

Demanding Supply or Supplying Demand? An Analysis of ASEAN Economic Community-Building (1977-2015)

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Abstract - This paper reviews ASEAN's initiative of realizing economic integration and opens the discussion on the probability of its success using a theoretical lens espoused by Walter Mattli in his book *The Logic of Regional Integration: Europe and Beyond*. Due to the dichotomous nature of the traditional theoretical approaches, this study utilizes Mattli's demand-supply approach to reconcile the role played by market factors and politics, specifically actors and institutions, for seeking deeper integration. Mattli contends that the demand condition is mainly supported by market players and big businesses with larger economic interests while the supply condition is provided by an 'undisputed leader' and "commitment institutions". He underscored that the combination of these two sets of conditions will mainly contribute to a successful regional integration process. However, this paper argues that ASEAN's inability to satisfy both conditions does not automatically translate to the region's eventual failure in seeking deeper levels of integration.

Keywords: ASEAN Economic Community, ASEAN affairs, political economy, regional governance, regional integration

I. INTRODUCTION

With its launching on 31 December 2015, the ASEAN Economic Community (AEC) has set off more discussions and debates in the national and international arenas due to the massive economic gains it offers to the ASEAN Member States (AMS) and to the rest of the world. Having the seventh largest global economy with a collective gross domestic product (GDP) of over USD3.2 trillion in 2019, and with a market of almost 656 million people, mainly young, working population, ASEAN has certainly gained the attention and interests of states, economic blocs, market players, foreign businesses, and foreign investors.¹ Given the global economic slowdown and China's 'new normal' level of growth, the present focus on Southeast Asia as a regional trade and investment bright spot has been augmented. Hence, the progress and success of an AEC carries major implications not only to the AMS, but also to other key actors and players outside the regional grouping.

Envisaged by the AEC Blueprint 2007 as the deadline, 2015 was instead viewed as a milestone due to a variety of policy, sectoral, and governance issues that are yet to be resolved.² While the average of eliminated tariffs across ASEAN stands at almost 96 percent, other impediments such as non-tariff barriers, highly restrictive services trade, outdated foreign

investment laws, and stringent labor mobility regulations greatly hinder the region's goal of establishing a single market and production base. Eight AMS have already enacted competition laws, but persistent challenges on intellectual property rights, taxation, infrastructure development, and e-commerce adversely affect the promotion of fair and just competition in ASEAN. The development gap and the difficulty in fully integrating into the global economy are also factors contributing to the adjustment of the 2015 deadline.

Currently, the thrust of firmly establishing an AEC has been shifted towards the post-2015 agenda which is thoroughly discussed in the AEC Blueprint 2025. It builds on the Blueprint 2015 and introduces a new vision for an AEC by 2025. With global economic headwinds projected to persist and affect AMS in the medium-term, ASEAN's pursuit of a seamless economic community in the next decade is assumed to be tested by several challenges and thorny issues, direct and/or indirect, internal and/or external, and expected and/or unexpected. In this regard, is ASEAN able and willing to supply the mechanisms and forces necessary for the successful attainment of the goals set out by the 2015 and 2025 Blueprints?

This study aims to contribute to the discourse by focusing on ASEAN's deviation from the faithful fulfillment of the demand-side and supply-side conditions, as provided by Walter Mattli.³ It likewise seeks to provide possible responses to the following queries: 1) Which group has mainly driven the demand for economic integration in ASEAN?; 2) What supply mechanisms were established to answer the call for deeper integration?; and 3) What are some key considerations in the region's quest for a well-functioning and efficient AEC?

The paper is divided into three sections. The first part elaborates on Mattli's approach to integration. It is followed by the examination of ASEAN's drive towards economic integration using Mattli's theory. The last segment shares insights on the possible trajectory of ASEAN economic integration in the near future.

II. REVIEW OF RELATED LITERATURE

The Logic of Regional Integration

In his book *The Logic of Regional Integration: Europe and Beyond* (1999), Walter Mattli argues that regional integration is likely to succeed if two sets of conditions are met – demand-side and supply-side.⁴ In explaining the demand condition, Mattli employed a combination of institutional theories (i.e., property rights, economic history, new institutional economics) and theories of international trade and investment. In contrast, two collective action problems, specifically, prisoner’s dilemma and coordination games, were used to highlight the significance of the supply condition.

Any regional integration scheme would demand for institutional change. Property rights theory assumes that the demand for institutional change stems from those actors gaining the most opportunity cost in the institutional status quo. In Harold Demsetz’s (1969) words, “property rights develop to internalize externalities when the gains of internationalization become larger than the cost of internationalization.”⁵ In sum, regional institution-building may be taken as a move to internalize cross-border externalities.

As the demand for institutional change crystallizes, it then serves as a foundation for a larger demand for integration. According to Richard Caves, John Dunning, Stephen Hymer, and Charles Kindleberger, the demand for integration is borne out from the potential gains of wider market exchanges. With potential gains come proportionate surge in transaction costs. Hence, the call to establish external safeguards in the guise of an integrated governance structure further gains traction. Market players who are to benefit from larger markets will lobby towards the establishment of external safeguards to resolve both firm-level problems and government-level opportunism therefore allowing them to maximize gains with the least costs.⁶ Through this, the central role of market players and big businesses as drivers of integration is amplified because of necessity and rationality. Evidently, forces that demand for deeper integration are the same ones that spurred the demand for institutional change.

Regardless how compelling and overwhelming the demand is, actions by market players and big businesses do not automatically guarantee a successful regional integration. The demand must be supported by supply conditions. These are the conditions which allow political leaders and institutions to realize the demand for integration.

Leadership is key in fostering the supply condition, and this is expressed through willingness to pursue integration. However, this is greatly determined by the payoff from regional integration to political leaders.⁷ As Mattli postulates, leaders who value political autonomy and political power are less likely to pursue integration as long as they experience robust national economies. Although during economic difficulties, political leaders will be preoccupied with safeguarding their own political survival; thus, they will be amenable to the market players’ demands for regional rules, regulations and policies. In doing so, willing leaders may not be able to supply

integration successfully because of collective action problems, namely: prisoner’s dilemma and coordination games.⁸ In response to these problems, Mattli describes two main components of the supply-side condition: 1) the creation of commitment institutions, and 2) the presence of an undisputed leader among the group of countries seeking closer ties.⁹

In conclusion, Mattli argues that regional groups that meet both demand and supply conditions have the best chance of succeeding, while those that fail to fulfill neither set of conditions have the least chance of achieving substantial progress in integration. It is important to note, however, that Mattli formulated these sets of conditions by mainly reviewing and examining Europe’s history and its evolution in regional integration. Thus, deviations from the faithful fulfillment of the conditions are to be expected when analyzing ASEAN’s economic integration process through Mattli’s demand-supply approach.

III. DATA AND ANALYSIS

Demand for ASEAN integration: The Role of State and Private Organizations

Although the main motives for establishing ASEAN were political, regional economic cooperation was perceived as the best possible avenue to deal with the challenges to regional stability.¹⁰ In its early years, the process of cooperation within ASEAN was branded as “entirely open-minded and unstructured.”¹¹ Concrete actions to advance intra-ASEAN cooperation were only taken after the end of the Vietnam War in 1975. Fearing the security threat posed by Vietnam and the Domino theory that could have followed, regional leaders decided to adopt a more serious approach to cooperation.¹²

At the first ASEAN Summit in Bali, Indonesia in 1976, Member States signed the ASEAN Concord which laid down guidelines for further regional economic cooperation. A year later, Preferential Trading Arrangements (PTAs) were then enforced which allowed Member States to exchange tariff preferences on approved imports. Moreover, ASEAN Industrial Projects (AIPs) or large-scale, capital-intensive public-private sector projects, were also launched. Other projects such as the ASEAN Industrial Complementation (AIC) and the ASEAN Industrial Joint Ventures (AJIV) schemes were adopted to contribute to regional industrial cooperation. Both AIC and AJIVs thus emphasized the role of the private sector as an essential partner in promoting and in attaining economic cooperation, prosperity, and development.¹³

During the 1990s, ASEAN experienced expansion in membership and an intensified drive for deeper integration. The Common Effective Preferential Tariff (CEPT) scheme was adopted in 1992 which eventually served as the enabling framework for the ASEAN Free Trade Area (AFTA). AFTA provided a comprehensive program to lessen tariff barriers to integrate ASEAN economies into a unitary production base and to establish a regional market. It would only come into

force ten years later, in January 2002. AFTA embodied a type of 'open regionalism', or an outward-looking and market-driven form of regional integration.¹⁴ Also included in the Agreement are framework agreements on the liberalization of services, trade and cooperation on intellectual property, and an ASEAN Action Plan on the cooperation and promotion of Foreign Direct Investments (FDIs). In 1995, the ASEAN Framework Agreement on Services (AFAS) was signed with the objective of eliminating substantially restrictions on services trade and to improve the capacity and competitiveness of domestic service suppliers.

The concept of an ASEAN Community germinated in 1997 with the goal of deeper economic ties amid the Asian Financial Crisis and the ultimate objective of economic integration. Member States were pressured to prove its relevance and eventually responded by aligning efforts and actions toward greater regionalism. Such a change in perception is manifested in the creation of the ASEAN Plus Three (APT) or ASEAN+3 grouping in 1999, which is composed of ASEAN countries with Japan, South Korea, and China. The Asian crisis also brought about deeper cooperation in attracting FDI. In 1998, the Framework Agreement on the ASEAN Investment Area (AIA) was signed to reduce barriers to investment and promote investment liberalization, facilitation, and promotion.¹⁵

To initially achieve an AEC by 2020, ASEAN implemented a series of economic integration initiatives as outlined in the Bali Concord II in 2003. The ASEAN Security Community (ASC) and the ASEAN Socio-Cultural Community (ASCC) are the other two integral pillars of the ASEAN Community. The Vientiane Action Programme in 2004 was undertaken to hasten intra-ASEAN economic integration through measures that enhance the investment climate, hasten tariff reductions under the AFTA-CEPT Scheme, eradicate non-tariff barriers, strengthen rules of origin, and liberalize services. The Association also endorsed 11 priority sectors for integration in 2004, particularly: electronics, e-ASEAN, healthcare, wood-based products, automotive, rubber-based products, textiles and apparels, agro-based products, fisheries, air travel and tourism.¹⁶ Logistics was the twelfth priority sector added in 2006.

Consequently, ASEAN Economic Ministers agreed in 2006 to develop "a single and coherent blueprint" to advance the creation of an AEC by 2015. Hence, at the 12th ASEAN Summit in 2007, regional leaders signed the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015 and adopted the AEC Blueprint. To support the AEC Blueprint, two major complementary frameworks, namely, the ASEAN Trade in Goods Agreement (ATIGA) in 2010 and the ASEAN Comprehensive Investment Agreement (ACIA) in 2012, were established. The ATIGA harmonizes commitments in liberalizing tariff and non-tariff measures on trade in goods and simplifies rules of origin and other customs and phyto-sanitary issues; while the ACIA

advances investment cooperation beyond the 1998 AIA Framework Agreement.¹⁷

With momentum picking up for deeper integration, the Southeast Asian region was again hit by a serious global headwind in 2008-2009. The global financial crisis and subsequent recession caused trade and investment slowdowns among ASEAN economies, but the region was able to recover quickly. Post-2008 crisis initiatives were purposely crafted to support 'ASEAN centrality' in Asia's economic architecture. Recent efforts include the Master Plan on ASEAN Connectivity (MPAC), Bali Concord III, and the Phnom Penh Agenda. In 2012, negotiations on the Regional Comprehensive Economic Partnership (RCEP) agreement formally commenced. RCEP covers over 45 percent of the world's population and about a third of the world's GDP in 2012.¹⁸ In August 2015, ASEAN and its partners have agreed to eliminate 65 percent of their tariff lines in goods once RCEP is implemented and eventually raise the number to 80 percent after 10 years.¹⁹ Members aim to conclude the agreement by the end of 2016.

On 31 December 2015, ASEAN declared itself an economic community but full attainment of the goals envisioned by the 2007 Blueprint is yet to be achieved. According to Malaysia's Trade Minister Mustapa Mohamed, more progress and bigger things would only be witnessed in 2020.²⁰ To guide the Association towards progressive integration of its Member States' economies, ASEAN leaders adopted the AEC Blueprint 2025 in November 2015. It builds on the 2015 Blueprint and introduces a new vision for an AEC by 2025 which is characterized by: a highly integrated and cohesive economy; competitiveness, innovativeness, and dynamism; enhanced connectivity and sectoral cooperation; resiliency, inclusiveness, and people-centeredness; and a global reach.²¹

According to Mattli, the demand for further integration is spurred by the desire to internalize cross-border externalities with the lowest possible transaction costs. The two studies below illustrate the expected gains of an AEC by 2015 and beyond for Member States.

The Economic Research Institute for ASEAN and East Asia (ERIA) in 2012 conducted an alternative study which assumes that if all tariffs are eliminated, it would result in 20 percent decrease in tariff equivalent of service trade barriers, and a 20 percent reduction in time cost to export and import due to enhanced trade facilitation.²² The impact of the policy change on GDP, exports, and imports relative to baseline over the 2011–2015 periods as measured by 2015 shows the following:

- 1.) The impact on GDP of complete tariff elimination is largely marginal for most ASEAN countries except Cambodia and to a lesser extent Vietnam and Lao PDR, as CEPT tariffs were already at a low rate in the other ASEAN countries;
- 2.) The liberalization of services trade would cause the biggest hike in GDP growth rates for Indonesia,

- Malaysia, Philippines, Singapore, Thailand and Vietnam;
- 3.) Lao PDR, Cambodia and Vietnam would experience an increase in GDP from the reduction in time costs because of improved trade facilitation, infrastructure, and logistics; and
 - 4.) The CGE model is unable to fully quantify the net benefits of an AEC 2015 which include productive efficiency, technology improvements, and even the improvement of investors' confidence due to reform programs undertaken for economic integration.

A 2014 study by the Asian Development Bank Institute found that ASEAN members desire to triple the region's average real per capita GDP, from about USD3,000 in 2010 to more than USD9,000 by 2030. Member States likewise aspire to raise their citizens' quality of life which is comparable to the levels experienced by average members of the Organization for Economic Cooperation and Development (OECD). The study suggested for a post-2015 plan (which came in the form of AEC Blueprint 2025) to solidify regional integration and to enable a truly borderless economic community by 2030. Progressive liberalization of the movement of goods, services, capital and people across ASEAN can be attained through harmonization and standardization of rules and regulations at the regional level. Furthermore, there is a pressing need to strengthen institutional frameworks and gradually transfer functions and responsibilities from national bodies to regional agencies, especially on matters concerning intraregional cooperation, regional integration initiatives, and external relations.²³

Mattli cites big businesses and market players as the main driving force for institutional change and integration. But in the case of ASEAN, it is important to identify the real actors who played the key role in calling for an integrated governance structure. Hence, the succeeding paragraphs describe the nature and work of two major private organizations, particularly, ASEAN Chambers of Commerce and Industry (ASEAN-CCI) and ASEAN Business Advisory Council (ASEAN-BAC), as well as its relationship with ASEAN.

ASEAN-CCI was established in 1972 to accelerate the realization of ASEAN's industrial objectives. Elizabeth Urgel in her book entitled, *The ASEAN Chambers of Commerce and Industry: Partnership in Regional Economic Development*, discussed the accomplishments of the ASEAN-CCI related to the promotion and advancement of regional economic cooperation between the ASEAN governments and the private sector.²⁴ Despite its involvement in ASEAN's market integration program, ASEAN-CCI maintained weak institutional linkages with the latter. Hidetaka Yoshimatsu provided two reasons for CCI's weak representation in ASEAN's economic policy.²⁵ One is the consensus method adopted by the ASEAN-CCI Council which hampered timely decision-making and flexibility. Likewise, the rotation style of the presidency of the Council hindered the Chamber from

crafting significant policy initiatives under a strong leadership. The other is ASEAN-CCI's inconsistent stance on market liberalization. During the 56th Council Meeting in 1999 of the World Trade Organization (WTO), the Chamber exhibited skepticisms on trade liberalization stating that "*as economies in the region are still in the process of restructuring and recovery, the Chamber is not in favour of a new millennium round of trade negotiations.*"²⁶

ASEAN-BAC is another significant business organization which was launched in 2003. Its mandate is two-fold: (1) to provide private sector feedback and guidance on the implementation of ASEAN economic cooperation; and (2) identify priority areas for consideration of the ASEAN Leaders.²⁷ ASEAN-BAC Members are comprised of (maximum) three members from each member country. The consolidated inputs, recommendations, and proposals from the Council members come in the form of an annual ASEAN BAC Report to the Leaders. An example of a vital proposal was the 2003 ASEAN Pioneer Project Scheme (APPS) which sought to 'fast track' project approvals in regulatory procedures such as custom clearances, technical regulations, and production standards.²⁸ Furthermore, ASEAN-BAC has been responsible in conducting the annual ASEAN Business and Investment Summit (ABIS) and the ASEAN Business Awards (ABA). ABIS gathers the leading businesses in the region and ASEAN leaders while ABA recognizes the most outstanding ASEAN firms contributing to the region's economic growth.²⁹ Recently, the ASEAN-BAC has partnered with CIMB ASEAN Research Institute (CARI) to hold the first annual ASEAN Business Club (ABC) Forum last 2013. The ABC is a private sector-driven initiative that enables "*ASEAN's top business leaders to network, collaborate, and play a leading role in the process of ASEAN economic integration.*"³⁰

The Council has maintained constant communication with ASEAN leaders, AEMs and member governments but failed to become the main force for ASEAN's economic integration due to the former's inherent weaknesses. An essential flaw is that members of the Council are personally nominated by ASEAN leaders upon the recommendation of senior economic officials and the respective chambers of commerce. Another challenge for the Council is its ASEAN-CCI-like administration. The frequent change in chairmanship, based on an annual rotational basis, adversely affects the attainment of effective leadership.³¹ Helen E.S. Nesadurai writes that the holding of the ABIS back-to-back with the ASEAN summit in 2001 demonstrates the ability of the Member governments to manipulate the Council.³² Yoshimatsulikewise claims that ASEAN-BAC was created by ASEAN leaders for specific policy objectives therefore it is neither a purely private association nor a 'pressure' group. He added that the Council is constrained to put forward policy agendas beyond the ideas of government officials due to its primary tasks of authorizing already decided ideas and policies by government officials, and of reviewing the progress of essential key programs.³³

At the ABC forum 2015, more than 300 leading regional corporate leaders and policy makers emphasized their call for ASEAN governments to establish regional channels which will allow the private sector to contribute real sectoral policy inputs crucial to the full attainment of AEC. To quote Tan Sri Dr. Munir Majid, President of ABC, *“I believe the way forward is to have a structured private sector participation in the discussion and implementation process – if we would be allowed.”*³⁴

Hence, the call for market integration in ASEAN cannot be credited solely to the efforts of the private sector – as represented by ASEAN-CCI and ASEAN-BAC – since both organizations were initiated and created by Member States. The Council provided suggestions from the private sector on key market integration programs, but its activities were influenced by the national governments. Moreover, the very institutional uniqueness, as manifested by the ASEAN Way, of both associations has made their operations and undertakings rigid and inflexible, hindering them from carrying out stable and constant representation of business interests in ASEAN’s push toward market integration.

Another deviation from Mattli’s hypothesis is the prominent role of non-local firms in ASEAN’s economic integration. Japanese automobile and electronic firms exercised substantial influences on the formulation of ASEAN’s market integration policies. While in the case of US companies, their interests are aggregated through the US-ASEAN Business Council (US-ABC) which has formal and informal linkages with ASEAN bodies. Specifically, US-ABC has conducted consultation meetings and seminars with AEMs, ASEAN Finance Ministers, Senior Economic Officials’ Meeting (SEOM), and the ASEAN Secretariat. In addition, the Council has regularly provided valuable information and technical assistance to officials in the region to further integration processes. Yoshimatsu claims that a Council official admitted that the persistent efforts by US-ABC resulted in the inclusion of logistics as the 12th priority sector in August 2006.³⁵

Supply of ASEAN integration: Challenges and Evidence

The willingness of ASEAN leaders to supply the demand for economic integration is amply demonstrated in three significant events: 1) the adoption of AFTA in 1992; 2) the realization of ASEAN+3 and the ASEAN Vision 2020 in 1997; 3) the adoption of AEC Blueprint in 2007 and its successor document, the AEC Blueprint 2025.

In the 1990s, the enforcement of AFTA under the CEPT scheme within ASEAN was mainly driven by the external pressure from the ‘Europe 1992’ deadline or the European Single Market of 1992 and the North American Free Trade Agreement (NAFTA). ASEAN economies perceived these regional economic blocs to effectively discriminate against ASEAN exports and project ASEAN as a less attractive destination to FDI.

Another illustration of the willingness of the ASEAN leaders to provide for the call to further integrate economically was embodied by the realization of the ASEAN+3 and the ‘ASEAN Vision 2020’ statement. As Mattli earlier pointed out, political leaders will seek to pursue further integration in times of economic difficulties to secure their survival. In this scenario, both the decision to promote greater regionalism through expanding economic ties and the pronouncement to transform ASEAN into a stable and highly competitive economic region were the subsequent responses of the ASEAN governments to the 1997 Asian financial crisis and its devastating effects to their economies.³⁶

The latest instance in which regional leaders exhibited their commitment to seek deeper level of economic integration was the adoption of the Cebu Declaration in 2006 consequently giving birth to the AEC Blueprint 2015. It can be said that the Association’s effort to hasten the adoption of an AEC was greatly shaped by the threat of rising economic positions of China and India in the world economy. With the passing of year 2015, it was only necessary to prepare a post-2015 vision to support the bloc in its main effort to link seamlessly economies of its Member States. Moreover, the act of adopting the AEC Blueprint 2025 was not only made to signal ASEAN’s forward march towards closer integration but it was also carried out amid a global economic slowdown led by China’s economic deceleration, deflation threat in Euro Area and Japan, fragile recovery of emerging economies, and plunging oil and commodity prices.

Notwithstanding these initiatives, the problem of prisoner’s dilemma is always likely to surface. This happens when individual states end up imposing costs on each other as they exercise self-help measures. The increase in the number of actors, emergence of uncertainty, and asymmetrical information make it more convenient for players to cheat with impunity. Thus, there is a need to establish “commitment institutions” which enable centralized monitoring and third-party enforcement therefore deterring defection and advancing compliance with the agreed rules. However, ASEAN leaders have yet to truly establish permanent “commitment institutions,” different from the dispute settlement panels in ASEAN that are ad-hoc in nature. The AEC Blueprint 2015 provides that the relevant sectoral Ministerial bodies be accountable for the monitoring of commitments under their respective purview. As of this moment, Member States have not utilized any of the Dispute Settlement Mechanisms (DSMs) provided by the ASEAN legal framework.³⁷ Disputes among the 10-nation bloc have been resolved and settled through bilateral and political channels. Likewise, Member States refer and direct disputes to the World Trade Organization’s (WTO) DSM.

A second problem also challenges the ability of leaders to supply integration. This is the coordination games or the difficulty in agreeing on *“one of several possible courses of action in which the states have opposing interests.”*³⁸ Mattli asserts that the presence of an undisputed leader resolves this

problem. Historically, ASEAN lacks a ‘regional paymaster.’ What ASEAN has is an implicit leader of the regional bloc which is Indonesia due to its large territory, population, and economy. Former ASEAN Secretary General Rodolfo Severino highlighted Indonesia’s pivotal role in the development of ASEAN by citing the country’s leadership role throughout its history.³⁹

Despite these contentions, ASEAN’s practice of resolving coordination dilemma and distributional issues is dominated not merely by a ‘regional paymaster,’ but by its unique principle known as the ASEAN Way. In his 2001 address at an international conference, Severino explained the significance of ASEAN Way to Member States:

“ASEAN adheres to the evolutionary approach, relying largely on patient consensus-building to arrive at informal understandings or loose agreements. And the way to arrive at agreements has been through consultation and consensus –mushawara and mufakat–rather than across-the-table negotiations involving bargaining and give-and-take that result in deals enforceable in a court of law.”⁴⁰

Since 1967, ASEAN has utilized this principle in seeking deeper integration and in resolving conflicts between and among Member States. The non-existence of major economic disputes in the region, as exemplified by the zero-rate case in the Enhanced DSM, clearly affirms the effectiveness of consensus-building, non-interference and incrementalism as guiding principles in fostering economic cooperation and integration.

It can be concluded, therefore, that ASEAN is unable to fully satisfy any of the conditions, both on the demand-side and the supply-side. Despite this observation, ASEAN continues to experience progress in its goal of attaining an economic community contrary to Mattli’s hypothesis. The adoption of an Enhanced DSM and the use of bilateral and political channels in settling disputes have proven to be effective in supporting ASEAN leaders’ attempt at supplying integration. Moreover, the Association’s ability to preserve its unique culture of *mushawara* and *mufakat* in pursuing economic integration and resolving conflicts for almost five decades challenges the notion that the presence of an ‘undisputed leader’ or a ‘regional paymaster’ will render a higher probability of achieving a successful integration. Despite some setbacks and skepticisms, the ASEAN Way continues to bear positive results for the region’s community-building as it represents unity among ten diverse Member States.

IV. CONCLUSION

Regional Integration in ASEAN: Still largely state-driven

ASEAN’s drive toward regional economic integration is not solely motivated by the private sector, market players, and big businesses within ASEAN. The critical role of ASEAN leaders in strengthening the demand for integration is aptly demonstrated. Thus, the enhancement of the public-private sector engagement is necessary for ASEAN. The continued

exchange of ideas and perceptions on the current set-up and future direction of regional economic cooperation positively impacts the process of formulation and implementation of economic arrangements and agreements as it fosters multi-dimensionality and inclusivity.

The AEC Blueprint 2025 has laid out strategic measures to deepen participation and establish more structured involvement of the private sector such as institutionalization of a consultative process within each relevant ASEAN body with private sector and ASEAN-BAC as lead party in the implementation of agreed regional initiatives. It likewise commits to the improvement of ASEAN-BAC’s role through enhanced membership, systematic engagement, and better coordination with the ASEAN Secretariat.⁴¹ However, the challenge remains. Notwithstanding the private sector’s vital position as a key stakeholder in the integration process, ASEAN must continually reach out and communicate carefully to the general public the tremendous benefits and large potential of an integrated region.

As ASEAN continues its journey toward an economic community, the management and facilitation of economic agreements within ASEAN are expected to swell in numbers, scope, and depth. Thus, the effectiveness and efficiency of the current system of enforcement and DS mechanisms are bound to be tested. The efficient settlement of disputes is an essential component of a strong support system in nurturing an AEC by 2025 that is: highly integrated and cohesive; competitive, innovative and dynamic; possessing better connectivity and sectoral cooperation; more resilient, inclusive, and people-oriented, people-centered community; and integrated with the regional and global economies.

To ensure fairness and preserve stability within the sphere of regional economic integration, it is imperative for ASEAN to shift from an economic cooperation that is grounded on informal understanding and loose agreements to a community based on the rule of law that ensures compliance and enforcement of obligations and commitments. Although inconceivable for ASEAN countries, the creation of permanent, third-party institutions for and within ASEAN will be crucial in sustaining the momentum and confidence of key actors and stakeholders in the region in achieving an economic community.

Policymakers and economic experts regard 2015 as a milestone year for the AEC. They, along with key stakeholders in ASEAN, believe that there is much to be done in the next few decades in advancing ASEAN’s goal of an integrated economy. Even though labeled by many as ambitious, the AEC Blueprint 2015 was otherwise a manifestation of the ASEAN leaders’ shared foresight and a forward-looking perspective toward a deeper level of economic integration. The AEC Blueprint 2025 acknowledges the complex nature of the integration process due to the ever-changing characteristic of internal and external economies and environments. Nonetheless, it is a continuation document that

illustrates the collective aspiration of Member States to sustain the current robust momentum in enabling a highly and dynamic interconnected region in the next decade. But these dreams of an economic community can only become a reality if commitments and willingness are translated into practice and concrete actions.

Ultimately, the success of ASEAN's economic integration will not be defined by its capability to satisfy faithfully both the demand-side and the supply-side conditions. Rather, it will be determined by the region's ability to endure a long and arduous integration process while achieving two main objectives: 1) preserving its unique identity characterized by the principles of consensus-building, non-interference, and incrementalism in an environment greatly dictated by historical animosities and dynamism; and 2) ensuring that gains and benefits of AEC would result in an increase in the general welfare of ASEAN citizens, especially those at the grassroots level.

ENDNOTES

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