

Chapter 6

Conclusion

ASEAN, which was established in 1967, has been pursuing regional cooperation rather than integration by focusing on political and security issues previously. However, in the post-Cold War era, with changes in the world environment such as the emergence of EU and NAFTA, and WTO, the need for regional integration in Southeast Asia has increased in order to strengthen its competitiveness. More recently and importantly, the economic crisis in 1997-98 initially weakened prospects of economic growth of the ASEAN countries. Nevertheless, observing the ASEAN case, the crisis provided motivation to ASEAN member countries especially in terms of economic integration. The crisis also motivated the reemergence of East Asia cooperation through the APT scheme. Under the desired model of regional integration through the AEC, which aims to form a single market by 2020, currently ASEAN exhibits a mixture of the economic integration arrangements ranging from a free trade area (AFTA) and liberalizing investment scheme (AIA) to sectoral integration in services such as in financial services, and in various cooperation programs. Under such circumstances, ASEAN is now seeking the way for deeper regional integration even though it is still at an infant stage.

This study revealed major figures and trends, which indicate the degree of regional integration in several sectors such as trade, investment, and finance. Even though the degree of cohesiveness in intra-ASEAN interaction is much lower than that of the EU and NAFTA, there has been a trend indicating that tariff barriers to intra-ASEAN

trade have decreased while intra-ASEAN trade and investment has increased despite diversity of the pace among member countries. It was found that unlike the EU, the case of ASEAN more actively seeks monetary or financial cooperation since the 1997-98 economic crisis. These efforts include pursuit of the currency swap system, the AMF proposal, the implementation of ASP, and even the creation of a common currency.

However, the ASEAN members are still much concerned about their sovereignty as goal of deepening economic cooperation eventually requires the coordination of policy and even suspension of sovereignty in certain forms. Reluctance to hand over sovereignty to supranational authority is arguably a main hurdle for further economic integration.

The expanding regional cooperation with Northeast Asia countries is likely to be moderate. In economic terms, this trend came with hope that it could provide the benefits to ASEAN by expansion in economies of scale and financial stability under Japanese leadership as ASEAN has not experienced strong economic leadership. Also, in view of the recent global economic downturn, ASEAN tries to diversify its economic relationships, which have depended heavily on the U.S.

However, it is predicted that APT or East Asia group could reveal some threats to ASEAN mainly from the emergence of China and the lack of Japan's leadership. The rivalry between China and most ASEAN countries could determine the latter's competitiveness in exports and FDI. On the leadership issue, the current efforts of regional groups to obtain external financial support can hardly materialise mainly due to

Japan's unwillingness and its economic slowdown. Expanding regional groups could provoke more trade related conflicts, even though they are not yet evident. There is also a growth gap between two sub-regions, which does not seem to narrow in the near future.

Despite ASEAN's achievements such as in peace and stability, increase of mutual understanding, and strengthening of economic interdependence, there still remain inherent limitations to ASEAN's regional integration. This is apparent in the handling of economic crisis in 1997-98, the recurring haze from forest fire in Indonesia, silence over the human rights abuses by Myanmar's military regime, and the questionable effectiveness of regional trade groupings. These failures were not because of its domestic problems but due to its inability to rise to challenges faced by the region. Particularly on economic integration, several reasons have been given, such as ASEAN's export driven economy and less intra-trade structure, a lack of political commitment to deeper integration, absence of leadership in the region in the process of integration, and the loose institutional mechanism based on the non-intervention policy.

A lack of political commitment to deeper integration can be found in the protectionist policies for local industries and reluctance to trade off sovereignty in financial cooperation constraints arising from the so called ASEAN Way. The principle of ASEAN Way coincided with ASEAN's soft institutionalization and non-intervention policy. Over three decades, ASEAN countries have preferred to have their commitment based on "consensus" and have provided loose framework agreements with flexible practice rather than a concrete and legally binding regime. However, this is the main

obstacle to the upgrading of ASEAN regional integration, as evidenced by economic cooperation in ASEAN in the past. From a legal point of view, ASEAN needs to take the implementation of all new schemes seriously, with firm institutional, legal, and administrative support. In particular, as regional economic integration is deepened, there is a need for more institutionalized mechanisms to deal with complicated economic matters and potential disputes among member countries.

The debate over the ASEAN Way and the various steps taken to enhance economic cooperation between ASEAN states revealed an ASEAN willingness to address the principle and to modify it according to current needs and external influence. There is an even greater need for flexibility in the current world of rampant globalization in particular since September 11. Followed by the economic crisis, the smoke haze and political unrest, the need for modification of the non-intervention principle and more willingness to subordinate sovereignty for common good have increased.

There is no doubt that ASEAN is likely to continue to exist in the foreseeable future and it has become as a symbol of regional stability. However, ASEAN is faced with identity problems. ASEAN aims to build regional economic integration without strong political will towards a security community. It is argued that although ASEAN has contributed towards reducing tension among members, it has not yet reached the stage of a security community and never ever aims to establish such deep integration in both political and security fields. Indeed, before completing concrete cohesiveness among ten ASEAN members, it seeks active regionalization towards East Asia. The most important

goal in the current ASEAN process is probably to build and strengthen its own direction and destiny.

Keeping in mind these arguments in this study, there are other facts that should be noted. Based on the classical economic theory, it is believed that trade liberalization encourages developing countries' efficiency and growth as well as increase in job opportunities. Firstly, an ILO paper¹ pointed out that trade liberalization is associated with heavy adjustment costs in the form of a contraction in output, high unemployment and wide trade deficits. Indeed it said that in the process of trade liberalization, many developing countries remain marginalized from the world economy. The ILO concluded that the impact of trade liberalization is not uniform, but is strongly influenced by factors such as the nature of the liberalization programme, the extent of pre-existing distortions in the trade regime, and the flexibility of markets.

Secondly, regional integration cannot be understood or practised without considering globalization and world political economy. With the presence of new rounds of negotiations, ASEAN should pay attention to world economic trends as well. It is estimated that there are approximately 20 free-trade agreements under discussion among Asian countries. However, as in the case of Africa, these could dilute existing multilateral trade arrangements such as in APEC and the AFTA. In addition, considering active discussions of bilateral free trade among governments, there is the worry among

¹ The study revealed that in three Asian nations namely China, India, Malaysia, trade growth had a generally favorable effect on employment and wages in the manufacturing sector but not in Latin American countries. International Labour Organization, 'Trade liberalization and employment', November 2001. <http://www.ilo.org/public/english/standards/relm/gb/docs/gb282/pdf/sdg-2.pdf>

bureaucrats and business people that with a tangled web of agreements, the complexity of trade process would also increase and it might lead to more trade disputes and slowdown in business.

Finally, as we observed in view of the strong resistance by the people and NGOs against globalization in some regional meetings in the process of regional integration, ASEAN needs to consider the participation of NGOs and civil society. The demonstration rally by opponents of the Malaysia-Thai Joint Development Area (JDA)² implies potential conflicts between regional integration that is being pursued by governments and certain interest groups and civil society.

² The JDA project has come under strong attack from local activists who claim it would harm the environment and livelihood of local people despite repeated assurances from the companies involved. In March, Petronas officials said they were optimistic that the project would meet all Environmental Impact Assessment (EIA) requirements, stressing that the company would give due consideration to all sectors involved to ensure that the project "is not only economically beneficial to the people of both Thailand and Malaysia, but also environmentally safe.", *New Strait Times*, 23 July 2000.