that East Asia (including China) will mark only 1% of GDP growth.<sup>60</sup> Despite optimistic views of recovery in 2002, economic recessions in two years (2001-2002) were as bad as in 1997-1998. Given the large foreign-exchange reserves, there will be low risk of financial crisis such as the latter. However, there are worries about the deflation, excess capability, high corporate debt, weak banking system, and increase of government burden. Not surprisingly, East Asian economies which are open and reliant on export of electronic goods have been hit by global recession especially in America. While Singapore and Taiwan, which depend heavily on electronics and the U.S. market, are in worst recession,<sup>61</sup> China with a huge local market shows relatively stable growth. This recession has been a general phenomenon in the region.<sup>62</sup> In this sense, one of the important implications of the Brunei ASEAN summit in 2001 is that ASEAN leaders and East Asian counterparts from China, Japan and South Korea, decided to reduce the region's dependence on the United States economy.<sup>63</sup> The decision followed by an assessment of the impact on the region of

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<sup>60</sup> *The Economist*, 24 November 2001. p.73.

<sup>61</sup> In the countries that had invested most in electronics production-Malaysia, Singapore, Korea and Taiwan-exports contracted sharply in the second quarter. Between January 2000 and July 2001, the price of standard 64-megabyte DRAM chips dropped by 90% from \$8.93 to just \$0.92. Asia is going to go into export shock. Singapore, where electronic products make up more than 50% of total exports, recorded its recession in 2001. Taiwan, where the proportion is almost as great, looks set to follow. Of its \$179 million global portfolio of technology investments, 62.7% is allocated to the U.S., and only 10.6% is invested in Asia. Countries in the region, Taiwan and Singapore especially, have over-invested in just one sector-electronics manufacturing-leaving them highly vulnerable to shifts in technological evolution. And as the steep drop in capital goods imports to the region over the first half of the year shows, there is little money around just now for re-engineering. Ibid.

<sup>62</sup> *The Far East Economic Review*, 26 July 2001.

<sup>63</sup> Estimated impact of a sharp downturn of the U.S. on ASEAN economy are as follows: Philippines 2.1: Thailand 1.0: Singapore 2.2: Indonesia 0.3: Malaysia 2.8

the Sept 11 terrorist attacks in the U.S., and expressed the opinion that it would be more difficult in future to depend on the U.S. market alone.<sup>64</sup>

However, one of the shortcomings of APT is insufficient domestic political support. Huge economic gaps among the countries in the APT, which consists of developed countries and developing countries, reveal the potential risks or conflicts. Even more importantly, the lack of leadership has been pointed out as a main weak point, although with the existence of powerful countries such as Japan and China. In particular, with Japan's economic ability, requests were made for its more active involvement to compensate economic costs and political leadership in the process of regional integration. However, its long curve of economic slowdown, historical burdens, and lack of willingness have made Japan more reserved on its leadership role.

Since 1997, three Northeast Asian Countries, China, Japan, and Korea have jointed the ASEAN summits and its major meetings. In the process of Asia Europe Meeting (ASEM), they formed a regional dialogue to deal with their European partner.

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(Estimated percentage-point decline in national GDP in 2001)*The Asian Wall Street Journal*, 13 June 2000.

<sup>64</sup> Speaking to the Singapore media, Prime Minister said, "my sense was that the leaders felt that post-Sept 11, it is very important for all of us to work together." For us to depend on the US alone as a market for growth will be much more difficult in future because the US economy is likely to slow down. Dr Mahathir was more direct about the over dependence on the US economy. 'There is too much dependence on the US. When it is affected, all of ASEAN would be hit as well,' he said. In future, there would be more reliance on intra-ASEAN trade, he added. Sultan Hassanal Bolkiah of Brunei told a press conference that ASEAN 'should be able to say that our people are in control of regional affairs and can look to the future with confidence'. *Singapore Business Times*, 6 November 2001.

### 3.4.5 Inter-regional Cooperation: The Case of ASEM

In this section, it will be shown that ASEAN played an important role in the process of ASEM and the implications of ASEM for ASEAN will also be suggested. ASEAN contributed to the creation of ASEM as an initiator but also as a bridge between Europe and East Asia.

The idea of ASEM<sup>65</sup> was suggested by Singapore's Prime Minister Goh Chok Tong in 1994 on the occasion of an official visit to Paris.<sup>66</sup> Determining the number of members was left to both regions to decide and to choose but the results had to be unanimously approved. While the EU decided to be represented by its member states and the European Commission, ASEAN preferred to invite three Northeast Asian countries, China, Japan, and Korea. This shows that the EU recognizes itself as representing the whole of Europe, while ASEAN considers itself as a part of Asia. This ASEAN's choice coincided with the idea of East Asia Economic Caucus (EAEC), which aimed to create an East Asian Community without the US and other Western countries in the Pacific Rim. In this sense, ASEM could be regarded as a counterweight to APEC.

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<sup>65</sup> The origin of ASEM backs to the ASEAM-EC/EU Ministerial Meeting that, from 1978 up to now, every second year has convened the foreign and/or economic minister of the ASEAN and EC/EU member states, including President and vice-president of the European Commission. With such regular meeting, a relationship between Europe and Asia have been developed increasingly particularly in economic field. These economic-oriented relationship and historical background, colonial rules by European countries, have provided motivations for economic cooperation since their independent.

<sup>66</sup> Formally the expression of the idea of the summit based on the need for a tripolar relationship: for Asia's bridge role between the U.S. and EU. Behind this factor, it might be come from Singapore active role in international diplomacy. David Camroux and Christian Lechervy, 'Close Encounter of a Third Kind?: the inaugural Asia-Europe meeting of March 1996', *The Pacific Review*, Vol.9.No.3, 1996, p.443.

In economic terms, there were two factors. First, EU recognized Asia's new role in the world economy with rapid economic development and a lack of their involvement in the Asian Market. This realization encouraged new strategic approaches which were well expressed in the EU Commission's report, 'Toward a New Asia Strategy' in 1994. The report stressed that EU needs to adopt more pro-active strategies to strengthen economic cooperation and its presence with and in Asia by pursuing market-openings for goods and services and by encouraging active participation by European companies.<sup>67</sup> For Asian countries, EU was recognized as a coherent and powerful international actor by the success of the Maastricht Treaty of 1992, which agreed on the principle of creating a single currency. The second factor is the convergence of interests related to multilateral trade negotiations. Under the WTO regime, the idea of ASEM could be expected to provide a channel for both regions as a pre-WTO negotiating forum<sup>68</sup>.

In political terms, for the EU, ASEM provided some opportunities to overcome the deadlock of the EU-ASEAN ministers meeting, which provoked by East Timor issues, and strengthen its position vis-à-vis the US. EU, particularly Britain and France which wished to have individual membership in the ASEAN Regional Forum, sought for a more

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<sup>67</sup> On the other hand, it also argued that the Union should seek to make a positive contribution to regional security dialogues and to follow closely developments in particular in the area of arms control and non-proliferation, regional disputes. European Commission, 'Towards a New Asia strategy', 1994.

<sup>68</sup> David Camroux and Christian Lechervy, 1996, p.444.

active role in Asian security.<sup>69</sup> On the other hand, ASEAN expected it could help to improve its political profiles, internal consolidation and external recognition.<sup>70</sup>

Considering the role of the U.S. in Asia as a superpower, and given the mutual interests of both regions, the launch of ASEM cannot fully explained. It was based on a perceived view that the U.S. was less committed to multilateralism and ambiguous in its Asian policy. American silence seems to have resulted from reasoned views of international policy and business leader rather than their inattentiveness or foresight about Asia's economic difficulties. They believe that ASEM will not contract to their preference about Asia and the EU for security, civil society, and economic matters.<sup>71</sup>

Basically, ASEM is an intergovernmental meeting consisting of 25 member countries. However, in the real sense, it is rather an inter-regional meeting as EU showed its common interest based on central-control mechanism and Asian member countries have convened their informal meeting to create APT to harmonize their interest and to deal with regional problems. The concept of inter-regionalism indeed can be more specific as bilateral inter-regionalism and supranational inter-regionalism. Theoretically, it can be said to be supranational by which it pursues commonality and communal identity. For instance, APEC clearly carries more economic weight than the other macro regions, in contrast to ASEM. The latter covers not only economic issues but also political and

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<sup>69</sup> However, this ambition of EU remains as a controversial issue. Asia's contractive view was well expressed by as followings: Chinese delegates to a March discussion with the EU, held in advance of the Asia-Europe Meeting, on ASEM, stated that Europe has an interest in using ASEM to discuss all kinds of security problems. 'The EU has a new mission in Asia', *The Economist*, 20 July, 2000.

<sup>70</sup> Helmut Wagner, 'The Origin and Perspective of ASEM: A European View', Paper delivered at the Annual Meeting of the Korean Political Science Association, on December 2, 1999.

<sup>71</sup> See, Davis B. Bobrow, 'The US and ASEM: why the hegemon didn't bark', *The Pacific Review*, Vol.12, No.1, 1999, pp.106-107.

cultural cooperation. There is also room for non-governmental organizations to deal with these large scale issues, i.e., the Asia-Europe Business Forum. The main characteristics of ASEM in comparison to APEC are summarized in Table 4.16.

**Table 3.3 APEC and ASEM in Comparative Perspective<sup>72</sup>**

	ASEM	APEC
Origin and back ground	<ul style="list-style-type: none"> <li>- Colonial experience</li> <li>- EC Ministerial Meeting</li> <li>- Economic development of East Asia</li> </ul>	<ul style="list-style-type: none"> <li>- Dependence on US</li> <li>- Emergence of EU</li> <li>- Deadlock of Uruguay Round</li> </ul>
Membership	<ul style="list-style-type: none"> <li>- 25 States and European Commission from EU and East Asia</li> </ul>	<ul style="list-style-type: none"> <li>- 21 States including Hong Kong and Taiwan</li> <li>- From Asia Pacific Rim</li> </ul>
Operational Structure	<ul style="list-style-type: none"> <li>- Group to group negotiation</li> </ul>	<ul style="list-style-type: none"> <li>- Integrative bargaining of the member countries</li> </ul>
Security Factor	<ul style="list-style-type: none"> <li>- Relatively less significant role of EU</li> </ul>	<ul style="list-style-type: none"> <li>- Major role of US in Asia</li> </ul>
Area of focus	<ul style="list-style-type: none"> <li>- Multi-dimensional focus on political cooperation, economic and business cooperation, and cultural and people to people exchange.</li> <li>- Inter-regional cooperation</li> </ul>	<ul style="list-style-type: none"> <li>- Relatively more focus on economic cooperation.</li> <li>- Relatively inter-governmental cooperation</li> </ul>
Objectives	<ul style="list-style-type: none"> <li>- While relatively broad objective of Asia-Europe cooperation is clear, the specific of the objective are still evolving.</li> </ul>	<ul style="list-style-type: none"> <li>- Regional objective to enhance trade and investment flows</li> <li>- Multilateral objective to help sustain the momentum of global trade liberalization under the WTO.</li> </ul>

<sup>72</sup> See Lee Tsao Yuan, 'APEC and ASEM in Comparative Perspective', presented at the APEC Roundtable 1997, APEC: Sustaining the Momentum organized by the Institute of Southeast Asian Studies, 6 August 1997, Singapore and Atmono Suryo, 'ASEAN and ASEM: Strengthening Asia-Europe Economic Links' which presented at the Second ASEAN Congress organized by ISIS Malaysia, 21-23 July 1997, Kuala Lumpur

However, institutionalization of ASEM still remains at a premature level or soft institutionalization. There is no permanent organization or any watchdog which can check the performance of its agreement. This institutional under-development of ASEM has been confirmed officially. They urged it needs informal and result-oriented approaches. ASEM is essentially an informal dialogue process, not a negotiation forum. As the members of ASEM believe that the process should not be institutionalized, but rather be open and evolutionary, it presently has neither a formally agreed agenda nor secretariat to conduct inter-sessional activities.<sup>73</sup> It may have been caused by different perceptions of two regions and asymmetric power between them.

Despite the fact that ASEM aims to create the commonality or common identity between two regions, there have been gaps in perceptions. The lack of communications among decision-makers and opinion leaders and different perceptions make it difficult to share common identity. Inefficient knowledge about each other also can be a hurdle to cooperation between two regions. For instance, the EU has objected to Myanmar's inclusion while ASEAN wants the three new ASEAN members-Laos, Cambodia, and Myanmar-accepted together as ASEM members. The military government of Myanmar, which has been condemned by the West for being undemocratic, was the main reason for the objection of simultaneous admission of three countries, while ASEAN showed willingness to accept the EU's 10 new members, which joined the EU in 2004.<sup>74</sup>

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<sup>73</sup> Chairman's Statement of ASEM1 mentioned "The meeting agreed that inter-sessional activities are necessary although they need to be institutionalized". *Chairman's Statement of ASEM1*, 1996.

<sup>74</sup> Malaysian Foreign Minister Syed Hamid Albar said, "if they (The EU) not willing to consider (the admission of Myanmar), we are also not willing to consider their 10 new members", *New Straits Times*, 10 April 2004.



A systematic and structured involvement of the civil society and NGOs in the policy making process has become a norm in most international institutions. Within the ASEM framework, some sensitive issues such as human rights and social policy have been touched.<sup>75</sup> ASEM partners have stressed the need for active involvement of the civil society.<sup>76</sup> Also Asia Vision Group strongly emphasizes on the engagement of non-government sector as a main factor for long-term development of ASEM.<sup>77</sup> In fact, the Asia Europe People's Forum, as a part of its intervention on the occasion of the ASEM3 and the Preparatory meeting for ASEM Parliamentary Dialogue held in Seoul, called on the ASEM partner governments to recognize the need for the establishment a "Social Forum." It argues that the participation of the civil society through the "Social Forum" will enhance the ASEM process to meet its stated goal of reinforcing the partnership between Europe and Asia through a series of dialogues between peoples and governments of Asia and Europe.<sup>78</sup>

One of ASEM's indirect but important results is to promote regional cooperation in East Asia, in practice, since the Asian economic crisis in 1997-1998. This movement

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<sup>75</sup> For instance, there have been several meetings for handle these various issues: the ASEM conference on States and markets' (8-9 March 1999) held in Copenhagen, Denmark, "the ASEM Seminar on Traditional and Modern Medicine"(18-19 March 1999, Hanoi, Vietnam), and "the ASEM Experts' meeting on Protection and Promotion of Cultural Heritage"(20-22 January 1999, Hanoi, Vietnam).

<sup>76</sup> The European Commission argued is as followings. "It will be important that the output from these encounters (civil social group) can be heard in the official ASEM process, and indeed that the scope and intensity of civil society dialogue between our two regions can be strengthened in a wide range of areas." See EU, 'Working Document of the Commission, 'Perspective and Priorities for the ASEM Process (Asia-Europe Meeting) into the New Decade.

<sup>77</sup> In their report, they stressed, "The ASEM process has to move beyond government circles. There are needs to be a greater engagement of the business sector, of society and, above all, of the peoples of our two regions." And also that "we look forward to strong focus among and between the ASEM partners on the challenge ahead, concerted effort to co-operate in all available for a, and progressively closer engagement in the ASEM process of a wide variety of social, economic, cultural and educational interest group, a critical component in the strategic deepening of our relations. See, Asia-Europe Vision Group Report, 'For a better tomorrow: Asia-Europe partnership in the 21<sup>st</sup> Century,' 1999.

<sup>78</sup> See, the Asia Europe People's Forum, 'ASEM Needs Social Dimension and Participation: A Proposal for a "Social Forum" in the ASEM Process', 2000.

can be found in APT, which gives ground for Asian members' cooperation beside EU but within ASEM. Also, in the long term, it could strengthen sub-regional cooperation not only in Southeast Asia but also in Northeast Asia. Indeed, there is still a possibility for non-governmental actors to seek some alternative way to involve the process of ASEAN. Under these circumstances, we can assume that attempts toward regional integration accelerate its sub-regional integration (Northeast Asia and Southeast Asia). ASEM, inter-regional dialogue will require cohesive intersubregional relationship as they have prior meetings before official summits at various levels.<sup>79</sup> Considering the large scope of ASEM from economic to culture and close relationship with EU, ASEAN member countries could learn and create some alternative measures and mechanism to handle regional problems such as environmental problems. Indeed, ASEAN further could consolidate democracy and civil society through ASEM's political dialogues not only by government but also non-government actors.

### 3.5 Conclusion

ASEAN, which had been pursuing regional cooperation rather than integration by focusing on political and security issues previously, now is moving towards the creation of regional integration.

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<sup>79</sup> The notion of a common Asian Identity and values was also resuscitated. A senior Indonesian diplomat said the summit set a philosophical target, too "We are very concerned to cement our Asian identity," *Far Eastern Economic Review*, 9 Dec 1999.

Changes in the world environment such as the end of the Cold War, emergence of EU and NAFTA, and WTO regime have increased the need for regional integration in order to strengthen competitiveness. ASEAN expanded its membership to ten Southeast Asian countries. Now, ASEAN launched the process towards establishing an ASEAN single market and production base within an ASEAN Economic Community (AEC), in which ASEAN will be a single market and production base, characterized by the free flow of goods, services, investment and freer flow of capital by 2020.

This study does not aim to examine in detail the concept of an AEC but to take note of the latest developments in ASEAN as far as they impinge on the study for integration indicators. More recently and importantly, economic crisis in 1997-98, which hit the region initially, weakened prospects of economic growth of the ASEAN countries. Nevertheless, observation of several historical events showed regional integration was being pursued especially after economic hardship or crisis. Economic crisis could provide motivation to ASEAN member countries especially in term of economic integration. Also the economic crisis motivated the reemergence of East Asian cooperation via EAEC or APT. ASEAN exhibits a mixture of the economic integration arrangements ranging from a free trade area, (AFTA), to liberalizing investment flows through the ASEAN Investment Area (AIA), to sectoral integration in services such as in financial services, and in various cooperation programmes. In these circumstances, ASEAN now is seeking the way for deeper regional integration even though it is still at an infant stage.<sup>80</sup>

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<sup>80</sup> Leaders of the APT agreed to implement a series of short-term measures to set the pace for the East Asian Free Trade Area. They include the formation of a business council, investment information network, and group of think tanks and human resources development programmes for the East Asian region. At the Bali Summit in 2003, Chinese Prime Minister emphasized the need of open regionalism as

The first motivation of ASEAN countries to seek expanding the group toward East Asia was its vulnerability. The idea of an economic get-together, a caucus, group or community is to balance the developments in other parts of the world. The launch of ASEM in 1994 and economic crisis in 1997-98 which hit most regional countries provided ASEAN incentive toward the creation of an East Asian Community. In the process of ASEM, which is basically an inter-regional forum, East Asian countries faced the challenge of regional identity to counter the EU, which already achieve a remarkable integration.

In the next Chapter, this study will observe and investigate the evolution and possibility of economic regional integration through assessing regional cooperation in trade, investment, and financial sectors and inter-regional cooperation.

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following. "Even though ASEAN's deals with China, Japan, and Korea ultimately aim to be an East Asian Free Trade Area, it should not be an exclusive bloc. Instead, we should strengthen co-operation with other countries and regions." *The Straits Times*, 4 October 2003.