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Potential Gains from Economic Integration as Impetus for Regional Integration: A Comparison of ASEAN, ASEAN+3 and EAC*

Dipl.-Pol. Axel Obermeier**

Abstract

Political economy theory usually emphasizes the impact of economic interdependence within a region for successful and dynamic regional integration. According to that, participating economies must constitute mutual export markets and investment destinations to exploit gains from intraregional trade and investment. As a consequence the integration process receives positive feedback from member states and furthers progress in regional integration. However, this paper argues that regional integration in Southeast Asia is at least as dependent on economic cooperation and positive feedback from external partner countries and regions as it is on internal economic effects. The argument will be underscored by intra- and interregional trade and investment analysis of the Association of Southeast Asian Nations (ASEAN). The ASEAN made crucial steps towards regional integration in the last decade by establishing the ASEAN Free Trade Area, promoting the ASEAN Investment Area and negotiating and implementing Free Trade Agreements (FTAs) with major trade partners. Due to the market patterns in the ASEAN the intraregional trade and investment stagnates at a low level. As a result it is argued that regional integration as effect of economic integration in Southeast Asia is primarily dependent on widening economic cooperation. It will be indicated that at the current status of economic development in the ASEAN, interaction with China, Japan and Korea (ASEAN+3) is more promising in evoking positive feedback than interaction with India, Australia and New Zealand (which constitute together with the ASEAN+3 the East Asian Community, a proposed trade block).

Keywords: ASEAN, integration theory, political economy, regional integration

* A similar argumentation as applied in this paper is developed in an article written by Dr. Sebastian Krapohl and Dipl.-Pol. Johannes Muntschick for the Third FOPRISA Annual Conference in Centurion, South Africa in 2008. The author is very thankful to both of them for their consent on applying parts of their idea here in this paper on regional integration in Southeast Asia (Krapohl and Muntschick 2008).

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1. In the Search of an Explanation: Increasing Integration in Southeast Asia

Since the late 1960s, the member states of the Associations of Southeast Nations (ASEAN)¹ achieved remarkable progress in political and economical integration. Not only that the number of participating countries doubled from five members in 1967 to ten members this day. The ASEAN has also been successfully in strengthening and widening its fields of cooperation. As peak of successful integration in the last decade the ASEAN's leaders adopted a common Charter in December 2007². It finally came into effect in one year later and emphasizes the centrality of ASEAN as regional integration project in Southeast Asia. Among other things, it increases the number of summits to twice a year and strengthened the role of the Secretary General. It also promotes further regional economic integration, which above all, is seen as promising way to integrate and stabilize the region (Koh 2008). Within the last two decades the ASEAN has already made decisive steps towards a closer economically community. In 1992 ASEAN member states announced the implementation of a free trade area (FTA), wherein tariffs should be lowered to no more than 5 percent. Furthermore, the ASEAN member states established an ASEAN Investment Area to entirely open up the region for internal and external investments. Ten years later, the ASEAN not only announced the virtually implementation of the FTA, it also started to widen its economic cooperation. Free trade agreements were negotiated with external partners, especially with the Plus-Three-States, namely China, Japan and the Republic of Korea (ASEAN+3³) and with Australia, India and New Zealand which together with the ASEAN+3 form the East Asian Summit (EAS)⁴ or East Asian Community (EAC).⁵

1 The following states are the member states of the ASEAN: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. Additionally several subgroups exist: Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand form the ASEAN-6. The ASEAN+3 is constituted of the member states of the ASEAN plus China, Japan and the Republic of Korea. The ASEAN+3 together with Australia, India and New Zealand are referred to as the ASEAN+6.

2 The Charter is online available at www.aseansec.org/ASEAN-Charter.pdf.

3 The ASEAN Plus Three cooperation began in 1997 and was institutionalized in 1999, when the leaders of the participating countries (ASEAN member states, China, Japan, Republic of Korea) issued a Joint Statement on East Asia Cooperation and thereby expressed their intention to strengthen and deepening their cooperation, (www.asean.org/16580.htm, 03.06.2009).

4 The East Asian Summit was first held in 2005 and was attended by the member states of the ASEAN, Australia, China, India, Japan, Korea and New Zealand. Since then the EAS is held annually. The East Asian Community is a proposed trade block existing of the countries participating in the EAS. The ASEAN+3 members recognize the importance of the EAS for the "long-term goal of establishing an East Asian Community".(Chairman's Press Statement for the Seventh ASEAN Plus Three Foreign Ministers' Meeting www.aseansec.org/18579.htm, 23.05.2009)

Two questions are apparent in approaching these developments. First, what motivates the member states to ever enforce their economic integration? And second, what potential can be expected from the recent integration process for further integration?

A possible answer can be drawn out from integration theories. In an economic perspective, integration theories, like neofunctionalism (e.g. Haas 1958) or intergovernmentalism (e.g. Moravcsik 1998), usually emphasize the importance of intraregional economic interdependence for integration. The same is true for political economists (e.g. Mattli 1999). Accordingly it can be argued, that states are motivated by potential trade profits and investment attractiveness. To this, competitive economies and mutual relevant markets are preconditions for increasing integration.

With the establishing of the ASEAN Free Trade Area and the ASEAN Investment Area, the member states tried to enlarge economic activities and gain profit from increasing intraregional trade and investment. Thereby, it could be argued, they act as integration theories accentuate it. However, these agreements do not clear preconditions for intraregional economic interdependence. And the fact that these theories mainly base on the process of European integration and thereby on highly developed economies leads to the hypothesis, that they do not fit for South-South cooperation and thereby can not sufficiently explain potential for further integration.

If regional integration in a narrow economic view is not adequate explained by intraregional economic interdependence it must be ask whether interregional economic dependence can lead to further integration. Newer theoretical approaches emphasize the importance of regional integration elsewhere and global economic pressures for regional integration (e.g. Schirm 2002, Mattli 1999). According to them, integration projects can improve their standing in the global competition vis-à-vis to other regions and thereby attract investments or enhance trade. Preconditions for interregional economic interactions are stability and an enlarged market access – both reachable with regional integration.

5 For an overview of ASEAN's FTAs see at the official website at www.aseansec.org/4920.htm (02.06.2009) or Cuyvers, De Lombaerde and Verherstraeten 2005.

The establishment of numerous bilateral trade and investment agreements between the ASEAN and other countries or regions leads to the hypothesis that the ASEAN's member states try to widen their economic linkages and to increase trade profits and investment attractiveness. In consequence, this may lead to further integration.

In the following, this article analyzes regional integration at the example of the ASEAN. Therefore, it proceeds with a theoretical part and an empirical part. In the first, traditional theories and newer theoretical approaches of regional integration are applied. In the second part, data on intraregional and interregional trade and investment flows are studied. Finally it is argued, that regional integration in the ASEAN is at least as dependent on interregional economic dependence, as it is on intraregional interdependence. Moreover it is argued, that positive feedback for the integration process and thereby for further integration depends on external economic partners. It is also demonstrated, that China, Japan and the Republic of Korea are the most promising partners for ASEAN's further integration.

2. Increasing Returns and Regional Integration Theory

Regional integration is defined here as a development path of increasing cooperation and institutional collaboration between member states of an integration project. In accordance with Arthur (1994) and Pierson (2000), the success of the development path of the integration project depends on positive feedback from the stakeholders. These positive feedbacks are generated by previous cooperation outcomes. If stakeholders (i.e., the member states) profit from previous cooperation it is expected that further integration is demanded. And the more successful regional integration is, the more likely feedback improves further. Economic integration as impetus for further regional integration therefore depends on members states gains from previous economic cooperation ("increasing returns"). For this reason it is essential that economic cooperation within a region either increases intraregional trade and investment or improves its advantage of location vis-à-vis to other regions to enhance interregional trade and attract foreign direct investments (FDIs) to satisfy stakeholders' aspirations and make them seek for further integration. In the end, this

conceptualization of positive feedback produces a developmental path of regional integration that is unlikely to be left. In contrary, a lack of positive feedback due to the absence of increasing returns will lead to stagnation in cooperation or to cooperation diversion (Pierson 2000).

Regional integration theory allows approaching regional integration in a narrow economic view. Regardless of the specific perspective that regional integration theories have on the causes and dynamics of integration, they usually emphasize the importance of economic diversification and interdependence within a region for integrative development. At the same time, most of these theories deal only with regional integration in Europe or North-North co operations (e.g. Haas 1958, Moravcsik 1998). Even theories of international political economy (e.g. Mattli 1999) which have a broader perspective, mainly concentrate on regional integration projects in the North. Consequently, research on regional integration in the South must ask, weather these theories are suitable for explaining South-South cooperation. If intraregional economic interdependence can not sufficiently explain regional integration in the South (in a narrow economic perspective), other approaches need to be developed and applied. In short, if inward-based economic interdependence (2.1) fails to explain regional integration in the South, outward-based economic dependence (2.2) needs to be considered.

2.1. Regional Integration as Reaction to Intraregional Economic Interdependence

The two well-established theories of European Integration, namely neofunctionalism and intergovernmentalism, include at least some insights on the importance of intraregional economic interdependence for furthering regional integration. Moreover, political economy theory explicitly argues that regional integration will not work without expected market gains from regional liberalization of trade and investment conditions. Therefore the participation economies must be interdependent and complementary.

According to Haas, the developer of *neofunctionalism*, high levels of economic and industrial development are background factors conducive to an integration process (Haas 1961: 374). Additionally an “agreement for gradual but complete

elimination of tariffs, quotas and exchange controls on trade among the member countries” is fundamental for the impact of economic integration on the evolution of community (Haas 1958: 12). The integration is pushed forward by spill-over mechanism. The integration of one area leads to functional pressure to widen the integration on other areas to exploit efficiency gains (Haas 1958). Finally this development will lead from the establishment of a free trade area to a customs union, a single market, a currency union and an economic and political union (Balassa 1961). The preconditions for this spill-over logic are increasing regional economic interdependence and intraregional trade. Thus only a high level of intraregional trade will lead to political demands for harmonization (i.e. to reduce trade barriers like different product standards) and thereby to spill-over processes and integration.

In contrary to the logic of spill-over processes, liberal intergovernmentalism argues that member states control the integration process (Moravcsik 1998). Supranational institutions help member states to credibly commit themselves to cooperation. Nevertheless, liberal intergovernmentalism also underscores the importance of economic interdependence for closely cooperation. Highly interdependent economies need to cooperate to avoid negative externalities that result from individual action. The economies cannot any longer be regulated efficiently by independent decision-making. Liberal intergovernmentalism therefore emphasizes the role of member states in bargaining about common regulation or policies for exploiting potential trade profits (Moravcsik 1998: 24-77).

Both, neofunctionalism and liberal intergovernmentalism, accentuate same preconditions for regional integration. From an economic point of view, both see intraregional economical interdependence as essential incentive for regional integration. However, both theories are almost entirely developed on the basis of the European example of regional integration.

A broader view is drawn by political economists. They explicitly underscore the importance of intraregional economic diversification and independence for regional integration. Mattli (1999) argues that regional integration depends on specific supply and demand functions. Supply of regional integration depends either on a regional hegemon who provides and seeks for regional integration or regional institutions for

overcoming cooperation obstacles. In turn, the demand for regional integration depends on potential gains for member states from intraregional trade. Accordingly, economic integration as impetus for regional integration is only likely if trade barriers are eliminated and comparative cost advantages and economies of scale can thereby be exploited. The impact of economic interdependence on regional integration thus particularly depends on potential gains from trade.

In summary, these different theoretical approaches of regional integration have in common that they emphasize the importance of intraregional economic interdependence for regional integration progress. Consequently, the development path of regional integration projects - in a narrow economic view - is seen as dependent on potential gains from economic cooperation. Only if economies of a regional integration project have complementary structures and can thereby exploit comparative cost advantages and economies of scale, regional integration is likely to occur. Thus, the potential for positive feedback depends on the structure of the economies and the state of economic development of the participating member states. It is exclusively inward-looking and conceptualizes positive feedback for stakeholders only as dependent from intraregional economic interdependence.

2.2. Regional Integration as Reaction to External Economic Dependence

In addition to the mentioned theoretical approaches, newer theories emphasize the importance of interregional interdependence for regional integration. According to Mansfield and Milner (1999), regional integration projects can be seen as reaction to successful regional integration elsewhere, for instance the Single European Market. Member states conduct integration to decrease or balance competition disadvantages compared to other regions. So that states use regional integration to improve their standing in global competition vis-à-vis to regional integration projects elsewhere. Additionally, increasing impacts of global market activities lead single states to try to regain control over economic activities by regional integration (Schirm 2002). By integrating their economies, member states attract trade and foreign investment due to prospects of stability and an enlarged market access. Moreover, it improves the bargaining power of the region in

negotiations with other states, regions or international institutions. Hence, these newer theoretical approaches see motivations for and dynamics of regional integration as dependent on rather outward-looking causalities.

For instance, regional integration may lead to more stability in the region and thereby become more attractive to FDI from external states or regions (Schirm 2002: 41-49). Conflicts may become less likely, if states integrate. Consequently, regional integration projects become more attractive for investment – and hence activate positive feedback for the integration project. If regions integrate further and form up a free trade area, they constitute a larger market and again increase the attractiveness of the region as investment destination. And a larger market means increasing economies of scale for investors (El-Agraa 1997: 34-73) – and again activates positive feedback for further integration.

Another outward-looking aspect of regional integration, as mentioned above, is the improvement of bargaining power (Mansfield and Reinhardt 2003). A single state of the South lacks resources to bargain attractive trade agreements with northern states or northern regional integration projects. However, if states constitute an integration project and act collectively, their impact on negotiations increases tremendous. Thereby they improve their chances to arrange preferential trade agreements of importance to them. The profits and conditions of interregional trade therefore depend on the regions ability to response to global economic activities unitarily. Finally, the integration project may receive positive feedback from the member states if they gain from trade due to the arranged agreements. The smaller and more powerless the participating states are, the more important the arguments of investment destination and bargaining power are.

In contrary to regional integration due to internal economic interdependence, regional integration due to external economic dependence decisively depends upon external cooperation partners (Krapohl and Muntchick 2008). If intraregional activities generate only low or no positive feedbacks at all, it is because of internal causes. In contrary, if regional integration takes place to improve the regions standing vis-à-vis to other regions and therefore depends on external partners, positive feedback from the member states for further integration may also be low

because of external causes. Consequently, if external responses to integration stay absent, there may be a bunch of reasons for it – e.g. global economic situation, political setting in donor countries, etc. This means that reactions to regional integration due to external reasons greatly depend on factors outside the influence of the member states of the region. The development path of regional integration, therefore, is much more fragile than regional integration due to intraregional economic interdependence, because positive feedback is a function of external and not internal manageable factors.

2.3. Implications for Regional Integration in Southeast Asia

In linking both logics of regional integration it must be questioned which is more suitable for regional integration in Southeast Asia. Complementary economies are the main precondition for intraregional economic interdependence as driving force of regional integration. The prevailing low economic development and correspondingly similar economic structures of Southeast Asian economies (cf. 3.2.) lead to the assumption, that the potential for regional integration as response to intraregional economic interdependence is low within Southeast Asia. Consequently, the development path of regional integration is not likely to be backed by economic activities within the region. It is at least questionable whether the process of integration can be stable due to intraregional economic interdependence. At the same time it is expectable that global economic competition and the occurrence of regional integration projects elsewhere stimulated Southeast Asian integration. Member states interested in increasing their prosperity and welfare are likely to demand integration. If intraregional trading profits are unlikely to occur because of insufficient market structures, the focus of regional integration demand may shift outward. By integrating their economies states improve their standing vis-à-vis other regions and enlarge their bargaining power. Thereby the participating member states can profit from regional integration for it improves regional and national trading and investment conditions. Further integration is thus likely to occur – at least as long external partners support integration (e.g. by investment or trade diversion). If the economic interdependence within Southeast Asia shows to be low and the previous arguments fit, regional efforts to widen economic cooperation should be observable.

As consequence, a deepening of regional integration furthered by positive feedbacks from the member states may occur.

3. Regional Integration in Southeast Asia

At the present time the ASEAN consists of ten states, which differ broadly in political, economical and cultural respect. Additionally, the formalization and institutionalization is low in comparison to other regional integration projects (especially North-North cooperation). However, the ASEAN exists since 1967 and endured internal political changes as well as global structural changes. Within the last decades the ASEAN member states conducted crucial steps towards an ever closer integration project (Nabers 2005, Ufen 2005). In 2002 they finally implemented the ASEAN Free Trade Area, which gradually reduced tariffs on intraregional trade to no more than 5 percent beginning with its adoption in 1992. Furthermore, the leaders of the ASEAN member states agreed upon developing an ASEAN Economic Community which shall establish both, ASEAN as a single market and an ASEAN Investment Area within the upcoming decade.⁶ Beside these intraregional developments the ASEAN also advances cooperation with external partners. Above all, the ASEAN seeks economic linkages in East Asia with China, Japan and South Korea (referred to as ASEAN+3). Furthermore, closely economic cooperation with Australia, New Zealand and India is in progress (referred to as ASEAN+4-6).

3.1. ASEAN Free Trade Area and ASEAN's interregional economic agreements⁷

Southeast Asia is characterized by a huge dissimilarity of countries' status of economic development. Some member states of the ASEAN are least developed countries (e.g. Myanmar, Laos)⁸, whereas other members show as high economic development as Japan or Germany (e.g. Brunei, Singapore). The different stages of

6 Official ASEAN Overview (www.aseansec.org/64.htm, 30.05.2009).

7 For an overview of all ASEAN FTAs (bi- and multilateral) see Ravenhill 2007 or at the official website of the ASEAN (www.aseansec.org/4920.htm, 30.05.2009).

8 The UN rates countries as least developed, if they show low income, human resources weakness and economic vulnerability. The list of least developed countries is only at www.un.org/special-rep/ohrlls/ldc/list.htm, 03.06.2009.

development within the ASEAN are considered in the agreements on intraregional economic integration. For instance, less developed members enjoy expanded implementation periods and special deals for sensitive products⁹. These members are those countries that joined the ASEAN in the nineties, namely Cambodia, Laos, Myanmar and Viet Nam. The difference in average annual Gross National Income (GNI) underscores the gaps in development status within Southeast Asia. The averaged annual GNI per capita in 2007 ranged from 215 US\$ in Myanmar to 35.206 US\$ in Singapore¹⁰. The distribution of work force show a similar picture: In Brunei and Singapore the agricultural sector is almost none existing (less than 1%), whereas in Myanmar (57%) or Laos (42%) it is the most central sector. Singapore and Brunei reached Japan in respect to GNI per capita (37.700 US\$) and rate of agricultural sector (1.5%), whereas the least developed countries of Southeast Asia fall behind. However, the ASEAN average GNI per capita of 1.903US\$ indicates a low overall regional development. The high economical development in Singapore and Brunei are regional exceptions. And beyond that, they represent only less than 1 percent of ASEAN's population. As a result, member states seek to improve their economic development by gaining from increasing intraregional trade and investment activities as outcome of common trade and investment agreements.

Most of Southeast Asia is now a free trade area. The ASEAN Free Trade Area (AFTA)¹¹ was established in 1992 to gradually reduce tariff barriers among the ASEAN member states by 2002 and thereby create a common market of 500 million people. Since signing the Common Effective Preferential Tariff (CEPT) Scheme (1992) and the Protocol to Amend the CEPT-AFTA Agreement for the Elimination of Import Duties (2003) the ASEAN has made significant progress in lowering intraregional tariffs.¹² The agreements required that tariff rates on a wide range of products traded within the region had to be lowered to no more than 5 percent. In the

9 Such provisions are included in several agreements between the ASEAN member states. See for instance the Protocol to Amend the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA) for the Elimination of Import Duties (<http://www.aseansec.org/14183.htm>, 20.05.2009).

10 Data from the World Development Indicators 2008, World Bank (<http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,menuPK:232599~pagePK:64133170~piPK:64133498~theSitePK:239419,00.html>, 03.06.2009).

11 Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (<http://www.aseansec.org/12375.htm>, 02.06.2009).

12 The decrease in intraregional tariffs (and the complete AFTA schedule) can be checked up at ASEAN Secretariat's website at www.asean.org/22368.zip, 20.05.2009.

consequence, in 2004 ASEAN was able to announce that AFTA had virtually been established with more than 99 percent of the products in the CEPT Inclusion List of ASEAN-6¹³ had been reduced to a tariff less than 5 percent.¹⁴ ASEAN's newer members have to accomplish their duties gradually in an extended period by 2010. However, Vietnam and Laos already fulfilled their duties and Myanmar and Cambodia are likely to follow within the next years.¹⁵ The FTA covers all agricultural and manufactured products with exception of about 1 percent of all ASEAN's tariff lines. Furthermore, the ASEAN leaders agreed upon an ultimate goal of AFTA, namely to eliminate all import duties by 2010 for the six original members and by 2015 for the new members of ASEAN¹⁶. Up to the present, 64 percent of all intraregional imports are traded with zero import duty and already 86 of all imports among the ASEAN-6 (data as of 2007).¹⁷

In addition to the elimination of trade barriers, ASEAN member states also agreed on an ASEAN Investment Area (AIA) in the Hanoi Plan of Action and on the Framework Agreement on the ASEAN Investment Area in 1999¹⁸. The main aim is to attract domestic and foreign investment by the "immediate opening up of all industries for investment (...) to ASEAN investors by 2010 and to all investors by 2020."¹⁹ Important measures under the AIA are the extension of national treatment and the opening up of industries by reducing constraints on foreign investors, for instance the widening of areas of investment and foreign shareholding.

Ten years after the establishment of the AFTA, the ASEAN leaders underscore that "The realization of the ASEAN Free Trade Area in no way lessens the importance of ASEAN's economic partners."²⁰ Since 2001, they steadily promote

13 ASEAN-6 are the early member states of the ASEAN and the first signatories of the CEPT agreement, namely Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

14 Joint Media Statement of the 17th Meeting of the ASEAN Free Trade Area (AFTA) Council , September 2003(www.aseansec.org/15073.htm, 01.06.2009).

15 Joint Media Statement of the 20th Meeting of the ASEAN Free Trade Area (AFTA) Council , September 2006(www.aseansec.org/20863.htm, 01.06.2009).

16 Protocol to Amend the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA) for the Elimination of Import Duties (<http://www.aseansec.org/14183.htm>, 20.05.2009).

17 Joint Media Statement of the 21th Meeting of the ASEAN Free Trade Area (AFTA) Council , September 2007 (www.aseansec.org/20862.htm, 01.06.2009).

18 Agreements online at www.aseansec.org/4913.htm, 02.06.2009.

19 ASEAN Investment Area: An Update: www.aseansec.org/7664.htm (30.05.2009).

20 ASEAN Secretariat, 2002: Southeast Asia, A Free Trade Area, p.5 (www.aseansec.org/pdf/afta.pdf, 17.05.2009).

the establishment of close economic linkage with East Asian countries, especially with China, Japan and the Republic of Korea. Moreover they furthered a closer economic partnership with Australia, New Zealand and India.

In 2002 the leaders of ASEAN and *China* agreed to establish an ASEAN-China free trade area, with special and differential treatment for the newer ASEAN members.²¹ The FTA – a zero-tariff market – has been planned to come entirely into force in 2010 for ASEAN-6 and in 2015 for the newer ASEAN members. The implementation of the agreement occurred in stages: an early harvest program for trade in goods came into force in 2005, the implementation of dispute settlement mechanism in 2005, an agreement on trade in services was signed and implemented in 2007 and the China-ASEAN investment agreement is planned to be signed in 2009.²² Just one year after signing the FTA with China, ASEAN leaders agreed on a FTA with *Japan*.²³ In 2003 the governments of Japan and of the ASEAN signed a general framework agreement for a bilateral free trade agreement. The negotiations started in 2005 and ended in 2007 with the conclusion of implementing the FTA in December 2008. It includes trade in goods, services, investments, rules of origin, dispute settlements, etc. The agreement between Japan and ASEAN was pushed forward by the finalization of *Korea-ASEAN* FTA negotiations which ended in 2006 and came into force the same year.²⁴ It provides for free merchandise trade by 2010. Additionally the governments reached an agreement on opening up services and investments in April 2009. The *ASEAN-Australia-New Zealand* FTA (AANZFTA) is scheduled to be signed in 2009.²⁵ The agreement covers simultaneously all sectors, including goods, financing, services, investment and intellectual property. It provides for the progressive reduction (or elimination) of tariffs over specified periods and the setting up of market access commitments for services by the member states. *India* and the ASEAN negotiated five years with difficulty over a bilateral FTA.²⁶ Finally they reached an agreement that is supposed to be signed in 2009. It demands for elimination of tariffs on 80 percent of traded products gradually by 2015. Additionally, the tariffs on further 10 percent of products will be brought down to less than 5

21 ASEAN-China FTA online at www.aseansec.org/19105.htm (30.05.2009).

22 www.foreignpolicyreview.org/ChinaandASEAN.html (30.05.2009).

23 ASEAN-Japan FTA online at www.aseansec.org/22572.htm (30.05.2009).

24 ASEAN-Korea FTA online at <http://www.aseansec.org/22557.htm> (30.05.2009).

25 AANZFTA online at www.aseansec.org/22258.htm (30.05.2009).

26 ASEAN-India FTA Framework Agreement online at www.aseansec.org/22563.htm (30.05.2009).

percent. They have been placed on the sensitive track. India has another range of items (mostly agricultural products) which will not be subject to tariff reduction or elimination. Negotiations with the *EU* and the *USA* are in progress. Yet, no concrete bilateral free trade or investment provisions are prepared for signing.

In addition to AFTA and AIA, ASEAN is highly successfully in agreeing upon interregional arrangements on trade and investment. Ten years after establishing the AFTA, the ASEAN keeps on strengthening and widening its economic linkages: At the same time ASEAN announced the virtually establishment of the AFTA (2002), it started not only to strengthen intraregional economic goals (e.g. the elimination of import duties), it also started to widen its economic cooperation with several bilateral free trade and investment agreements external to Southeast Asia. Especially the agreements between the ASEAN and China, Japan and Korea are in good progress or already in force. Thereby the ASEAN increased intraregional as well as interregional economic connectedness – at least the possibility to this. If the FTAs have a good standing and real impact on trade and investment has yet to be demonstrated. In so doing, it can be analyzed if positive feedback potentially exists in intraregional or interregional trade and investment patterns.

3.2. Intraregional Economic Interdependence

The existence of trade and investment agreements is not a guarantee for trading or investment profits. Regional economies must be complementary and divers in their production structures. The ASEAN as collective actor shows a similar range in export diversification as Europe, Japan or the United States of America (Herfindahl-Index)²⁷. Though, the single countries export diversification is predominantly low. Implying, single member states export predominantly of few specific commodities. Brunei for instance mainly exports crude oil and petroleum. Data on intraregional trade underscore the low economical development as well as deficient complementary economic structures. Intraregional trade within Southeast Asia is low, both with regard to imports and exports (Table 1). Intraregional imports

27 Data and information available from the UNCDAT Handbook of Statistics, online at: <http://stats.unctad.org/Handbook/ReportFolders/reportFolders.aspx>

and exports account for about 25 percent of ASEAN's total (global) imports and exports.²⁸ In comparison, intraregional trade as share of total trade is about 65 percent within the EU and about 50 percent within the NAFTA (Table 2). However, ASEAN has a higher intraregional trade in comparison to South-South integration elsewhere. For instance, the intraregional trade in the SADC and the MERCOSUR accounts in for less than 14% (Krapohl and Muntschick 2008). Laos and Myanmar are the only states which import and export more than 40 percent of their total trade from ASEAN member states. Though, it must be considered that the overall amount of total trade of both countries is low and mainly composed of food and raw materials.

Table 1: ASEAN trade by member states and major trade partners in 2007²⁹

Country	Trade	Total (1.000 US\$)	ASEAN (% of total)	Plus3-States (% of total)*	Plus4-6-States (% of total)**	EU (% of total)	USA (% of total)
Brunei Darussalam***	import	1,676,185	47.89	22.31	2.98	10.76	9.03
	export	7,636,103	24.78	47.99	20.11	0.24	6.73
Cambodia****	import	2,062,630	34.07	25.42	1.45	4.91	1.12
	export	2,797,507	2.98	2.24	0.14	21.21	46.88
Indonesia	import	74,473,428	31.95	24.55	6.87	10.29	6.44
	export	114,100,858	19.54	35.84	7.63	11.64	10.21
Laos***	import	755,884	66.24	28.12	n/a	4.72	0.92
	export	584,641	49.57	13.64	n/a	35.19	1.60
Malaysia	import	146,910,261	25.40	30.78	3.75	11.85	10.84
	export	176,200,291	25.71	21.70	7.14	12.80	15.64
Myanmar***	import	2,716,779	43.24	52.73	n/a	3.76	0.28
	export	3,148,423	68.28	18.90	n/a	12.82	0.00
Philippines	import	57,994,842	23.19	25.62	2.84	9.54	13.99
	export	50,456,095	15.92	29.41	1.76	17.01	17.05
Singapore	import	263,154,743	25.02	25.18	3.61	12.28	12.43
	export	299,297,446	31.74	18.01	7.59	10.80	8.91
Thailand	import	143,761,229	17.49	36.57	4.48	8.34	6.69
	export	153,561,742	21.42	23.44	6.00	13.89	12.62
Vietnam***	import	44,891,116	27.95	35.65	4.77	6.97	2.20
	export	39,826,223	16.09	23.42	9.74	17.82	19.71
ASEAN	import	737,627,433	24.58	26.73	3.82	10.16	9.65
	export	847,792,864	25.28	21.69	6.38	11.57	11.07

* The Plus3-States are China, Japan and the Republic of Korea.

** The Plus4-6-States are Australia, India and New Zealand.

*** Data for Brunei, Laos, Myanmar and Vietnam as of 2006.

**** Data for Cambodia as of 2004.

Additionally, since 2003 the overall intraregional trade stagnates at a rate of 25 percent of the total trade of the member states. Within the ten years of gradually implementing the AFTA and the corresponding tariff reductions, the overall

28, 29 All data on trade is generated with the World Integrated Data Solution (WITS), which primarily accesses the data base of United Nations Conference on Trade and Development, (<http://wits.worldbank.org/witsweb/>, 20.05.2009).

intraregional trade increased only about 6 percentage points (from 18% in 1992 to 24% in 2002) and is almost unchanged since then. Indeed, the founding of AFTA increased the intraregional trade, but only slightly and for a period of ten years (table 2). Moreover, the increase in trade is mainly caused by regional subgroups (Kim 2002). This indicates that the overall intraregional interdependence between all member states is low. Evidently, the potential of trading profits from AFTA for backing further regional integration is (at least at this stage of development) exhausted. Additionally, Heiduk and Zhu (2009) conclude, that the potential of deeper economic intraregional integration (e.g. customs union or single market) is low, too. Therefore, it is questionable whether intraregional economic interdependence will further the regional integration in Southeast Asia.³⁰

A similar pattern is true for intraregional investment activities from 1995 until today.³¹ In 1995 the share of intraregional investments of total regional investment accounted for about 16 percent. In 2007, intraregional investment accounted for 15 percent. At the end of the Asian financial crisis, the intraregional share even dropped to 6 percent in 1999. In contrary to intraregional trade, the intraregional investment scheme increased within the last 5 years. Yet, it is not clear if the investors react to the AIA or the investments pattern just normalize to a level previous to the Asian financial crisis. Regardless to that, intraregional interdependence in respect to intraregional investment is similarly low as intraregional interdependence due to intraregional trade. Consequently, increasing returns from intraregional investment agreements and positive feedback for further integration (as effect of 'investment integration') are unlikely to occur.

Beyond that, the special status of Singapore must be considered. It accounts for about 35 percent of the intraregional exports and imports (2007). By excluding Singapore's share of total intra-ASEAN trade, the intraregional trade as share of total trade decreases to 15 percent - the same share as intraregional trade accounts in other South-South cooperation for. Moreover, more than 75 percent of the

30 Additionally, Dent (2007) argues that bilateral FTAs between single member states of the ASEAN or external partners increase the risk for broadening the difference between single ASEAN member states and thereby decrease the integrative effect of the common AFTA.

31 The data on intra- and interregional trade is taken and calculated from ASEAN Statistics (www.aseansec.org/4947.htm and www.aseansec.org/18144.htm, 18.05.2009).

intraregional FDI outflows originate from Singapore. Between 1992 and 2002 the share of Singapore outflows averaged out at 23 percent of total intraregional FDI outflows. The importance of FDI outflows from Singapore increased tremendous since then, with an averaged share of 70 percent of total intraregional FDI outflows between 2003 and 2007. Additionally, between 1992 and 2007 Singapore received about 46 percent of the total amount of FDI inflows to ASEAN (external and internal). Therefore Singapore can be said to be an intraregional investment hegemon.

In comparison, Malaysia as the second largest intraregional importer and exporter accounts for about 20 percent of intraregional import and export (Thailand is the third largest exporter and importer with a share each about 19%). It is also the second largest intraregional investor with a share of about 11 percent of total intraregional FDI outflows. On the other side, it receives about 40 percent of the intraregional FDI inflows. All in all these examples indicate a low level of intraregional interconnectedness. Not only is the overall amount of intraregional trade and investment low in comparison to external rates. The intraregional economic linkages are also highly asymmetric, meaning that the ASEAN lacks intraregional economic networking and thereby de facto economic integration.

All in all the intraregional interdependence is low. With the establishment of AFTA the member states of the ASEAN increased internal trade activities slightly and for one decade. Therefore it can be said, that the ASEAN received positive feedback from the member states for creating the AFTA. However, since 2004 the share of intraregional trade stagnates and with it the potential for positive feedback. At the same time it is observable, that the ASEAN widened its economic cooperation with external partners. Thus it must be asked, if interregional economic dependence can compensate the lack of de facto intraregional economic integration and as a result stimulates member states to further regional integration.

3.3. Interregional Economic Dependence

As mentioned before, the overall intraregional imports and exports of ASEAN's member states account for about 25 percent of their total trade volume. Plausibly,

three-quarter of the total trade takes place with external trading partners. Table 1 includes the main dialog partners and dialog regions of the ASEAN.

The numbers in Table 1 indicate that the total trade volume between ASEAN and the Plus-Three-States accounts for one-quarter of the total ASEAN trade. Therefore, the trade with China, Japan and Korea is at least as important as the intraregional trade. In contrast, the interregional trade with Australia, India and New Zealand is clearly less important. The dependence between the European Union and the ASEAN and between the United States and ASEAN is likewise low. Each accounts for about 10 percent of total ASEAN's imports and 11 percent of total ASEAN's exports.

Table 2: Development of ASEAN trade from 1992 to 2007³²

	1992	1997	2002	2007
intra-ASEAN	18	21	24	25
intra-ASEAN+3	45	45	48	51
intra-ASEAN+6	48	49	52	55
intra-EU	66	64	64	65
intra-NAFTA	39	44	46	51
EU25 with ASEAN	16	15	13	12
USA with ASEAN	17	17	16	11

Consequently, the Plus-Three-States are the most important external trade partners of the ASEAN (cf. Kawai 2004, Bchir and Fouquin 2006). Due to economic cooperation, the ASEAN+3 states were able to increase their overall comparative advantage (Widodo 2008). The trade share of the Plus-Three-States and the plus-four-to-six-states (at a significantly lower level) are the only that increased in the last decade (Table 2). This pattern became into existing after the Asian financial crises. China is the driving force behind the increasing influence of the Plus-Three-States (cf. Tang and Wang 2006): It increased its share from about 3 percent in 1997 to almost 11 percent in 2007. Since the establishment of the early harvest program of Sino-ASEAN free trade agreement, the trade share of China doubled (within 4 years). At the same time the intraregional trade share stagnated and the common influence of Europe and America shrank about one-third from about 33 percent in 2002 to about 23 percent in 2007.

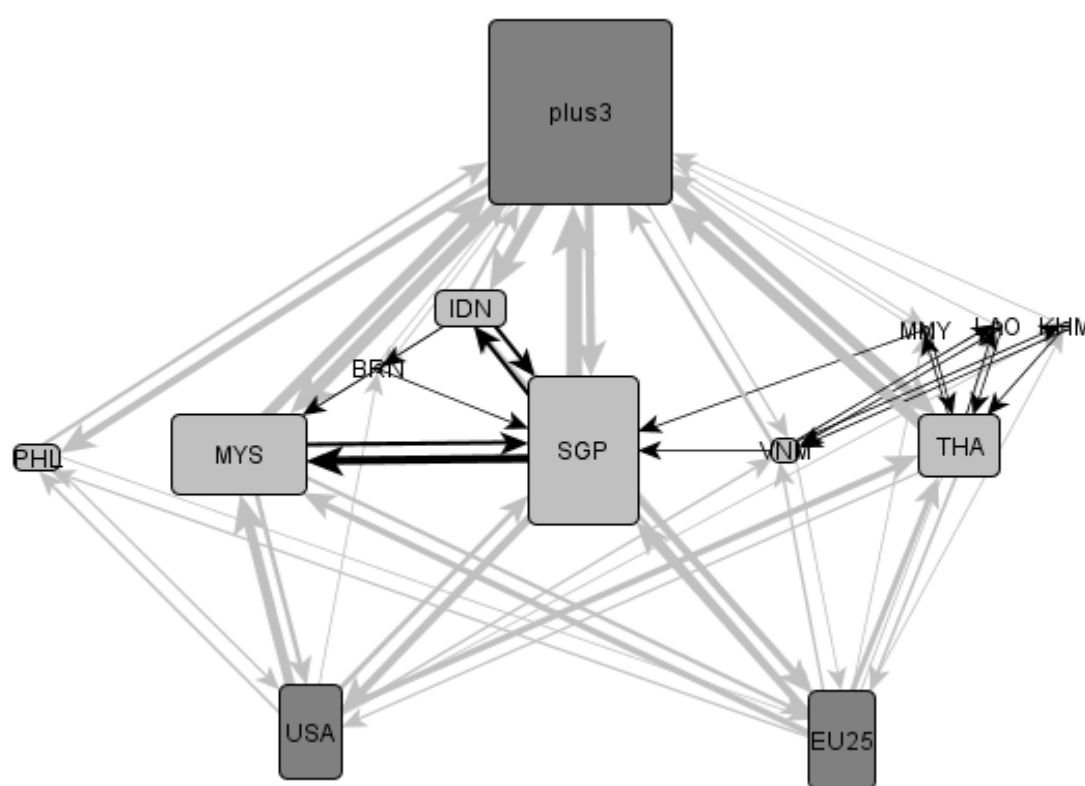
32 All data on trade is generated with the World Integrated Data Solution (WITS), which primarily accesses the data base of United Nations Conference on Trade and Development, (<http://wits.worldbank.org/witsweb/>, 20.05.2009).

It is evidently, that the interregional dependence among ASEAN and the Plus-Three-States is at least as important as the intraregional interdependence. Especially since 2004, when the intraregional trade began to stagnate, the interregional trade with the Plus-Three-States still kept on increasing. The impact of Australia, India and New Zealand is negligible. It lacks significance in two manners: First, the negotiations are slower and narrower, especially with India which main challenge is to leave its traditional protectionist policy (cf. Anand 2009). Second and even more important, the trade patterns between ASEAN and these countries lack magnitude to the ASEAN member states. They account for not more than 4 percent of ASEAN total imports and 6 percent of ASEAN total exports (Table 1). Moreover, the growth of intra-block trade of the ASEAN+6 (7 percentage points from 1992 to 2007) is almost insignificant if controlled for by the growth of intra-block trade of the ASEAN+3 (6 percentage points from 1992 to 2007). Accordingly, the trade within ASEAN+3 indicates more potential for positive feedback than the interregional cooperation with Australia, India and New Zealand. All in all, the ASEAN+3 reached an intraregional share in trade that accounts for the same level as intraregional trade share in the NAFTA.

Especially the influence of Singapore on the intraregional performance of the ASEAN's trade even enhances the argument made for interregional trade dependence. Figure 1 underscore these findings, which shows the interconnectedness within ASEAN and between the major trading partners. Two facts should be emphasized: First, all ASEAN member states are more connected to external trading partners, than to internal ones. Second, the most important external trading partner of any ASEAN member state is one of the Plus-Three-States. Consequently, the overall patterns indicates, that positive feedback for integration (in a narrow economic perspective) largely depends on external trade with China, Japan and Korea. For instance, the three main import and export trading partners of the Philippines and Thailand are entirely external partners. Moreover, the Philippines are not even one of three major trading partners (exports and imports) of any other ASEAN member state. Thailand is a major export destination to the newer ASEAN members. Both states' main export and import linkages are with the Plus-Three-States. Moreover, intraregional trade of the newer ASEAN members is constrained on exports to Thailand, Singapore and Viet Nam. The major internal trade flow is

among Singapore and Malaysia. However, it is clearly that the internal trade network is not as closely, as external connectedness. Indeed, the closet existing network is within the ASEAN+3 (as indicated by the plus-node size and the number of arrows). Australia, India and New Zealand are not among the three main import or export trading partners of any ASEAN member state. The EU and the USA are significantly less important for economic interregional dependence (additional to the non-existing of preferential trade agreements).

Graph 1: Three main export and import trading partners of the member states of the ASEAN in 2007³³



Interregional dependence among ASEAN member states and the Plus-Three-States also increases in respect to investment patterns. The total amount of FDI inflows more than doubled between 1995 and 2007 (from 28,230 to 63,260 million

33 Arrows indicate the trade volume (width) and the trade direction (head). Black arrows show intraregional, grey arrows interregional trade flows. The widths of the country-nodes indicate the import volume, the heights the export volume. Generated with 'visione' (www.visione.info) on the basis of World Integrated Data Solution (WITS), which primarily accesses the data base of United Nations Conference on Trade and Development, (<http://wits.worldbank.org/witsweb/>, 20.05.2009).

US\$).³⁴ During this period, the intraregional shares of investment grew and descended but never outreached 15 percent of total FDI inflows. In the same time, the Plus-Three-States increased their FDI inflows about 8 percentage points (from 12% in 1995 to more than 20% in 2007). The driving force of these increasing FDI inflows is not only Japan (as could be expected), but also the rise of Korea and China. Even China's share is still relatively low at 2 percent - with still having a lot of potential to be exploited. This also implies that these days the FDI inflows from Asia partners exceed intraregional investment activities. The increase in external Asian share of FDI inflows coincides with a decrease in American share of total FDI inflows (from 16% in 1995 to 8% in 2007; Europe: 28% in 1995 and 27% in 2007).

In regard to the trade and investment data, economic dependence of ASEAN occurs in a different spot. Not only is the intraregional interdependence low in comparison to other regional integration projects. It is also mainly driven by Singapore and Malaysia (even to a great part between them). Additionally, both state's trade connections are more outward than inward-looking.

According to the results, it might be expected that regional integration within Southeast Asia is labeled as unsatisfactory for the member states due to the low intraregional interdependence and the lack of increasing returns. Actually, it can not be neglected that the intraregional trade and investment patterns stagnated and that further regional development (as least according to the applied narrow economic argument) therefore is unlikely to occur. But, the bilateral negotiations and agreements between ASEAN member states and external partners show significant effects in exploiting trade profits and generating investment for the member states. Thus, the ASEAN as actor (as well as the ASEAN+3) will gain positive feedback from its stake holders. Therefore, further integration may occur as long as external partners supply ASEAN's trade and investment offers.

34 The data on intra- and interregional trade is taken and calculated from ASEAN Statistics (www.aseansec.org/4947.htm and www.aseansec.org/18144.htm, 18.05.2009).

4. Conclusion

The empirical analysis of ASEAN's trade and investments patterns support the hypothesis, that positive feedback from economic integration for further integration is more likely to be an effect of interregional agreements and economic activities, than of intraregional occurrences. Through economic regional integration, the ASEAN member states were able to establish an ASEAN Free Trade Area and an ASEAN Investment Area. However, an enduring increase in intraregional economic trade and investment has not occurred. It remains to be seen if further intraregional economic projects, like the elimination of all import duties will have a greater effect. Nevertheless, the ASEAN member states widened their economic connectedness to external partners. Ten years after the fully implementation of the AFTA they negotiated FTAs most notably with countries in East Asia and Oceania. With the effect, that interregional trade especially with China, Japan and the Republic of Korea reached the same level as intraregional trade. During the last decade, trade with these external partners increased and at the same time stagnated within the ASEAN. Additionally, the ASEAN member states are more connected to those external partners, than among each other. The linkage to other external partners, like Australia, India and New Zealand is almost is of no great importance. The impact of economical cooperation with these states therefore is negligible. The internal interconnectedness in trade and investment is low, too. Analogous, the intraregional interdependence due to investment is low and occurs primarily between Singapore and Malaysia. Interregional investment dependence increased in the same time. While the importance of the USA decreased, the influence of Japan enlarged.

All in all, integration as effect of previous economic integration therefore is likely to occur within the ASEAN as long as external partners, especially China, Japan and Korea keep on responding to ASEAN's integration offers. It is yet decisive to note again, that the effects of interregional trade and investment evoke positive feedback for the intraregional integration. Only by previous integration within the ASEAN, the ASEAN was able to negotiate and establish trade and investment agreements with more powerful external partners. Of course, it is the member states who gain profit from liberalizing trade and investments. But without regional integration, the single member states capacity for interregional linkage would be

insufficient. As demonstrated, interregional dependence is consequently decisive for regional integration in the ASEAN. Integration theories on South-South integration therefore need to consider the impact of economical interregional dependence as impetus for further regional integration.

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