



**POLITICAL AND ECONOMIC INTEGRATION OF  
ASEAN: THE EU WAY**

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e-mail: [sht\\_sunny@yahoo.com](mailto:sht_sunny@yahoo.com)

Noragric

Department of International Environment and Development Studies

P.O. Box 5003

N-1432 Ås

Norway

Tel.: +47 64 96 52 00

Fax: +47 64 96 52 01 Internet: <http://www.nmbu.no/noragric>

## **Declaration**

I, (Sunny Shrestha), declare that this thesis is a result of my research investigations and findings. Sources of information other than my own have been acknowledged and a reference list has been appended. This work has not been previously submitted to any other university for award of any type of academic degree.

Signature.....

Date.....

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Sunny Shrestha  
Oslo, 2014

## **List of Abbreviation**

ASEAN = Association of South East Asian Nations

ARF = ASEAN Regional Forum

AEC = ASEAN Economic Community

AFTA = ASEAN Free Trade Area

ASC = ASEAN Security Committee

ASCC = ASEAN Socio – Cultural Community

APSC = ASEAN Political – Security Community

BoT = Balance of Threat

CEPT = Common Effective Preferential Tariff

CFSP = Common Foreign and Security Policy

EU = European Union

EC = European Commission

EEC = European Economic Community

ECSC = the European Coal and Steel Community

FDI = Foreign Direct Investment

NATO = North Atlantic Treaty Organization

USA = United States of America

USSR = Union of Soviet Socialist Republic

WARSAW = Warsaw Treaty of Friendship, Co-operation and Mutual Assistance

## **Abstract**

This thesis deals on integration of ASEAN. The primary objective of this thesis is to find out the potential of ASEAN to be politically and economically integrated like EU, and the kind of difficulties it may face in a mid way. Since EU is a pioneer and benchmark for any integration and ASEAN takes EU as a reference, I choose EU as a base to compare the progress of ASEAN.

As for the theoretical aspect, integration theory and its importance in global scenario is discussed. The research sought after the way ahead for ASEAN. This study is based on a comparative analysis of the development of both EU and ASEAN. The information and literature needed for the thesis will be collected from open source, which is easily accessible to all.

After analyzing the historical background, present development and future prospect, I think ASEAN is turning out to be the successful regional cooperation. Even though ASEAN took reference from EU in its development, It don't need to be like EU. Being the cooperation from different group of differently diversified nations, It can pave its own way forward and can lay good precedent for other upcoming regional co-operations.

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# CHAPTER 1: INTRODUCTION

## 1.1. General Introduction

At the height of the Cold War, peace and security were major and sometimes even dominant reasons behind the integration of nations. However, after the fall of Soviet Union, economy substituted security as a fundamental goal behind the formation of cooperation. After the end of World War II, regionalism and integration became the main part of International Relations.

Success of European integration as European Union became a landmark foundation for the formation of other regional cooperation. As Rosamond points out, “*European Integration is totally a unique enterprise without either historical precedent or contemporary parallel, but it is a ready source for comparative study in some of the most energizing and lively social science currently going on.*” (Rosamond: 2000, 197)

This research is dedicated to the inquiry into the possibility of the process of political and economic integration of Association of South East Asian Nations (ASEAN) approaching that of the EU.

Association of South East Asian Nations (ASEAN) aims to form a “new economic community.” European Union (EU) is considered as a good example of regional reconciliation and integration (Acharya: 2009, 496), and hence is taken as an inspiration for the establishment of ASEAN and reference for its modernization (Yeo: 2007, 11). This is proved by the fact that during drafting of the ASEAN Charter, the High Level Committee made study visits to Brussels and Berlin. It is claimed that ASEAN still takes EU as a reference to avoid the mistakes and problems EU have encountered.

ASEAN seems to be advancing forward with its economic and political integration effort. The example of peace and successful economic and political incorporation between 27 countries set by the EU provides an interesting background to assess if ASEAN with 10 members from vastly different political and economic condition can really fit on the boots of EU with respect to economic and political integration.

## 1.2. Objective and Significance of Study

The reason behind my interest to explore the political and economic integration of ASEAN is because it is emerging as “one of the big things” in world economic scenario today and ASEAN can be credited for maintaining regional peace and stability in South East Asia for a few decades now (Nesadurai: 2008, 226).

After China and India, ASEAN is emerging as the main economic pillar of Asia. ASEAN has experienced a substantial growth rate, the huge inflow of foreign direct investment and very low impact of worldwide economic crisis in recent years. Economic prosperity and the prospect of gaining international political weight and value are the core motives behind the foundation of ASEAN. As then Foreign Minister of Singapore, S. Rajaratnam, while discussing the need of regional cooperation in South East Asia, in 1967 said, “*Advanced nations believe in grouping for economic prosperity, if we don't operate together we will always be left behind as a developing region*” (*The Birth of ASEAN (English)* 2012). At present time ASEAN seems to have been successful in gaining a good reputation in an economic arena, apparent from big multinational companies like Adidas driving towards the ASEAN zone to open their branch and invest there. Following the ASEAN Free Trade Area (AFTA) project and agreement regarding establishing an ASEAN community within 2020 through cooperation in three “mutually reinforcing areas”- politics, nontraditional security and economics,<sup>1</sup> ASEAN have shown good sign to become a successful regional cooperation.

Likewise, joint security effort is considered important to survive among and against the threats from big nations. One example illustrating this is the dispute regarding claim of the ownership of Scarborough Shoal. Located 220 kilometers off the coast of the Philippines in shallow waters, Scarborough Shoal falls in the economic zone of Philippines according to international maritime law. But China also claims the ownership of the Shoal even though it is 900 kilometers away from nearest Chinese coast (“Island Row around China - Al Jazeera” 2014) Since China has largest fleet of advanced warheads in Asia, to raise the voice against this big and powerful nation, the Philippines needs to collaborate and cooperate with other nations.

However, there are number of problems within ASEAN region and the way ASEAN is functioning. Firstly, it is a group of developing countries (except for Malaysia and Singapore) and

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<sup>1</sup> available at <http://www.asean.org/archive/publications/ASEAN-Charter.pdf> (last accessed 10 Feb 2013)

with different economic and social background. Secondly, the members of ASEAN nations have many disputes among themselves as well as with other nations. There is border dispute between Cambodia and Thailand, sea boundary dispute between Indonesia and Malaysia. Likewise, Malaysia, Brunei, Philippines and Vietnam have territorial dispute with China in South China Sea. (“China Defends Patrolling Disputed Waters - Asia-Pacific - Al Jazeera English” 2013)<sup>2</sup> However, ASEAN continues its firm stand in its sovereignty and non-interference principle, which creates a problem in providing effective governance for key transnational problems. This is illustrated by example of instances when ASEAN failed to respond upon the trans-boundary pollution coming from forest fire in Indonesia in mid 90s and inability to give pressure against human right abuse and political repression in Burma (Nesadurai: 2008, 226).

### **1.3. Research Question**

This thesis will concentrate on political and economic integration of ASEAN and the difficulties it is facing or may be facing in the process of becoming a successful regional organization. In this regard, this paper will try to explore how this regional cooperation seems to advance in the future, how these nations will work together for the betterment of the region, will they be able to keep their national interest aside for the sake of regional security and economic prosperity or not? Since EU influences development of ASEAN, this study will analyze the impact of EU’s influence on ASEAN. Taking into consideration the positive outcomes like euro zone, common market and regional security of EU, this study will try to find to what extent ASEAN can fit the boots of EU, discussing the economic and political role and integration EU have experienced. This study will concentrate on finding the answer of following question:

- i) What are the prospects and difficulties for the process of the political and economic integration of ASEAN approaching that of EU?

### **1.4. Literature Review**

This thesis is primarily based on the use of secondary source. I have focused on collecting and reviewing data from the available scholarly sources and literature related to my topic and which have already been made public.

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<sup>2</sup> available at <http://www.aljazeera.com/news/asia-pacific/2013/06/2013627599751941.html> (last accessed 13 Oct 2013)

Reviewing the literature is to learn what is already known about the area researcher is interested in. It is to get engaged in scholarly review based on researchers reading and understanding of the works of others in the same field and to relate and find the impact on one's own research question by what others have found out. It is not only about reproducing the theories and opinions of others but also being able to interpret the research, they have done using their own idea to support or oppose the particular viewpoint or argument. (Bryman: 2008, 81)

Since the topic of this study is related to the political and economic integration of ASEAN, interviews and expert opinions can prove important to reach the conclusion. In the course of finding the data and relevant articles, I have explored the official websites of ASEAN and EU, gone through different treaties and pacts made and searched journals and articles regarding the topic. Along with this, discussion on the Integration theory, its significance in the regional cooperation is presented. I will also discuss the motive, economic integration process and political value of the nations for being the part of a regional alliance or cooperation.

### **1.5. Data and Method**

This study uses the mixed method for data analysis, combining both quantitative and qualitative methods. Chambliss explains quantitative research as “*systematic empirical investigation of social context with the help of statistical, mathematical or computational techniques*” and qualitative research as analysis of “*the texts that are most often transcripts of interviews, group discussions, notes from the participant*” and “*focus on the text rather than numbers*” (Chambliss: 2010, 250). Since, the text goes in depth to show the insight view of the numeric data; I will use the table and data to elaborate more upon my topic. Since, “the reason for research is to describe, explore, explain and evaluate” (ibid, 19) my study will go through this process and end up with the evaluation.

#### **Data sources**

The main sources of data includes journal articles, reports or websites have been searched to find the genesis of integration theory and how it has been implied in the integration process of both ASEAN and EU. Official website of ASEAN, EU, World Bank is main source of information on circumstances for the creation of this association and their current situation.

## **Analysis**

While in the search process, the collected information or materials are analyzed and the search modified accordingly to the need created, keeping in mind finding the answer to the research question of this study and how the answer can be reached in a most justifiable way.

## **Evaluation**

Evaluation of the collected data is one of the main concerns of the research. What are the characteristics of integration process and the explaining factor for integration of ASEAN and EU has been evaluated.

## **Interpretation**

The collected data and information has been interpreted with focus on how the ASEAN was integrated and what are its chances and consequences to be like EU in order to find the answer to the research question.

## **1.6. Organization of Study**

This thesis is divided into six chapters. The next chapter, which is second chapter, presents Theoretical Framework of the study. It will present arguments on the theory and its importance on thesis work. Since this thesis is about integration, the integration theory, alliance and balance of threat theory will be discussed in this chapter. In the third chapter, introduction to ASEAN will be presented. Its history, motive behind formation, integration, vision, ASEAN Charter, ASEAN Community and ASEAN Regional Forum will be discussed. This chapter will examine the nature of ASEAN more closely. Fourth chapter will be dedicated to the study of EU. Here also history, motivation behind formation and integration will be studied. The detailed study of ASEAN and EU will be important to find the answer for the research question. Fifth chapter will be the discussion part of the study. Based on the thorough study of both these organizations in earlier chapters, comparison between ASEAN and EU will be made in this chapter. The strength of EU will be emphasized and the prospect of ASEAN and its difficulties will be discussed. I will summarize the study and produce the conclusion in the conclusive sixth chapter.

### **1.7. Limitation of Study**

ASEAN itself is a big topic to study on; it is possible to write a whole dissertation on any chapter on ASEAN and EU. As there is limitation regarding time and resources, the focus area of the study has been narrowed down to the economic and political integration part of ASEAN and EU. Therefore, it will not discuss other issues regarding ASEAN or EU.

## CHAPTER 2: THEORETICAL FRAMEWORK

### 2.1. Theory

Theory is important to the social researcher because it provides a foundation for the research that is being conducted. It also provides a framework within which social phenomena can be understood and the research findings can be interpreted (Bryman: 2008, 6). Even though the theories can be defined in many ways, the widely accepted definition is “*an explanation of observed regularities.*” (ibid, 6)

Theory helps us to see the wood for the trees. Good theory select out certain factors as the most important or relevant if one is interested in providing an explanation of the event. Without such kind of shifting process, no effective observation can take place. The observer would be buried under a pile of detail and be unable to weigh influence of different factors in explaining an event. Theories are of value precisely because they structure all the observations. (Stoker, Wolman, and Judge: 1995, 16-17)

According to Rosamond, theory is a mechanism for the generation and organization of disagreement, being theoretically conscious sharpens the sense in which analysts are aware of their own assumptions about the way in which the world works. (Rosamond: 2000, 9)

Theory gives the researcher different view- point helping them focus on different aspects of the data available and providing with the framework to conduct their research. It is impossible to make any statement about social phenomena in a theoretical vacuum. Theoretical perspectives inform us all, even if we adopt an undeniably non- theoretical posture. (ibid: 5)

Theorizing the matter intellectualizes the perceptions, it helps to identify the significance of the matter. Scott Burchill have presented six criteria against which theories can be evaluated:

- i. a theory’s understanding of an issue or process;
- ii. a theory’s explanatory power of the theory;
- iii. the theory’s success at predicting the events;
- iv. the theory’s intellectual consistency and coherence
- v. the scope of theory;
- vi. the theory’s capacity for critical self-reflection and intellectual engagement with contending theories.



Theories can be evaluated in a number of ways. Pentland argues that there are three perspectives from which to evaluate the theory.

i) Internal logic of the theory

This relates on how well the concepts are developed, how rigorous they are in their quest to explain and how well they follow good practice in theory building.

ii) Intellectual context of theory

This enables the evaluator to explore the family history of the theory and try to find the resemblance in a context.

iii) Ability of theory to connect to reality

This is a straight criterion to judge the theory; how well the theory matches the reality of a real world is important when applying any theory to the subject.

(Pentland: 1973, 19-20)

## 2.2. Integration Theory

The term Integration, it don't have definite meaning. It is defined in two senses, sometimes as a process and sometimes as a condition. (Haokip: 2011, 2) Different integration theorists have shown different "conception of process and outcome in mind" while defining the Integration Theory. Ernst Haas argued, "*giant step on the road toward an integrated theory of regional integration... would be taken if we could clarify the matter of what we propose to explain and/ or predict.*" (Haas: 1958, 26) This is a problem of 'dependent variable' in integration theory.

(Rosamond: 2000, 11) Karl Deutsch defines Integration as "the creation of security communities or zones of peace among states in a region." (Deutsch et al.: 1957) Likewise, many writers define integration precisely in terms of the radical reordering of both the conventional international order and of the existing authoritative structures of governance. Donald Puchala even compared the difficulty in the quest for a definition of integration to blind men being confronted with the task of defining an elephant. (Puchala: 1972)

However, Ernst B. Haas in 1958 has tried to give the definite idea of integration in his book *The Uniting of Europe: Political, Social and Economic Forces*. He describes integration as:

... the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new center, whose institutions possess or demand jurisdiction over pre existing national states. The end result of a process of political integration is a new political community, superimposed over the pre-existing ones. (Haas 1958, 16)

According to Myron Weiner, “ integration refers to the process of bringing together culturally and socially discrete groups into a single territorial unit and the establishment of a national identity, the problem of establishing national central authority over subordinate political units or regions which may or may not coincide with distinct cultural or social groups, the problem of linking government with the governed, the process in evolving a minimum value consensus necessary to maintain a social order, the “integrative behavior”, referring to the capacity of people in a society to organize for some common purpose.” (Weiner: 1965, 53-54)

Most scholars agree that, integration is a matter of degree and the national state representing only a more or less stable balance of centripetal and centrifugal forces. (Harrison: 1956, 141)

In international relations, integration is always about nations. So integration in international relations is more or less the political integration. However, few scholars have tried to define particularly political integration alone.

In this thesis work, the economic and political integration between the nations will be focused upon. Political and economic integration are somehow interrelated, it is more like economically integrated parties are somehow integrated politically as well. But political integration can vary; it can be for economy, culture, security or some more reasons. For example: NATO nations are integrated for security reason, likewise, ASEAN is more on economy.

So, political integration is an agreement between the nations who come together to work on achieving a common goal. The problem of integration faced by each nation state differs from others in nature as well as in degree. It varies from country to country “*because of the ambiguity*

*as to what constitutes a nation which is to be integrated” and also because of the “differences between the countries in their history and ethnic composition” (Emerson: 1966, 96)*

Walter Mattli suggests that, the success and failure of the regional integration solely depends on demand and supply condition. These conditions, he said, are of “primary importance” for the success and failure of the integration process. The zone with high potential of cross-border trade inspires the nations to integrate, this is demand condition. And conversely, if the potential of gain is relatively low then the integration may not be the priority. As for supply, “each plan or scheme must have the presence of a bountiful leader/ country that will act as a central figure in the coordination of rules, regulations and policies and assist in easing tensions that may arise from the inequitable distribution of gains from integration.” (Mattli: 1999, 42)

European Integration is a totally unique experience with neither any close to comparable scale precedent in the past or any contemporary in the parallel era. It can be taken and considered for a comparative study of different regional co-operations in social science and global arena.

## **Economic Integration**

Economic integration can come in one or many of the following forms:

### **Free Trade Area**

This is a trade restriction free area for all the member nation of a certain group. Whereas, members are free to make individual deal with outsiders. Eg. North America Free Trade Area (NAFTA), European Free Trade Area (EFTA), Latin American Integration Association (LAIA)

### **Custom Union**

This type of provision allows the common external tariff rate for all the non- member nations, while all the member nations within the union exercise unrestricted, tariff free trade. This is a preliminary phase for complete economic integration. Eg. Central American Common Market (CACM), Caribbean Community and Common Market (CARICOM)

## **Complete Economic Integration**

This is a form of complete economic union. Here the resources and commodities of the member nations are freely mobilized. The economic activities, fiscal and monetary policies are coordinated and operated very well with binding supra national organization. This type of economic integration is widely known as common market. Eg. EU

## **Partial Integration**

This is a common market for selected goods or products. The example is The European Coal and Steel Community in 1952, where the members created the common coal and steel market in their territories. The infancy state of which became EU in the future.

## **Long term trade Contract**

This is a bilateral contract between nations for single or more products. It gives stability to the export and the duration can be a year or more.

## **2.3. Alliance**

Alliance is a trend of today's world; it is an integral part of statecraft. A good number of theories have been introduced to define alliance. Many Scholars have contributed differently in defining the alliance. The first attempt was made by George Liska in his "Nations in Alliance: the limit of interdependence" published in 1962. While discussing the importance of alliance in international relations he said-*"It is impossible to speak of international relations without referring to alliances; the two often merge in all but name"* (Liska: 1962, 3) States enter into alliance in order to supplement each other's capabilities. "In Economic terminology, alliances aim at maximizing gains and sharing liabilities. The decision to align, in what form, and with whom or not to align, as part of a deliberate policy – is made with reference to national interests" (ibid, 40)

According to Stephen Walt, *"alliance is a formal agreement for security cooperation between two or more states, by enabling states to combine their capabilities and coordinate some aspects*

*of their foreign policies, alliances seek to make each other member more secure. In most of the cases, alliance entails some sort of commitment to mutual defense.”* (Walt 2014)<sup>3</sup>

According to Realist theory, states are the central political actors and their actions are governed by perceptions of Sovereignty, national interest and security. Weak nations enter the alliance to protect their sovereignty or national interest from the stronger nations. Strong nations ally to maintain their supremacy or balance the power with other powerhouses. The primary purpose of most alliances is to combine the member’s capabilities in a way that further their respective interests. The theory of Balance of power is well used when describing the alliance in international relations.

## **2.4. Balance of Threat**

Expressing the opposing view to the common neorealist concept that states balance against power, Stephen Walt argued that the states act to balance against threat. Stephen M. Walt introduced this Balance of Threat (BoT) theory in his article “Alliance formation and the balance of world power” in 1985. This is a modified version of Balance of Power theory of Neo Realist School of thought. BoT “*should be viewed as a refinement of traditional balance of power theory.*” (Walt 1987) States react accordingly to the increase in other states capability and countries ally in response to the external threat. The good example of balance of threat was the alliance of European countries against the rising threat of Germany in World War II.

States join alliances to protect themselves from state or coalitions whose superior resources could pose a threat (Walt:1985, 5) According to Walt, nations do occasionally cooperate but when they do so, the cooperation is meant to face the powerful threat from one or more states. When the threat is terminated, the cooperation also comes to an end. The formation of ASEAN was driven by the need of balance of threat in security and economic arena. The ASEAN countries came together in a fear of Polarization in Cold War, disputes with China and fear of spread of Communism in the region. At that time, in spite of security being the primary significance, ASEAN politicians, in the fear of mixing with polarizing effect make it sure that they will not deal with “security matters of political controversies”. (Lee 2006)<sup>4</sup> But the solution came in the

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<sup>3</sup> available at [http://www.foreignpolicy.com/articles/2014/03/24/would\\_you\\_die\\_for\\_this\\_country\\_ukraine](http://www.foreignpolicy.com/articles/2014/03/24/would_you_die_for_this_country_ukraine) (last accessed 26 March 2014)

<sup>4</sup> available at: <http://www.zum.de/whkmla/sp/0607/seongmin/seongmin.html> (last accessed 12 Feb 2014)

shape of dissolution of USSR and end of cold war, this new situation brought the new economic threat to the ASEAN nations. The FDI flow to ASEAN region witnessed its downfall after the establishment of the North American Free Trade Agreement (NAFTA) and the Single European Market in 1990s. Furthermore, the opening of China as a big and lucrative market for foreign investors in 1990s further deepened the problem. To compete with the continental sized economy and market, formation of a similar sort of big market in South East Asia was the only logical and internationally recognizable way out to save the FDI inflow to ASEAN.

## CHAPTER 3: ASEAN

### 3.1. Introduction

The term Southeast Asia was at first used in Quebec Conference in August 1943, where the allied parties placed Malaya, Sumatra, Thailand and Burma under the Southeast Asia Command (SEAC I) to protect the colony in the Southeast Asian region. In July of 1945 during the Postdam Conference, SEAC I was expanded by adding Netherlands East Indies (Indonesia) and several countries of Indochina, which were Southern Vietnam and Cambodia (SEAC II). During the World War II, these Southeast Asian countries was categorized as the Allied Forces Zone under the command of Lord Mountbatten (Turnbull: 1999, 258-259)

“One vision, one identity, one community”, Association of South East Asian Nations (ASEAN) was established on 8<sup>th</sup> August, 1967 with the Bangkok Declaration. Indonesia, The Philippines, Malaysia, Singapore and Thailand were the founding signatories. Later on, Brunei and Vietnam joined the association on 7<sup>th</sup> Jan, 1984 and 28 July 1995 respectively. Lao PDR and Myanmar joined together on 23 July 1997 and Cambodia became tenth and last member of ASEAN after joining it on 30 April 1999. (“History” 2014)<sup>5</sup>

ASEAN today, is “one of the most successful inter – governmental organization of the developing world.” (Kivimaki: 2001,5) ASEAN has been playing an important role in East Asian political economy. It is a nuclear free zone and, as US President Barack Obama said “a trusted partner in international affairs” (Hapsoro 2010)<sup>6</sup>

### 3.2. Historical Development

Instability and security issue of Cold War followed by the economic awareness motivated the South East Asian Nations to form a regional organization as an alternative for regional peace foundation. Several attempt were made and dissolved to create one regional body. But, lack of understanding between member nations and unwillingness for compromising on the matter of national interest failed to materialize the regional dream of the South East Asian Politicians. Prior to ASEAN several attempts were made to create a co-operation between those nations:

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<sup>5</sup> available at <http://www.asean.org/asean/about-asean/history> (last accessed 1 Feb, 2014)

<sup>6</sup> available at <http://www.asean.org/news/item/opinion-will-jakarta-become-the-brussels-of-the-east-by-bagas-hapsoro-jakarta-post> (last accessed 26 March 2014)

### **i) South East Asia Friendship and Economy Treaty (SEAFET)**

The Idea of SEAFET commenced on 1959 after the official visit of Tunku Abdul Rahman to Philippines. It was a narrow concept of organization, with focus on economy, trade and education between the member nations. (Nathan: 1988, 515) SEAFET was unable to live up to its expectation due to the different disagreements between the South East Asian Nations, but in spite of being a failure, it laid the foundation stone for the development of ASEAN. (Thambipillai and Saravanamuttu 1985, 42-43)

### **ii) Association of South East Asia (ASA)**

This association was established on 31<sup>st</sup> July 1961, comprising three nations; Malaya, Thailand and Philippines. The purpose and objective of its foundation was to establish the regional stability and create the peace within the region. It also aimed towards “*cultivating cooperation in the field of economic, social science and culture as well as to provide training facility and research for the benefit of everybody.*” (Keling et al.: 2011, 171) In spite of being established after the failure of SEAFET and for the regional peace, this association also failed to go for a long run because of the conflict between Malaya and Philippines, resulting with the withdrawal of Philippines from ASA.

### **iii) Maphilindo**

After ASA, another regional cooperation was attempted. It was named MAPHILINDO, comprising of Malaysia, Philippines and Indonesia. The objective of MAPHILINDO was to create the cooperation in the field of economy, culture and social science. And it was important also to end the long territorial conflict between its three member countries. But, due to emphasize upon the self- interest of the member nations and their priority upon fulfilling it led the fall of MAPHILINDO. (Patmanathan: 1980, 23)

### **iv) South East Asia Treaty Organization (SAETO)**

SAETO was an international organization for defense collaboration established on 8<sup>th</sup> September, 1954. Although it was focused on South East Asia, only two countries from the region the Philippines and Thailand were the members of this organization. Other members; the United States, Great Britain, France, Pakistan, New Zealand, and Australia became the part of SAETO



because of their interest in the region. New Zealand and Australia were interested because of their geographical position in the Pacific, Britain and France had “long maintained colonies” there and Pakistan became the member of the organization to garner the support in her long dispute with India. (“Southeast Asia Treaty Organization (SEATO)” 2014) However, Nathan argues that SEATO was established to safe keep the regional peace and at the same time to prevent the communist development in the region. (Nathan 1984)

But since the cooperation between distant members is always difficult, SEATO was dissolved in 1977 due to the lack of agreement between member nations.<sup>7</sup>

### **3.3. Motive behind ASEAN Integration**

Security and Economy were the main motivational factors behind the formation of ASEAN.

#### **i) Security**

After World War II, the international structure was dominated by bipolarization. (Calleo: 1996, 419) The world was divided by the power struggle of two superpowers United States Of America (USA) and Soviet Union, resulted with the formation of ideological pacts like North Atlantic Treaty Organization (NATO) and Warsaw Treaty of Friendship, Co-operation and Mutual Assistance (WARSAW). (Deutsh: 1995, 236)

The Southeast Asian nations, in 1950s and 1960s have just got independence from colonization and they were facing internal political instability, ethnic conflict, unity problem and weak security and defense system. (Ayoob: 1995, 5) So, in this situation it became important for the nations to team up with one of the super powers for the sake of national security. (Keling et al. 2011) Meanwhile, building trust between the neighboring nations was also important. The newborn SEA nations were facing internal as well as territorial conflict, this international and regional problem was demanding some regional collaboration to ensure peace, stability and security in the region, where they can raise the joint regional voice for peace and non-interference. (Singh: 1987, 61) Regional effort was felt necessary to overcome external security threat along with internal problem within the region. External threat can be encountered through joint policy of the member nations and regional organization can provide a platform to solve

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<sup>7</sup> available at <http://www.asean.org/asean/about-asean/history/item/asean-conception-and-evolution-by-thanat-khoman> (last accessed 10 Jan 2014)

various conflicts like; border conflict, land invasion, sovereignty and other regional problems as well. (Yazid: 2000, 29-34)

In mid 1966, when the concept of ASEAN was still on a pipeline, Malaysia's foreign minister Ismail Abdul Rahman (one of the founding father of ASEAN) said,

*“Our goal is a regional association comprising Thailand, Burma, Indonesia, Singapore, Malaysia, The Philippines, Cambodia, Laos and Vietnam. We have no other option. We, the nations and people of Southeast Asia, must, whatever our ethnic, cultural and religious roots, join together and build, with our own hands and minds, a new way to the future and a new structure. And we must do this ourselves. We have to come to a profound shared realization that we will not be able to survive as independent nations for long..., unless we think and act at the same time as residents of Southeast Asia.”*<sup>8</sup>

This statement also shows a fear for existence in the form of independent nation as a motive behind the regional integration of South East Asian (SEA) Nations.

Likewise, the expanding regional dominance of China and the dispute in South China Sea forced the SEA Nations to join hand together for the collective voice against their mighty neighbor. Also. The SEA nations have their individual interests motivating them to create an effective regional organization. Indonesia, at that time was willing to repair its relation with its neighbors and also it was seeking an opportunity to exercise regional leadership. For Singapore, being in a regional organization is symbolic of getting acceptance as an equal state. Being in a same organizational bloc can restrain Indonesia from dominating Philippines and Malaysia, so they were willing to be the part of ASEAN. Thailand was hoping the new regional organizational can be the basis for the “collective political defense” to ensure the regional peace. So Despite of ASEAN not being a security oriented structure, the founders cleverly dealt with the volatile security problem of the region by agreeing upon non -interference on security matters of internal political controversies. And by refusing the status as a security bloc they successfully avoided the teaming up with either side of the polarized world at that time. (Lee 2006)<sup>9</sup>

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<sup>8</sup> available at: [http://interaffairs.ru/i/pdf\\_asean/13.pdf](http://interaffairs.ru/i/pdf_asean/13.pdf) (last accessed 5 Feb 2014)

<sup>9</sup> available at: <http://www.zum.de/whkmla/sp/0607/seongmin/seongmin.html> (last accessed 12 Feb 2014)

In the wake of this entire scenario, 1967 Bangkok Declaration came as an initiative for peace and stability in the region. This was an attempt of the member nations, to establish an independent bloc which work together and deal peacefully with mutual differences and which is free from external domination and exploitation.

## **ii) Economy**

According to United Nation Population Division 2012, ASEAN have population of 617 million (UN Population Division: 2012)<sup>10</sup> The big population ASEAN region have make them the big and lucrative market for the international community. If the SEA nations try to compete separately with the global market, then they can rarely left any significance in the global scenario. Indonesia may be the fourth most populous country in the world with its 250 million population, the ASEAN region together can attract good number of foreign investors in the region. This is an Asian era, international companies and investors want to establish business or start their branches in Asian region because of the low labor and big market there. But there are 4 out of top 10 most populous countries in the world like China, India, Pakistan and Bangladesh in Asia. Being the collective market in one hand gives confidence to the investors, resulting with good FDI inflow in the region and at the other hand internal market within the region itself help flourish the industrial development within the region. So, the regional integration between SEA nations was most to cash the globalization benefits.

### **3.4. ASEAN Charter**

ASEAN Charter “is drafted to provide a legal status and institutional framework for ASEAN. It codifies the norms, rules and values of ASEAN. It sets clear goal and presents the accountability and compliance for ASEAN.” (Charter of the Association of Southeast Asian Nations: 2014)

ASEAN Charter came on force on 15 December 2008 in a gathering of ASEAN foreign ministers in Jakarta. It’s a legally binding agreement among the ASEAN member nations.

Charter gave ASEAN a firm foundation to achieve the ASEAN community. As it brought a new and enhanced political commitment to the association; charter gave ASEAN a legal framework; codify the norms, rules and values, set clear target, gave new bodies to move upon and directed

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<sup>10</sup> available at: [http://www.un.org/en/development/desa/population/publications/pdf/trends/WPP2012\\_Wallchart.pdf](http://www.un.org/en/development/desa/population/publications/pdf/trends/WPP2012_Wallchart.pdf) (last accessed 21 June, 2014)

the member nations for more ASEAN meetings and allot more role to the foreign ministers and Secretary General. ASEAN Charter is registered with the Secretariat of United Nations. (ibid)

### **3.4.1. Fundamental Principal of ASEAN**

The Treaty of Amity and Cooperation in South East Asia (TAC) signed at the First ASEAN Summit on 24<sup>th</sup> February 1976 has declared that the member countries will be guided by following fundamental principals of ASEAN:

- Mutual respect for the independence, sovereignty, equality, territorial integrity and national identify of all nations;
- The right of every State to lead its national existence free from external interference, supervision or coercion;
- Non- Interference in the internal affairs of one another;
- Settlement of differences or disputes by peaceful manner;
- Renunciation of the threat or use of force; and
- Effective cooperation among themselves.

(Overview: 2014)

### **3.4.2. Aim and Purpose of ASEAN**

As set out in the ASEAN Declaration, the aims and purposes of ASEAN are:

- To accelerate the economic growth, social progress and cultural development in the region through joint endeavors in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian Nations;
- To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;
- To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
- To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
- To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of

international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their peoples;

- To promote Southeast Asian studies; and
- To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves.

### **3.5. ASEAN Vision 2020**

ASEAN wants to create free, peaceful and neutral environment in Southeast Asia assisting all the superpower to avoid their interference in the region. In 15<sup>th</sup> December 1997, ASEAN leaders chartered the vision of developing a “Partnership in dynamic development and forging closer ASEAN economic integration.”<sup>11</sup> It is a vision of seeing ASEAN as a zone of peace, freedom and neutrality.(ASEAN Vision 2020: 2014)

#### **3.5.1. ASEAN Community**

In October 2003 the 9<sup>th</sup> ASEAN Summit agreed upon establishment of ASEAN Community. At the 12<sup>th</sup> Summit in January 2007, the member nations affirmed the commitment on establishing ASEAN Community by 2015 with Cebu Declaration. (“MITI” 2014)<sup>12</sup> The declaration was brought to materialize the ASEAN vision within 2020 based on three pillars: (Wong 2011, 2)

- ASEAN Political Security Community (APSC)
- ASEAN Economic Community (AEC)
- ASEAN Socio – Cultural Community (ASCC)

All these pillars are interconnected and they are mutually reinforcing for the purpose of ensuring durable peace, stability and shared prosperity in the region. (“Roadmap for an ASEAN Community 2009-2015” 2009) The blueprint of all these pillars are carefully formulated with detailed strategies for achievement and progress in their fields. These pillars, together with the Initiative for ASEAN Integration (IAI) Strategic framework and IAI Work Plan Phase II (2009-2015) form the roadmaps for the ASEAN Community (2009 – 2015) (“MITI” 2014)

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<sup>11</sup> available at, <http://www.asean.org/news/item/asean-vision-2020> (last accessed 12 March 2014)

<sup>12</sup> MITI is the official portal of the Ministry of International Trade and Industry, Malaysia.

### **3.5.2. ASEAN Political Security Community (APSC)**

The APSC is targeted towards ensuring the peace within ASEAN region and at large in the world in “just democratic and harmonious environment.” During the 14<sup>th</sup> the ASEAN leaders adopted ASEAN Summit in Thailand the APSC blueprint. This blueprint provides a 145 action line roadmap and timetable to establish the community within 2015. It is designed to promote peace and security in the region. The key characteristics of APSC are:

- i. a rules based Community of shared values and norms
- ii. a cohesive, peaceful, stable and resilient region with shared responsibility for comprehensive security
- iii. a dynamic and outward looking region in an increasingly integrated and interdependent world.

(“ASEAN Security Outlook 2013” 2014)

At the end of 2013, it is recorded that an average of 82.5% of all the targeted goals of ASEAN Community blueprint has been completed or being implemented. To achieve the goal of ASEAN Community by scheduled time, ASEAN has instituted the Initiative for ASEAN integration (IAI) and the Master Plan on ASEAN connectivity (MPAC) Here, the IAI seeks to reduce the development gap between new and old member nations. Whereas, MPAC aims on improving the “physical, institutional and people to people connectivity in the region.” (“ASEAN Overview” 2013)

### **3.5.3. ASEAN Economic Community (AEC)**

The ASEAN head of governments, in November 2002 recommended establishing the ASEAN Economic Community within 2020. The focus of AEC was to create a community with free flow of goods, services, investment and freer flow of capital, equitable economic development and reduced poverty and socio economic disparities by year 2020 (Guerrero: 2009, 54). This decision of AEC was taken with following considerations:

- i. the desire to create a post AFTA agenda
- ii. the need to deepen economic integration within the region in light of the increasing dominance of free trade areas (FTAs)

- iii. the possibility that bilateral FTAs, which members are free to engage in, would jeopardize ASEAN integration
- iv. post 1997 Asian financial crisis lessons that recognized the importance of cooperation in both real and financial sectors and the free flow of skilled labor to be able to achieve this cooperative endeavor.

The AEC is expected to bring profit to the people of ASEAN with creation of investment friendly environment with main focus on transparency, predictability and consistency in a business environment in a region. Likewise, cheaper and wider variety of goods for customers and more customer protection, free flow of goods and capital within the region, flourishing investment, import of skilled worker are expected in AEC. (“Fact Sheet: ASEAN Economic Community (AEC)” 2014)

#### **3.5.4. ASEAN Socio- Cultural Community (ASCC)**

ASCC is aimed to develop a people oriented and socially responsible community to achieve the unity and solidarity among the people and member states of ASEAN. (“ASEAN Socio - Cultural” 2014). ASEAN leaders adopted the blueprint of ASCC on 1 March 2009 in Thailand at the 14<sup>th</sup> ASEAN Summit.

The core elements of ASCC are mentioned as:

- i. building a community of caring societies
- ii. managing social impact of economic integration
- iii. enhancing environment sustainability
- iv. strengthening regional social cohesion

#### **3.6. Economic Integration**

Economic integration is the abolition impediments on trade between nations or different parts of the same nation. As ASEAN wants to establish itself as an economic hub countering the likes of India and China, economic integration between the member nations is the most for the achievement of its desired goal.

### **3.6.1. ASEAN Free Trade Area (AFTA)**

The concept of ASEAN Free Trade Area was at first proposed officially by then Thai Prime Minister Anand Panyarachun in the ASEAN Summit at Singapore (Khoman: 1992)<sup>13</sup> and the member nations decided to establish AFTA on 1992. AFTA was created to gear up the region's competitiveness in the world market and for the enhancement of intra regional trade within ASEAN. For the formulation of this initiation, the Common Effective Preferential Tariff (CEPT) agreement was made. CEPT is directed towards liberalizing the trade through the elimination of tariffs and non-tariff barriers among ASEAN member nations. Under CEPT agreement, tariff on most of the products trading within a region need to be reduced to the maximum 5% limit. And, quantitative restrictions and other non- tariff barriers need to be eliminated. ("ASEAN Free Trade Area (AFTA Council)" 2014)

#### **Products covered under CEPT agreement**

Inspite of the fact that the concept of free trade area covers all the manufactured and agricultural products,. The timetable was set for different products to reduce the tariffs and restrictions. The products were enlisted under four categories:

##### **Inclusion list**

Products in this list were subjected to immediate ease in intra regional tariff rates. When agreed, the tariffs on inclusion listed products were agreed to be reduced by maximum 20% by 1998 and 0-5% by year 2002. The new member of ASEAN were given different time frames to act upon tariff reduction.

##### **Temporary Exclusion List (TEL)**

The products enlisted here were exempted for tariff reduction for a short time. After the elapse of time, these products will be transferred to inclusion list and tariffs should be reduced accordingly.

##### **Sensitive List**

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<sup>13</sup> Khoman was the Foreign Minister of Thailand when ASEAN was founded in 1967 in Bangkok. Available at <http://www.asean.org/asean/about-asean/history/item/asean-conception-and-evolution-by-thanat-khoman>



This list contains of unprocessed agricultural products, these products were given longer time frame to integrate into the free trade area.

### **General Exception List (GE)**

These products were permanently excluded from the FTA to “protect the national security, public morals, human, animal or plant life and health and articles of artistic, historic and archaeological value.”

The member countries have decided to eliminate the import duties on all the products to achieve the free trade area in an ASEAN region. The original Six member nations have eliminated 99% tariff in 2010 and they are supposed to eliminate all by 2015, whereas rest four new members are set for 2018 deadline. Fulfillment of this objective is seen as important move for the creation of integrated market with a free flow of goods in the region. Total elimination of import duties is expected to enhance the economic competitiveness of the entire region in comparison to the rest of the world. (“Asean Free Trade Area (AFTA) : An Update” 2014)

### **3.6.2. ASEAN Regional Forum (ARF)**

The concept of ARF was developed to maintain the security and to prevent the regional disorder in a region. Establishment of ARF was at first suggested by Australia in July 1990, during the ASEAN ministerial meeting in Jakarta. (Antolik: 1994) The Twenty-Sixth ASEAN Ministerial Meeting and Post Ministerial Conference, which were held in Singapore on 23-25 July 1993, agreed to establish the ASEAN Regional Forum (ARF). The inaugural meeting of the ARF was held in Bangkok on 25 July 1994. (“About The ASEAN Regional Forum” 2014)<sup>14</sup>

ARF has turned out to become a broad international forum with 27 states participants. Apart from the regular ten ASEAN nations and two observer states Papua new Guinea and Timor-Leste, the participants of ARF also include; Australia, Bangladesh, Canada, China, Democratic People's Republic of Korea, European Union, India, Japan, Mongolia, New Zealand, Pakistan, Republic of Korea, Russia, Sri Lanka and United States.

The ARF, as stated in the first ARF Chairman’s statement in 1994 is established for the achievement of following objectives:

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<sup>14</sup> available at, <http://aseanregionalforum.asean.org/about.html> (last accessed 5 feb 2014)

- *to foster constructive dialogue and consultation on political and security issues of common interest and concern; and*
- *to make significant contributions to efforts towards confidence-building and preventive diplomacy in the Asia-Pacific region.*<sup>15</sup>

The 27th ASEAN Ministerial Meeting (1994) stated that "The ARF could become an effective consultative Asia-Pacific Forum for promoting open dialogue on political and security cooperation in the region. In this context, ASEAN should work with its ARF partners to bring about a more predictable and constructive pattern of relations in the Asia Pacific." (ibid)

The ARF ministers when meeting in Phnom Penh on the tenth year of ARF on 18 June 2003, declared that ARF have been successful on maintaining peace and security in the region. The meeting enlisted the achievements of ARF as :

- The usefulness of the ARF as a venue for multilateral and bilateral dialogue and consultations and the establishment of effective principles for dialogue and cooperation, featuring decision-making by consensus, non-interference, incremental progress and moving at a pace comfortable to all.
- The willingness among ARF participants to discuss a wide range of security issues in a multilateral setting.
- The mutual confidence gradually built by cooperative activities.
- The cultivation of habits of dialogue and consultation on political and security issues.
- The transparency promoted by such ARF measures as the exchange of information relating to defense policy and the publication of defense white papers and
- The networking developed among national security, defense and military officials of ARF participants.

(About the ASEAN Regional Forum” 2014)

### **3.7. International Role and Relation**

ASEAN has established relation with different nations outside the region to cooperate on a subject of mutual interest. ASEAN have 10 dialogue partners; Australia, Canada, China,

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<sup>15</sup> ibid

European Union, India, Japan, Republic of Korea, New Zealand, Russia and United States of America. Likewise, ASEAN have one sectoral partner, Pakistan. Since 2007, ASEAN has been the official observer of United Nations (UN) and the ASEAN nations are party to different international forums like; Asia – Pacific Economic Forum, the Asia -Europe Meeting and the East Asia- Latin America Forum. (MITI 2014) Japan needs to be with ASEAN not only to boost its economy but also as a strategic partner to deal with China in various disputed issues. (Kin: 2013)

## CHAPTER 4: EUROPEAN UNION (EU)

EU is an undisputed example of the successful regional integration. It has been the first of its kind success story, which can lead the way to other regional integrations. The EU and its integration process has been the subject of discussion for many scholars and they have viewed and defined the integration process in their own way. Caporaso and Keller have described EU as something more than an international organization with a mature internal politics. (Caporaso and Keller 1995)

Paul Pierson has expressed how IR views the structure and development of EU:

*“Despite significant internal disputes, the dominant paradigm in IR scholarship regards European integration as the practice of ordinary diplomacy under conditions creating unusual conditions creating unusual opportunities for providing collective goods through highly institutionalized exchange. From this ‘inter governmentalist’ perspective, the EC is essentially a forum for interstate bargaining. Member states remain the only important actors at the European level. Societal actors exert influence only through carefully circumscribed delegations of authority. Whether relying on negotiations or delegation... Chiefs of government are at the heart of the EC, and each member state seek to maximize its own advantage”.* (Pierson: 1996, 124)

European Integration can be seen as a distinct west European effort to contain the consequences of globalization. Rather than be forced to choose between the national polity for developing policies and the relative anarchy of the globe, west Europeans invented a form of regional governance with polity- like features to extend the state and to broaden the boundary between themselves and the rest of the world.(Wallace: 1996, 16)

### 4.1. History

After the destruction human civilization experienced in Second World War, Europeans got determined to prevent such bloodshed and destruction in the future. In 1949, Council of Europe was established in West Europe as a first step for the integration of Europe. Based on a plan of deeper cooperation between European nations presented by then Foreign Minister of France Robert Schuman on 9<sup>th</sup> May 1950, six countries sign a treaty to run their coal and steel industries under a common management in 18<sup>th</sup> April 1951. This lead to the Treaty of Paris, creating the European Coal and Steel Community (ECSC) with six signatories; Belgium, France, Italy,

Luxembourg, the Netherlands and West Germany. (“EUROPA - The History of the European Union” 2014) This Community was established for the period of 50 years.

Further development in this community came on 25 March 1957, as Treaty of Rome. This treaty established the European Economic Community (EEC) and European Atomic Energy Community (Euratom). This was a beginning of the removal of trade barriers between member nations and the move towards “Common Market.”

The European Union was established with the signing of Maastricht Treaty on 7 February 1992. However, because of the national issues of the member nations it came into force only on 1 November 1993. The Treaty was referred as “ a new stage in the process of creating an ever closer union among the people of Europe” (Borchardt: 2010, 12) A truly economic union when established, gradually began spinning towards policy, environment and development aid area. Thus, changed from EEC in to European Union (EU) in 1993. (“EUROPA - The History of the European Union” 2014)

The Maastricht Treaty introduced three pillars to European Union. The European Communities pillar handled economic, social and environmental policies. The second pillar was Common Foreign and Security Policy (CFSP), which cover security and defense actions and deal with EU’s external affairs. The third pillar was Police and Judicial Co operation in Criminal Matters (PJCC), originally known as Justice and Home affairs (JHA). This pillar deals with combating racism and cooperation in law enforcement. (“Treaty of Maastricht on European Union” 2014) However, these pillars were incorporated in 1 December 2009 after Treaty of Lisbon, which gave EU the status of legal person.

European Union is a unique economic and political partnership between 28 member nations. The feature of EU that distinguished it from other international association of states is that the member states of EU cede some of their sovereign right to EU, with these powers EU can issue sovereign acts forceful as law in individual states. (Borchardt: 2010) EU is completely based and functions on Rule of law. All its activities are founded on treaties, which are “voluntarily and democratically” agreed by all the member nations.

## **4.2. Motivation behind formation of EU**

Motive behind the conception of European integration was long term feud between two neighbor countries France and Germany. After fighting two world wars as an enemy, these neighbors decided to create some kind of bond, which makes the war between these nations impossible in the future. The reason behind the proposal of then French Foreign minister Robert Schuman to create some economic cooperation was that, it is economy which can turn the foes into friends. At that time Coal and steel were two strongest materials for economy, so with the common management for Coal and Steel Committee, the economy of these nations became so intertwined that it became impossible to make weapons to hit each other for these nations. Rest four countries, Italy, Luxembourg, the Netherlands and Belgium showed their will to join the cooperation and the foundation for European integration built. (Schuman: 2003)

So initially the aim of this organization was to make the war between France and Germany impossible, its revised aim was to unite Europe and spread peace throughout the region. It was very well predicted that; instead of making the economy tool for integration, if the politicians have made the security pact between these two warring nations, it may not have turned out to be so successful or it may not become the reason for long term peace in the Europe.

## **4.3. Levels of Economic Integration**

The levels of economic integration can be divided in six steps:

### **i. Preferential trading area**

When the tariff rates are reduced only for certain number of countries.

### **ii. Free Trade Area**

When the member countries enjoy zero internal tariffs mutually agreed on some or all goods.

### **iii. Customs Union**

When the member nations agrees on common trade policy and same external tariff rates for external countries

### **iv. Single Market**

When the good, products, labors and services can have free movement within the member nations.

**v. Economic and Monetary Union**

When single market is established and member nations agree upon common monetary policy as well.

**vi. Complete Economic Integration**

When all the above criteria are met and countries agree upon harmonized fiscal and other economical policies

The European Union today, is running in a fifth stage of economic integration.

(“Economic and Monetary Union - European Commission” 2014)

**4.3.1. Euro Zone**

EU has been enjoying the singular currency, Euro (Symbolizes as €), creating a euro zone in 18 out of 28 member nations. With the exception of United Kingdom and Denmark with their “opt out” clause in the Treaty of participation plus Sweden and some new EU member countries who are yet to meet the criteria on entering the Euro zone. (“The Euro - European Commission” 2014) But at the same time, some countries outside EU like; Andorra, Kosovo, Montenegro, Monaco, San Marino and Vatican City has been using Euro as their official currency helping EU establish as second most important international currency after American Dollar ( symbolizes as \$).

Here is the table stating when these EU member nations start using Euro as their official currency.

**Table: Euro Adaptation**

<b>Year</b>	<b>Country</b>
1999	Belgium, Germany, Ireland, Spain, France, Italy, Luxembourg, The Netherlands,

	Austria, Portugal and Finland
2001	Greece
2007	Slovenia
2008	Cyprus, Malta
2009	Slovakia
2011	Estonia
2014	Latvia

(Source: Official website of European Commission)<sup>16</sup>

There are certain convergence criteria slotted for the nations to join the euro zone. The price stability of the market, government's budget position, sustainability of government financial position, fiscal development in a certain period are analyzed and compared with three best performing member nation as a criterion for convergence. ("ECB: Convergence Criteria" 2014)<sup>17</sup> The purpose behind setting these criteria is to ensure the stability of Euro and to make sure it is not affected by the accession of new economy.

The accession country that plans to join the Union goes through different check and balance phases of its economy before getting approval for the adaptation of EU.

### **Economic Convergence**

This criterion is designed to ensure whether the new member nations are well prepared for the single currency and their economy is ready for the smooth transaction or not.

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<sup>16</sup> [http://ec.europa.eu/economy\\_finance/euro/index\\_en.htm](http://ec.europa.eu/economy_finance/euro/index_en.htm)

<sup>17</sup> Official website of European Central Bank; <http://www.ecb.europa.eu/ecb/orga/escb/html/convergence-criteria.en.html>



## **Legal Convergence**

This criterion is directed towards analyzing whether the national central bank and the monetary policy of the nation is compatible with the treaty or not.

## **Exchange Rate Mechanism (ERM II)**

This is a system designed to avoid the exchange rate fluctuation between new member's currency and euro, failure in avoiding the fluctuation can hamper the economic stability. The nation must go through this criterion for at least two year to qualify for the adaptation of euro.

(“Adopting the Euro - European Commission” 2014)

### **4.3.2. European Free Trade Association (EFTA)**

EFTA is an intergovernmental organization formed for the promotion of free trade and economic integration. Seven countries Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom founded EFTA in 1930 with Stockholm Convention. EFTA, at the time of establishment was widely known as outer seven, established to counterbalance the more politically driven EEC also known as inner six. In 1970s EFTA states made a free trade agreements with EC and in 1994 EEA agreement came into force. From the beginning of 1990s, EFTA persuaded trade relations with third countries in and beyond Europe. After some add ups and leaving downs, AFTA today is left with four member states, Iceland, Liechtenstein, Norway and Switzerland. (“The European Free Trade Association” 2014)

### **4.3.4. EEA (European Economic Area)**

This EFTA- EU Agreement brings together EU nations and three EFTA nations; Norway, Liechtenstein and Iceland into a single market. This agreement came into force on 1 January 1994. According to Article 128 of this agreement, All the EU members must apply to be the part of EEA. This agreement offers the freedom of movement of goods, services, capital and person of the member nations. It covers “flanking and horizontal policies” which includes cooperation in research and development, education, social policy, environment, consumer protection, tourism and culture. And it guarantees the “equal right and obligations to the citizen and institutions within the zone.

However EEA is exempted from different policies of EU;

- Common Agriculture and Fisheries Policies
- Customs Union
- Common Trade Policy
- Common Foreign and Security Policy
- Justice and Home affairs
- Monetary Union

(“EEA Agreement: EFTA” 2014)

#### **4.4. Political Integration**

Accession into EU is a lengthy process. All the safety measures are required to be fulfilled before getting nod to enter the Union. Before joining EU, public finances, inflation, exchange rate stability and interest rates. Different laws regarding laws on food and safety, recognition of other country’s professional qualifications are need t o be amended so that they can meet up the EU standard. And to change the domestic rules transition period is provided for the new member. For example: Croatia became the 28<sup>th</sup> EU member on 1 July 2013. Now Croatia will join the Schengen area by 2015, it can keep lower excise rate for cigarette till end of 2017, and the kind of fishermen net banned in rest of EU, Croatia can use it till June 2014.<sup>18</sup>

##### **4.4.1. European Community**

Being a part of the European Community, for the nation is, losing sovereignty in terms of being independent of legal control by any other community. (Kohler - Koch 1996) After accepting the membership of European Community, the member nations lose their autonomous decision-making and jurisdiction. The nationals of European Union are entitled to get the same protection, freedom to travel and work as the resident of host nation. The nations lost their right to close their border for foreigners. (ibid)

##### **4.4.2. Common foreign and security policy**

EU nations have common foreign and Security policy. It don’t have standing army but under its Common Security and Defense Policy (CSDP), EU depends on ad hoc forces provided by the member nations for its humanitarian and peace keeping missions. The European Council is responsible for “identifying the strategic interest and objectives of the Union.” The European

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<sup>18</sup> [http://europa.eu/about-eu/countries/member-countries/croatia/index\\_en.htm](http://europa.eu/about-eu/countries/member-countries/croatia/index_en.htm)

Council provides the political direction and defines the priority to shape CFSP. Most of the foreign and security policies are taken by unanimity, which is binding for all the members. (Mix 2013)

## **CHAPTER 5: DISCUSSION**

After studying different economic and political dynamics of ASEAN and EU, it seems certain that EU have indeed travelled far ahead than any other regional co-operation. ASEAN, and the way it has moved forward towards integration, it is very impressive. ASEAN is a best performing regional organization in a current phase. (Cameron 2010) But still, it is in a premature stage and lots of works need to be done yet.

This thesis work is directed towards finding the prospects and difficulties in the process of political and economic integration of ASEAN to be like EU. To grow like EU, ASEAN must know its strength and analyze if it is reachable for it or not. Since these two regional organizations lie in two distantly different economic, social environments and a very different security paradigm, they have lots of differences and a different scope for growth.

### **5.1. Strength of EU**

#### **5.1.1. EU as a role model**

EU has been a pioneer for regional integrations from early 1950s. Whenever there is a talk about regional integration, the topic Europe and its integration comes along. EU has been a reference and role model for the integrations all over. Whether it is a matter of policy-making, integration or convergence, even if EU may not perceive as an ultimate model it is commonly taken as a chief example and a benchmark. (Bilal: 2005, 4) When other regional integrations like African Union (AU), Gulf Cooperation Council (GCC), ASEAN are struggling to get the custom union or single market, EU is way ahead in integration with its common foreign policy, single currency, a common passport area, customs union, free trade area and single market. (Cameron 2010) EU exercises a joint problem sharing mechanism between its member nations and a strategy of positive integration (Kohler - Koch 1996)

#### **5.1.2. Common Currency**

The Common Currency, Euro is a symbol of economical strength and stability of EU. Euro today is widely used throughout the globe as a reserve currency along with US dollar and considered as the second most powerful currency in the world. It is a credibility and stable monetary system that is making Euro a global currency. Single currency made the trade easy in Schengen area and has given EU the stronger voice in the world.

### **5.1.3. Intraregional trade**

EU is a common market of 507 million people. As European Commissioner for Internal Market and Services Michel Barnier said –“ *A better functioning internal market is a key ingredient for European growth.*” (European Commission 2013) Common market in the zone has given EU nationals easy access to travel, work and invest. EU rides high on its intraregional trade.

### **5.1.4. Common Foreign Policy**

All 28 member nations have common foreign policy. This makes their voice loud and clear in a global arena. They have common policy to deal with external factors and common ground for negotiation.

### **5.1.5. Equality**

All the EU member countries may not be equally rich, but it is a group of developed nations. The government structure is not much difficult in Schengen area. All the countries are committed to democracy and human rights. The gap between rich and poor is comparably very low in EU. This is one of the wealthiest and stable places in the globe.

### **5.1.6. Solidarity**

This is a EU approach of dealing with each other. While in crisis, EU nations help each other to come out of the crisis. Current economic crisis is a recent example, when Greece, Portugal and Spain got the bail out to revive their dwindling economy. Richer members are willing to contribute financially as well, to help the poorer nation rise up.

## **5.2. Challenges for ASEAN**

There are many challenges for ASEAN to grow as a successful regional organization or to follow the path of EU.

### **5.2.1. Achievement of ASEAN Economic Community (AEC)**

Achieving the ASEAN Economic Community by 2015 is the biggest and nearest challenge ASEAN is facing today. Free trade area is a step forward towards successful integration between member nations. This will promote business, bring investments, high job potential for people and make the market more competitive. But is this possible or not? Can the 2015 goal met?

ASEAN Secretary General Le Luong Minh, while talking with Manila times said – “With a positive outlook for the ASEAN in 2013, the establishment of the AEC in 2015 can be achieved, but some key challenges remain.”<sup>19</sup> But it can only be possible if the nations show internal political will and commitment to fulfill the regional obligations.

### **5.2.1. Intraregional trade**

ASEAN countries rely mostly on export and the trade with non member nations. Each nation have main focus on its national interest first and then the interest of ASEAN. Different ASEAN member nation have agreements with different countries in the world bypassing the ASEAN. In 2011, 75% of total ASEAN trade was with rest of the world.

### **5.2.2. Non interference**

ASEAN is strictly an intergovernmental body. It is very clear and strict about its sovereignty and non interference provision. This provision stops ASEAN to interfere in any internal matter of the member nation, even when there is a case of human right abuse or deep internal conflict, no member nation can interfere in it.

### **5.2.3. Inequality**

There is a huge income gap between ASEAN nations. At one end there is highly developed nation like Singapore and at another there are least developed nations like, Laos and Cambodia in a same Organization. Eventhough the FDI inflow grew more than fourfold from 2000 to 2011, particularly three countries Singapore, Malaysia and Indonesia get benefited with it. Two countries Singapore and Indonesia enjoy 80% of the total inward FDI. This inequality may be good for some countries but for overall region, it is bad. It will not help poor nation boost up their economy.

## **5.3.Strengths of ASEAN**

In a root level, the main strength of ASEAN today is its young and skilled labor force. When the labor force of EU and other developing countries are aging rapidly, the developing nations including ASEAN have good amount of labor power, which gives it the potential for future growth.

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<sup>19</sup> The Manila times, founded in 1898 is a oldest English language Newspaper in Philippines.

Likewise, in terms of population, the integrated ASEAN have third biggest market in the world after China and India. According to AEC Factsheet 2013, EU population is 110 million shy with ASEAN. (“Fact Sheet: ASEAN Economic Community (AEC)” 2014) Tariff rate on intra ASEAN import is decreasing in 2010. It is declined to 0.04 percent in ASEAN 6 and in CLMV, it is recorded an average of 1.37 percent. This is a good sign towards achieving the AEC 2015 goal. Since 2005, Intra – ASEAN trade has increased to 620 billion in 2012, of which ASEAN +3 trade was almost 50 percent. In 2012, China is a major trading partner of ASEAN, followed by Japan and EU. But still the trade with China is less than the intra ASEAN trade of 24.3 percent compared to 21.4. GDP is the measurement criteria of economic prosperity, the ASEAN fact sheet shows the real GDP in ASEAN have grown from Purchase Price Parity (PPP)\$2882 to PPP\$5581 within 11 years starting from year 2000. And the interesting fact shown is that the GDP of poorer CLMV nation is growing significantly filling the gap with ASEAN 6, from 3.4 to 2.6. (ibid)

The economy of ASEAN member nation is more driven by “independent outward looking policy.” According to Elliott and Ikemoto in their article in Asian Economic Journal, when the original member six nations implied the FTA and reduced the tariff in the region, the trade within the region start growing significantly, even in the time of Asian crisis. (Elliott and Ikemoto: 2004) ASEAN have good domestic market potential, if it is able to use it effectively and with unity.

#### **5.4. ASEAN and EU**

ASEAN and EU, these two regional integrations are established in two different parts of the world with different size, economic condition and cultural values. EU is big in size comprising of 28 nations whereas, ASEAN consist of only 10 nations.

The main difference between these two is the issue of sovereignty, EU cedes some of the sovereignty of its member nations to the Union, but ASEAN have very strong and determined view towards the non-interference policy. All the EU nations are democracies, whereas the ASEAN nations have different political systems. In the economic field, ASEAN depends mostly on its exports but EU can survive on its household consumption.

The political projects in ASEAN focus mainly on security and stability issues, whereas EU focuses on development and economic cooperation. EU was formed focusing on economic cooperation but later on developed itself as a political unification. ASEAN, on the other hand was formed for political and security cooperation in a mind set which later on developed as an economic cooperation.

Likewise, While EU is in the fifth stage of economic integration, ASEAN is doubtful on achieving its target of 2<sup>nd</sup> level within scheduled timeframe of 2015.

When talking about cultural differences, ASEAN is the most culturally diverse region. While all the EU countries share a common Judeo- Greek- Christian heritage, ASEAN consist of Muslim majority Indonesia, Malaysia and Brunei; Buddhist majority Thailand, Cambodia, Laos and Myanmar; Christian majority Philippines. Furthermore EU uses 24 languages as its official language whereas, ASEAN have English as their official language.

EU can add on the number of its member but ASEAN is only focused on SEA region. All the SEA nations except Timor Leste are member of ASEAN and according to the ASEAN charter it can't be expanded further than SEA region.

EU strictly follows the similarity aspect of its member nations. EU members must be democracy, respect human right and open for free market. ASEAN is a different story, ASEAN members have different political systems. It consists of Communist Vietnam to Military regime Myanmar. Difference in political and economic condition in ASEAN left the integration and development process slow paced. The common policy of EU at the other hand makes the cooperation easier.



## **CHAPTER 6. FINDING AND CONCLUSION**

Our question is how can ASEAN integrate like EU and what can be the difficulties it can face in a meantime. Here, while analyzing the situation of EU and ASEAN we can find the diversified scenario in both the regional co- operations.

Now, when talking about regional integration, ASEAN and EU come as a prominent example. ASEAN and EU both are successful in their way and however, built for the same purpose. Both are established for peace and stability in their respective regions, for the safety of national independence from the external forces, for the competitiveness in global market and also for the influential voice in front of other major powers. Joining force help set different balance of power, and that's what they did.

### **Can ASEAN be like EU?**

The biggest problem for ASEAN to fit in the boots of EU, it seems is the difference between member nations and their habit of prioritizing their own national interest over the interest of the region. ASEAN consist of the nations with varying income standard, in terms of GDP, it consists of the Rich countries like Singapore, Medium class like Indonesia and Poor country like Laos and Cambodia. Even though EU members also have varying income standard, they are developed nations. The responsibility Germany took to defense the sovereign debt crisis in PIGS (Portugal, Ireland, Greece, Spain) countries, Singapore can't do that with ASEAN members.

If the problem was only about Economy, then it can be solved with some good policies and good leadership. But in ASEAN, ASEAN nations are governed by different ideologies. They have different ethnic majorities. To cede all these barriers and plan about open border, common currency like EU, it seems unachievable in a near future. EU works as a single country in many ways, they have common foreign policy and good governance, protecting own sovereignty above regional interest can never bring ASEAN close to EU. So ASEAN can deepen their ties with economic cooperation among them, but because of the diversity in culture, religion and governance it cannot open up freely to succeed EU.

### **Does ASEAN need to be like EU?**

Certainly not, as EU have its own ways and values ASEAN also have its own positivity. ASEAN and EU these two organizations are two different entities. Both have their distinct characteristics. Not only the individual ASEAN countries are attractive investment destination, the potential of whole integrated region with 617 million of population and \$2 trillion GDP with high growth prospect is proving lucrative to the foreign investor in a whole. ASEAN is the most culturally diversified regional integration. Within the cultural and political boundaries ASEAN have, with the vast human resource in Indonesia, Oil potential in Brunei and Development prospect of Singapore, ASEAN can prove its mettle to be the next big thing in global market.

ASEAN can't be like EU and it don't need to try to be like EU. ASEAN can follow the pave EU had made. But at a mean time, ASEAN needs to find its own way forward. It is a long way ahead for ASEAN. But the positive side is, ASEAN is taking the right track, slowly steadily it is showing the higher chance to succeed in a long term.

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Norwegian University  
of Life Sciences

Postboks 5003  
NO-1432 Ås, Norway  
+47 67 23 00 00  
[www.nmbu.no](http://www.nmbu.no)