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Fighting irrelevance: an economic community ‘with ASEAN characteristics’¹

*John Ravenhill**

Abstract Contrary to expectations at the time, the financial crises of 1997–98 may have strengthened ASEAN. The backlash against a perceived unsympathetic Western response put ASEAN at center stage in new regional cooperative arrangements. Moreover, the rivalry between China and Japan for regional leadership has led them both to seek to negotiate regional partnerships with ASEAN as a whole. ASEAN, however, faces new challenges – particularly from rapid economic growth in China and India, and from the proliferation of preferential trade agreements (PTAs). ASEAN has made only slow progress in economic cooperation, which has fallen further behind schedule. The private sector makes little use of ASEAN’s preferential arrangements because they afford little advantage over most-favored-nation tariffs. ASEAN has failed to address ‘deeper integration’ issues – the removal of ‘beyond border’ barriers to trade. Some of the bilateral PTAs that ASEAN countries have negotiated with extra-regional partners go further in removing barriers than ASEAN’s own arrangements. ASEAN members continue to eschew binding commitments. Liberalization under ASEAN’s auspices has not been sufficiently significant to encourage business groups to invest substantial resources in lobbying for deeper integration.

Keywords ASEAN; trade liberalization; integration.

ASEAN’s problem is not one of lack of vision, ideas, or action plans. The problem is one of ensuring compliance and effective implementation.

ASEAN Secretariat (2006c: 4)

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Introduction

The circumstances could hardly have been less propitious when the Association of Southeast Asian Nations (ASEAN) entered its fourth decade in late 1997. The region was embroiled in a major financial crisis, which ASEAN proved powerless to address. The long-anticipated expansion of the grouping's membership to embrace the whole of Southeast Asia had been thwarted by political upheavals in Cambodia. And China's rapid economic development appeared to cast a cloud over ASEAN's long-term growth prospects.

ASEAN not only survived the crisis but, to the surprise of many commentators, appeared to emerge somewhat strengthened by it. Two factors were particularly significant in this unexpected resurgence. A backlash against the Western response to the crisis prompted East Asian states to forge improved regional mechanisms for interstate collaboration, not only to enhance economic cooperation within the region but also to improve the region's bargaining situation with extra-regional partners. Given the rivalry between China and Japan for regional leadership, the way was open for ASEAN to seize center stage in promoting a new regional partnership. ASEAN's prominence was reinforced by China's offer, at the China-ASEAN summit in 2000, to explore the possibility of negotiating a free trade agreement (FTA) with ASEAN as a whole. The subsequent framework agreement for an FTA concluded between the two parties placed both Japan and Korea on the back foot. They in turn sought agreements with ASEAN as a whole.

Second, ASEAN members breathed new life into their faltering economic cooperation through launching a number of initiatives in the aftermath of the financial crises. Most notable among these was the adoption at the Second Informal ASEAN Summit in Malaysia in December 1997 of 'ASEAN Vision 2020'. Members committed themselves to full implementation of the ASEAN Free Trade Area [AFTA] (launched in 1992 in response to the perceived economic threat from China), to accelerate the liberalization of trade in services, to realize the ASEAN Investment Area by 2010 and free flow of investments by 2020 and to facilitate the free flow of professional and other services in the region (ASEAN Secretariat 1997).

At their subsequent summit in Hanoi in December 1998, ASEAN leaders agreed to an acceleration of the implementation of AFTA, bringing the deadline for completion for the original six signatories of the agreement (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) forward by one year from 2003 to 2002, at which point 100 percent of items in the countries' Inclusion Lists were scheduled to have tariffs of 0–5 percent, albeit 'with some flexibility' (ASEAN Secretariat 1998b).² Members would also offer additional incentives to investors in manufacturing. The Hanoi Plan of Action specified targets for the liberalization of trade in merchandise goods and services, the harmonization of customs regulations and of product standards, and for the implementation of a Framework Agreement on the ASEAN Investment Area. Members also pledged to strengthen

collaboration to promote food security, to enhance private-sector participation, to intensify industrial cooperation, to cooperate further on intellectual property issues and to promote small and medium enterprises – but no targets or specific means for furthering collaboration were detailed (ASEAN Secretariat 1998a).

Some member states soon realized, however, that these modest advances on existing cooperation in ASEAN provided little foundation for coping with the new challenges that ASEAN faced. ASEAN economies increasingly found themselves caught in a pincer movement: From the North, China's economy continued to grow more rapidly than its ASEAN counterparts; ASEAN governments were particularly concerned about the potential loss of foreign investment given the increased attractiveness of China following its accession to the WTO in 2001 (Ravenhill 2006). And from the West, India was rapidly emerging as 'Asia's Next Giant', with accelerated economic growth following increased opening to the global economy, creating another competitor for ASEAN across many economic sectors. The first years of the new millennium also saw a proliferation of bilateral agreements in East Asia, a trend in which ASEAN member states were increasingly active participants, but which threatened to undermine the grouping's own economic integration. ASEAN's response to the new challenges was the adoption of the Bali Concord II at its Ninth Summit in 2003, in which the grouping resolved to establish an ASEAN Economic Community (AEC) 'to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020' (ASEAN Secretariat 2003). At the 12th ASEAN summit in Cebu, the Philippines, in January 2007, members agreed to bring forward the completion date for the AEC to 2015.

This article evaluates ASEAN's performance in fostering economic collaboration during the institution's fourth decade. It does not seek to assess ASEAN's overall record in promoting collaboration among its members, or to address the issue of whether cooperation on economic matters, regardless of its effectiveness, may have played an important role in confidence building among member economies and thus in facilitating improved interstate relations.

From free trade area to economic community?

The ineffectiveness of the ASEAN free trade area

ASEAN began implementing its FTA in 1993. Subsequently, the good intentions to promote economic cooperation were undermined by a lack of precision of the obligations that members had agreed to, by frequent changes of target dates for implementation, which caused uncertainty for investors and by the failure of members to honor the commitments they had made

(Ravenhill 1995). ASEAN's definition of free trade was an unusual one – the implementation of tariffs that were in the 0–5 percent range (the top of this range being above the average tariff level that industrialized countries would impose on imports of manufactures once they fully implemented the WTO's Uruguay Round commitments). The lack of uniformity in the treatment of individual products by various ASEAN countries caused traders to face in effect not a single free trade area but 45 bilateral preferential agreements within the ASEAN market (Baldwin 2007: 12).

ASEAN's acceleration of the implementation of AFTA did somewhat help reduce the problem of uncertainty caused by different national tariffs for individual projects. By the end of 2006, 99.8 percent of the tariff lines of the six original AFTA signatories (the 'ASEAN6') had been brought within the 0–5 percent range required by AFTA (Ong 2006). The average tariff level was 2.39 percent, down from 12.76 percent in 1993 when implementation of AFTA commenced (Habito, Aldaba and Templo 2004: 19). On the other hand, the complete freeing of trade between the six economies had fallen behind schedule. By the end of 2006, only 65 percent of the products in the Inclusion Lists of the ASEAN6 had zero tariffs. Complete removal of all tariffs on goods was not scheduled to occur until 2010 for the ASEAN6 and 2015 for the newer members, and even then, there would be exceptions for goods classified as 'sensitive' or 'highly sensitive'.

The uncertainty as to how products would be treated in individual markets was one reason why the private sector made little use of AFTA's preferential arrangements, an uncertainty compounded by inconsistent rules of origin and the absence of dispute settlement mechanisms (DSMs) in the agreement. More important, however, was that following the unilateral trade liberalization ASEAN states pursued in the 1980s and 1990s, the preferential margins created by AFTA for the vast majority of intra-ASEAN trade were so low that few companies found that their potential benefits offset the risk of delays and the costs of completing the paperwork required to comply with the treaty's rules of origins. Table 1 presents data on the average tariffs imposed in 2003 by the six original AFTA signatories on imports from outside the region (the most-favored-nation rate) and from within ASEAN (the Common Effective Preferential Tariff). Only in Thailand's case was there a large gap between the two rates.

These, however, were the *average* tariff levels. For the major categories of products in intra-ASEAN trade – computer and electronic equipment and components, and fuels – the average MFN tariff was less than 2 percent, many of the computer products and components being covered by the WTO's Information Technology Agreement.³ It is scarcely surprising, therefore, that various studies have shown that only a tiny percentage of intra-ASEAN trade took advantage of the AFTA's preferential tariffs – typically less than 5 percent of overall trade, a much smaller percentage than for preferential arrangements in Europe, for instance (McKinsey and Company 2003; Teh 1999). The issue here is not that tariff rates were significant

Table 1 Comparison of average most-favored-nation and AFTA's common effective preferential tariff rates 2003 (%)

	Most-favoured nation	CEPT
Brunei	3.1	1.0
Indonesia	7.3	2.2
Malaysia	9.2	2.0
Philippines	7.8	3.8
Singapore	0	0
Thailand	18.6	4.6

Source: Compiled from data in Dennis and Yusof (2003: 4–5).

barriers to intra-ASEAN trade, at least for the original signatories of AFTA. They were not. Rather, it is that AFTA added little to the trade liberalization undertaken unilaterally by Southeast Asian states. If AFTA was to act as a significant stimulus to intra-ASEAN trade, advantages would have to be created on issues other than tariffs.

Progress in other areas of economic collaboration, however, was even less impressive than in the removal of tariffs on merchandise trade. Members failed to meet a 2005 deadline for agreement on criteria for identifying NTBs. Although the ASEAN Secretariat now maintains a list of non-tariff barriers that individual states impose, few members had provided a comprehensive list to the Secretariat (Habito, Aldaba and Templo 2004: 50). And, as the former ASEAN Secretary-General Rodolfo Severino (2006: 348) commented, it would be far more useful to have a list compiled from NTBs that businesses reported to have encountered rather than one of barriers whose existence governments were willing to acknowledge. ASEAN simply has not taken effective action to address problems in areas such as the coordination of customs procedures and the harmonization of product standards and technical regulations. ASEAN did identify 20 priority products for which harmonization of standards was to be achieved by 2000; by 2002, however, only four countries had fulfilled this commitment (Habito, Aldaba and Templo 2004: 19).

In the services sector, little progress on liberalization occurred despite the signature in 1995 of an ASEAN Framework Agreement on Services. Consequently, growth of services trade within ASEAN was slower than the world average – in marked contrast to trade in goods (Findlay 2005; Lloyd and Smith 2004). Some countries had liberalized market access and made progress on the provision of national treatment to investors from other ASEAN economies, but ASEAN had not begun to address other key issues such as the movement of natural persons or a mutual recognition of labor standards. And, as the ASEAN Secretary General, Ong Keng Yong, acknowledged in December 2006, ‘ASEAN has yet to embark... on the

harmonization and standardization of laws and regulations on business and on competition' (Ong 2006).

ASEAN's progress on economic integration accordingly paled in comparison not only with that achieved within the European Union but also with that in other less ambitious integrative arrangements such as NAFTA and, perhaps more surprisingly, MERCOSUR, which has moved more quickly than ASEAN on the elimination of tariffs and non-tariff barriers, on providing national treatment for service exports and on the harmonization of competition law.⁴

Two developments in the early years of the twenty-first century highlighted the weaknesses of the existing state of ASEAN economic cooperation. The first was the negotiations that occurred between ASEAN as a grouping and regional economic partners – first China, then Japan and Korea (and most recently with Australia-New Zealand). Although the collective negotiations with foreign partners did help revitalize ASEAN after the financial crisis, they also had the effect of exposing its weaknesses. One was that ASEAN itself had no international legal personality (a problem that the ASEAN Charter, if ratified, will rectify). The Secretariat, unlike the European Commission, was not empowered to negotiate on ASEAN's behalf. This problem was compounded by the absence of a common external tariff and therefore identical treatment for imports in all ASEAN markets. Although the treaties were ostensibly with ASEAN as a whole, prospective partners inevitably found themselves having to negotiate with individual ASEAN countries – hardly conducive to the minimization of transaction costs or to ASEAN's being able to enhance its leverage through joint negotiation.

The fragility and shallowness of ASEAN's economic integration was further exposed by the proliferation of bilateral FTAs. By the middle of 2007, individual ASEAN countries were implementing, negotiating or conducting studies on close to 60 preferential trade agreements with other countries or groupings (Table 2). At the very least, the conclusion of these agreements could be expected to remove any tariff advantages in merchandise trade that AFTA conferred on ASEAN partners. Some of these agreements, however, proposed 'deeper' integration than ASEAN itself had achieved. This was particularly the case for agreements involving the United States (with Singapore having concluded a treaty in May 2003, and Malaysia and Thailand negotiating with Washington), and to a lesser extent for those with Japan and with Australia. These agreements are 'WTO Plus' in content, involving not just trade in goods but also in services, and typically contain provisions on intellectual property rights, competition policies, etc.⁵ With full implementation of these agreements usually scheduled within ten years of their signature, ASEAN countries faced the anomaly of having committed themselves to give more favorable treatment to extra-regional partners than they were obliged to provide to their partners in ASEAN – entirely against the 'ASEAN First' principle that supposedly underlay Southeast Asia's regional collaboration on foreign economic policies.

Table 2 Bilateral/minilateral PTAs involving ASEAN and its member countries in March 2007

Country	Implementing	Negotiating	Study group
ASEAN	AFTA, China, Korea ^a	Australia, New Zealand, India, Japan	US
Brunei	AFTA, Chile, New Zealand, Singapore ^c	Japan	US
Cambodia	AFTA		
Indonesia	AFTA	Japan	EFTA, India, Pakistan, US
Laos	AFTA, Thailand		
Malaysia	AFTA, Japan	Australia, New Zealand, Pakistan, US	Chile, India, Korea
Myanmar	AFTA, BIMSTEC ^b		
Philippines	AFTA, Japan		Pakistan, US
Singapore	AFTA, Australia, EFTA, India, Japan, Jordan, Korea, New Zealand, Panama, US, Brunei–Chile–New Zealand ^c	Bahrain, Canada, China, Egypt, Kuwait, Mexico, Pakistan, Peru, Qatar	Sri Lanka, UAE
Thailand	AFTA, Australia, Bahrain, China, India, Japan, Laos, BIMSTEC ^b	Bahrain, EFTA, New Zealand, Peru, US	Chile, Korea, MERCOSUR, Pakistan
Vietnam	AFTA	Japan	

Notes: ^aExcludes Thailand, which refused to sign after Korea excluded rice and 200 other agricultural products from the agreement.

^bBay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand).

^cTrans-Pacific Strategic Economic Partnership Agreement.

In short, ASEAN had saddled itself with a mid-twentieth century form of regional economic cooperation that was ill equipped to cope with twenty-first century challenges. Summing up the state of ASEAN economic integration in 2002, then Secretary-General of ASEAN Rodolfo Severino commented: '[T]he process of integration has generally stalled. . . Regional economic integration seems to have become stuck in framework agreements, work programs, and master plans' (2006: 344).

Responding to increasing criticism, ASEAN's Economic Ministers in May 2002 commissioned a comprehensive study from the management consultants, McKinsey and Company, into ASEAN competitiveness

(McKinsey and Company 2003). The bluntness of the report's message undoubtedly shocked some ASEAN governments. The report concluded: 'ASEAN countries are less a unified market for goods and services than a collection of disparate markets' and that this fragmentation generated 'higher costs, uncertainty, and subscale markets'. These problems were compounded by 'unpredictable policy implementation' (Schwarz and Villinger 2004). Together, these problems deterred potential foreign investors. Full integration of the ASEAN market was estimated to have the potential to raise regional GDP by 10 percent and to reduce the cost of manufacturing in the region by between 10 and 20 percent.⁶ In their response to the report at the 2003 Bali summit, ASEAN leaders went beyond its recommendations in committing themselves to the establishment of an ASEAN Economic Community, one of three 'pillars' of an ASEAN Community.

The ASEAN Economic Community

The Bali Concord II adopted in 2003 is a typical ASEAN document: full of well-meaning phrases but almost entirely devoid of specificity regarding the mechanisms through which the objectives will be realized.

Indeed, to exactly what ASEAN leaders were committing themselves in pledging to establish an ASEAN Economic Community was far from clear. The concept of an economic community suggested a substantially deeper economic integration than had been achieved through the implementation of AFTA over the previous decade. This was reinforced by the statement: 'The ASEAN Economic Community shall establish ASEAN as a single market and production base, turning the diversity that characterises the region into opportunities for business complementation making the ASEAN a more dynamic and stronger segment of the global supply chain' (ASEAN Secretariat 2003: Paragraph B3). Following the logic of the McKinsey report, the emphasis was strongly on furthering ASEAN's integration into global production networks.

But how did ASEAN leaders conceive of a single market, and how it might be realized? A commitment to a 'free flow of goods, services, investment' seems straightforward enough but the qualifier in the commitment to a '*freer* flow of capital' immediately suggested a hedging that critics saw as all-too-characteristic of ASEAN's history of 'flexible' commitments to economic integration (quotes from ASEAN 2003: Paragraph B1).

As Lloyd and Smith (2004) suggest, the idea of a single market has a specific meaning for economists: it is a geographical area in which a single price should prevail throughout the regional market for every tradable commodity and factor of production, after adjustment is made for transport costs. The McKinsey report had made specific comments about how prices for the same product diverged significantly across ASEAN economies. For the law of one price to be realized, not only must border barriers be removed

but so too any other sources of discrimination (including those introduced by national taxation systems) between domestic goods, investors and labor, and those coming from other parts of the region. Realization of a single market thus defined would require the harmonization of national tax rates, competition principles and product standards. Some suggest on the basis of European experience that realization of a truly integrated market will also require the adoption of a common external tariff and 'deep' monetary co-operation (at least a currency basket to facilitate intra-regional transactions if not a common currency) (Plummer 2005; Plummer and Click 2005).

Reference to a common external tariff immediately points to significant difficulties that ASEAN would experience in attempting to move to a truly integrated single market. The first is accommodating Singapore's open economy. Singapore's average MFN tariff is already zero: given Singapore's dependence on international trade, it would be inconceivable for the island state to agree to raise its tariffs to comply with an ASEAN common external tariff that was set above zero. Two possible solutions exist. First, ASEAN as a whole could set its CET at zero, which would be consistent with the grouping's external orientation and the emphasis in the Bali Concord on the importance of establishing ASEAN as a competitive global production base. The second would be for other ASEAN members to agree to a non-zero CET, leaving Singapore as a free port, but this would have administrative complications that would inhibit the reduction of transactions costs, which the adoption of a CET is intended to achieve.

A zero CET would cause a different set of problems in depriving member states of tariff revenue, a significant source of government income for the least developed economies, especially Cambodia. The need to accommodate the problems faced by ASEAN's newest members is the second major difficulty that ASEAN will face in moving toward a single market. The diversity of ASEAN economies remains greater than that of other regional groupings when measured in terms of per capita income.⁷ ASEAN has given far greater attention recently to the need for capacity building in the weaker states – albeit with mixed results.⁸ Unlike the European Union, however, ASEAN has not developed any mechanisms for fiscal transfers from the wealthier to the poorer economies. The principal concession to its low-income states, a status that overlaps with the newest members, has been to allow them longer adjustment periods to implement agreements. In the debate on the ASEAN Charter, a recommendation from the Eminent Person's Group for a special fund (financed by *voluntary* contributions) to narrow the regional gap was dropped.

The McKinsey report had recommended that ASEAN should deepen its economic cooperation through a sectoral approach, suggesting that the initial focus should be on liberalization and standardization in consumer goods and electronics. At its October 2003 leaders' meeting, ASEAN decided to go beyond these recommendations by accelerating liberalization in 11 priority sectors.⁹ The 11 sectors collectively accounted for 50 percent of

intra-ASEAN trade in 2003. For each of the sectors, a 'roadmap' to liberalization was prepared, with the objective of removing import duties by 2007 (for the ASEAN6, the completion year was 2012 for newer members), three years ahead of the AFTA schedule. The roadmaps also focus on investment facilitation and harmonization/mutual recognition of product standards and testing certification.

Progress in liberalization is far from complete and generally slower than anticipated (ASEAN Secretariat 2006a). Moreover, the focus of current work remains predominantly on border barriers rather than on the 'deeper' beyond-the-border integration that will be required if ASEAN is to form an integrated economic community. For some sectors, e.g., automotive, preparatory studies were still to be completed in 2007. The harmonization of automotive safety standards was not scheduled to be completed until 2008. The timeline for the removal of restrictive investment measures stretched to 2010 for the ASEAN6, 2013 for Vietnam and 2015 for Cambodia, Laos and Myanmar. Measures in the tourism sector appear less ambitious than those proposed in the ASEAN Tourism Agreement, signed in 2002 (Severino 2006: 349). Some states, particularly Cambodia, exempted a significant number of products from liberalization, especially in the automotive, textiles and wood products sectors. In the services sector, some progress has been made in mutual recognition agreements – for instance, on nursing and engineering services. A comprehensive report on trade in services 10 years after the implementation of the ASEAN Framework Agreement on Services concluded, however, that 'performance has not been impressive' and that the liberalization achieved under the agreement had provided little preferential advantage beyond that offered by members through the GATS to all their trading partners (Thanh and Bartlett 2006: xiii).

The relatively recent implementation of the roadmaps precludes definitive judgements on whether ASEAN will meet its own deadlines. Nonetheless, the slow pace of liberalization and the fragmentation across different markets does not bode well for the grouping's aspirations to create a single market that will be attractive to foreign investors. Incomplete agreements that are lacking in specificity do little to enhance confidence in the grouping's capacity to deliver on its commitment to a single market. But also, as has been the case throughout the history of ASEAN economic cooperation, the credibility of ASEAN's commitments comes under question because of the weakness of the grouping's political institutions, particularly their capacity for monitoring and enforcing the agreements that are reached.

The institutional reform imperative

ASEAN is infamous for the manner in which states have jealously guarded their sovereignty – seen in the unwillingness of members to provide the Secretariat with the resources needed to carry out its responsibilities for fear that it might somehow mushroom into a European Commission-style

supranational body. Consensual decision-making and the 'flexible' implementation of agreements are emblematic of a pathology of fear of commitment. With most ASEAN states now members of the WTO, and many entering binding FTA commitments with industrialized economies, there is more than a little irony when they are willing voluntarily to sign on to these agreements but maintain a reluctance to commit themselves to similar agreements within ASEAN itself. Over the years, ASEAN members appear to have confused an aversion to supranationalism with an unwillingness to accept binding commitments voluntarily entered into. There is nothing in a FTA that requires supranationalism – even DSMs can be handled, albeit with debatable effectiveness, by national secretariats, as occurs in NAFTA.

As many commentators have noted, ASEAN is unlikely to achieve its ambitious vision of establishing an economic community by 2015 unless radical changes are made in its culture, its institutions and its decision-making procedures. ASEAN's culture has been one of voluntary commitment and compliance, of flexibility in the implementation and interpretation of obligations that members have negotiated at the regional level. The consequence of this elastic resolve for its most significant economic project, the AFTA, has been an incomplete agreement that fails to provide the certainty that foreign investors seek. The new ASEAN Charter provides few grounds for confidence that members are willing to take the measures required to remedy institutional deficiencies.

A particularly significant gap in AFTA was the absence of effective DSMs. Such mechanisms, of course, can only be effective if clarity exists on what members have actually agreed to. ASEAN members are moving, albeit slowly, toward accepting greater precision in their regional obligations, for example, by agreeing to the removal of all tariffs.¹⁰ But an enormous distance still has to be traveled before ASEAN has a set of agreements that are sufficiently specific that they could conceivably be legally enforceable. It is this lack of specificity in ASEAN agreements, coupled with the failure of member states to see their provisions as binding obligations, which are the principal problems.

Commentators have placed a great deal of emphasis on the need to 'depoliticize' dispute resolution in ASEAN (Hsu 2004). While an independent DSM within ASEAN would certainly be a significant institutional innovation, the emphasis on depoliticization of dispute resolution to a considerable extent misunderstands the character of the dispute settlement process within the WTO. Consistent with Ruggie's (1982) characterization of postwar economic regimes as reflecting the principle of 'embedded liberalism', dispute settlement in the global trade regime has always been a political process. Even in the more legalized WTO, emphasis is placed on the parties negotiating a settlement themselves; the establishment of a dispute settlement panel is a last resort (and only about one-third of the disputes that are notified to the WTO end up before a panel).

The previous argument notwithstanding, the WTO's DSMs have enormous significance simply by virtue of their very existence. It is the possibility that disputes will go to adjudication that encourages countries both to comply with their obligations and to resolve disputes when they arise. ASEAN's decision to adopt a Protocol on Enhanced Dispute Settlement Mechanism (ASEAN Secretariat 2004) at its tenth summit in Vientiane in 2004 therefore arguably marked a substantial step toward reshaping institutional culture. Nonetheless, as former Secretary-General Severino (2006: 354) points out, the new mechanism appears to assume that the Senior Economic Officials, who have responsibility for adopting a dispute panel report will do so only if they reach consensus (a requirement that undermined the GATT's dispute-settlement procedures). Again, contrary to the revitalized DSMs of the WTO, the Senior Economic Officials can also reject a report by the Appellate Body. Moreover, the effectiveness of the new mechanisms will depend not just on their being in place but on the willingness of states to make use of them: the resolve of states on this matter has yet to be tested. Members never had recourse to a 1996 protocol on dispute settlement, and their use of the new procedures would mark a radical departure from established ASEAN norms. The ASEAN Charter refers only to the need for 'appropriate dispute settlement mechanisms' (Article 25) and refers unresolved disputes to the ASEAN summit (Article 26).

The failure of member states to honor their commitments results also from the lack of effective monitoring procedures within the grouping. In turn, this defect highlights the weakness of the ASEAN Secretariat. Although the Secretariat was strengthened somewhat in 1993 after the commitment to introduce AFTA, with the title of its chief executive officer being amended to Secretary-General of ASEAN, and an open recruitment process introduced, it remains drastically understaffed for the tasks that it will be required to perform if the ASEAN Community is to be realized within the next decade. And member states appear determined to ensure that the Secretariat's autonomy will not be enhanced. The Eminent Persons Group report on the ASEAN Charter fails to suggest explicitly that the Secretariat should have a role in monitoring the implementation of agreements, asserting merely that 'more openly-recruited professional staff may need to be employed' to upgrade the Secretariat's capacity to 'carry out research and analytical work' (ASEAN Secretariat 2006c: Paragraph 40). The Secretariat has yet to succeed in its ambition to gain the power to 'name and shame' by publicizing the non-compliance of member states with their treaty obligations.

The other major area where institutional reform is required is in ASEAN's decision-making procedures. Decision-making on the basis of consensus may have served ASEAN well during its early days when the need for confidence building was paramount. In an era when decisions need to be made and implemented rapidly to ensure that an integrated ASEAN market remains competitive, proceeding on a lowest common denominator basis will simply be ineffective. The reality is that some countries are far more important for

Table 3 Country importance in the ASEAN regional economy (%)

	Share in total ASEAN exports	Share in total ASEAN GDP
Brunei Darussalam	0.7	0.7
Cambodia	0.4	0.6
Indonesia	10.9	32.0
Laos	0.2	0.4
Malaysia	21.6	14.9
Myanmar	0.8	0.7
Philippines	5.3	11.2
Singapore	40.7	13.3
Thailand	14.9	20.2
Vietnam	4.6	6.0

Source: Calculated from ASEAN Secretariat (n.d.: Table 18) and ASEAN (2006b: Table 17).

the regional economy than are others. Four countries – Indonesia, Malaysia, Singapore and Thailand – account for more than 85 percent of intra-ASEAN trade and 80 percent of total ASEAN GDP (Table 3). Four other members – Brunei, Cambodia, Laos and Myanmar – each contribute less than 1 percent of total ASEAN trade and GDP.

These disparities suggest that, optimally, a system of weighted voting should be utilized in ASEAN's economic decision-making. Failing adoption of such mechanisms, and this would be an extremely unlikely development, a second best option would be to ensure, through the use of a system of qualified majority voting, that ASEAN's economically least important states do not have an effective veto over decision-making.

Another proposal put forward as a means of facilitating more rapid integration is the creation of a mechanism of 'flexible participation'. This would see a sub-grouping proceeding with measures while other members remain on the sidelines. The two straightforward arrangements would be either an 'ASEAN – x ', or a '2 plus x ' procedure. Both approaches have drawbacks. Whereas proponents suggest that undertakings by 'pathfinders' to pursue deeper integration may have a positive demonstration effect that convinces laggards to follow suit, an equally plausible argument is that enabling countries to opt out of various agreements removes the pressure on them to liberalize (as the WTO recognized in insisting that the Uruguay Round, unlike its Tokyo Round predecessor, should be a 'single undertaking'). The fundamental problem with these types of $N - x$ arrangements is that they have the potential to institutionalize a multi-tier ASEAN characterized by fragmented integration, which will continue to render ASEAN's integrative efforts of marginal interest to its target audience, private sector actors.

The ASEAN Charter, if ratified, will reinforce the weaknesses in ASEAN's decision-making procedures. The Charter asserts: 'As a basic

principle, decision-making in ASEAN shall be based on consultation and consensus' (Article 20), but adds: 'In the implementation of economic commitments, a formula for flexible participation, including the ASEAN minus X formula, may be applied where there is a consensus to do so' (Article 21.2).

Beyond political will

ASEAN's failure to adopt binding obligations to deepen its economic integration is often attributed to 'lack of political will'. But for political economists, this should be the beginning rather than the end of an explanation – the task is to explain why 'political will' has been absent.

A lack of political will reflects the configuration of political forces within member states on issues relating to ASEAN integration. As Solingen (1999) and Stubbs (2000) have argued persuasively, internationalizing forces have generally been in the ascendancy in Southeast Asian economies over the last two decades, despite the financial crisis of 1997–98 (Solingen 2005). How then to explain ASEAN's slow pace of intra-regional liberalization? It is not that pro-liberalization business groups oppose deeper ASEAN integration – they do have a strong interest in a stable economic and political environment within the region. Rather, it is that liberalization under ASEAN auspices simply has not been of sufficient significance to warrant their expending substantial resources to lobby for deeper integration. Unilateral liberalization, ASEAN members' participation in multilateral agreements such as the Information Technology Agreement, and the creation of export processing zones or duty drawback arrangements together have substantially freed intra-regional trade in components and final products for many of ASEAN's most significant exports. These developments have at least partially undermined the case for an ASEAN FTA – the additional benefits that AFTA creates compared with the MFN tariff treatment frequently are negligible, particularly given the uncertainty caused by governments' inconsistent implementation of their commitments. One can credibly make the argument that the supply of intra-ASEAN trade liberalization has exceeded the demand from the business community for it.

Second, for the outward-oriented (and generally relatively small) economies of Southeast Asia, regional countries provide markets for only a small percentage of overall output. The share of intra-regional trade in ASEAN's total trade has remained remarkably stable over the 40 years of ASEAN's existence (Table 4). Although this ratio is relatively high for FTAs among less developed economies (certainly much higher, for example, than those that link African states), intra-regional trade still accounts for less than one quarter of all of ASEAN's trade. The phasing-in of AFTA has not led to a marked increase in intra-regional trade in overall trade.

When there has been significant demand for further liberalization within ASEAN, it has typically come from foreign corporations keen to rationalize

Table 4 Changes in the share of intra-regional trade in selected RTAs, 1970–2006

	1970	1980	1985	1990	1995	2000	2006
EU (1957)	59.5	60.8	59.2	65.9	62.4	65.7	65.7
NAFTA (1994)	36.0	33.6	43.9	41.4	41.5	46.4	41.8
MERCOSUR (1991)	9.4	11.6	5.5	8.9	19.2	20.4	15.8
ASEAN/AFTA (1992)	22.4	17.4	18.6	19	22.0	23.8	24.2

Note: Figures in parentheses refer to year in which the RTA came into force.

Source: WTO (2003: Table 1B. 11) updated with author's calculations from data in WTO (2007).

their production on a region-wide basis. By far the best example is the automobile industry, especially Japanese car assemblers, which lobbied for ASEAN's Brand to Brand Complementarity program (introduced 1988), and its subsequent improvement through the 1996 ASEAN Industrial Cooperation Scheme (Doner 1997). But this activism in support of intra-ASEAN liberalization remains very much the exception. Given their extra-ASEAN export-orientation, and their dependence on imported components from their home countries, subsidiaries of foreign corporations located within ASEAN are more likely to expend resources supporting liberalization on an MFN basis or lobbying for PTAs with industrialized economies than they are on supporting intra-ASEAN liberalization.

The dominant position of subsidiaries of transnational corporations in export-oriented manufacturing raises other issues in the domestic political economies of ASEAN members. In Singapore and Malaysia, these subsidiaries are estimated to be responsible for more than 80 percent of manufactured exports. This dependence on foreign subsidiaries affects trade politics in several ways. First, these subsidiaries often find it difficult to gain access to governments. Second, their prominent profile raises populist concerns that foreign corporations may be the principal beneficiaries of deeper ASEAN integration – hence the pointed reference in an Institute of Southeast Asian Studies report on the ASEAN Economic Community to the need for it 'to be made clear to the private sector that the AEC will not only benefit MNCs, but also ASEAN companies' (Hew 2004: 14).

The emphasis that ASEAN has placed on responding to the needs of the private sector notwithstanding, integration in the region remains a government-driven process in which business has little effective institutionalized representation. As the then Secretary-General of ASEAN acknowledged: 'A perception lingers that the private sector has not been fully and actively involved in the integration and community building processes in ASEAN' (Ong Keng Yong 2006). The ISEAS report notes that the institutionalization of private sector representation in ASEAN through the ASEAN Chamber of Commerce and Industry, which was represented at meetings of Senior Economic Officials and Economic Ministers, was

‘ineffective and disorganized’ (Institute of Southeast Asian Studies 2004: 14).¹¹

And while liberalizing forces may have been in the ascendancy in ASEAN over the last two decades, what Solingen (1999) calls ‘backlash coalitions’ – essentially various representatives of the forces of economic nationalism – are by no means completely vanquished. Developments since the financial crisis in ASEAN’s major economies have seen varying fortunes for these coalitions. In Indonesia, democratization has reinforced economic liberalization with the removal of the Soeharto-era monopolies. Nonetheless, Parliament enacted restrictive laws on foreign direct investment in 2007. In Thailand, Thaksin’s administration reinforced the position of a new set of cronies while the subsequent military administration erratically pursued various policies of economic nationalism. In Malaysia, despite the retirement of Dr Mahathir, business as usual continues with clientelist networks continuing to be prominent. In short, ‘backlash coalitions’ continue to wield considerable influence, frequently protected by various non-tariff measures, in many of those areas where barriers to deeper integration remain – and their influence is not balanced by subsidiaries of foreign corporations whose primary concern is with the extra-ASEAN dimensions of trade.

Conclusion

ASEAN enters its fifth decade in circumstances more propitious than those prevailing at the time of its 30th anniversary celebrations. The region has recovered strongly from the financial crisis. Economic growth has been restored, even now in Indonesia, albeit at lower levels than achieved across the region in the decade before the crisis. Foreign direct investment inflows have revived, with record levels being recorded in 2006, a total of US\$51.5 billion flowing into the ASEAN economies. And Vietnam is rapidly emerging as a new ASEAN economic success story.

ASEAN meanwhile, at least at the rhetorical level, does appear to be heeding the lessons of previously ineffective cooperation. The commitment to an ASEAN Economic Community was a bold gesture, which if fully implemented would provide a foundation for ASEAN to address more effectively the new challenges it faces arising from the growth of China and India, and from the proliferation of preferential trade agreements. But nearly four years beyond pledging itself to the realization of an economic community, scepticism is growing as to whether the various ‘roadmaps’ that ASEAN has drafted will provide the stimulus required for deeper integration to be achieved. ‘Vision’ continues to triumph over implementation and management.

Two dimensions are particularly important for the future of economic integration in ASEAN. One is the weak institutional foundations for ASEAN integration. Institutional reform will be a litmus test for whether ASEAN members have overcome their longstanding fear of making binding

commitments. The ASEAN Charter provided an opportunity to make substantial progress on this issue, an opportunity that was lost. The other dimension is non-tariff barriers, which have yet to be addressed effectively. One of the most insightful commentators on ASEAN, and a sympathetic participant in the integration process, Hadi Soesastro, suggested that the core elements of the economic community must be put in place by 2010: 'failure to do so will make the exercise no longer meaningful' (2003: 6). More than halfway between the time that Soesastro was writing and his proposed deadline for realizing a new ASEAN Economic Community, implementation has been minimal. Even if the circumstances surrounding ASEAN's 40th anniversary are more propitious than those of a decade ago, the coming years will be no less as significant a test of ASEAN's credibility and relevance.

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Notes

- 1 I owe this phrase to Michael Plummer (2006).
- 2 In AFTA, members are required to assign tariff lines to one of four lists: the Inclusion List, the Temporary Exclusion List, the 'Highly Sensitive' List and the 'General Exception' List. For the six original signatories of AFTA, close to 99 percent of tariff lines are on the Inclusion List; for Cambodia, Laos and Myanmar, the figure is only 72 percent; for Vietnam, which has made impressive progress in trade liberalization, the figure is 97 percent.
- 3 The Information Technology Agreement (ITA) provides for duty-free import of most IT components and products. Indonesia, Malaysia, the Philippines, Singapore and Thailand are parties to the ITA. In 2005, electrical machinery constituted 29 percent of total intra-ASEAN trade, fuel oils a further 20 percent and machinery (a category that includes household appliances, machine tools and office machinery) 16 percent (ASEAN n.d.).
- 4 For a detailed comparison, see Lloyd and Smith (2004: Table 4.1).
- 5 For a comparison of the agreements entered into by East Asian countries, and an assessment of their consequences, see Ravenhill (2008).
- 6 A summary of the report appeared in the *McKinsey Quarterly* (see Schwarz and Villingier 2004).
- 7 Whereas the ratio of the highest (Singapore) to lowest (Laos) per capita income in ASEAN measured in purchasing power parity terms is more than 15:1, the equivalent ratios for NAFTA (United States: Mexico) and the European Union (Luxembourg: Romania) are approximately 4:1 and 7:1 respectively. If Singapore is excluded as an outlier, however, the ratio between the next highest per capita income, Malaysia, and Laos is 5:1. When the measure is overall size of the economy, however, the European Union is now the most diverse grouping, with a ratio of more than 500 to 1 between Germany, the largest, and Malta, the smallest economy. Data from World Bank (n.d.).

- 8 For the problems that this has caused for regional cooperation efforts, see Hamilton-Hart (2003). An assessment of ASEAN's capacity-building programs found that training programs often attracted 'poor participation' in part because 'recipient countries did not always find such training programs relevant to their needs' (Habito, Aldaba and Templo 2004: xii).
- 9 The priority sectors are: wood-based products and automotive, rubber-based products and textiles/apparel, agriculture-based products and fisheries, electronics, IT linkages and health care, and air travel and tourism.
- 10 Nesadurai (2003) notes that although some clarification of AFTA's rules did result from interstate disputes over its implementation, this often came at the expense of a downward revision of original targets.
- 11 In interviews conducted in July 2007, officials from the ASEAN Secretariat spoke of the frequent indifference of private sector actors to seminars that the Secretariat had organized.

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