

Kathrin Prasse

The Influence of Domestic Interests on ASEAN politics

Help or Hinders to Economic Integration?

Master's Thesis

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“I have, of course, no crystal ball, only an approach that says: pay attention to politicians and other public individuals acting in context. Assess the environment, both domestic and international, from which they draw resources. Observe closely how they accumulate, mobilize, and deploy those resources, and how others react to them.” (Liddle: 1996; Quoted in Case: 2002: p. 32).

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List of Abbreviations

AEM	ASEAN Economic Ministers
AEMM	ASEAN Economic Ministers Meeting
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
AIC	ASEAN Industrial Complementation Scheme
AIJV	ASEAN Industrial Joint Venture Scheme
AIP	ASEAN Industrial Projects Scheme
AMM	ASEAN Ministerial Meeting
ASEAN	Association of Southeast Asian Nations
ASEAN Three	Indonesia, Malaysia, and Thailand
ASEAN-5	the founding members of ASEAN, i.e. ASEAN Three plus Singapore and the Philippines
ATI	Association of Thai Industries
BBC	the Brand-to-Brand Scheme
BOI	Board of Investment
Bulog	Badan Urusan Logistik
CAFTA	China-ASEAN Free Trade Area
CBU	Completely build up
CEPT Scheme	Common Effective Preferential Tariffs Scheme
CKD	Completely knocked down
EAEC	East Asian Economic Caucus
EPU	Economic Planning Unit
FT	Fast Track
GEL	General Exception List
HICOM	Heavy Industries Corporation of Malaysia
hSL	highly Sensitive List
INL	Inclusion List
JPPCC	Private Sector Consultative Committee
MCA	Malaysian Chinese Association
MIC	Malaysian Indian Congress
MIDA	Malaysian Industrial Development Authority
MITI	Ministry of International Trade and Industry (Malaysia)
MNE	Multinational enterprise
MoF	Ministry of Finance
MTUC	Malaysian Trades Union Congress
NDP	New Development Policy
NEP	New Economic Policy

(continued on next page)

NESDB	National Economic and Social Development Board
NIC	Newly Industrializing Country
NT	Normal Track
NTB	non-tariff barrier
PTA	Preferential Trade Arrangement
QR	quantitative and qualitative restrictions
SL	Sensitive List
SME	small and medium enterprises
TEL	Temporary Exclusion List
TNE	Transnational enterprise
UMNO	United Malays National Organization
VAT	Value-added tax

1. Introduction

Until the 1990s, the Association of Southeast Asian Nations (ASEAN) had a long, however unsuccessful tradition of promoting regional economic development through inter-governmental cooperation.¹ This changed in 1992 with the foundation of the ASEAN Free Trade Area (AFTA), which is regarded as ASEAN's first serious step towards regional economic integration.²

AFTA's aim is to abolish trade barriers among the participating countries, be it tariffs or non-tariff barriers. The member countries are therefore required to liberalize their economies through adjustments of their domestic tariff systems and through the elimination of non-tariff barriers (NTBs). The formerly high degrees of economic protection have to be gradually reduced and ultimately abolished completely – measures, that the ASEAN member states were long unwilling to implement. Hence, ASEAN's decision to found AFTA in 1992 was very sceptically perceived by the international community.³

Indeed, the development of AFTA displays two contrary characteristics. On the one hand, the ASEAN members decided to accelerate the implementation of AFTA by five years and complemented it with two additional programmes, the ASEAN Investment Area (AIA) and the ASEAN Framework Agreement on Services (AFAS).⁴ On the other hand, the institutional design of AFTA provides the member countries with a high degree of flexibility to prolong or delay the process of implementation and re-negotiate commitments already made.⁵

Two conclusions can be drawn from the above stated developments: On the one hand, the signing of the AFTA framework in 1992 clearly indicates a major shift in the member states' attitude towards regional economic integration. Moreover, the initially quick implementation of the original agreement, as well as its acceleration by five years and the inclusion of those potentially contentious issue areas – namely trade in unprocessed agricultural products and in services – which the member countries had excluded from the original AFTA framework, underline this shifting attitude towards regional economic integration. On the other hand, some member states delayed the implementation of tariff reductions and the negotiation of sensitive

¹ Cf. Lim: 2004: pp. 200-204.

² Hund: 2003: 139. The difference between economic cooperation and economic integration are explained in Chapter 2.1.

³ Cf. Nadal de Simone: 1996: pp. 113-116; Tan: 1996: pp. 162-169.

⁴ The AFTA and the AFTA Plus programmes are dealt with at greater length in Chapter 3.2.

⁵ Cf. Nesadurai: 2003: p. 29.

products, indicating that they were not equally committed to the process of implementation.

These conclusions lead to the two research questions that this thesis answers:

Firstly, why did the Southeast Asian states change their preferences towards regional economic integration and founded AFTA? Secondly, why was AFTA institutionalized in a way, that allowed frequent delays and re-negotiations of its implementation?

To answer these questions, the argumentation of this thesis is grounded on a basic assumption: The foundation and implementation of AFTA was, to a large extent, determined by the economic interests of politically dominant domestic actors.⁶ This is not to say, that political decision-making is solely dictated by the demands of powerful domestic constituencies. Nevertheless, important is, that the degree of domestic support, which politicians enjoy and on which their domestic political legitimacy is grounded, depends on the extent to which they are able to satisfy the domestic demands.⁷

To understand the assumption, which underlies the analytical part of this thesis, it is crucial to consider, that, for reasons outlined in Chapter 2.1, regional economic integration through trade liberalization diametrically affects the business interests of different domestic actors. This is even more true for the Southeast Asian countries, which had long been adopting a distributive and protective approach towards economic development. This approach can no longer hold under conditions of trade liberalization. Tensions between economic growth and domestic distribution, that policymakers are confronted with, are likely to shape their preferences towards regional economic integration.⁸ Simply put, trade liberalization will create ‘winners and losers’. Domestic power struggles for, or against, regional economic integration are likely to occur.

1.1. Background to and significance of this research

According to Moravcsik, societal interests and institutions have a fundamental impact on state behaviour in world politics, by shaping state

⁶ Cf. Moravcsik: 1997: p. 1.

⁷ Cf. Nesarurai: 2002: p. 6.

⁸ Ibid.

preferences.⁹ Hence, “domestic politics do matter”¹⁰ to regional economic integration. While abundant literature deals with Southeast Asian regional economic integration from mere outside-in perspectives¹¹, inside-out approaches, which try to identify domestic incentives for or against integration, however, are according to Rüland and Jayasuriya, rare and seldom applied to explain the ASEAN members’ changing state preferences towards regional economic integration.¹²

The existence of this gap in the literature on ASEAN regional economic integration is peculiar for, at least, three reasons: First of all, since the theories of international relations overcame the predominance of realist assumptions, a variety of scientifically acknowledged theoretical approaches has emerged, appropriate for analysing the influence of underlying domestic pressures on intra-regional cooperation.¹³ Among the most prominent certainly is Putnam’s very influential essay “Two-level games”.¹⁴

Secondly, a good deal of research on the political economy of the Southeast Asian tiger states has already been conducted. The more than two hundred pages thick World Bank report – *The East Asian Miracle: Economic Growth and Public Policy* – of 1993, which analyses domestic economic policies as the main cause of the Asian miracle of the early to mid-1990s, has especially inspired an immeasurable amount of literature on the Southeast Asian economic development. Yet, this literature does usually not lay much emphasis on the examination of domestic influences on the foundation and implementation of AFTA.

⁹ Cf. Moravcsik: 1997: p. 1.

¹⁰ Milner, Helen: 1997: p. 3.

¹¹ The so-called outside-in approaches are based on the arguments of institutionalism, constructivism, or realism.

¹² Cf. Jayasuriya: 2001: p. 2; Rüland: 2002: p. 5.

¹³ Cf. Putnam: 1988: p. 427-451: Early works on the role of domestic actors in influencing state politics stem from Karl Deutsch and Ernst Haas. Structuralist approaches, such as those conducted by Graham Allison, Peter Katzenstein and Stephen Krasner, focus on state capacity and examine political institutions through which domestic interests are aggregated, represented, and reflected in foreign policy choices. Independently, these authors conclude that political decision-makers are highly concerned with both domestic and international pressures. Putnam perceives international bargaining as a two-level game in which domestic politics and international relations have reciprocal influences. Hence, the analysis of two-level games requires a decomposition of the bargaining process into two distinctive stages – the domestic and the international level. Domestic interests and actors are crucial for determining the outcome of international bargaining.

¹⁴ Ibid.: Putnam perceives international bargaining as a two-level game in which domestic politics and international relations have reciprocal influences. Hence, the analysis of two-level games requires a decomposition of the bargaining process into two distinctive stages – the domestic and the international level. Domestic interests and actors are crucial for determining the outcome of international bargaining.

Thirdly, basically neo-liberal institutionalist or constructivist approaches have been applied to ASEAN regional economic integration.¹⁵ Here, research is focused on institution-building¹⁶ and underlying common identities¹⁷. When applying these approaches to the framework of AFTA, institutional deficiencies are frequently identified as the major obstacles to regional economic integration.¹⁸ Despite this, regional economic integration among the ASEAN member states does happen. Hence, these approaches, which are not applicable when considering the interests of economic actors as a possible explanatory framework for changing state preferences, seem not to be able to explain regional economic integration among the ASEAN member states.¹⁹

The key concern of this paper is therefore to provide an alternative explanation by opening the black box of international politics and draw the reader's attention to the domestic interests underpinning and shaping state preferences towards regional economic integration, here represented by AFTA. According to the literature, which was available to conduct this research, a systematic analysis focusing on the influence of domestic interests on ASEAN regional economic integration has not been undertaken prior to this attempt. This thesis therefore contributes important insights into the domestic politics of the ASEAN member states with regard to regional economic integration to the existing literature.

1.2. Research design and existing literature

In Southeast Asia, as in contrast to Europe, domestic interests cannot influence the regional level directly. Instead, domestic actors are required to exert

¹⁵ Cf. Hund: 2003; Rüland: 2002: p. 5.

¹⁶ Cf. Rüland: 2002: p. 7: Institutionalization is the process of establishing a common overarching infrastructure which serves to coordinate meetings such as a secretariat. Regionalism identifies two different types of institutionalization: hard institution-building based on rules-based mechanisms and high governance costs, while soft institutionalization creates shallow dialogue and cooperative fora, in which the nation-state prevails the dominant actor and in which governance costs are low due to the lack of common institutions.

¹⁷ Cf. Hund 2003: pp. 29-30; Rüland: 2002: p. 8: Constructivists argue that regionalism stimulates collective identity-building by shaping "differences between self and other" and contributing to the cohesion of a group.

¹⁸ In this regard, constructivists argue that these institutional weaknesses originate from ASEAN's collective norms, which do not seem to be capable of effectively promoting deeper regional economic integration. Cf. Hund 2003: pp. 29-30; 136: ASEAN's traditional collective norms are: absolute national sovereignty and the principle of non-interference, voluntary cooperation, informality, decentralized consensus-based decision-making on the smallest common denominator and non-confrontation. These norms served well until 1997 and provided political stability to the region.

¹⁹ Cf. Solingen: 1998: p. 6.