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**THE INDO-CHINESE  
ENLARGEMENT OF ASEAN:  
IMPLICATIONS FOR REGIONAL  
ECONOMIC INTEGRATION**

**Helen E S Nesadurai**

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## ABSTRACT

Will the Indo-Chinese enlargement of ASEAN undermine regional economic integration, or does it have the potential to help consolidate and advance economic integration in Southeast Asia? This paper argues that the Indo-Chinese enlargement of ASEAN has the potential to enhance ASEAN economic integration by helping to extend the dimensions of the ASEAN regional market and the range of internal industrial complementarities this market offers to investors. These potential economic gains will, however, remain unrealised if regional economic integration is undertaken in a manner that ignores socio-economic divisions within and between states. If the benefits of liberalisation and integration are not distributed more equitably amongst populations, then we are likely to see growing challenges to these processes. A 'two-tiered ASEAN' divided between a richer core of original members and a set of poorer, under-developed new members, consequently, threatens the future of ASEAN economic integration. However, the notion of a 'two-tiered ASEAN' should not blind us to the fact that socio-economic divisions also exist in the original members as well, notably in Indonesia but also in Thailand and the Philippines. Thus, a key challenge for ASEAN economic regionalism in the future, and one that poses a crucial test for the Indo-Chinese states, is that of governance for development at both the regional and national levels to ensure that growth, equity and social justice are delivered. The paper concludes with a brief discussion of some key regional-level programmes that are in place to address such concerns.

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Dr Helen E S Nesadurai is an Assistant Professor at the Institute of Defence and Strategic Studies. Her research interests are in International Political Economy (IPE), with special emphasis on the globalisation-regionalism relationship, and on questions of development and governance in an era of globalisation, particularly as they relate to Southeast Asia. She has written on Asia Pacific Economic Cooperation (APEC), the ASEAN Free Trade Area (AFTA), institutional design and cooperation in ASEAN, Asian-Pacific approaches to regional governance, the Southeast Asian development model, and on the Malaysian political economy. Her 2003 book on *Globalisation, Domestic Politics and Regionalism: The ASEAN Free Trade Area* is published by Routledge in its Routledge/Warwick Studies in Globalisation series.

# THE INDO-CHINESE ENLARGEMENT OF ASEAN: IMPLICATIONS FOR REGIONAL ECONOMIC INTEGRATION\*

## **Introduction**

Achieving the vision of its founding fathers of ‘One Southeast Asia’, the formal enlargement of the Association of Southeast Asian Nations (ASEAN) to ten members took place in three phases. It began with Vietnam’s entry into the Association in 1995, followed by Myanmar and Laos in July 1997 and finally Cambodia’s [delayed] entry in April 1999. While a number of commentators saw ASEAN enlargement as a positive development for the Association that overcame the historical Cold War divide in Southeast Asia, others were less sanguine about enlargement (Gates, 2001: 2-3). In particular, there were concerns that the Association would have to confront new political, economic and strategic challenges as a result of additional members with different political and ideological outlooks (Acharya, 2001: 103).<sup>1</sup> Many critics believed that extra-regional as well as intra-regional interactions would become more complex and this would in turn hamper the cohesiveness of ASEAN and undermine the future of regional cooperation.

It is certainly true that the Indo-Chinese enlargement of ASEAN further extends the diversity of external threat perceptions already extant in ASEAN. Consequently, enlargement also influences the range of responses of member states to extra-regional actors and on crucial issues. While the formal entry of the Indo-Chinese states – Cambodia, Laos and Vietnam, or CLV has not fundamentally altered the nature of relationships between ASEAN and external actors, the inclusion of Myanmar within the ASEAN fold may pose difficulties. The Indo-Chinese enlargement also does not fundamentally alter the internal workings of ASEAN, particularly with regard to adherence to the time-honoured norm of non-interference. There is clearly convergence between the CLV states and most of the original ASEAN members on

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<sup>1</sup> The founding members of ASEAN in 1967, namely Indonesia, Malaysia, the Philippines, Singapore and Thailand, together with Brunei which joined the Association in 1984, constitute the ‘original’ members of ASEAN.

the importance of the non-interference norm for ASEAN. With the possible exception of Thailand and the Philippines, the rest of the ASEAN states are reluctant to move away from the non-interference principle in their behaviour and actions within the Association.

It is on the economic front that the Indo-Chinese enlargement of ASEAN has the greatest impact. First, the Indo-Chinese states are transition economies: Vietnam and Laos are engaged in shifting from a communist economic system to a more market-based economy; Cambodia is undergoing economic rebuilding as well as political reform and state building. Second, and related to the previous point, the Indo-Chinese states differ from the original ASEAN states in terms of their under-development. Both these features put the CLV states at a very different, and difficult starting point with regard to their participation in ASEAN economic regionalism.<sup>2</sup>

This paper's central research question is therefore whether the Indo-Chinese enlargement of ASEAN has undermined regional economic integration, or whether it has helped, or has the potential to help consolidate and advance it.<sup>3</sup> This is an important question for ASEAN given the centrality of regional economic cooperation since 1992 when the ASEAN Free Trade Area (AFTA) project was initiated. There are now moves to advance beyond AFTA towards deeper regional integration and the formation of an ASEAN Economic Community (AEC). Economic regionalism is critical for ASEAN, as it is a key tool employed by its members to respond to the competitive challenges of economic globalisation more generally, and those posed by the economic rise of China more specifically. How the Indo-Chinese enlargement affects the prospects of ASEAN economic regionalism is, consequently, a topic deserving attention.

The core argument in the paper is that the Indo-Chinese enlargement of ASEAN has the potential to enhance ASEAN economic integration by helping to extend the dimensions of the ASEAN regional market and the range of internal industrial complementarities it presents to investors. These points are developed in Sections 3

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<sup>2</sup> The terms 'regionalism' and 'regional integration' are used inter-changeably to refer to the process of regional cooperation.

<sup>3</sup> The paper does not address the impact on the CLV states of their incorporation into ASEAN. For a recent treatment of this subject, see the edited volume by Mya and Gates (2001).

and 4. The potential gains from the enlargement of ASEAN will, however, remain unrealised at best, or the project undermined, if regional economic integration is undertaken in a manner that ignores socio-economic divisions within and between states. It is in this context that a ‘two-tiered ASEAN’ divided between a richer core of original members and a set of poorer, under-developed new members threatens the future of the ASEAN Economic Community project. For regional economic integration to be politically sustainable, it must be considered legitimate and supported not only by key commercial and state interests in the CLV states, but also by domestic populations as well. Growing evidence worldwide and from Southeast Asia indicates that groups in domestic society are likely to challenge market liberalisation and integration if they do not see its benefits equitably distributed amongst the population, especially if these groups are somehow denied fair access to the wealth creating opportunities afforded by such processes. We now see growing evidence of such trends in the CLV states, which if unaddressed at source, or simply suppressed, might eventually undermine ASEAN economic integration. To put another way, an ASEAN Economic Community must go beyond economic integration to incorporate a social agenda as well.<sup>4</sup>

However, the notion of a ‘two-tiered ASEAN’ draws attention away from the fact that the new members of ASEAN are not the only source of socio-economic divisions in ASEAN. If we move beyond a state-centric framework of analysis, from discussions of ‘old’ and ‘new’ member states, and a preoccupation with macro data, we find that such a problem exists in the original members as well. This is most notable in Indonesia but also in Thailand and the Philippines, where large pockets of poverty and inequality persist and where significant groups of people still remain outside the mainstream of formal economic life for various reasons. At a pragmatic level, this represents much unrealised growth and market potential in the region, aside from the potential of these groups to undermine economic integration. Thus, an important future challenge for ASEAN regionalism and a crucial test for the CLV states is the issue of governance for development at both the regional and national levels to ensure

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<sup>4</sup> This point was emphasised by a number of the ASEAN foreign ministers at their 36<sup>th</sup> ASEAN Ministerial Meeting held in June 2003. See *New Straits Times*, ‘Fear over far-reaching AEC implications’ 15 June 2003. At their most recent Summit, ASEAN formally endorsed the creation of not only an ASEAN Economic Community but an ASEAN Socio-Cultural Community as well (ASEAN, 2003).

that growth, equity and social justice are delivered. The governance issue confronts new and old members alike, although the Indo-Chinese states are far more constrained in their institutional capacity to undertake the required governance functions towards these multiple ends. The paper concludes with an examination of how ASEAN is addressing these issues at the regional level.

## **2. The Long Road to ASEAN Enlargement**

ASEAN was formed in 1967 by the governments of Indonesia, Malaysia, the Philippines, Singapore and Thailand primarily as a mechanism for intra-mural rapprochement given the high degree of tensions and suspicions between them, rather than as an anti-communist alliance (Antolik, 1986 & 1990). Communism, nevertheless, divided Southeast Asia into two distinct sub-regions (Anwar, 2001: 26). Southeast Asia was the arena where wider global confrontation between the communist and western blocs was played out, principally in the Indo-Chinese portion of Southeast Asia. Although ASEAN from its inception espoused an anti-communist ideology, it was not specifically an *anti-communist alliance*. This has allowed ASEAN to expand its membership in the post-Cold War 1990s to include Vietnam and Laos, which retain communist political systems although domestic economic reforms have introduced market mechanisms into these economies.

In fact, ASEAN was prepared to engage with these states as early as the mid-1970s when it allowed for all Southeast Asian states, including the communist ones to accede to its core charter, the 1976 Treaty of Amity and Cooperation in Southeast Asia (ASEAN, 1976). Vietnam, which dominated Indo-China refused the invitation, maintaining that ASEAN was simply a western imperialist tool. ASEAN's relations with Vietnam deteriorated further with Vietnam's December 1978 invasion and subsequent occupation of Cambodia. The resolution of the Cambodian crisis ultimately paved the way for rapprochement between ASEAN and the Indo-Chinese states.

The October 1991 Cambodian settlement through the Paris Peace Agreements transformed in dramatic fashion ASEAN's policy towards Vietnam, although the seeds for the thaw in this relationship had been sowed much earlier with Vietnam's 1986 embrace of economic reform and the more accommodating stance shown since

1988 by the Thai government (Acharya, 2001: 102-3). Vietnam's declaration in April 1989 that it would unconditionally withdraw its troops from Cambodia by September that year also helped the process some way along but there were divisions within ASEAN over whether the withdrawal was a sufficient basis for embracing closer cooperation with Vietnam and to formally admit Vietnam into the grouping. The concern was that enlargement should not undermine ASEAN cohesion and should strengthen rather than weaken the Association.

Despite these misgivings, the signing of the Paris Peace Agreements on Cambodia paved the way for closer relations between ASEAN and Vietnam in the first instance, and Laos and Cambodia later. The Singapore Declaration issued at the Fourth ASEAN Summit in January 1992, allowed for all Southeast Asian countries to accede to the Treaty of Amity and Cooperation (ASEAN, 1992). Vietnam and Laos were the first signatories while Cambodia was scheduled to sign on once the UN-sponsored elections resulted in the formation of a new government. The Singapore Summit was followed by a series of high-level visits by ASEAN leaders to Hanoi, while Vietnamese premier Vo Van Kiet continued with visits to all the ASEAN capitals that started in October 1991 after the signing of the Paris Peace Agreements (Acharya, 2001: 106-7).

Strategic changes during the late 1980s and early 1990s, therefore, facilitated quite considerably the Indo-Chinese enlargement of ASEAN. Moreover, the initial act of enlargement was made easier by the fact that ASEAN membership, unlike that in the European Union, is not a function of democratic norms of domestic political governance. Instead, ASEAN membership has, since its foundation, included military regimes, authoritarian political systems, semi-democracies and democracies. The fact that ASEAN did not espouse any specific standards of domestic political governance meant that Vietnam and Laos, which retained communist political systems, were not disqualified from joining the Association. Nevertheless, there was a normative convergence between the Indo-Chinese and ASEAN states on economic norms. In addition, the CLV governments found the prevailing ASEAN behavioural and



procedural norms of inter-state engagement, particularly the norm of non-interference, consistent with their interests.<sup>5</sup>

The ASEAN norms impart considerable autonomy to member states within ASEAN, and consequently play a crucial, if not indirect role in securing and/or legitimating domestic regimes by allowing governments considerable leeway in dealing with politically important domestic matters as they see fit. ASEAN's new members in particular find them especially reassuring as they preclude scrutiny of or intrusion into the management of domestic matters, especially at a time when these countries are engaged in domestic economic reform whilst attempting to maintain authoritarian political control over domestic populations (Job, 1999: 15). In fact, ASEAN's original members, with the exception of Thailand and the Philippines are similarly hesitant about moving away from these norms. Although ASEAN has adopted new institutional mechanisms that depart some way from non-interference in order to deal with transnational problems, a balance is always sought in order to protect the rights of national governments in addressing domestic problems as they see fit (Acharya, 2001: 151-7). Due to the compelling need to ensure the success of the ASEAN Free Trade Area (AFTA) project launched in January 1992, ASEAN departed even further from these norms in its governance.<sup>6</sup> On the other hand, the Indo-Chinese states would have been unlikely to have even considered joining ASEAN without the 'protection' offered them by the Association's non-intervention norm in political and security matters. Normative convergence was therefore a key factor in facilitating enlargement.

### **3. Normative Convergence in Economics: Prospects for Regional Economic Integration**

Paralleling the convergence between the Indo-Chinese states and the original members on the ASEAN norms, there is also a marked convergence between these two groups on economic norms. Both groups are engaged in fundamentally similar processes of economic development centred on the market mechanism, although the degree of marketisation in the transition economies lags behind that of the original ASEAN-6. Both groups of states have embraced similar economic policies and

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<sup>5</sup> For discussions on the ASEAN norms, see Busse (1999), Job (1999) and Acharya (2001).

<sup>6</sup> For details, see Nesadurai (2003: 163-9).

practices, resulting in a narrowing of the normative and policy gap in economics that once existed between them.

Both Vietnam and Laos officially adopted their respective economic reform programmes in 1986. Vietnam initiated its *doi moi* (renovation, or new way) and Laos its ‘New Economic Management’, although the reform process had begun much earlier in the two countries. Both programmes were aimed at shifting from a centrally planned economy to a market-oriented system, including encouraging private enterprise, export-oriented industrialisation and foreign direct investment (FDI) (Table 1). Given their economic history and under-development, the extensive and rapid pace of economic liberalisation undertaken in these states is remarkable (Kingsbury, 2001). This is not to suggest that these economies have become completely transformed. Despite the reforms introduced, many elements of state intervention continue, especially in the industrial and services sector in Vietnam. Reform of state-owned enterprises has been especially problematic because of the inter-linkages between bureaucrats, party officials and state commercial interests, while land reform has not always proceeded in a politically sustainable manner (Gainsborough, 2002).

**Table 1: Major elements of economic reforms in Laos and Vietnam, 1981-2000**

	Laos	Vietnam
Move to market determination of prices and resource allocation	1986, 1987, 1988	1988, 1989
End of subsidisation of state-run industries	1988	1988
End/partial end of state monopolies	1988	1995, 1997, 1999
Restrictions on trade removed or substantially reduced	1988	1989, 1999, 2001
Decollectivisation of agricultural production	1986, 1997	1981, 1988
Privatisation of state-owned industries	1990, 1993	1992, 1995
Reform of banking, investment and property laws	1988, 1990, 1994	1988, 1992, 1993, 1999
Tax reforms	1988, 1989, 1990	1988, 1989
Exchange rate reforms	1988	1988, 1989, 1999
Decentralisation of control to industries and lower levels of government	1986	1989
Encouragement of foreign investment	1988	1987, 1990, 1998, 1999
Stock exchange establishment	--	1999

Years indicate when major reforms were initiated in the areas specified; these are often sequential and cumulative. Minor reforms may have preceded and postdated the years listed.

*Source: Rigg (2003: 18, Table 1.5)*

Notwithstanding the delays and difficulties experienced over reform, there has been a process of normative convergence in economics between the Indo-Chinese states and the original ASEAN-6, such that 'market integration is a leitmotif for the region, from the poorest to the most-developed' (Rigg, 2003: 40). This normative consensus among the ASEAN states is, however, also embedded within a political framework in which the interests of governing regimes are central. It is sustained by recognition in all the ASEAN states that market-based economic systems are more likely to deliver material wealth for citizens. The ability to deliver material wealth and through that, social stability has long been a crucial basis of political legitimacy in much of Southeast Asia (Alagappa, 1995).

In the case of Vietnam, the North Vietnamese model of socialist development imposed on a reunified Vietnam had, since 1975, been unable to provide the communist party leadership with the legitimacy it needed to sustain its political rule over both halves of the united country (Vasavakul, 1995: 273-5). This led to growing popular discontent in Vietnam, which together with the economic crisis in the country undermined the legitimacy of the communist party leadership. Consequently, *Doi moi* was a means to restore the legitimacy of the Vietnamese leadership through economic liberalisation and marketisation at home, albeit within a socialist orientation and retention of a dominant state sector. The development of economic linkages with the capitalist world including economic cooperation with ASEAN constituted the foreign economic policy dimension of *doi moi*. Economic distress in Laos similarly accounts for the push towards market-based reform, with membership in ASEAN a key means to integrate land-locked Laos with the rest of the region (Kingsbury, 2001: 190-1). In Vietnam and Laos, therefore, the economic reform process was also launched to restore the political legitimacy of the respective communist parties that was being undermined by economic distress and growing social instability (Rigg, 2003: 17).

While this is not to deny the normative consensus in ASEAN towards market-based economic systems, it is important to recognise that normative consensus rests ultimately on the capacity of market-based systems to deliver growth *and* social stability. Both these goals can reinforce each other and can help to legitimise governing regimes. There is, however, the potential for tension between the two as

well. The reform process if not governed properly can undermine social stability. Why this should be the case is explained in Section 3. Suffice it to say here that the process of reform, which always creates winners and losers can threaten social stability if the resultant economic growth is insufficient to offset the dislocations caused by the reform process; if adequate social safety nets are absent; and if institutions that would allow people to benefit from economic opportunities are weak or non-existent. The end result may well be a weakening of the domestic consensus for reform, which ultimately undermines the prospect for regional economic integration given the intimate relationship between the two.

#### Enlargement and its Implications for ASEAN Economic Integration

Given the broad convergence on economics between the Indo-Chinese states and the original, capitalist members, the key question is whether this constitutes a sufficient basis upon which regional economic integration may be built. To be sure, convergence on economic norms does not necessarily imply that deeper integration beyond tariff reductions will be problem-free. Nevertheless, the normative convergence between the CLV states and the capitalist (original) members of ASEAN meant that ASEAN's key economic cooperation project of the 1990s – the ASEAN Free Trade Area (AFTA) – was not undermined by enlargement.

The accession of the CLV states to AFTA was eased in a number of ways, two of which are concessions extended by ASEAN to new members. First, extra time is given to the CLV states to implement their tariff reduction obligations, which is governed by the Common Effective Preferential Tariff (CEPT) Scheme. The original ASEAN-6 completed the first phase of AFTA on 1 January 2003, with intra-ASEAN tariffs on all manufactured goods and processed agricultural products, the exception being Malaysian automobile tariffs, now ranging between 0-5 per cent as targeted. Vietnam is scheduled to reach a tariff level of 0-5 per cent by 2006, Laos and Myanmar by 2008 and Cambodia by 2010. The Indo-Chinese states also have an extra five years until 2015 before they are scheduled to reduce intra-ASEAN tariffs to zero per cent. Implementation of these commitments by the CLV states is essentially on schedule.<sup>7</sup> The Indo-Chinese states have also acceded to the other two component

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<sup>7</sup> CEPT tariff reduction schedules of the ASEAN member states are found online at [www.asean.or.id](http://www.asean.or.id).

programmes associated with AFTA, namely the ASEAN Framework Agreement on Services (AFAS) that governs liberalisation of services trade and the ASEAN Investment Area (AIA) scheme that governs investment liberalisation. Again, the CLV states follow either a delayed or flexible schedule in these programmes.

In addition to this easing in period for AFTA, the new members were also offered preferential tariff free access to the markets of the original members from January 2002 under the ASEAN Integrated System of Preferences (AISP), well before the 2010 target date for a zero-tariff AFTA. The AISP is a voluntary exercise, negotiated bilaterally between original and new members on the basis of product requests submitted by the new members (ASEAN Secretariat, 2002: 59).<sup>8</sup> At the national level, administrative, fiscal and tax reforms in the CLV states help to offset the fiscal implications of tariff liberalisation, while domestic economic reforms will help these economies cope with the economic competition that participation in AFTA brings (Gates and Mya, 2001: 14). Taken together, these various measures and programmes contribute to the economic sustainability of CLV participation in ASEAN economic regionalism.

Rather than enlargement undermining AFTA, one could instead make the argument that it was beneficial to the AFTA project because the entry of the new member states expanded theoretically at least, the dimensions of the AFTA market. Enlargement to ten members offered investors a potential market size of about 533 million people compared to the 385 million people in the original ASEAN-6.<sup>9</sup> This represents an increase of about 148 million. ASEAN leaders and officials considered market size an important selling point of AFTA, which the ASEAN governments employed as a means to help them counter the [perceived] diversion of FDI to China attracted to that country's large market. The early 1990s saw a marked rise in global/regional competition for FDI as countries previously uninterested in foreign investors sought to attract them. Moreover, investors themselves were looking to locate their production in sites that had access to large and/or regional markets (Walter, 2000: 65). By the 1990s, technological and organisational innovations had contributed to a

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<sup>8</sup> The preferences cover about ten per cent of the total exports from the new members to ASEAN. Details are found in AFTA Council press statements after 2000.

<sup>9</sup> These are 2001 figures, from the Asian Development Bank ([www.adb.org](http://www.adb.org)).

‘regional’ logic to globalising capital, with capital seeking to establish ‘integrated production and management systems within definable regions’ as part of its global expansion (Rodan, 1993: 234).

This structural dynamic put the individual ASEAN countries, most of them very small markets at a disadvantage, particularly vis-à-vis China which had emerged as a potentially competing ‘regional’ investment site in the Asia-Pacific region, particularly in view of its (potential) market size and internal industrial complementarities. AFTA was ASEAN’s answer to this dilemma.<sup>10</sup> Using AFTA, specifically its CEPT tariff liberalisation component programme, the ASEAN governments offered foreign investors an alternate single regional investment/production space that comprised a range of industrial complementarities investors could take advantage of in organising integrated production networks. Enlargement potentially contributes to this exercise, as it expands the range of internal industrial complementarities available within AFTA. Nevertheless, these positive investment gains for ASEAN (and for the CLV states) from enlargement ultimately depend on the individual countries putting in place the necessary domestic institutional frameworks necessary to attract investment, including the all important, political stability.<sup>11</sup>

Southeast Asian regional production networks are already a growing feature, especially in the automotive sector, the auto-parts industry, and the electronic and electrical products sector (ASEAN Secretariat, 1999: 16). These are, for the most part, located within the original ASEAN. The potential is present for new networks to extend to or involve the CLV states, particularly Vietnam. Compared to China, Southeast Asia is said to have considerable advantages derived from the legacy of its growth and development performance, which has helped the region remain plugged into the production networks of multinational corporations (MNCs) and on the condition that governments upgrade their policy and institutional infrastructure (Felker 2003: 279). The full realisation of the single AFTA market will be a

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<sup>10</sup> To be sure, a range of other motivations prompted the 1991 ASEAN decision to form AFTA. The FDI motivation, however, very soon became the primary driving force behind AFTA. See Nesadurai (2003: 80).

<sup>11</sup> Freeman (2001: 93-4) discusses these domestic institutional requirements with respect to the new members.

significant contributory factor in that process. Another factor will be plans to proceed on the ASEAN Economic Community project that is aimed at deepening regional economic integration in ASEAN beyond tariff liberalisation. Enlargement's potential contribution to regional economic integration will remain unrealised, however, unless the population increase is translated into an income and consumption gain for the ASEAN market. The paper returns to this point in the next section.

While the incorporation of the CLV states does increase internal competition amongst individual ASEAN states for FDI, the shared threat of FDI diversion to China means that the original members did not resist Indo-Chinese participation in AFTA. In fact, they welcomed it. Moreover, the CLV states also offer considerable investment opportunities for the original members, particularly Singapore, Malaysia and Thailand. Intra-ASEAN FDI constituted a significant share of the total FDI received by the Indo-Chinese states in the second half of the 1990s, averaging about 40 per cent.<sup>12</sup> The growing extent of intra-ASEAN FDI flows may well be contributing to the development of closer regional economic interrelationships within ASEAN between the new members and the original set. There are dangers, however, if locals perceive this trend as dominance of their economies by external interests, even if they are ASEAN interests. This kind of situation emerged in January 2003 when Cambodian locals turned on Thai businesses in Cambodia, a point the paper returns to below.

Despite their ready commitment to the tariff reduction phase of AFTA, the question of whether the Indo-Chinese states will derail ASEAN's next stage of regional economic integration remains salient. Despite their longer experience as market-based economies and as participants in regional liberalisation, the original members still find it difficult to overcome vested domestic interests and other domestic politico-social agendas to proceed rapidly on further regional liberalisation (Nesadurai, 2003: 130-2). Politico-economic interests in the CLV have questioned the projected gains of participation in AFTA. CLV concerns include those surrounding the future of domestic, especially state-owned industries in the face of intra-regional competition

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<sup>12</sup> Calculated from Tables 2.5 and 3.3 in ASEAN Secretariat (1999).

and the possibility of ending up as a periphery within a rich ASEAN (Gates and Mya, 2001: 17).

Given such sentiments, it should not be surprising if there are delays in regional liberalisation in services and investment coming from the CLV states, particularly when state-owned enterprises (SOEs) are involved. In Vietnam, for instance, the Ninth Party Congress of 2001 has reiterated a dominant role for the SOE sector in underpinning Vietnam's industrialisation within a socialist framework, and which Deputy Prime Minister Vu Khoan reaffirmed in March 2003 (Painter, 2003: 29-31).<sup>13</sup> Since SOEs are dominant in the services sector in Vietnam, we need to ask questions about the implications for regional services and investment liberalisation, the next item on the regional agenda. The majority of SOEs in Vietnam (as at mid-2001) operate in services, ranging from electricity, water and gas; construction; trade and repairs; hotels and restaurants; transport and communications; and finance and credit (GSO, 2002). These generally profitable service-based SOEs are expected to remain in state hands as they are also deemed to be of strategic importance (Painter, 2003: 29-31). While the CLV governments recognise market-based economic policies and regional liberalisation as the best route to wealth creation, these caveats about the possibility of delays and setbacks to regional integration need to be kept in mind.

What will most likely overcome these domestic resistances to further regional integration is a renewed sense of shared external danger. This threat serves to goad all the states of Southeast Asia, including the CLV into advancing the next phase of regional economic integration, in much the same way that AFTA was galvanised by the shared threat of FDI diversion to China. More intense global market competition, particularly for FDI, further competitive challenges posed by China, and the looming ASEAN-China Free Trade Area are all likely to act as that external push for advancing ASEAN-based liberalisation. Given the similarities in their economic structures such as their institutional infrastructures and cost profiles, China is a very real competitor for the CLV. Regional liberalisation via ASEAN then becomes one

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<sup>13</sup> See also *BBC*, 'Deputy Premier Vu Khoan stresses three-strand renovation policy' 7 March 2003.



crucial means through which to position these economies vis-à-vis China.<sup>14</sup> If external events such as these are regarded as major threats to economic growth, which remains a crucial regime-legitimizing device in much of ASEAN including the CLV states, then regional liberalisation will more likely advance despite pockets of domestic resistance to it.

However, the story does not end here. We also need to consider the political sustainability of regional market integration amongst domestic publics apart from business and state interests. To put it another way, is it sufficient to build an ASEAN Economic Community on the liberalisation/integration pillar alone? Economic theory sees economic integration through reducing barriers to the free flow of goods, services and factors of production (capital, labour) and/or the harmonisation of key economic policies as the fundamental elements of a regional economic community. Such an approach fails to take politics into account. Politics is often cited as the cause for liberalisation setbacks – protectionism – and attributed to domestic vested interests associated with import competing or home market-focused sectors/firms.

While this represents one set of political forces likely to undermine regional liberalisation, there are others that are increasingly attracting the attention of scholars, policymakers and international institutions. These forces emerge out of socio-economic divisions, from the political consequences of inequitable income/wealth distribution, including that of inequitable access to productive resources or assets. The literature on global governance best articulates this point – that an overwhelming emphasis on growth and market efficiency as goals of economic governance is inadequate (Higgott, 2000). In addition to growth and market efficiency, the values of distributive justice or equity should form the core of any approach to economic development, including that of regional economic governance. Any economic system that fails to do so becomes regarded as unjust and will be contested consequently, a

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<sup>14</sup> A number of ASEAN leaders have already called for ASEAN to consolidate its own economic regionalism before the ASEAN-China FTA comes into being in order to prevent ASEAN economies and their firms from being overcome by competition from China (Nesadurai, 2003: 181).

point Adam Smith also underscored.<sup>15</sup> And, this is why the socio-economic question is especially relevant to the future of ASEAN economic regionalism.

#### **4. The Political Sustainability of Regional Economic Integration**

To be sure, there are economic reasons to address socio-economic issues in the region, aside from the intrinsic moral worth of such an exercise. Development economists have long pointed to the importance of distribution – to attain equity in assets and incomes – as key to sustaining growth. Poverty and inequality, as well as working through reduced productivity tend to reduce the prospects for growth (Dreze and Sen, 1987). The full or *effective* market potential of an economy is undermined by unrealised production, income and consumption potentials. Today, two neoclassical/neoliberal propositions face considerable challenge, namely that growth will eventually ‘trickle down’ to the poor and that inequality is an inevitable outcome but necessary to growth in a market economy. The growing consensus is that countries with an initial condition of relatively equitable distribution of assets and income tend to grow faster than countries with high initial inequality (Dagdeviren *et al*, 2001: 6).

Aside from these essentially economic consequences of socio-economic divisions, there are sound political reasons why distributive equity is necessary if governments wish to maintain open market systems that are increasingly recognised as the route to growth and wealth creation. First, market integration through liberalisation generates winners and losers whether undertaken unilaterally, globally or regionally. While net gains may be positive over the long-run, short-run dislocations, including unemployment, should not be ignored, for herein lies the political problem. Mainstream economics, unfortunately, tends to emphasise the long-run benefits of market liberalisation while ignoring its short-run adjustment costs. It is precisely because of these short-term dislocations that groups in society, aside from state and/or business interests, contest the purported benefits of liberal market systems (Kaul *et al*, 1999). Moreover, these ‘short-run’ dislocations can persist for considerable periods of time in the current context of globalisation. By altering the nature and organization

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<sup>15</sup> Adam Smith, in his *Theory of the Moral Sentiments*, emphasised the importance of equity in society as the minimum quality necessary before the free market economy, as outlined in *Wealth of Nations*, is able to work as envisaged.

of production and work, as well as the pace and scope of FDI and trade flows (Oman, 1994; Dicken, 1998), globalisation has consequently increased the volatility associated with economic activity. This increases vulnerability even for those in the middle-income strata, unlike in the past (Zoellick, 1997/98: 42; Kirby, 2002: 205-6; Stiglitz, 2002). These dislocating effects are likely to be reproduced in regional integration schemes. Furthermore, widening and/or enduring inequities, as well as *perceptions* of injustices tend to accentuate the political effects of these dislocations and generate opposition by groups in society to market liberalisation.

Second, sustained wealth disparities generated by structural economic exclusion of large segments of a country's population are potentially explosive (Higgott and Nesadurai, 2002). Often, the situation arises because these groups are unable to take advantage of the economic opportunities that liberalisation affords for various reasons (eg. lack of skills, illiteracy, poor health, inaccessible location). These reasons include blocked access to economic rights and resources either through absent or weak property rights systems or through outright exploitation involving deliberate denial of property rights (de Soto, 2000). Property rights turn simple physical assets into capital, which is a means to increasing the productivity of both its owners and the economy more broadly. Absent, weak or inaccessible property rights reinforce economic and social divisions, as well as reduce the growth potential of the economy.

Recent studies on the motivations behind local resistance movements has revealed that local resistances to market integration are often less about rejection of these processes than about the desire of local people to gain fair access to them (Rigg, 2003: 58). While the CLV states have also made great strides in reducing poverty and in undertaking economic reform, what is crucial is how market integration is manifested in the local setting, given that it is always mediated through local structures and processes rather than being an external phenomenon imposed unchanged on local settings. Consequently, it is not so much market integration that is challenged but how it is done. Notably, many local acts of resistance in Southeast Asia are about rejecting economic activities that local populations view as unjust, that is, involving unfairness or arbitrariness<sup>16</sup> in their execution. Often, these involve state/local

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<sup>16</sup> The absence of arbitrariness is central to all forms of justice. See Rawls (1971).

authorities and their ‘cronies’ engaged in exploitation of local populations. Local resistances are thus not always about rejecting the market, which if anything is seen as the bringer of opportunities for wealth creation.

There is growing worldwide evidence that we ignore such socio-economic issues at our peril. As events in Indonesia in May 1998, Argentina in December 2001 and more recently in other parts of Latin America reveal, a widespread sense of inequity, marginalisation and injustice can lead to open political challenges to governments of the day, as do the growing number of protests directed against multilateral bodies since the late 1990s. Even proponents of further (rapid) economic liberalisation now caution that market integration may well hold within it the seeds of its own demise if it fails to deliver a more just economic order.<sup>17</sup> This is not a call to endorse socialism. Retreating from open market systems will itself generate similar kinds of social conflicts while seriously disrupting opportunities for wealth creation. The point is to aim for a balance between growth/efficiency and distributive justice in governing economies, including regional economic governance.

#### The Socio-Economic Divide and Regional Economic Integration

How do these points relate to ASEAN more generally, and the issue of its Indo-Chinese enlargement more precisely? After all, the general experience in Southeast Asia is one of increasing prosperity for rich, poor and the middle classes during the years of rapid economic growth. Nonetheless, the World Bank recently warned of a growing disconnect between regional growth and individual poverty in East Asia. Despite growth lifting 30-40 million people out of poverty in 2003, the number of poor in the Philippines, Indonesia, Cambodia, Laos and Papua New Guinea could actually rise.<sup>18</sup> Of some concern is that four of the five ‘problematic’ East Asian countries cited are in ASEAN, two of which are Indo-Chinese states. Aside from poverty, the World Bank is also concerned that growing inequities in the region will undermine the consensus for regional integration, as well as lead to social instability within and between states.<sup>19</sup> The situation is further compounded if the socio-

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<sup>17</sup> Address by World Bank President, James Wolfensohn to the Board of Governors of the Bank in October 1998.

<sup>18</sup> Address by Jemaluddin Kassum, Vice President for East Asia and the Pacific, World Bank, delivered in Singapore to the Euromoney Issuers and Investors Forum, 19 March 2003.

<sup>19</sup> *Ibid.*

economic divisions coincide with ethnic or religious divisions. World Bank Vice-President for East Asia and the Pacific, Jemaluddin Kassum warns of ‘a real risk of social and inter-country friction if growth is not maintained at reasonable levels and if the benefits are not shared equitably’.<sup>20</sup>

A case in point is the January 2003 violence in Cambodia directed against Thai business interests and Thai people that began over a rumour over the ownership of the historic Angkor Wat. While it is perhaps an extreme case, the episode nevertheless reveals the critical importance of the socio-economic dimension in building a regional economic community. The anger of ordinary Cambodians directed against the Thais stemmed also from the sense of economic deprivation, and further fuelled by their growing resentment at Thai dominance of the Cambodian economy (Phar, 2003). While it is alleged that competing business actors as well as politicians manipulated the episode,<sup>21</sup> these top-down manipulations must have struck a resonant chord with the domestic population for them to resort to violence. This episode is instructive as it reveals the dangers to regional economic integration if such an exercise only succeeds in recreating a ‘North-South’ divide within ASEAN, which could well undermine the political sustainability of the ASEAN Economic Community project.

The problem of a two-tier ASEAN is indeed very real (Table 2). Despite the fall in per capita incomes in the original ASEAN-6 since 1996, the rich-poor divide remains extremely stark. Singaporeans were on average 50 times richer than the Vietnamese and 75 times richer compared to the Cambodians. Malaysians were only three times richer than the average ASEAN national, but still about 9 to 14 times richer than the average Indo-Chinese. These per capita income figures suggest that the potential of an enlarged ASEAN market will remain only a theoretical possibility if its expanded population component is not translated into a corresponding income and consumption potential. The often made claim that enlargement has increased the market size of ASEAN to over 500 million people *with a combined GDP of US\$500 billion* masks the unevenness in enlargement’s contribution to the ASEAN market. Enlargement (including Myanmar) contributes only about 8 per cent of the total GDP of the ASEAN-10, considerably less than the 28 per cent contribution it makes to ASEAN’s

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<sup>20</sup> *Ibid*

<sup>21</sup> *Financial Times*, ‘Cambodian opposition blames premier for anti-Thai riots’ 3 February 2003.

total population base. *Indo-Chinese* enlargement contributes 7 percent of ASEAN's GDP and 18 per cent of ASEAN's population (excluding Myanmar). In other words, the full market or economic potential of enlargement remains unrealised at present, and contributes to the partial nature of the ASEAN market.

**Table 2: Per Capita Incomes and National Incomes (GDP) in ASEAN, 1996 and 2001**

Country	GDP Per Capita (US\$)		GDP (current market prices) (US\$million)	
	1996	2001	1996	2001
Brunei	17,096	12,245	5,216	4,252
Cambodia	312	270	3,341	3,400
Indonesia	1,155	691	227,312	141,817
Laos	393	330	1,860	1,764
Malaysia	4,766	3,696	100,888	88,050
Myanmar	109	151	4,956	7,543
Philippines	1,184	914	82,840	71,325
Singapore	24,784	20,659	90,957	84,909
Thailand	3,035	1,831	182,107	115,366
Vietnam	337	416	24,658	32,793
ASEAN	1,490	1,154	724,134	551,219

ASEAN Surveillance Coordinating Unit (ASCU) database ([www.aseansec.org/macroeconomic/](http://www.aseansec.org/macroeconomic/))

That the ASEAN market remains a partial market is, to some extent, reflected in the still limited share of intra-ASEAN trade, which remains at about 20-25 per cent of total ASEAN trade despite rising absolute levels of intra-regional trade. While the level of intra-ASEAN trade has grown over the years, especially with Southeast Asian production networks a growing feature, the relative share figures reveal that much of ASEAN's production remains destined for markets outside Southeast Asia. ASEAN's capacity as a significant consuming region is limited until such time that economic growth and development raise regional consumption demand for a wider range of goods and services produced within ASEAN. As it is, the 2001 per capita income in ASEAN was US\$1,154 only, despite the presence of two high-income economies (Brunei and Singapore) and one upper middle-income economy (Malaysia). The long-term viability of an ASEAN Economic Community must be based on a balance between exporting to outside the region and domestic demand from within the region. Consequently, this makes addressing socio-economic issues all the more pressing.

The socio-economic divide in ASEAN is, however, not simply between old and new members. The figures on per capita income reveal that even original members such as Indonesia and to a lesser degree the Philippines are closer to the Indo-Chinese states than they are to the other original members. Poverty indicators further confirm this point (Table 3). The financial crisis, of course, must take part of the blame. Nevertheless, these numbers indicate the extent to which socio-economic development must remain a central focus in ASEAN.

**Table 3 Incidence of Poverty in ASEAN**

Country	Population in Poverty (%)		
	Total	Urban	Rural
Cambodia (1999)	35.9	25.2 <sup>b</sup>	40.0
Laos (1997-98)	38.6	26.9	41.0
Vietnam (1998)	37.0	9.0	45.0
Indonesia (1999)	23.4	19.5	26.1
Philippines (2000)	39.4	24.3	54.0
Thailand (1998)	12.9	1.5	17.2
Malaysia <sup>a</sup> (1999)	8.1	3.8	13.2

<sup>a</sup> percentage of poor households; <sup>b</sup> excluding Phnom Penh, where poverty incidence in 1997 was 9.7%  
Data is based on national poverty lines; hence not comparable across countries

Source: Asian Development Bank ([www.adb.org/Documents/Books/Key\\_Indicators/2002](http://www.adb.org/Documents/Books/Key_Indicators/2002))

Moreover, there is a need to go beyond macro or state-based figures. While they usefully provide inter-state comparisons, such data sets do not provide a full picture of the political consequences of socio-economic divisions in society, particularly of local resistances, tensions and unrest that could impact on the future of regional economic integration. Knowledge of the ‘losers’ of reform processes in the CLV states is sparse, although preliminary work in this area suggests that the overall gains tend to mask the diverse experiences of local populations, some of them highly negative (Rigg, 2003: 178). Both case studies and anecdotal evidence can help overcome the knowledge gap in this area, approaches the Asian Development Bank also endorses (ADB, 2001).

### Local Resistances

While economic reforms in the CLV states have been positive on the whole, SOE reforms in particular have created labour dislocations, particularly in contexts where unemployment and under-employment are high and few social safety nets exist (Gates

and Mya, 2001: 17). According to the International Labour Organisation (ILO),<sup>22</sup> labour strikes and industrial disputes have become commonplace particularly in the non-state sector in Vietnam since the early 1990s. While some of these strikes are unjustified, most others involve valid grounds over employers violating the Labour Code, namely failing to sign labour contracts with their workers, non-payment of salaries, bonuses and social insurance, dangerous working conditions and meting out overly harsh punishment for infringements of factory rules.<sup>23</sup> The problems are found mainly in foreign firms.<sup>24</sup> The rapidly expanding labour force, particularly of youths, compounds the situation in Vietnam.<sup>25</sup> The ILO has warned that growing youth unemployment is a major threat to social stability, while rural unemployment is fuelling large-scale unplanned migration to cities and compounding the rising urban unemployment.<sup>26</sup> Reform plans in Vietnam to reduce the number of state employees by 15 per cent and the growing number of redundancies from loss-making SOEs aggravates the situation<sup>27</sup>. This places a premium on maintaining high growth rates to create jobs.

According to the Ministry of Labour, War Invalids and Social Affairs, the labour pressure domestically is somewhat eased through Vietnam's labour exports, with 46,000 workers sent abroad in 2002. A record 29,400 workers headed abroad between January to April 2003, with Malaysia the biggest importer of Vietnamese migrant labour.<sup>28</sup> Labour mobility thus offers governments a safety valve to temporarily ease the pressures of domestic labour surplus, thereby helping to maintain the political momentum for economic reform and integration. Although the topic of labour mobility within ASEAN is politically sensitive, a regional framework for the orderly movement of labour within ASEAN seems a logical next step in the push towards ASEAN economic integration. There is already considerable labour movement within the region, both legal and illegal, while a number of states have

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<sup>22</sup> *Agence France Presse (hereafter, AFP)*, 'Labour relations essential to Vietnam's equitable economic growth: US', 8 January 2003; and *AFP*, 'ILO opens doors in Vietnam amid growing labour unrest' 17 February 2003.

<sup>23</sup> See *Vietnam Investment Review*, 'Tis the season to strike for a bigger bonus', 6 January 2003.

<sup>24</sup> Although numbers are unavailable, 80 per cent of 'recent' strikes in the country were at foreign enterprises, according to the Minister for Labour, War Invalids and Social Affairs. See *Vietnam Style*, 'Stricter control expected on labour exports', 16 May 2003. [[www.vnstyle.vdc.com.vn](http://www.vnstyle.vdc.com.vn)].

<sup>25</sup> *Vietnam Investment Review*, 'Challenges of a growing labour force' 28 April 2003.

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*

<sup>28</sup> *Xinhua*, 'Some 30,000 Vietnamese sent abroad as migrant workers in 4 months' 21 May 2003.



bilateral arrangements to govern labour movements between their states. Regional labour movements if well managed are an important complement to regional economic integration that is based on the free intra-regional movement of goods, services and capital.

Compounding the growing labour tensions in Vietnam is the rising degree of rural unrest in various parts of the country, with nearly all of them linked to land disputes involving local elites and allegations of corruption. Moreover, the reform years have witnessed a growing degree of landlessness amongst the local population, even as party and state officials have emerged as owners of large landholdings in the country (Gainsborough, 2002: 698-9). The plan to clamp down on rural protests through arrests and jail sentences can only be a temporary measure if the underlying grievances are not addressed.<sup>29</sup> The danger is that the government prompted by fears over the political and security consequences of social instability will delay domestic economic reforms and market integration. Recently in March 2003, Vietnam's deputy Prime Minister, Vu Khoan, emphasised that economic reforms including privatisation would not be allowed to threaten social stability.<sup>30</sup>

Policymakers are therefore faced with difficult policy choices that require them to opt for high growth strategies, which usually mean liberal market policies, to absorb an expanding labour force and generate income. On the other hand, it is also imperative for them to ensure that the adjustment costs of reform, including those associated with regional integration are adequately addressed. It is especially important to ensure that access to opportunities for wealth creation is equitably distributed amongst the population rather than arbitrarily confined to certain groups, which is the major source of these domestic tensions and conflicts.

Given that Vietnam has long been noted for its more egalitarian income and land distribution as compared to both the colonial era and to other Southeast Asian economies such as Thailand, the Philippines and Indonesia, the rising incidence of

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<sup>29</sup> *AFP*, 'Appeal court in Vietnam upholds jail terms for 24 farmers over unrest' 17 April 2003.

<sup>30</sup> British Broadcasting Corporation (BBC) 'Deputy Premier Vu Khoan stresses three-strand renovation policy' 6 March 2003.

local resistances and conflicts in rural Vietnam is especially disturbing.<sup>31</sup> It would be tempting to dismiss these trends as the inevitable outcome of economic growth in accordance with neoclassical economic theory (Beresford and McFarlane, 1995), or to the normal grievances of those displaced by economic transition as a few Vietnamese officials have argued.<sup>32</sup> We need to be cognisant, however, of the political consequences of these episodes if they are the outcome of arbitrary economic decisions and actions by the powerful and well connected that deny economic opportunities to ordinary people. Officials themselves have conceded that many of these protests are well grounded, directed at shady land deals, corruption and mismanaged rural cooperatives.<sup>33</sup>

The experiences of countries like Indonesia and Thailand during the 1990s are instructive in this regard. The socio-economic problems recorded in these countries are not merely an outcome of the 1997-98 Asian financial crisis, although the crisis certainly exacerbated them. The rapid growth and rising average incomes that Thailand and Indonesia registered before the crisis were also accompanied by widening disparities in income and wealth distribution, as well as growing feelings of marginalisation, deprivation and injustice amongst segments of the population. These resentments led to increasingly frequent and strident protests in these countries, especially outside the cities and amongst the manufacturing labour force (Higgott and Nesadurai, 2002). There was very little general awareness of such events amongst the public and observers of ASEAN, as they were masked by the euphoria over growth during the economic boom.

The Indonesian experience, in particular, offers sobering insights. In May 1998, the end of the Suharto regime was first triggered from the streets. Scholars argue that political conflict and violence in the outer provinces have their roots in socio-economic grievances despite their overtly ethnic/religious tenor (Booth, 1999). The avaricious behaviour of certain members of the state, military and business elite helped undermine a sound track record in economic development and poverty reduction since the 1970s (Liddle, 1999). Worsening wealth disparities and

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<sup>31</sup> See Booth (2002: 49) on this point.

<sup>32</sup> *FEER*, 'Vietnam: Passing the buck' 7 December 2000.

<sup>33</sup> *FEER*, 'Vietnam: Safety Valve of the People' 3 May 2001.

strengthening resentment on the part of both urban and rural populations contributed to the tensions and conflicts that were already part of the Indonesian landscape in the 1990s, well before the financial crisis.

Desperately needing foreign investment to create employment and reduce poverty, continuous unrest and unreasonable demands by labour has become a liability to Indonesia. While these actions are definitely not in the best interests of Indonesia, continual labour discord are entirely understandable given the poor treatment of workers during the later years of the Suharto Administration and the government's repressive actions during the 1990s (Soesastro, 1998). Such trends have clearly eroded investor confidence and weakened the prospects for sustained economic growth in contemporary Indonesia. This is not to suggest that the CLV states are likely to go down the same path. The lessons are obvious. If policies and programmes for economic liberalisation and regional integration are to be politically sustainable in CLV states, inherent socio-economic issues need to be addressed.

## **5. Conclusion: Implications for Regional Economic Governance**

Three inter-related points emerge from this discussion. Firstly, unaddressed socio-economic grievances can have significant political consequences and can undermine the prospects for regional economic integration, either by weakening the consensus on the project and by driving away investors. Secondly, a truly sustainable or enduring ASEAN Economic Community can only be realised if it is considered just and, therefore, legitimate, by the region's citizens. To put it another way, we need to look beyond state and commercial interests when we consider the political sustainability of regional economic integration. Thirdly, it is not merely enlargement that poses a challenge to the ASEAN Economic Community project, but rather that socio-economic problems found across ASEAN make it somewhat misleading to speak of a two-tiered ASEAN (Rigg, 2003: 129). Going beyond a statist framework reveals the presence of pockets of under-development in every ASEAN country, except Singapore and Brunei and to a lesser extent Malaysia, just as there are pockets of the 'Third World' in the developed countries as well. Nevertheless, the new ASEAN members face a more daunting set of challenges compared to the original members, given their transition status and weaker institutional capacities for national socio-

economic governance. Indonesia, however, may well fit into this group at present given the multiple transitions it is undergoing – economic, political and institutional.

Consequently, governance at the national/local level and the regional ASEAN level is central to whether the Indo-Chinese enlargement will enhance or undermine ASEAN economic integration. If governance is defined in functional terms as the act of providing direction to society on particular matters that affect the well being of the political community, then a crucial element is the delineation of goals and priorities of governance. The other element of governance is, of course, the mechanisms adopted to attain these goals. This paper makes a case that economic governance at both national and regional levels must aim at both growth/efficiency as well as distributive justice. Otherwise, there is a strong prospect of open contestations against the very policies – economic liberalisation and regional integration – that have the best chance of delivering economic well being in the long run.

While the CLV states have made enormous strides in reducing poverty and fostering economic growth, much remains on the national economic reform agenda to facilitate their participation in ASEAN economic integration. National level programmes are in place in these states to accomplish these tasks and involves assistance from multilateral agencies, ASEAN's industrial country dialogue partners and ASEAN itself. Aside from the adjustment period allowed for tariff liberalisation and the tariff preference programme, there are a range of other programmes at the ASEAN level that address socio-economic issues. One could argue that these programmes play a somewhat similar role to that of the regional development fund of the European Union in that they aim to reduce intra-ASEAN disparities and thereby facilitate regional economic integration.<sup>34</sup> Among the most notable are four: the Initiative for ASEAN Integration (IAI), Mekong Basin Development Cooperation, the Joint ASEAN-World Bank Initiative on Mainstreaming Social Development and the ASEAN-UNDP Partnership Facility.

The IAI was initially launched at the Fourth ASEAN Informal Summit in Singapore in November 2000 and formally adopted in Hanoi the following year. Its primary aim

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<sup>34</sup> These programmes are outlined on the website of the ASEAN Secretariat [[www.aseansec.org](http://www.aseansec.org)].

is to reduce the development gap within ASEAN.<sup>35</sup> Although the IAI does not specifically point to the development divide between new members and the original set, nevertheless, its work programme in the four priority areas – infrastructure, human resources development, information and communications technology and capacity building for regional economic integration – are directed mainly at the new members. Mekong Basin Development Cooperation engages in a wider range of activities than the IAI, but for similar purposes, namely the development of the new members of ASEAN and to improve the economic linkages between them and the original members.<sup>36</sup> Both these programmes involve external funding, while ASEAN contributes in kind through a range of technical assistance programmes and other non-financial contributions.

While these two programmes are essentially practical mechanisms to attain key economic development goals, the Mainstreaming Social Development (MSD) Initiative is especially interesting as it attempts to alter at a normative level the core goals on which national and regional economic governance should be based.<sup>37</sup> Its main aim is to highlight that growth alone is insufficient. Instead, growth must be integrated at the planning level with a social development agenda, which would include poverty alleviation and social protection, labour and employment and health issues. The MSD Initiative, together with technical and advisory services offered under the ASEAN-UNDP Partnership Facility<sup>38</sup> are attempts to extend regional understandings and practices of development to include that of human/social development. These programmes are vital as attempts to embed regional economic integration within a single framework, namely one that takes socio-economic governance as seriously as market integration. These programmes dovetail quite nicely with the Secretariat's most recent effort, which was an invitation to UNDP, New York to develop similar region-specific human development indicators for Southeast Asia, as was done for the Middle East and South Asia. These indicators

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<sup>35</sup> See the *Hanoi Declaration on Narrowing the Development Gap for Closer ASEAN Integration*, Hanoi, Vietnam, 23 July 2001.

<sup>36</sup> Details are found in the *Basic Framework of ASEAN-Mekong Basin Development Cooperation*, adopted on 17 June 1996 [[www.aseansec.org](http://www.aseansec.org)].

<sup>37</sup> See the *Joint ASEAN-World Bank Initiative on Mainstreaming Social Development* [[www.aseansec.org](http://www.aseansec.org)].

<sup>38</sup> See the ASEAN Secretariat press release, 'ASEAN and UNDP team up to promote regional development and integration' 18 June 2001.

would constitute socio-economic benchmarks by which to assess the social costs of economic integration.<sup>39</sup>

While these major social development programmes are laudable, especially for a regional association of largely developing country members, there is a pressing need for ASEAN to develop better institutional links with civil society groups to build an early warning system for socio-economic tensions, conflicts and crises in the region. In short, regional economic governance needs to be more inclusive of society. While national governments in the region interact and consult with business actors, civil society, the third and no less crucial leg of the triangle has been neglected, or worse, repressed. ASEAN itself has institutionalised its links with the business sector through the ASEAN Business Advisory Council (ABAC), and has viewed it as vital to economic integration.<sup>40</sup>

The former ASEAN Secretary General, Mr Severino Jr., has acknowledged that interaction with civil society on a more formal basis is equally essential.<sup>41</sup> It is important because some form of institutionalised engagement with non-governmental organisations (NGOs) who work with local communities can be helpful as early warnings of local grievances, which if unchecked have the potential to undermine regional economic integration. The ASEAN Secretariat is in fact working to convince ASEAN member governments of the importance of local NGO participation in addressing socio-economic concerns in the region.<sup>42</sup> As the preceding discussion has revealed, macro indicators, even if they are obtained in timely fashion often mask these local developments requiring a focus beyond the state down to the level of local communities. This is especially salient to the Indo-Chinese states, although equally applicable to original members such as Indonesia where similar episodes are widespread.

There are certainly considerable hurdles against the idea ever taking root. For one, many national governments, including in the CLV find NGOs unpalatable, given they

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<sup>39</sup> Telephone interview with senior official from the ASEAN Secretariat, Jakarta, 1 July 2003.

<sup>40</sup> *Bernama* 'ASEAN business leaders urged to help promote economic integration' 11 April 2003.

<sup>41</sup> See the feature article by Kavi Chongkittavorn, 'ASEAN needs to be a more activist group' *The Korea Herald*, 31 December 2001.

<sup>42</sup> Telephone interview with senior official from the ASEAN Secretariat, Jakarta, 1 July 2003.

often function as watchdogs of government abuses (Lizee, 2002). Another point is that those NGOs that aim to reject or destroy the multilateral financial institutions and the World Trade Organisation, as well as globalisation more generally have effectively excluded themselves from working with states and inter-governmental organisations like ASEAN.<sup>43</sup> Moreover, there is a bewildering array of NGOs in the region that engage in a wide range of issues and operate at distinct levels, platforms and ideologies. Such diversity will make it rather difficult to institutionalise some form of ASEAN-NGO link that requires selection of representative NGOs. Nevertheless, it can be done. But, the primary obstacle will be the ASEAN governments themselves. Are they prepared to allow NGOs to operate unimpeded domestically, which is necessary if NGOs are to play an early warning role in the manner suggested in this paper? This requires some degree of domestic political liberalisation, for which these governments may not be ready. In the end, this can help ensure that the Indo-Chinese enlargement of ASEAN will advance rather than undermine regional economic integration and make an ASEAN Economic Community a politically sustainable project.

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<sup>43</sup> See the statement of the Asian Social Movements Meeting held in Bangkok in August 2002 titled 'Another World is Possible! Mobilise Against Neoliberalism'. [[www.focusweb.org](http://www.focusweb.org)].

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