

# **CHAPTER I**

## **INTRODUCTION**

ASEAN leaders have frequently conveyed their political will and commitment to build an ASEAN economic community (AEC) by 2015. They signed the ASEAN Charter in 2007 which put in place the institutions and mechanisms to build an ASEAN community. The AEC Blueprint adopted in the same year gave a master plan for building the economic community characterised by a single market and production base and a competitive economic region with equitable development that is engaged with the global economy.

Recently, during the 16<sup>th</sup> ASEAN summit in April, the leaders agreed that ASEAN would focus efforts on ensuring financial stability, fostering regional infrastructure development and connectivity, promoting sustainable development and narrowing the development gap. But to achieve these targets and promises require cooperation and coordination among different sectors of the economy. Each member-country has to act in harmony both at national and regional levels to ensure that it does not lag far behind the others. Currently, ASEAN countries having varying considerations on economic liberalisation (particularly in the services sector) and protectionism still persists in some sectors.

## A. BACKGROUND

ASEAN was founded on August 8 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. They were later joined by Brunei, Cambodia, Laos, Myanmar and Vietnam. ASEAN activities were coordinated by the ASEAN Secretariat, which was based in Jakarta, Indonesia. Nowadays, ASEAN has emphasized regional cooperation on three pillars of security-politics, socio-cultural and economic integration. It has made most development in economic integration and aims to create an AEC by 2015. The AEC combines population of over 566 million people and a gross domestic product of over \$1.173 trillion.<sup>1</sup>

AEC has been agreed upon by heads of State from ASEAN member countries at Bali meeting in 2003 which was confirmed by the Declaration of ASEAN Concord II, also known as Bali Concord II. The main concept of the AEC is to create the ASEAN as a single market and production base unit where there is a free flow of goods, services, factors of production, investment and capital. Furthermore, the elimination of tariffs for trading between ASEAN countries is expected to reduce the poverty and economic inequality among ASEAN country members through a number of mutually beneficial cooperation.<sup>2</sup> Through the establishment of AEC, a bargaining position of ASEAN in the global

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<sup>1</sup>Sim, E. W. (2008, April 11). *International law office*. Retrieved April 11, 2011, from Introduction to the ASEAN Economic Community: <http://www.mendeley.com/research/introduction-asean-economic-community-international-law-office-introduction-asean-economic-community-international-law-office-page-2-4/>

<sup>2</sup>Cuyvers, Ludo and De Lombaerde, Philippe. (n.d.). From AFTA towards an ASEAN Economic Community...and Beyond. Retrieved April 15, 2011, from Centre for ASEAN Studies.: <http://webh01.ua.ac.be/cas/PDF/CAS46.pdf>

economy becomes greater.

AEC is also a kind of evidence from ASEAN community-building which has great concern in the development of ASEAN. The definition of community refers to the sharing, participation, and fellowship. According to Adler and Barnett quoted by Luhulima, “A community basically contains three characters; there are members, direct relationship, sense of obligation and responsibility”.<sup>3</sup> Therefore, the concept of community in this regard is to be able to answer the challenges of economic need together. ASEAN Community can be explained by the concept of the community building. There is believe that the community is something about the people and community development is as a process of the state of mind.<sup>4</sup>

For example, the European Union (EU) has been successful in developing the economic integration by European Economic Community (EEC). EU has always been a benchmark for the regional economic integration. Some regionalism also has initiatives to developed economic integration such as Latin America Free Trade Area (LAFTA) and the East African Common Market. They try to imitate EU but in reality it fails. However, it can be challenges for ASEAN to continue arrangement of AEC as the new economic power in Asia, or they still managing their own national competitive trade. It has been a lot of discussion today about the prospects of an AEC for the future in relation to the others countries in Asia. There is an increasingly awareness of stimulus for growth in the

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<sup>3</sup> Luhulima, C. P. F. (2011). *Dinamika Asia Tenggara Menuju 2015*. Yogyakarta: Pustaka Pelajar. p. 24

<sup>4</sup>*Ibid.* p. 24

future in order to compete with the other countries such as Japan, Korea, China and India.

Substantial relationship among the Southeast Asia countries should be kept in order to enhance the economic growth of each member where the majority of the countries are still the developing ones. For example, some ASEAN countries have surplus on economic resources and there are also economic issues that have insufficient domestic income and savings to rapid development. It is, therefore, not so astonishing that there are wide economic gaps among Southeast Asia states. Singapore's and Brunei's per capita GDP in 2007 was over US\$ 30,000, while at the other end of the scale those of Cambodia, Laos, Myanmar and Vietnam (CLMV countries) in 2004 were US\$ 503, US\$ 567, US\$230, and US\$ 723.<sup>5</sup> This kind of condition should be reduced as soon as the implementation of the economic community.

There are stages in the process to create economic community. It usually starts from the regional integration. Free Trade Agreements (FTAs) or Preferential Trade Agreements (PRTs) are the first level of formal economic integration.<sup>6</sup> Therefore, the first step of ASEAN related to the economic cooperation in 1992 was making the single market and production within the region by concluding the agreement on the Common Effective Preferential Tariff for the ASEAN Free Trade (CEPT-AFTA).

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<sup>5</sup> Singh, D. (2010). Southeast Asia: An Overview. In R. C. Severino, E. Thomson, & M. Hong, *Southeast Asia in New Era: Ten Countries, One Region in ASEAN* (pp. 15-16). Pasir Panjang: Institute of Southeast Asian Studies.

<sup>6</sup>Tham , S. Y., Lee, P. P., & Othman, N. (2008). *Community in ASEAN: Ideas and Practices*. Selangor: Penerbit UKM. p. 36

ASEAN economic integration was formed to promote economic growth of ASEAN countries as well as ward off other economic community. Then in 1995, the agreement about harmonizing customs methods had been reached on the ASEAN Harmonized Tariffs Nomenclatures (AHTN).

Although ASEAN cooperation has been established since 1992, but the ASEAN economic integration began to be intensified by establishing the ASEAN Free Trade Area (AFTA) which became effective since January 1, 2003 at the 9<sup>th</sup> ASEAN KIT in Bali 2003. All ASEAN heads of state agreed to establish the AEC by 2015 and became the production centre in Southeast Asia. As a result, there is now a common understanding of the names and codes for products imported by ASEAN countries.

AEC is a form of new economic power in Asia, due to the fact that Asia becomes one of the regions with the greatest total market potential in the world. This is certainly attracting other countries who wish to develop their potential cooperation in the ASEAN regions. The ideas of AEC 2015 forces transformation of ASEAN as regional organization from state-oriented into people-oriented.<sup>7</sup> In line with the economic aspect in the ASEAN Vision 2020, AEC is expected to become a single market production base in which goods, services, investment, capital and skilled workers can move freely. Some ASEAN state members have domestic market safety strategies such as increase of domestic products, the

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<sup>7</sup>*Ibid.*

implementation of early warning system on imports, anti-dumping and safeguard measures, and supervision of standards of goods.

The relations between ASEAN countries will be tested when these countries can help each other to achieve common prosperity. Of course, with a strong political will, the coordination and resource mobilization are mature and well-planned, as well as the achievement of the stronger state institutions and the private sector.

The ultimate goal of forming an ASEAN Community is not an identical customs system (custom union) such as the European Economic Community (EEC), but it tends to. According to the ASEAN Vision 2020 which became the reference for the establishment of the ASEAN community, the ultimate goal of economic integration in ASEAN is to build the ASEAN Economic Community itself.

The ASEAN Leaders welcome the results achieved at the Council Meeting AEC-3, especially regarding to the progress in the implementation of the AEC blueprint. All ASEAN member countries agree to implement the measurement of economic integration intensively, and give more emphasis on the importance of completing the remaining integration steps. It is necessary for all member states to promptly implement all relevant commitments of economic integration. This is also influenced by fluctuated trading of ASEAN countries at the international economic in 2006-2009.

AEC blueprint in November 2007 achieved a significant progress.

Since January 1, 2010, amounted to 99.5% import tax rates inherent in the inclusion list under the ASEAN Common Effective Preferential Tariffs for ASEAN Free Trade Area (CEPT-AFTA), set at 0-5%.<sup>8</sup> This is a real high-impact result for ASEAN. When the ten ASEAN Member Countries fully join in the CEPT-AFTA, the value of trade between ASEAN countries reached U.S. \$ 458.1 million in 2008, an increase of almost three times higher than in 2000.<sup>9</sup> Together with the progress made in efforts to eliminate non-tariff barriers to trade, this process has affirmed the commitment of ASEAN to facilitate the free flow of goods in ASEAN. In this connection, ASEAN hopes to incorporate these forces into the ASEAN Trade in Goods Agreement in May 2010. According to the latest assessment, 83.8 percent of the actions identified in the AEC Blueprint for a two-year period covering 2008-2009 have been implemented. Member countries are now in the process of implementing the remaining steps of the first and second phase of the blueprint which covers 2010-2011.<sup>10</sup> According to the Declaration on the ASEAN Economic Community Blueprint:

*“The AEC is envisaged as a single market and production base with a free flow of goods, services, investment, skilled labor and a freer flow of capital in the year 2020. To achieve this, ASEAN is implementing various economic integration measures, including enhancing the attractiveness of ASEAN as an investment destination; accelerating the liberalization of trade in goods and*

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<sup>8</sup>ASEAN Blueprint. (2008, January). *ASEAN Economic Community (AEC) Blueprint*. Retrieved April 18, 2011, from [www.asean.org](http://www.asean.org): <http://www.aseansec.org/5187-10.pdf>

<sup>9</sup>*Ibid.*

<sup>10</sup>Maria, R. F. (n.d.). *Asean Economic Community: Myth or reality?* Retrieved April 11, 2011, from [http://www.btimes.com.my/articles/bekka/Article/#ixzz1Jo66rwsh?](http://www.btimes.com.my/articles/bekka/Article/#ixzz1Jo66rwsh)

*services; improving trade and business facilitation; reducing trade transaction costs; upgrading competitiveness of ASEAN's small-to-medium enterprises; and strengthening the ASEAN dispute settlement mechanism”*<sup>11</sup>

This principal document is crucial for ASEAN as a regional organization, including also in terms of implementation of current programs and future. Theoretically, economic integration will create the effect of increasing trade and economic efficiency and competitiveness, which in turn increases welfare. However, some countries in the world always worry about the free trade that is considered to only provide great benefits to some certain countries.

ASEAN countries have always been very sensitive for the possible interventions in their internal affairs, but it seems essential that the ASEAN Secretariat is finally strengthened, especially now the member states envisage in establishing the AEC. It remains doubtful whether ASEAN members will push ahead with the necessary reforms to deepen regional economic integration within the AEC scope, if there is no central body in place which can enforce these reforms in some way.<sup>12</sup>

On November 17, 2011, the 19<sup>th</sup> ASEAN Summit was held in Bali with the theme “ASEAN Community in a Global Community of Nations”, which resulted in the Bali Concord III. In the summit, the Heads of State or Government from every ASEAN countries held discussions in an open,

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<sup>11</sup>Yong, H. O. (2005, March 10-11). *Building an ASEAN Community: Role of Provincial Governments*. Retrieved April 11, 2011, from ASEAN: <http://www.aseansec.org/17358.htm>

<sup>12</sup>Tabloid Diplomacy. (2011). *KTT ASEAN: Meningkatkan Peran ASEAN dalam Komunitas Global*. Tabloid Diplomasi , p 5.



wide, and managed atmosphere to set three main priorities for the ASEAN 2011; they were: Ensuring the signification progress in achieving the ASEAN Community; Ensuring that the architecture and regional environment remains conducive to development; and improving the ASEAN role in the global community.

Generally, chair's statement on 19<sup>th</sup> ASEAN Summit is about the problematical issues related to development of ASEAN Community by 2015. The statements related to AEC are:

- 1) ASEAN framework for comprehensive regional economic development,
- 2) ASEAN Single Window,
- 3) ASEAN Economic Initiative,
- 4) ASEAN Mekong Basin Development Cooperation (AMBDC),
- 5) ASEAN Strategic transport Plan (ASTP),
- 6) ASEAN Tourism,
- 7) Food,
- 8) Water and Energy Security,
- 9) Financial cooperation and coordination of microeconomic,
- 10) AEC scorecard.

Subsequently, the efforts to unsighted an AEC by 2015 is getting closer. Direct beneficiaries of the ASEAN economic integration is the region business community. Members of the private sector are involved through the regular dialogues and outreach sessions that serve to not only

provide an update on developments but also the feedback for improvement. AEC 2015 is the plan for the future of the ASEAN economic development. This plan will be realized when all of the stakeholders is on the right board. With the progress made so far, ASEAN economic integration is indisputable. Together, they form a huge market that growing faster than other regions in the world and can form a dynamic regional. The establishment of the AEC will also help the region to play a more effective role in shaping the international trading that impact the financial system that is more responsive to their needs. Nevertheless, the obstacles to faster ASEAN economic integration are economic, technical or political ones.<sup>13</sup> Some countries lack the expertise, equipment or funds for certain measures to integrate the regional economy. Some countries fear that their industries cannot withstand the increased competition from others in the region. In the economic development, Southeast Asian countries still have economic gap and different starting point policy in the economic system. Some, like Singapore and Malaysia, are better off than others countries, even Indonesia with abundance of natural resources still remains in the middle rank of the economic development, while Philippines in the bottom with others CLMV countries.<sup>14</sup> Then the entry of East Timor as a new member of ASEAN will bring its own impacts to the prospect of AEC by 2015.

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<sup>13</sup> Severino, R. C. (2010). The Association of Southeast Asian Nations. In R. C. Severino, T. Elspeth, & M. Hong, *Southeast Asia New Era: Ten Countries, One Region in ASEAN* (p. 254-255). Pasir Panjang: Institute of Southeast Asian Studies (ISEAS).

<sup>14</sup>Singh, 2010., *log. cit.* p. 16.

In the end, ASEAN with various forms of political and economic policy tries to pursue the economic common goals that should become the foundation to create AEC. The official target to realize AEC is in 2015, three years from now. It can be an interesting target in facing the condition of ASEAN today. ASEAN faces more challenges as a new economic power in Asia, but one major challenge for ASEAN today is to make AEC a more realistic economic integration.

## B. RESEARCH QUESTION

Those explanations have referred to the basic question related to this study: “How is the prospect of AEC 2015 as a new economic power in Asia?”

## C. RESEARCH PURPOSES

1. To describe the process of ASEAN Economic Community (AEC) 2015 as the new effort to become new economic integration.
2. To analyze the phenomena of ASEAN Economic Community (AEC) 2015 as the new economic power in Asia using the international regime and economy integration theory.

## D. THEORETICAL FRAMEWORK

In order to understand the phenomenon of ASEAN Economic Community (AEC) 2015 as the new economic power in Asia, this study

case uses the economic integration and international regime as the theory and concepts. Both of them will be explained in more detail as follow:

### **1. Economic Integration**

Global integration occurs due to the development of the international system. It is also based on the needs of countries to hand over the affairs which are originally from the government affairs switching into a larger system, to achieve greater interest together with other states. Martin Griffiths and Terry O'Callaghan explain that the integration can best be understood as a process. It involves (a) a movement towards increased cooperation between states; (b) a gradual transfer of authority to supernatural institutions; (c) a gradual homogenization of values; (d) the coming into being of global civil society with it, the construction of new forms of political community.<sup>15</sup> The term economic integration in the context of the state, which describes the union of several countries in a single unit, began with the emergence of the theory of Custom Union (CU) by Viner.<sup>16</sup> While Holzman stated that the economic integration was a situation where the two regions join into one market or have a marked price of goods and production factors in common between the two regions.<sup>17</sup> The definition indicates that there are no barriers to the movement of goods, services and factors of production between the two

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<sup>15</sup>Griffiths, M., & O'Callaghan, T. (2002). *International Relations: The Key Concepts*. New York: Routledge p. 155

<sup>16</sup>Kosotali, A., & Saichu, G. (2008). *Integrasi Ekonomi: Konsep Dasar dan Realitas from: S. Arifin, R. A. Djaafara, & A. S. Budiman, Masyarakat Ekonomi ASEAN (MEA): Memperkuat Sinergi ASEAN di Tengah Kompetisi Global* (p. 25). Jakarta: Kompas Gramedia. p. 25

<sup>17</sup>*Ibid.*

regions and the existence of institutions that facilitates such movement.

The stages of economic integration and some characteristics of integration level are shown in table 1.1. According to the stages of economic integration, ASEAN has taken a number of important decisions to achieve the economic integration. These steps included establishing the region as a free-trade area, or an open investment area, and encouraging industrial cooperation. ASEAN has been on the position of the Free Trade Agreement (FTA) since 2007 by CEPT-AFTA.

**Table 1.1 Stages of the Economics Integration**<sup>18</sup>

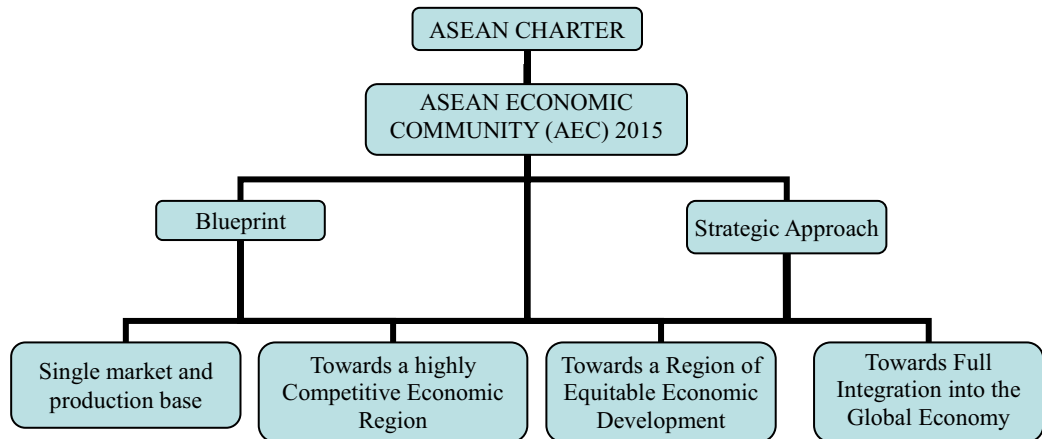
Free Trade Agreement (FTA)	Zero tariffs between member countries and reduced non-tariff barriers
Customs Union (CU)	FTA Plus common external tariff
Common Market (CM)	CU Plus free movement of capital and labor, some policy harmonization
Economics Union (EU)	CM Plus common economic policies and institutions

In AEC Blueprint, there is a tendency that ASEAN without continuing into Custom Union (CU), they just tends to jump into Common Market (CM) with an ASEAN single market and production base comprises five core elements: (i) free flow of goods; (ii) free flow of services; (iii) free flow of investment; (iv) free flow of capital; and (v) free flow of skilled labor. Industrial sectors included in the single market and production base comprise the twelve (12) priority integration sectors: agro-based products, air travel (air transport), automotive, e-ASEAN, electronics, fisheries, healthcare, rubber based products, textiles and

<sup>18</sup> Tham, Lee, & Othman, *op. cit.*, p. 36

apparel, tourism, wood-based products and logistics as well as the food, agriculture and forestry sectors.<sup>19</sup>

**Diagram 1.2 AEC in ASEAN Charter<sup>20</sup>**



The diagram above shows the varieties of strategic approach that has been applied in the AEC Blueprint such as single market and production base, highly competitive economic region, equitable economic development, and full integration into global economic.

In the economic integration, there are several important concepts especially for developing the regional economy. Those concepts are related into the basis questions on how this integration process can be implemented. In the reality, ASEAN still lacks of the implementation on the economic integration. One of the reasons in the economic integration progress has some consequences to influence the national public policy of every member. Thus, the realization of the economic integration is not only merely related into the economic aspect, but also the political aspect.

<sup>19</sup>ASEAN Secretariat.

<sup>20</sup> *Ibid.*

Kosotali and Saichu explained some concepts from the economic integration that has significant correlation between the economy and politics, they are<sup>21</sup> :

- 1) Market Integration and Policy Integration
- 2) Ambiguity of Economic Integration
- 3) Regional Economic Integration and GATT/WTO
- 4) Integration between Economy and Politics
- 5) Economic Integration and Sovereignty

For example, one of the characteristics in the economic integration is that there should be a process of market integration. Every member of the state who is involved into the market integration will shift in the condition of the supply and demand. This condition also needs policy integration to built instrument and regulations as fairness standard for participation of every member state in the market flow. The policies not only come from the economic system but also from the interest of every state member. In this situation, economic integration needs the political support from every government of member's states.

If EU has been known as the benchmark for the economic integration, the appearance of AEC also should become the achievements for ASEAN in creating the economic integration. These developments pose new challenges for ASEAN, on how to undertake economic cooperation with these blocks and countries, and how to strengthen and

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<sup>21</sup>*Ibid.* p. 27-32

speed up its own integration in an increasingly competitive globe. ASEAN must meet these challenges while taking into account the national interests and priorities of each member country, as well as the unevenness of the economic development within the region.<sup>22</sup>

## **2. International Regime**

Levin, Young, and Zurn argue that the regime is generally understood to create strength, order and structure in solving the international problems.<sup>23</sup> Krasner, through the concept of international regime, reveals that the regime is a process of unification of some of the principles, norms, rules, and expectations of some actors of the countries involved in certain issues and focus on the cooperation between several countries in the area of the international relations. The basic concept behind the international regime is their attempts to demonstrate the transparency of state behavior and the level of stability under the conditions of anarchy in the international system.<sup>24</sup>

A regime theorist has acknowledged that the international organization can be embraced by the regime theory, but they insist that their approach encompassed much more. The distinction between institutions and organizations establish the same point. The permanence of a regime can be illustrated by means of typology. There are four defining

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<sup>22</sup> ASEAN Secretariat, *log. cit.*, p. 2

<sup>23</sup> Betram, S., & William, Z. I. (2003). *Getting it Done: Postagreement Negotiation and International Regime*. Washington, D.C: United States Institute of Peace Press.

<sup>24</sup> Krasner, S. D. (1983). *International Regimes*. Ithaca: Cornell Universities Press.



elements of a regime<sup>25</sup>:

1. Principles mean the coherent bodies of the theoretical statements about how the world works.
2. Norms specify the general standard behavior and identify the rights and obligation of states.
3. Rules operate at the lower level of generality of the principles and norms, and there are often designed reconcile conflicts which may exist between the principles and norms. Third World states, for example want rules which differentiated between developed and under developed countries.
4. Decision making procedures identify the specific prescription for the behavior, the systems of voting, which for example will regularly change as regime is consolidated and extended.

One simple but useful classification establishes a typology of regimes along with the two dimensions.<sup>26</sup> The vertical dimension highlights the formality of a regime. The regime can be associated with highly formalized agreement or even the emergence of an international organization. But, at the other extreme, a regime can come into an existence in the absence of any formal agreements.

In the past, informal agreement between the states has been established on the basis of precedence. There is no formal agreement and

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<sup>25</sup>Levy, J. S. (1992). *Prospect Theory and International Relations: Theoretical Applications and Analytical Problems (Special Issue: Prospect Theory and Political)*. Political Psychology Journal.

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

convergence in the expectation that rules will be adhered to, then it is clear that there is existence of the regime itself. On the other hand, regimes as informal rules will be observed, it will prove the existence of a regime. In the contrary, it is also possible to identify situations where formal rules has been brought into the existence, without any expectation that they will be observed, indicating the existence of a dead-letter regime. Finally, there are regimes, where there is a high expectation that the formal rules will be observed.

The study of regimes has long been plagued by definitional issues and a lack of conceptual clarity.<sup>27</sup> These issues have never really been solved. Despite continuing criticism, however, there seems to be a general consensus that the concept taps into something important. Perhaps the study of regimes has endured despite these significant problems because the question, with which it is concerned namely international cooperation, is perhaps the central issues for international relations. Although some of the earliest studies of regimes focused on their distributional consequences, research quickly shifted to try to understand how regimes are formed and transformed as well as their influence on behavior.<sup>28</sup> The importance of the regimes is certainly evident in the fact that virtually every theoretical tradition in the international relations has taken a crack at explaining some aspects of regimes. According to Krasner, “Regimes may

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<sup>27</sup>Haggard, S., & Simons, B. A. (1987). *Theories of International Regime. International Organization*.p. 41

<sup>28</sup>Krasner, 1983.*op. cit.*

assume a life of their own, a life independent of the basic causal factors that led to their creation in the first place”.<sup>29</sup> Because regime functions as intervening variables, a change in the relative power of states may not always be reflected in the outcomes. This is to suggest that once regimes created, they may themselves alter the distribution of power among entities that originally formed them—or changes in the power balance may not immediately be reflected in the structure and operation of the regime.<sup>30</sup>

After signing the Bangkok Declaration by the founders of ASEAN, based on the initial assessment and utilizing Krasner’s definition of the international regimes, ASEAN seemed to have constituted as an international regime, but in the beginning the shared ‘principles, norms and decision-making procedures’ that were defining the characteristics of a regime were not complete yet. However, the nations that founded ASEAN realized that this lack was an obstacle to regional cooperation and therefore they needed to improve it. Thus ASEAN's formation was clearly articulated by the leaders of ASEAN countries at the 1976 Bali Summit. The strategy of ASEAN economic cooperation was reflected in one of the operational paragraphs of the Bangkok Declaration, “To collaborate more closely and effectively for 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

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<sup>29</sup>*Ibid.* p. 357

<sup>30</sup>Dougherty, L., James, E., & Pfaltzgraff, R. L. (1990). *Contending of International Relations*. New York: Harper Collins Publisher.

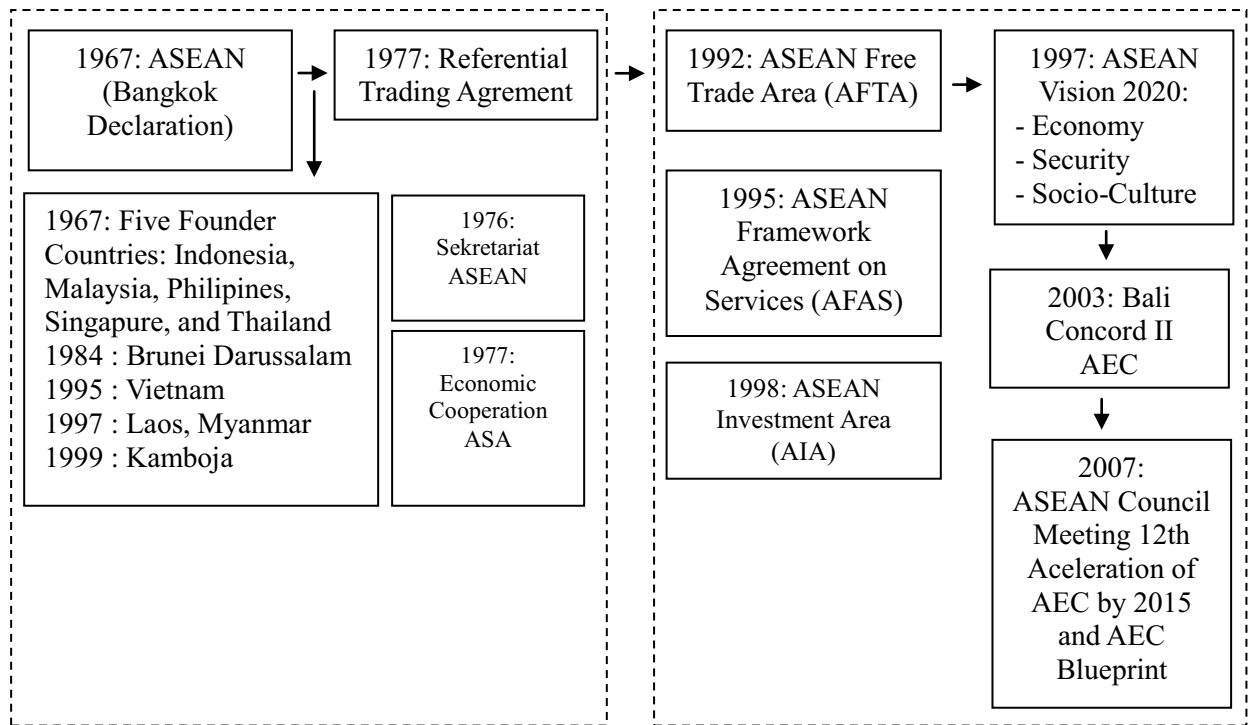
and communication facilities and raising the living standard of their peoples”.<sup>31</sup> This idea was realized by the ASEAN’s cooperation in the economic sector. In the development of economic cooperation, ASEAN member countries try to improve access of ASEAN’s goods into the market of developed countries, because the development in the economic sector will support the development in other sectors.

ASEAN tries to establish organizational form and strength which are parts of the dimension or variance of a regime. Organizational form that is created by AEC moves beyond the cooperation. There are needs to establish common policy that creates new rules in the economic cooperation. This is the first basic assumption on how “the principles, norms, and decision making” already grow in ASEAN economic cooperation. It is reflecting that new rules have been applied in ASEAN community. Moreover, after searching into the history of the ASEAN itself, the international regime may contribute to strengthening or weakening the capabilities of cooperation of their members. These ideas are also already brought by AEC to increase their capability in Asia or even the international economy. However, AEC is already having the regime characteristics, which later may influence the policy of each ASEAN member country.

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<sup>31</sup>ASEAN Secretariat, *op. cit.*, p. 29-30

**Diagram 1.3 the Process of AEC 2015**



The First Phase of the International Regime is creating the ASEAN itself

The Second Phase of the International Regime in ASEAN: turn into the economic integration by creating ASEAN Economic Community (AEC)

By the theory of economic integration and the concept of international regimes, the analysis is on how the strength, weaknesses, opportunities and threats which are owned by the AEC in creating a new economic power in Asia.

**Table 1.4 the SWOT Analysis of AEC 2015**

<p style="text-align: center;"><b>Strength</b></p> <p>- The market that is a broad economic scale consists of approximately 560 million people in ten country members with the GDP over \$1.173 trillion.</p>	<p style="text-align: center;"><b>Weakness</b></p> <p>- Economic divergency.          - Human resources in the ASEAN countries are still below the average          - Sovereignty is fairly sensitive issue for the ASEAN countries</p>
<p><b>AEC 2015</b></p>	
<p style="text-align: center;"><b>Opportunity</b></p> <p>- The economic integration of AEC by 2015 will increase GDP by 10 percent and lower the cost of production from the industrial sector about 10 to 20 percent.</p>	<p style="text-align: center;"><b>Threat</b></p> <p>- Extra-ASEAN trade is far larger than intra- ASEAN trade and intra-ASEAN investments do not reach 20% (18.3%), while in the outside the ASEAN investment reaches more than (81.7%).</p>

Target of achieving a single market and production base with free circulation of goods, services and capital is part of the ASEAN recognition. Their economic survival is greater with a single regional market rather than with a number of national economies. The possibility to make an integrated economy make Southeast ASEAN is able to take the advantage of the economies of China and India that are growing rapidly.

Integration efforts launched by the ASEAN Economic Ministers (AEM) by establishing a single market and production base is expected to create a spillover effect into other areas in the ASEAN community building. Because ASEAN have market that involving a broad economic scale consists of approximately 560 million people in ten country members and over \$1.173 trillion gross domestic product.

ASEAN still has obstacles to economic development where there

are wide economic gaps among ASEAN countries (economic divergence). On a scale of increasing the human resources, ASEAN countries are still below the average. Another problem that may occur is the powerful dominance of the national interests from the member of ASEAN that are more prominent than the interests of the regions, indicated by the process of negotiations is slow enough to impede the readiness to realize the AEC blueprint. The problem of sovereignty is also a fairly sensitive issue for the ASEAN countries.

ASEAN has an opportunity as the strategic countries in the trade by establishing a single market synergy. ASEAN is a region with the huge potential to achieve the high economic growth again in the future as an attractive destination for the investments in the world. ASEAN macroeconomic stability is maintained with the inflation of about 3, 5 percent. The factors that accelerate the AEC from 2020 to 2015 is that there were empirical studies which stated that the economic integration of ASEAN by 2015 had potential to increase GDP by 10 percent and lower the cost of electronics production from 10 to 20 percent.<sup>32</sup>

Extra-ASEAN trade is far larger than intra-ASEAN trade. The establishment of the AEC is an attempt to raise intra-ASEAN trade through the ASEAN Free Trade Agreement (AFTA) from the elimination of tariff barriers leading to the elimination of non-tariff barriers. The

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<sup>32</sup>Luhulima, C. P. F. (2011). *Dinamika Asia Tenggara Menuju 2015*. Yogyakarta: Pustaka Pelajar. p. 78.

ASEAN trade patterns still do not show the changes. Still about 75% of the ASEAN trade is a significant extra-ASEAN trade, particularly with Japan, the European Union (EU), the United States and China. This shows the persistence of the dependence of the major industrial products imported from other industrialized countries. In terms of investment, even intra-ASEAN investments do not reach 20% (18.3%), while outside the ASEAN investment reaches more than (81.7%).<sup>33</sup> Five of ASEAN countries dominate the acceptance Foreign Direct Investment (FDI), they are Indonesia, Malaysia, Philippines, Singapore, and Thailand.

### **3. Comparative Advantages**

In the theories of international trade, comparative advantage is an important concept for explaining pattern of trade. David Ricardo in 1817 firstly introduces the concept of comparative advantage with very strict assumptions<sup>34</sup>. It is then well recognized as the Ricardian model. To understand the opportunity of ASEAN in facing global economy, it is important to understand ASEAN's capacity and strength. To analyze ASEAN's position in goods production that can see from comparative advantage, even if one of ASEAN's members has an absolute advantage at producing each item. According to David Ricardo, the comparative advantages rests on the opportunity cost of producing goods across

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<sup>33</sup>*Ibid.*

<sup>34</sup> Widodo, Tri. (2010). *Comparative Advantage: Theory, Empirical Measures and Case Studies*. Review of Economic and Business Studies (REBS: 9, Volume V). Retrieved December, 19, 2012, from: <http://www.rebs.ro/articles/pdfs/21.pdf>



countries, that is, the amount of one good that has to be given up to produce another good . Some of economics expert believes that the magic of comparative advantage is that every state has a comparative advantage at producing something. The upshot is quite extraordinary is everyone stands to gain from trade. Even those who are disadvantaged at every task still have something valuable to offer. Those who have natural or learned absolute advantages can do even better for themselves by focusing on those skills and buying other goods and services from those who produce them at comparatively low cost.

The simple theory of comparative advantage makes a number of important assumptions such as; there are no transport cost, costs are constant and there are no economies of scale, there are only two economies producing two goods, traded goods are homogeneous, factors of production (labor and capital) are perfectly mobile internally but not internationally, there is full employment in both economies, there are no tariff or other trade barriers, and the last there is perfect knowledge, so that all buyer or seller know where the cheapest goods can be found internationally. The principle of comparative advantage postulates that a nation will export the goods or services in which it has its greatest comparative advantage and import those in which it has the least comparative advantage<sup>35</sup>. The term “comparative” means relative not necessarily absolute.

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<sup>35</sup> *Ibid.* p. 38.

**Table 1.5 Comparative advantages of the First-Five of ASEAN's Members**

<b>Country</b>	<b>Advantages</b>	<b>Top Products</b>
Singapore	Moderately capital and skill intensive manufactures	<ol style="list-style-type: none"> <li>1. Thermionic, microcircuits, transistors, valves, etc</li> <li>2. Tin</li> <li>3. Parts, nes of and accessories for machines of headings</li> <li>4. Petroleum products, refined</li> <li>5. Organic-inorganic and heterocyclic compounds</li> <li>6. Natural abrasives, nes</li> <li>7. Musical instruments, parts and accessories thereof</li> <li>8. Automatic data processing machines and units thereof</li> <li>9. Residual petroleum products, nes and related materials</li> <li>10. Civil engineering, contractors' plant and equipment and parts, nes</li> <li>11. Nitrogen-function compounds</li> <li>12. Hydrocarbons, nes, and derivatives</li> </ol>
Indonesia	petroleum production, the crops and animal products	<ol style="list-style-type: none"> <li>1. Other fixed vegetable oils, fluid or solid, crude, refined</li> <li>2. Tin</li> <li>3. Natural rubber latex; rubber and gums</li> <li>4. Ores and concentrates of base metals, nes</li> <li>5. Coal, lignite and peat</li> <li>6. Cocoa</li> <li>7. Veneers, plywood, improved wood and other wood worked nes</li> <li>8. Gas, natural and manufactured</li> <li>9. Spices</li> <li>10. Crustaceans and mollusks, fresh, chilled, frozen, salted, etc</li> </ol>
Malaysia	Skilled Manufacture, petroleum Production, the crops and animal products	<ol style="list-style-type: none"> <li>1. Other fixed vegetable oils, fluid or solid, crude, refined</li> <li>2. Animal and vegetable oils and fats, processed, and waxes</li> <li>3. Natural rubber latex; rubber and gums</li> <li>4. Radio-broadcast receivers</li> <li>5. Tin</li> <li>6. Veneers, plywood, improved wood and other wood worked nes</li> <li>7. Other wood in the rough or roughly squared</li> <li>8. Margarine and shortening</li> </ol>

		<ul style="list-style-type: none"> <li>9. Articles of apparel, clothing accessories, non-textile, headgear.</li> <li>10. Automatic data process</li> </ul>
Thailand	the crops and animal products	<ul style="list-style-type: none"> <li>1. Natural rubber latex; rubber and gums</li> <li>2. Rice</li> <li>3. Fish, crustaceans and molluscs, prepared or preserved, nes</li> <li>4. Natural abrasives, nes</li> <li>5. Crustaceans and molluscs, fresh, chilled, frozen, salted, etc</li> <li>6. Other cereal meals and flour</li> <li>7. Meat and edible meat offal, prepared, preserved, nes; fish extracts</li> <li>8. Synthetic fibres suitable for spinning</li> <li>9. Tin</li> <li>10. Sugar and honey</li> </ul>
Philippines	the crops and animal products	<ul style="list-style-type: none"> <li>1. Other fixed vegetable oils, fluid or solid, crude, refined</li> <li>2. Photographic apparatus and equipment, nes</li> <li>3. Vegetable textile fibers, excluding cotton, jute, and waste</li> <li>4. Under garments of textile fabrics, not knitted or crocheted</li> <li>5. Electrical machinery and apparatus, nes</li> <li>6. Fuel wood and wood charcoal</li> <li>7. Automatic data processing machines and units thereof</li> <li>8. Meters and counters, nes</li> <li>9. Fruit, preserved, and fruits preparations</li> <li>10. Equipment for distribution of electricity</li> </ul>

Source: UN-COMTRADE, edited by author.

Table 1.5 presents the top products of the first-five ASEAN members in 2005. These products are considered as the best products in term of their comparative advantage and trade balance. They are in the position of having comparative advantage in the international trade and the country in the position of having positive trade balance (or as net-exporter). All figures show positive relationship between comparative

advantage and trade balance. The higher the comparative advantage of a specific product, the higher the possibility of a country as a net-exporter becomes. This result strongly supports the theory of comparative advantage by Ricardo, “a nation, like person, gains from trade by exporting the goods or services in which it has its greatest comparative advantage in productivity and importing those in which it has the least comparative advantage”<sup>36</sup>.

Overall, each ASEAN country has a comparative advantage in the sector priorities, at least one of priorities. Thailand is a country that has the most comparative advantage, around seven sectors, followed by Indonesia (five sectors), Malaysia and the Philippines (four sectors), Vietnam and Laos (three sectors), Singapore (two sectors), and Brunei and Cambodia (one sector). For all of sectors, at least five ASEAN countries have a comparative in the same sector, namely agriculture, timber production, fisheries, and rubber products.

In other words, ASEAN countries compete with each other on the same type of product that the product is relatively low intra-ASEAN trade has been based only on natural resources. Conditions such as these explain the low intra-ASEAN trade, during which only ranged between 20-50 percent of total ASEAN trade (this will be explain on chapter 3). However there is only one sector of electronic and information technology is a high-level integration as well as the spread has a comparative advantage in most

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<sup>36</sup> *Ibid*, p. 76.

ASEAN countries. With such characteristics, this sector is expected to increasingly become the leading sector in the future.

The ASEAN countries possess comparative advantage in different commodities with Malaysia and Indonesia being foremost in primary products which can be attributed mainly to petroleum production. In the case of crops and animal products, Thailand is comparatively advantaged although this advantage is declining. Malaysia, Indonesia and Philippines are also comparatively advantaged but to a lesser extent than Thailand in the crops and animal products group. In the manufacture of labor intensive goods, Thailand is also at a comparative advantage with Indonesia acquiring comparative advantage in 1990. In the trade of moderately capital and skill intensive manufactures, only Singapore is comparatively advantaged. None of the ASEAN countries possess comparative advantage in the highly capital and skill intensive category.

#### E. HYPOTHESIS

“The prospect of AEC to become a new economic power in Asia by 2015 is difficult to be realized because of the enormous differences in the levels of development and the low level of intra ASEAN trade rather than extra trade”.

## F. RESEARCH METHODOLOGY

This thesis used a descriptive, qualitative approach. The methods to collect the data were library research, internet media, and some periodical data. Because the basis of an approach is that fact does not decide to delimit the investigation might take, it is especially important to describe the specific stages of AEC to become a new economic power in Asia.

Library research was applied in the data collection. Then, the problem was explained and the hypothesis was analyzed. According to Winarno Surakhmad, there are two kind of research based on how to collecting the data, they are library research and field research.<sup>37</sup> While according to Drs. Mandalis, library research is one division of research type based on where the date can be found. Library research aims is to collect data and information with the help of a variety of materials which is contained in the library.<sup>38</sup> Basically the data obtained from the library research can be used as the basic foundation and a primary instrument for the implementation of field research. In library research, all of the information that supports this research uses secondary data in the forms of books, newspaper, journals, internet, and the other literature sources. The writer used this method to come up with the better ideas with the previous studies and to gather important details that played a significant role in the development of the proposed study. The researcher was able to view other

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<sup>37</sup>Surakhmad, W. (2002). *Paper Skripsi Thesis Desertasi: Buku Pegangan cara merencanakan, cara menulis, dan cara menilai*. Bandung: Penerbit Tarsito. p. 61

<sup>38</sup>Mandalis. (2002). *Metode Penelitian: Suatu Pendekatan Proposal*. Jakarta: Bumi Aksara. p. 28

resourceful documents from library as a fulfillment to a successful research.

#### G. RESEARCH RANGE

It is very important to limit the range of the research. This undergraduate thesis is focusing more on the topic of the ASEAN Economic Community (AEC) by 2015. The writer limits the time using the priority actions that is already mentioned in the AEC Blueprint based on strategic schedule for AEC.

The writer was explaining about the prospect of AEC 2015 by examining the process of the establishment of AEC from 2008 until 2011 in order to pursue a new economic power of ASEAN in Asia. This writing is not to predict the success of the AEC by 2015. The writer also collects the data which are relevant to be used in this research; there is a possibility that the explanation of every single agreement of priority actions is not in detail in order to focus more into the general issues, the AEC itself.

#### H. THE SYSTEM OF THE WRITING

The outline of this research is described as follows:

CHAPTER I explains background, research question, research purposes, theoretical framework, hypothesis, research methodology, research range, and the system of the writing.

CHAPTER II discusses the essentials of AEC 2015 as the potential

strategy to achieve new economic power in Asia.

CHAPTER III explains the challenges of AEC 2015 which is consists of two problematic issues they are enormous differences in the levels of economic development and the lower level of intra-ASEAN trade rather than extra trade in ASEAN.

CHAPTER IV discusses the modality of AEC by 2015 to creating new economic regime.

CHAPTER V contains the conclusion from all chapters and also the answers of the research question