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Same Ingredients, Different Recipe: Explaining Variance in Regional Integration by
Comparing the EU and ASEAN

Irene Melanie Anestis

A Thesis
in
The Department
of
Political Science

Presented in Partial Fulfillment of the Requirements of the Degree of Master of Arts
(Public Policy and Public Administration) at
Concordia University
Montreal, Quebec, Canada

April 2005

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ABSTRACT

Same Ingredients, Different Recipe: Explaining Variance in Regional Integration by Comparing the EU and ASEAN

Irene Melanie Anestis

This thesis studies the relationship between regional characteristics and integration schemes. I undertake a causality probe to examine the relationship between *state-business relations, regional hegemon, level of trade and role of business; and level of institutionalization and economic benefits*. The main question addressed by this thesis is what explains the variance in levels of integration between regions. Hence, the research questions are: a) what are the variables that determine the level of institutionalization of a given regional integration?; b) what are those required for it to be a success and provide a high level of economic benefits?

I examine the cases of the European Union and the Association of Southeast Asian Nations (ASEAN) in their two most recent forms. European integration is found to be an example of successful and deep level of integration, whereas ASEAN has taken only tentative steps towards increasing its cooperation. The state-business relations and political will of the leaders of the scheme, either a hegemon or k-group, is found to be a dominant factor in determining the level of integration achievable in a region. Furthermore, both schemes succeeded in overcoming their security concerns and establishing economic integration schemes, thereby suggesting that regime variance does not preclude successful integration. The effect that it does have seems to rest in the speed with which a preferential trade agreement (PTA) can overcome its security concerns, in order to focus on economic benefits.

ACKNOWLEDGMENTS

I am indebted to many people for their support, guidance and help throughout my studies and this research effort. They have smoothed the path in one way or another and enabled me to take this project from the realm of possibility to realization. In this brief acknowledgment I wish to express my heartfelt thanks and appreciation.

My utmost gratitude is due to the Professors and Staff of the Department of Political Science. Their open-door policy, their willingness to listen to ideas and offer suggestions, their readiness to share knowledge and experience have provided an ideal environment for my academic pursuits. Their smiles and words of encouragement at times of fatigue and frustration became the well to draw from to replenish my energy and continue towards my goal. I am most thankful to the Graduate Program Director Dr. James Kelly for his overall guidance and to Dr. Norrin Ripsman for his feedback and constructive criticism on my thesis. I am forever indebted to the Chair of the Department, Dr. Reeta C. Tremblay for her mentoring and encouragement throughout my studies. Thank you for recognizing my passion for Political Science, believing in my potential and showing me the possibilities of academia.

I wish to convey my appreciation to the thesis supervisor, Dr. Axel Huelsemeyer, whose time, guidance and contribution were the most significant factors in the completion of my work. The challenges you presented me with have taught me academic and life lessons that I will certainly carry into the future. I would like to extend a special note of thanks for your invaluable assistance during the preparation of the SSHRC Master's scholarship application.

To my family, I could not have accomplished any of this without your unconditional love and support. My sincerest thanks for your understanding and encouragement. You never tired of reminding me that the goal was achievable and you provided an environment in which I could focus on my studies. I dedicate this thesis to you. Mom and Dad, your inquisitiveness and passion for knowledge have been the backbone of my pursuit of higher education. Our discussions about politics and dialectics have been at the heart of my love for political science. Your sacrifices and support have made my dream of academic pursuits a reality. I am forever grateful.

I would like to convey my special appreciation to my close circle of friends. You stood by me even through periods of isolation and periodically pulled me from my hermitage to rediscover the world. Thank you for being there and not letting me forget how to enjoy life.

I would also like to acknowledge the staff of the Inter-library Loans Office whose friendly cooperation facilitated my access to important research materials.

This research would not have been possible without the generous funding of the Social Sciences and Humanities Research Council's (SSHRC) Master's Scholarship and Centre des études politiques étrangères et de sécurité (CEPES) Thesis Scholarship.

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LIST OF ABBREVIATIONS

AAF	ASEAN Automotive Federation
AEM	ASEAN Economic Ministers
AFDC	ASEAN Fisheries Development Center
AFSR	ASEAN Food Security Reserve
AFTA	ASEAN Free Trade Areas
AMM	ASEAN Ministerial Meeting
AIA	ASEAN Investment Area
AIC	ASEAN Industrial Complementation
AIJV	ASEAN Industrial Joint Ventures
AIP	ASEAN Industrial Projects
ASA	Association of Southeast Asia
ASEAN	Association of Southeast Asian Nations
ASEAN-CCI	ASEAN Chambers of Commerce and Industry
ASP	ASEAN Surveillance Process
ASPAC	Asian and Pacific Council
ATIC	ASEAN Tourism Information Center
CAP	Common Agricultural Policy
CEPT	Common Effective Preferential Tariff
CFSP	Common Foreign and Security Policy
COIME	Committee on Industry, Minerals, and Energy
COFAB	Committee on Finance and Banking
COPA	Committee of Agricultural Organizations
COREPER	Committee of Permanent Representatives
COTAC	Committee on Transport and Communication
DPT	Democratic Peace Theory
DSM	Dispute Settlement Mechanism
DV	Dependent Variable
EC	European Community
ECB	European Central Bank
Ecosoc	Economic and Social Committee
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EEC	European Economic Community
EEG	European Enterprise Group
EMF	European Monetary Fund
EMI	European Monetary Institute
EMS	European Monetary System
EMU	European Monetary Union
EP	European Parliament
EPC	European Political Cooperation Procedure
ESCB	European System of Central Banks
ERM	Exchange Rate Mechanism
ERT	European Roundtable of Industrialists

ESF	European Social Fund
EU	European Union
Euratom	European Atomic Energy Community
EUROFER	European Confederation of Iron and Steel Industries
Europol	European Police
GATT	General Agreement of Tariffs and Trade
GNP	Gross National Product
HPA	Hanoi Plan of Action
HST	Hegemonic Stability Theory
IMF	International Monetary Fund
IPE	International Political Economy
ITWG	Interim Technical Working Group
IV	Independent Variable
IVV	Intervening Variable
NAFTA	North American Free Trade Area
NATO	North Atlantic Treaty Organization
OEEC	Organization for European Economic Cooperation
OECD	Organization for Economic Cooperation and Development
PTA	Preferential Trade Agreement
QMV	Qualified Majority Voting
SEA	Single European Act
SEATO	Southeast Asian Treaty Organization
SEOM	Senior Economic Officials' Meeting
TAC	Treaty of Amity and Cooperation in Southeast Asia
UNICE	Union des Confédérations de l'Industrie des Employeurs d'Europe
UNCTAD	United Nations Conference on Trade and Development
VAT	Value-added Tax
WGIC	Working Group on Industrial Cooperation
WGT	Working Group on Trade
WGFAF	Working Group on Food, Agriculture and Forestry
WGTAC	Working Group on Transportation and Communication
ZOPFAN	Zone of Peace, Freedom and Neutrality

CHAPTER ONE

LAYING OUT THE BLUEPRINTS

1.1 Introduction

The last thirty years has seen the spread of economic integration schemes that increasingly remove economic policy from the hands of state leaders. This has resulted in a shift in inter-state relations among members of a preferential trade agreement (PTA)¹ from competitive to mutually beneficial cooperative economic policies. In fact, most states are now members of an integration scheme, resulting in over 50 percent of all world commerce being conducted within PTAs (Mansfield and Milner 1999: 600). The question, therefore, arises: why do some regions succeed in achieving high levels of regional integration, while others fail to maintain even a minimal level of regional cooperation.

Over the last fifty years, attempts have been made by the international community to help developing regions of the world achieve greater economic prosperity. In the face of expanding economic globalization, PTAs have been found to be effective tools for regional competition in global markets and the provision of economic benefits to their members. The economic success of the European Union has been taken by many as a model. However, no region has as of yet been able to mimic neither its progression nor its depth of integration. This has led me to explore the determinants for the level of regional integration.

Regional integration schemes will thereby provide my case studies for the evaluation of the relationship between regional characteristics and the level of

integration. The literature on the success and level of institutionalization of a given scheme provides a basis for the analysis of diverging cases of economic integration. The International Political Economy (IPE) literature has only just begun to build a systematic theory of regional integration (Mattli 1999), but has failed to address the resultant variations of institutional density between integration schemes. By drawing on factors from these research areas, I attempt to explain the difference in cases where economic integration is present at opposing levels, such as the European Union and the Association of South East Asian Nations (ASEAN).

Hence the purpose of my thesis project is two-fold. First, based on existing theory of regional integration, rather than limit the analysis to the criteria of success, I suggest a framework of analysis that attempts to isolate the determinants of variances between regional integration schemes. Finally, I examine to what extent the variations in regime type and the role of the relevant hegemon or superpower serve as obstacles or aids to achieving deeper integration.

1.2 Research Questions

By tracing the correlation between regional characteristics, including *state-business relations*, *regional hegemon*, *level of trade* and *role of business*; and *level of institutionalization and economic benefits*, the thesis provides a causality probe into the sequential examination of the relationship between regional factors and the level of integration.² The main question addressed by this thesis is what explains the variance in levels of integration between regions. In other words, what are the given

factors that determine the ability of a region to successfully embark on and implement regional integration schemes, and affect the level of integration achievable?

Given the focus of the main research question, a response will require the investigation of two sub-questions. First, what are the variables that determine the level of institutionalization of a given regional integration? Second, what are those required for it to be a success and provide a high level of economic benefits?³

1.3 State of the Art of the Relevant Literature

While there is a burgeoning literature on regional integration schemes (for an overview see Mansfield and Milner 1999), their establishment, success and expansion, there has been little systematic examination of interregional comparisons. The theoretical debate has drawn from existing cases to attempt to explain the factors that lead to countries entering integration schemes and the variances between these PTAs (Mattli 1999, Grieco 1997, Garrett and Lange 1996, Katzenstein 1996, Moravcsik 1991). These range from historical, cultural, and political explanations to economic ones. It is within this prolific literature that Gilpin (1987) argues that an overarching theory is impossible, while Mattli (1999) argues that there can be a systematic study and evaluation of existing schemes.

The lack of a general theory of regional integration has led to an inability to study comparative cases of regional integration. In the first systematic study of the success regional integration schemes, Walter Mattli (1999) argues that there are general criteria for the evaluation of the success of PTA,⁴ regardless of the geographic location or membership of the PTA. He outlines a list of requirements of the

establishment and success of an integration scheme that draw on both domestic and international pressures. This systematic approach, however, neglects to take into account the *institutional density*.⁵ It fails to answer the question of how to regional integration schemes, ASEAN and the European Union, can both be considered successful but be so different.

An increasing number of scholars have sought to explain the variance in existing PTAs. Each approach suggests different causal factors for the establishment and form of preferential trade agreements. The two most common foci of causality are systemic and domestic actors, indicators within each varying depending on the scholar (see Mansfield and Milner 1999). The process is therefore an interaction between exogenous shocks, interests and the instruments of the state (Schirm 2002: 129). These factors act as important general requirements in determining the shape of the PTA and its level of institutionalization.

Group theory and game theory determine what variables can be identified as ensuring effective and longstanding organization. Integration schemes can be deemed effective in as much as they can overcome the collective action problem to carry out policy on and outside its membership.⁶ At the heart of the ability of an organization to overcome this hurdle lies its leadership requirements, based on the number of members and their goals. This variance in leadership requirements is helpful in understanding how preferential trade agreements that lack one dominant state, such as the United States in the North American Free Trade Agreement (NAFTA), can still be successfully negotiated, ratified and implemented. Continuing with the examination of game theory provides an outline for the different approaches to be taken in

analyzing and explaining the existence, creation and success of international regimes. Although preferential trade agreements are not international regimes, by virtue of the institutions used to govern them, the literature on regime theory aids in understanding of the basis of the international agreements that create them.

In order to address the gap in the literature I will draw on the criteria set out by Olson (1965) and Hanseclever et al. (1997) for the success of international organization and effective groups. This will allow me to analyze the possibility of PTAs durability and effectiveness. I will attempt to continue Mattli's systematic study of regional integration, while including criteria to explain the variance in level of institutionalization.

1.4 Methodology

Studies on preferential trade agreements have focused on the criteria for successful integration; defined as the implementation of the agreement and the achievement of the goals set out in the text of the treaty. The literature distinguishes between three factors necessary for a successful scheme: a) *demand from business* (business sector perceives a benefit in facilitating and expanding the trade relations between member states, drawing on the existing level of trade); b) *commitment institutions*⁷ (the agreement promises to establish third party enforcement or central monitoring organs); c) *hegemon* (dominant state that can act as paymaster⁸ and sets the rules and standards). According to group theory, the role of hegemon can be taken up by a *k-group*⁹ (small number of likeminded states). The literature suggests that

these will provide the *political will* necessary for governments to sign, ratify and implement an agreement, thereby determining its success.

A main factor that shapes institutional variance between PTAs is *state-business relations* (the role that the state has in the economy), especially those of the economically dominant member states. These structures set out the parameters for the negotiation of an agreement, serving as guidelines for the extent of powers that may be given to central institutions.

Effective PTAs, however, require similar domestic economic and political institutions (Mansfield and Milner 1999, Nogués and Quintillas 1993). Therefore, there remains the hurdle of *regime type*. This could potentially explain why the European Union has successfully deepened its integration more rapidly than ASEAN.

In addition to the role of the local hegemon or k-group, hegemonic stability theory suggests that the *role of the superpower or global hegemon* is crucial to understanding variance in levels of regional integration. This could be a confounding variable. Its inclusion will hence serve to ensure that the conclusions drawn from this analysis accurately reflect the relative roles of regional and international characteristics on regional integration.

Although the goal of this thesis is to suggest a causal relationship between regional characteristics and level of integration, this thesis will focus on a comparative case study that will serve as plausibility probe for the analytical framework suggested.

1.5 Why Compare the EU and ASEAN?

While state-business relations of member states, political will of the regional hegemon or k-group, demand from business, level of regional trade and the role of the global hegemon can be conceptualized as independent variables, their presence differs between existing regional integration schemes. As does the level of integration. Thus the selection of the cases must reflect the presence of similar independent variables resulting in opposing levels of integration. For the purposes of my study, there are three aspects in which schemes can differ: the level of institutionalization, the level of economic benefits and the regime types of their member states.

To capture the variations in terms of schemes, I have chosen the European Union and ASEAN for my case studies. The variance between the two cases (e.g. regime types), combined with their sufficiently uniform background (e.g. lack of regional hegemon) allows for a comparison of the relative weight of the variables proposed above.¹⁰ European integration provides an example of a region achieving a high level of integration, whereas ASEAN has only reached a minimal one (i.e a free trade area).¹¹

1.6 Working Hypotheses

In order to study the relationship between regional characteristics and PTAs a distinction is made between the *levels of integration* and *level of institutionalization*, which are often used interchangeably. I define *level of integration* as including both the *level of institutionalization* and *economic benefits/success* of the member states.

This thesis examines the general requirements for the creation of an integration scheme, the effect of the process on its stated goal(s); and the influence of the variation in *regime type* and *superpower or global hegemon support* on the *level of integration*.

The emphasis in the regional integration literature has been placed on the success of a given PTA (Mattli 1999); suggesting that there can be standard criteria for comparing schemes, but failing to explain the variance in level and form of integration. It focused on the creation and success of integration schemes based on the economic interests of the member states. A *regional hegemon* is seen as crucial to a region's ability to provide economic benefits. This study takes that assertion one step further, suggesting that the role of the hegemon might be replaced by a *k-group*. Based on the literature, I extrapolate the hypothesis that there is a positive relationship between the level of *political will of the hegemon or k-group* and the *level of integration* of the PTA (H1).

In addition, the heterogeneity of regime types between member states provides a hurdle to institution building. The *state-business relations* (role of the state in the economy) of the member states would then influence the level of integration. Drawing on this, I hypothesize that the more diverse the regime type of the membership of a PTA, the less likely it will be to achieve higher levels of integration (H2).

The structure of the thesis is as follows. The next chapter will review the relevant literature in order to justify the selection of the relevant variables for the analytical approach of this thesis. Chapter Three outlines the analytical framework of

this thesis, identifying the variables that will be examined and approach tested in the empirical chapters. In Chapters Four and Five, the cases of the European Union and ASEAN will be studied respectively in order to determine whether regional characteristics shape the level of integration. These empirical chapters will evaluate the impact of these variables on the development of their PTAs. Chapter Six will conclude this thesis with an evaluation of which factors are the most influential, as well as the main findings and future areas of research.

1.7 Endnotes

¹ For the purpose of this thesis, preferential trade agreements, regional integration schemes and regional trade arrangements will be used interchangeably, since they all refer to a regional institution that facilitates commerce.

² Deepening integration means the shift from free trade area to customs union, from customs union to monetary union, from monetary union to political union.

³ This is important in providing the potential for deeper integration.

⁴ Mattli argues that success of a PTA is based on the implementation of the goals set out in its founding treaty.

⁵ In this case institutional density is meant to refer to the level of authority and extent of institutions that a scheme might possess.

⁶ Mancur Olson (1965) outlined the problem of and guidelines to dealing with collective action, arguing that the size of the group changes the requirements for surmounting the problem of collective action.

⁷ Since commitment institutions refer to those promised by the negotiated agreement, my analysis includes them in the level of institutionalization, rather than maintaining them as an independent variable.

⁸ According to Mattli (1999), paymaster is the state that can provide side-payments to member states that suffer from unequal distribution of gains.

⁹ The k-group acts as political leader for shaping the goals of integration scheme, as well as paymaster.

¹⁰ This research will be conducted according the method of process tracing. See Stephen, Van Evera (1997) "Chapter 2," *Guide to Methods for Students of Political Science*, Ithaca, NY: Cornell University Press.

¹¹ It is important to note that they had both declared security concerns at their creation and certain members were initially rivals. Furthermore, both schemes have been established for well over thirty years, thereby having had time to pursue deeper integration.

CHAPTER TWO

DRAWING FROM THE WELL

While we may well need sharper tools to prune the plant of integration theory that has grown up in the last decade, we also need a larger perspective, an ecological one, that will enable us to more carefully examine the roots, air, water and soil upon which the plant of integration depends for its survival and its growth (Nye 1968: 880).

2.1 Introduction

In the last fifty years, integration schemes have been launched on every continent, with the exception of Antarctica, to varying degrees of success and institutional densities. As these PTAs deepen,¹ they increasingly remove economic policy from the hands of state leaders, requiring inter-state policy coordination. However, not all regions have achieved in depth level of integration; some have failed to embark on it at all. This proliferation of PTAs has engendered an extensive literature on theories of integration (for an overview, see Mansfield and Milner 1999). However, it has failed to present a systematic study that explains both a scheme's *level of institutionalization* and its effectiveness in providing its member with *economic benefits*. Therefore, I suggest bringing together competing justifications of integration to provide a systematic approach to explaining variations in the *level of regional integration* (level of institutionalization of a PTA *and* level of economic benefits).

The existing literature on regional integration has focused on the background, process and those conditions necessary for the success² of any given scheme. Given the small number of existing cases, the international political economy (IPE)

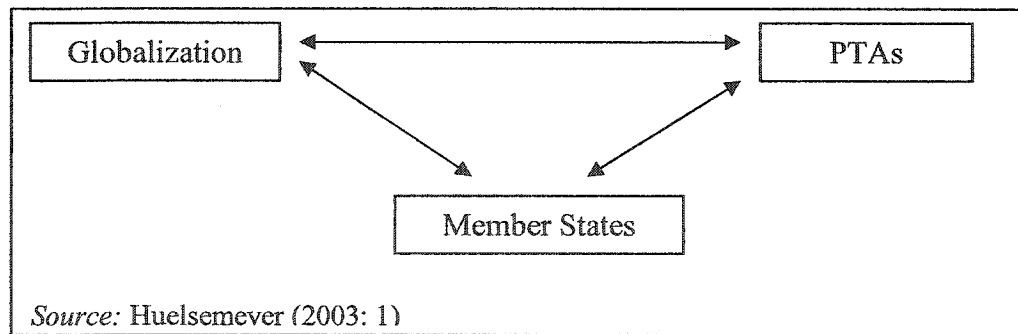
literature has only just begun to build a theory of regional integration (Mattli 1999). In the first systematic study of regional integration schemes, Walter Mattli (1999) argues that there are general criteria for the evaluation of the success of PTA, regardless of the geographic location or membership of the PTA; deriving from a combination of domestic and international pressures.³ This is supported by the neo-functional argument, which asserts that the preferences and political influence of domestic groups can affect the choice of regional strategy (Mansfield and Milner 1999, Garrett and Lange 1996, Nye 1988).⁴ Mattli's approach, however, neglects *institutional density*⁵ and fails to explain how differing schemes, such as the Association of South East Asian Nations (ASEAN) and the European Union could both be considered successful.

As suggested in the above epigraph, this project attempts to provide a more inclusive framework of analysis. An approach combining the domestic and systemic factors which explain regional integration. It will also attempt to explain the institutional variance between schemes, rather than limit the analysis to the criteria of success. Finally, I examine to what extent the heterogeneity of the regime types of the member states serves as an obstacle to achieving integration. The following sections will outline literature relevant to each step of this thesis' argument. Drawing on their strengths, I will combine approaches to build a framework for systematic study of PTAs.

2.2 State of the Art of the Relevant Literature

While there is a burgeoning literature on regional integration schemes, their establishment, success and expansion, these have tended to be treated as separate categories with only a superficial examination of the causal link between regional characteristics and level of integration. Theories of regional integration refer to and analyze the relationship between globalization, member states and preferential trade agreements (figure 2.1). While all seem to agree on the presence of these three factors, they diverge on their perception of the relative importance of each and the presence of intervening variables.

Figure 2.1: Relationship Between Globalization, PTAs and Member States



The theoretical debate has drawn from existing cases to attempt to explain the factors that lead to countries entering an integration scheme, the variances between them (Grieco 1997, Garrett and Lange 1996, Katzenstein 1996, Moravcsik 1991), as well as their deepening or expansion (Hester and Beaulieu 2003, Bornshier 2000, Pierson 1996). An increasing number of scholars seek to explain the variance in existing PTAs, from the highly institutionalized European Union (Pierson 1996, Moravcsik 1991) to the lack of any formal institutions in the Asia-Pacific (Bowles and MacLean 1996). Each suggests different causal factors for the establishment and form of preferential trade agreements. The two most common foci are systemic and

domestic actors, indicators within each varying depending on the scholar (see Mansfield and Milner 1999).

Gilpin (1987) argues that an overarching theory is impossible,⁶ while Mattli (1999: 41-67) argues that there can be a systematic study and evaluation of existing schemes. This thesis departs where Mattli (1999) leaves off in continuing the systematic study of regional integration schemes, while including an explanation for the institutional variance between schemes and their ability to provide members with greater economic benefits.

2.2.1 Explaining Institutional Variance from the Outside: Systemic Factors to Integration

There are three dominant theories among systemic explanations for variance: functionalism, hegemonic leadership and the 'relative disparity shift' hypothesis (Grieco 1997). The functionalist approach argues that regional integration is caused by the 'spillover effect' of interactions between the members of a given region (Katzenstein 1996). Regional "efficiency and competitiveness are strengthened through internationalized forms of deregulation and regional economies of scale and savings in transportation costs," creating dynamic effects and accelerating growth (Katzenstein 1996: 127). Therefore, as economic interactions increase within a region, governments will find a functional need to work more closely together within institutions despite the autonomy costs (Grieco, 1997).

By contrast, hegemonic leadership suggests that a local hegemon is necessary in order to create and maintain the institutions for regional integration (Mattli 1999).

As a response, Grieco (1997) proposed his 'relative disparity shift' hypothesis. This approach posits that smaller states will not automatically follow the hegemon, refusing if its relative economic strength has been increasing over time for fear of exacerbating the existing gap. If the hegemon's relative economic weight has remained stable, they will perceive the PTA as a potential for relative gains. Conversely, if the hegemon's power is in recession it has reason to behave in an increasingly predatory manner; leading smaller states to form preferential trading blocs to buffer the negative effects of the hegemon (Gilpin 1987).

To these theories can be added three generalizations about the relationship between member states and systemic influences to regional integration (Haas 1970). The first draws from the functionalist school suggesting that "members of regional groupings perceive themselves as being increasingly interdependent as the volume and rate of transactions between them rises, as compared to third countries" (Haas 1970: 616). The second suggests that actors will evaluate interdependence as negative if they feel their regional partners profit more than them, and positive, if they perceive more or equal benefits than their partners in some issue areas. The third generalization pertains to the relative size of member states. Haas states "inequality may spur integration in some economic and military task settings if the 'core area' can provide special payoffs" (Haas 1970: 616), or if it can be interpreted that one purpose is the control of the 'core area' by smaller partners. These generalizations allow for the selection of indicators within the scope of systemic influences.

2.2.2: Explaining Institutional Variance from Within: Domestic Factors to Integration

Other scholars argue that the causal factors lie in domestic influences.⁷ Within domestic variables, three are generally targeted as the source of institutional variance; these are special interests (specifically business actors), ideational factors and domestic state structures. Special interest groups play an important role in the creation and shape of a PTA. This is especially true since a state's decision to enter into a trade agreement, as well as the agreement's survival, reflect "the relative political power of its organized special interests and the extent of the government's concern with the plight of the average voter" (Grossman and Helpman 1995: 668). The interaction between these three variables provides a "comprehensive system of domestic factors" (Huelsemeyer 2003: 4).

Actors within a society are affected differently by preferential trade agreements. These socioeconomic interests are divided between those that support integration, due to potential gains from foreign markets, and those that support more protectionist economic policies. Drawing on this dichotomy, Mattli (1999) argues that in order for regional integration to occur domestic actors, predominantly business actors must produce the 'demand' for regional integration. This 'demand' then pushes politicians to provide the 'supply' and join a PTA, even though this might constrain their power. This is supported by the neofunctionalist argument, which asserts that the preferences and political influence of domestic groups can affect the choice of regional strategy (Mansfield and Milner 1999, Garrett and Lange 1996, Nye 1988).⁸ Public officials, therefore, have an incentive to negotiate PTAs in an effort to seek to

secure the support of export-seeking and import-competing sectors. For Mattli (1999), this 'supply' and 'demand' interaction is achieved through the organization of business interests and their role in the formal negotiation process. This can serve to explain the variance in the levels of institutionalization of the then European Community (EC), where business created the European Roundtable of Industries (ERT) (Cowles 1995); and ASEAN which failed to have any organized business lobby until the ASEAN Chamber of Commerce and Industry (ASEAN-CCI) in 1971⁹(Swee-Hock 1980b: 350).

Although the demands of powerful business interests can influence political action, other scholars argue that they will vary along ideational lines; shaped by the perceived " 'proper' role of the state in the economy" (Huelsemeyer 2003: 5). Hence, negotiations and entry into a PTA will depend on the political influence of certain interest groups and the forecasted effect on the voters' welfare (Grossman and Helpman 1995).¹⁰ The level of institutionalization of the scheme will depend on whether the state is structured along more corporatist/interventionist or pluralist/laissez-faire lines. Ideational factors, specifically the role of the state in the economy, can therefore be used to explain the variation between the highly institutionalized European Union (EU) and the low level of institutions in NAFTA (Huelsemeyer 2000, Cowles 1995). This can also explain the shift in Latin American integration schemes from import substitution to neoliberalism (Hester and Beaulieu 2003), also seen in ASEAN.

The process is an interaction between exogenous shocks, interests and the instruments of the state (Schirm 2002: 129).¹¹ These factors act as important general

requirements in determining the shape of the PTA and its level of institutionalization and, I argue, affect the possibility of attaining higher levels of integration. Furthermore, added to domestic influences on regional integration is the filter of domestic state structures and institutions (Garrett and Lange 1996).¹² The ideational factors' and domestic actors' influence are filtered through the domestic state structures and institutions¹³(Garrett and Lange 1996). Combined with constitutional constraints, they help determine the national interest and provide the process for ratification and implementation (Robinson 1993, Huelsmeyer 2003). These grant varying degrees of authority to the negotiating governments and, in some cases allow governments to project domestic constraints in order to gain concessions (Ripsman 2000). Domestic institutions also influence the choice of policymakers to enter PTAs (Mansfield and Milner 1999). Governments may use PTAs to sidestep national legislatures that are unwilling to take steps towards liberalization (Whalley 1998, Haggard 1997 and de Melo, Panagariya and Rodrik 1993). They may also use integration schemes to bind themselves to their commitment to liberalization (Schirm 2002). In the end, the debate is "about the terms of integration, and those terms are shaped by the power relations, market exchanges and contested identities of individuals and collectivities" (Katzenstein 1996: 126); and defined by domestic actors within domestic institutions and state-society relations.

2.2.3 Best of Both Worlds: Alternative Explanations to Integration

Along with the division of causal factors between systemic and domestic ones, the neo-functional approach has dominated the study of regional integration. Neo-

functionalists are positivists in their approach and isolate specific causal or facilitating variables for the creation and maintenance of a PTA. They argue that structural conditions for the creation of a scheme are symmetry or economic equality of units (the relative economic size¹⁴ of the member states), the rate of transactions (levels of trade¹⁵ and communications) between them, elite value complementarity and pluralism. In addition to these were the capacity of member states to adapt and respond to unforeseen policy challenges, perceived equity of distribution of benefits, cogent perception of external realities, low or exportable visible costs¹⁶ (Schmitter 1970¹⁷, Nye 1970: 814-21 and Haas and Schmitter 1964).¹⁸ Barrera and Haas (1969) attempt to quantify the relative importance of these variables.¹⁹ The relationship of from strongest to weakest is elite complementarity,²⁰ pluralism, rate of transactions and size of units (Barrera and Haas 1969: 153). Schmitter (1970) later added equitable distribution, regional group formation (formation and participation in new regional groups), and development of regional identity²¹ as variables necessary for a successful process of integration.

2.2.4 Solving the Problem of Collective Action: Game Theory and Group Theory

In order to have a successful scheme, it is crucial that it can overcome the problem faced by groups, that of collective action. Group theory and game theory determine what variables can be identified as ensuring an effective and longstanding organization. Integration schemes can be deemed effective in as much as they can overcome the collective action problem to carry out policy in and outside its membership. Mancur Olson (1965) outlines the problem of and guidelines to dealing

with collective action. He argues that the size²² of the group changes the requirements for surmounting the problem of collective action. For a small number of members in the group, the assumption is that all members will act rationally to reach their common goals and fulfill their common interests. The main problem in this case is that of free riding as the smaller states forgo the costs. However, within a small group peer pressure or threat of exclusion from the group can serve as a deterrent. In a large group, the ability to go unnoticed by other members of the group when breaking the rules or shirking the costs increases. Olson (1965) asserts that the solution lies in the existence of a hegemon in the group that would ensure a coercive power, as well as incentives for compliance. This variance in leadership requirements is helpful in understanding how preferential trade agreements that lack one dominant state, such as the United States in NAFTA, can still be successfully negotiated, ratified and implemented.

An examination of game theory provides an outline in analyzing and explaining the existence, creation and success of international regimes. Although preferential trade agreements are not international regimes, by virtue of the institutions used to govern them, the literature on regime theory aids in understanding the basis of the international agreements that create them. Through their overview of the existing literature on international regime theory, Hasenclever et al. (1997) outline two approaches relevant for this study. The first is the power-based approach, usually used in cases of security organizations. This approach argues that international regimes are reflective of the power distribution between the members and that it requires a hegemon in order to succeed. Members are driven by an interest in their

relative power and security. The second relevant approach is the interest-based approach. Usually used to analyze regimes with an economic focus, it argues that regimes originate and thrive based on the common interests and goals of their members. Hasenclever et al. (1997) posit, however, that the two approaches may be combined, if the regime's constraints change. To this end, I will combine power and interest-based approaches to the creation and evaluation of regional integration.

2.2.5 Hegemonic Stability Theory: Assessing the Impact of an External Power on Regional Choices

Hegemony Stability Theory (HST) argues that cooperation and security arise because the presence of a hegemon reduces transaction costs and mitigates uncertainty. It provides certainty about future patterns of behavior, thus increasing the willingness of states to enter into international regimes and agreements. Hegemony reduces uncertainty by providing the standards, incentives and information about the behavior of others. The hegemon seeks “to construct international political economies that suit [its] interests and ideologies (Keohane 1984: 136). This is because it is more likely to enter into agreements that require it to make an initial sacrifice for future gains, which will result in the control over the future behavioral patterns of its partners. This would otherwise have to be achieved through international institutions (Keohane: 180-181).

Some, like Keohane (1984), argue that US hegemony helped create international cooperation. Since the start of the Cold War, the US maintained the military power to protect the liberal-capitalist global political economy from hostile

powers. American military power served as a shield, protecting the international political economy that it dominated. Although unable to simply dictate terms to its partners, it had ways of providing incentives to others to conform to its preferences (Keohane 1984: 136-137). This suggests that the role-played by the US in the establishment and implementation of regional integration schemes will influence the level of their economic cooperation.

2.2.6 Dispute Resolution and Common Policies: Regime Diversity as a Hurdle for Integration

The case of overcoming the security dilemma to implement common policies is where regime type could potentially influence the PTAs ability to be longstanding and effective in providing economic benefits to its members. Norms literature argues that democratic leaders should be more likely to seek negotiated settlements in disputes (Maoz and Russett 1993, Russett 1993). Non-democratic states were found to be more violent reflecting the level of violence of domestic norms. Leaders with the most violent domestic norms were more likely to challenge the status quo with military threats and to escalate military conflicts to high levels (Huth and Allee 2002: 287). This suggests that if institutional theory is correct, and norms can be taught to members of the scheme, then nonviolent norms could be established with success and policy coordination could be achieved. Nonviolent norms socialize states to “adopt policies of reciprocity in diplomacy and military actions and to reject more extreme policies of unilateral concessions or military aggressiveness” (Huth and Allee 2002: 7).

Democratic peace theory (DPT) posits that states react to others differently depending on their domestic regime. The central theoretical claim is that decisions by state leaders as to the use of force are “influenced by the political institutions and norms of political competition and conflict resolution within states” (Huth and Allee 2002: 1). As a result, states’ behavior during international conflict varies between democratic and non-democratic countries due to the differences in the degree leaders’ political accountability, the strength of non-violent norms, or simply because the political elites are more war-averse (Bueno de Mesquita et al. 1999, Dixon 1994, Russett 1993).

One argument for the reluctance of democratic leaders to use force stems from the political cost. The greater political accountability of democratic systems makes political leaders more cautious about the use of military force in international disputes for fear of not getting re-elected (Huth and Allee 2002, Maoz and Russett 1993, Russett 1993, Bueno de Mesquita et al. 1992). This suggests that democracies will have a perceived enmity towards non-democracies, since democratic norms and institutions produce similar effects in international disputes. They encourage negotiated settlements and the avoidance of military conflict between democratic states, and promote more confrontational policies towards non-democratic states (Maoz and Russett 1993, Russett 1993). Non-democratic states should seek fewer peaceful settlements and more frequently resort to military means of conflict resolution due to the absence of democratic institutions and norms (Dixon 1994, Maoz and Russett 1993, Russett 1993).

Farnham (2003) argues that democracies are not necessarily war-averse, but that they perceive threat differently than non-democracies, based on the respect of procedures and international norms. Threat perception is based on capabilities and intentions, combined with the disregard to values and procedures of peaceful accommodation. Refusal to abide by norms is a test of the commitment to political settlements and a sign of unlimited aims of the state in and of themselves. Therefore, abiding by the procedures of peaceful accommodation and bounded competition is a reflection of signals limited aims and pacific intent. At the heart of this argument is that democracies view security concerns based international procedures and norms of non-violent dispute resolution.²³

Therefore, democratic institutions mitigate the security dilemma by reducing the problems of information failure and credible commitment, as well as the time taken to organize for action allows time to find a solution. Furthermore, mutual acceptance of democratic norms focuses competition through peaceful means and compromise, and 'contingent consent' binds players to rules, which are nonviolent and non-coercive. In this case, democratic member states would be more likely to continue integration with other members if the scheme has been successful. This could potentially explain why the European Union has succeeded in achieving such a high level of integration, while ASEAN has only begun. The above theories suggest that a scheme dominated by democracies will have a higher likelihood of achieving deeper integration.

2.7 Endnotes

¹ Deepening integration means the shift from free trade area to customs union, from customs union to monetary union, from monetary union to political union. This progression is not automatic, however in order to move from one level of integration to another, the political and economic requirements of the previous level must be completed.

² Success is defined as the implementation of the agreement that created the PTA (Mattli 1999: 12).

³ Mattli (1999) outlines a set of demand and supply criteria to explain the creation of integration schemes. On the demand side, there is the business sector calling for the expansion of the market. On the supply side there is political will, commitment institutions and an undisputed leader in the region. Hence, negotiation, implementation and success of a PTA will depend on the political influence of certain interest groups and the forecasted effect on the voters' welfare (Grossman and Helpman 1995).

⁴ Neofunctionalism dictates that domestic industries that seek to ward off external competitors located in markets outside the members of the PTA or expand their share of international markets will use their political influence to set up an agreement. This also holds true for export-oriented industries that seek to gain access to foreign markets.

⁵ In this case institutional density refers to the type and number of institutions created by the agreement at a regional level.

⁶ Some scholars have argued that they attempt to transpose the 'European way to integration' as general model on other regions of the world and this will inevitably lead to failure as developing countries especially, require and pursue alternative avenues to integration (Axline 1994, Langhammer and Hiemenz 1990, Haas 1970).

⁷ The decision to enter into a PTA remains one of the government's choice. Axline (1994) argues that a state will support the creation of a regional scheme which "satisfies its own national goals better, or at a lower cost than an alternative proposal" (Axline 1994: 23).

⁸ Neofunctionalism dictates that domestic industries that seek to ward off external competitors located in markets outside the members of the PTA or expand their share of international markets will use their

political influence to set up an agreement. This also holds true for export-oriented industries that seek to gain access to foreign markets.

⁹ This association did not serve as a lobby but sought to facilitate the implementation of regulations (Swee-Hock 1980b: 350).

¹⁰ Depending on whether PTAs are seen to be trade-diverting or trade-creating they can be seen as building blocks to support multilateral liberalization. Kenneth Oye (1992) argues, in fact, that discriminatory PTAs can lay the basis for promoting multilateral openness if the international trading system is relatively closed.

¹¹ Although exogenous shocks create the impetus for integration, the creation of a PTA depends on state interests and instruments and the actors that define and use them.

¹² Garrett and Lange's model suggests a process by which the domestic institutions will respond to the demands of their domestic actors. (Garrett and Lange 1996 : 51) Other than theirs , there have been few attempts to systematically study how domestic structures and actors react to external pressures to provide policy convergence and the creation of a PTA.

¹³ Garrett and Lange's model suggests a process by which the domestic institutions will respond to the demands of their domestic actors (Garrett and Lange 1996: 51).

¹⁴ Economic power is taken as the most relevant indicator of size measured in terms of Gross National Product (GNP) (Barrera and Haas 1969: 155).

¹⁵ Level of trade is determined for each country as the total amount of trade with members of the region as a percentage of the total amount of its external trade (Barrera and Haas, 1969: 156).

¹⁶ Cogent perceptions of external realities and low or exportable costs are supported by Haas and Schmitter (1964) who isolate degree of common explicit governmental goals for the agreement and the powers bestowed upon the intended union. The intended powers of the union and low or exportable costs are included in the level of institutionalization variable of my analysis, which can also be compared to Mattli's (1999) weak condition of commitment institutions.

¹⁷ Schmitter (1970) also isolates relative size/power, rate of transactions, member's internal pluralism, elite value complementarity as independent variables (IVs) (Schmitter 1970: 851), but includes extra-

regional dependence. He argues that the more alike the values of the IVs, the more likely a regional institution will have a greater scope of competence (Schmitter 1970: 854).

¹⁸ These multitudes of variables are contained within the variables outlined within this thesis' argument. The variable of level of trade within the framework encompasses the rate of transactions between them. The variable of hegemon includes a measure of economic equality of units. Those variables not included within my analysis are considered of relatively less importance.

¹⁹ They focus specifically on those of Haas and Schmitter (1964), but their results are used here as a guideline for relative strength.

²⁰ Elite complementarity is seen as the most important factor, I include it in the regime type, since democratic peace theory suggests, as will be outlined below, that democracies will trust and cooperate with each other more than with other regime types.

²¹ This is defined as the "extent to which participants or observers in regional processes come to regard such activity as rewarding due to material inducements, emotional-fraternal-symbolic ties, status satisfaction, and thereby acquire a sense of loyalty (Schmitter 1970: 856)".

²² Olson posits that although the number of members of the group is the most obvious determinant of the size, also an important consideration is "whether any individual action from one or more members in the group are noticeable" (made known) to any other member of the group (Olson 1965: 45).

²³ What can be extrapolated from Farnham's (2003) argument is that for security to be achieved between non-democratic and democratic states, there needs to be a way to enforce compliance with procedures of non-violent dispute mechanisms. The argument would suggest that this compliance would then decrease the perceived threat and thus facilitate the creation of a secure environment.

CHAPTER THREE

OUTLINING AN APPROACH

3.1 Introduction

In the previous two chapters, the existing literature on regional integration was reviewed and found lacking in a general theory and systematic study across cases. The following sections of this chapter will seek to address this deficiency by outlining a plausibility probe for a causal process that will then be applied onto the empirical cases in Chapters Four and Five. The first section explains the analytical framework of the thesis, suggesting that the causal link between *regional characteristics* and *level of integration* can be understood by tracing the process from the creation of the scheme and assigning a variable to each step. Subsequently, each variable is defined and assessed in terms of its role and its measurable indicators. The cases selected for study are then justified and the timeframe for their study is given. The chapter concludes with an examination of the methodology that will be used to elaborate and study the suggested framework.

3.2 Analytical Approach

This thesis explores the impact of regional characteristics on the possibility and depth of regional integration. In order to examine this, two sub-questions are raised: 1) what are the variables that determine the level of institutionalization of a given regional integration? 2) What are those required for it to be a success and provide a high level of economic benefits?

The analytical approach for this study seeks to attain two goals. The first is descriptive inferences based on a historical survey of the two cases in question in order to draw causal inferences regarding the contribution of regional characteristics and integration schemes. A systematic observation and historical summary of comparative cases is lacking in the literature, with the most recent attempt being undertaken by Mattli in 1999. This is a crucial deficit since data collection and historical summarizing is a prerequisite to causal inference and explanation (King et al.: 1994)

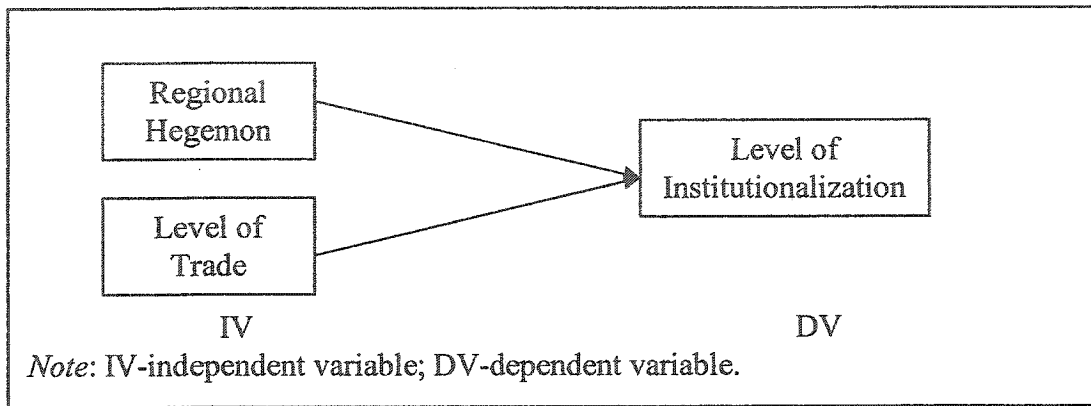
The second objective is causal inference. According to King et al. (1994), description and explanation are essential to social science research. Furthermore, Van Evera (1997) argues that large explanatory power is the prime characteristic of a good theory (Van Evera 1997:17). “We cannot construct meaningful causal explanations without good descriptions; description, in turn, loses most of its interests unless linked to some causal relationship” (King et al. 1994:34).

3.3 Causal Process

The causal process described in this section attempts to outline the relationship between regional characteristics and the resulting integration. The use of case studies in this process attempts to test independent variables, generating a hypothesis on variance in regional integration through the application of a plausibility probe. The suggested framework expands on the literature, by combining existing arguments (systemic and domestic explanations for institutional variance) and adding variables (external hegemon and regime type). Within the literature on institutional variance some argue that systemic factors, such as the presence of a regional hegemon and a level of regional trade, dictate

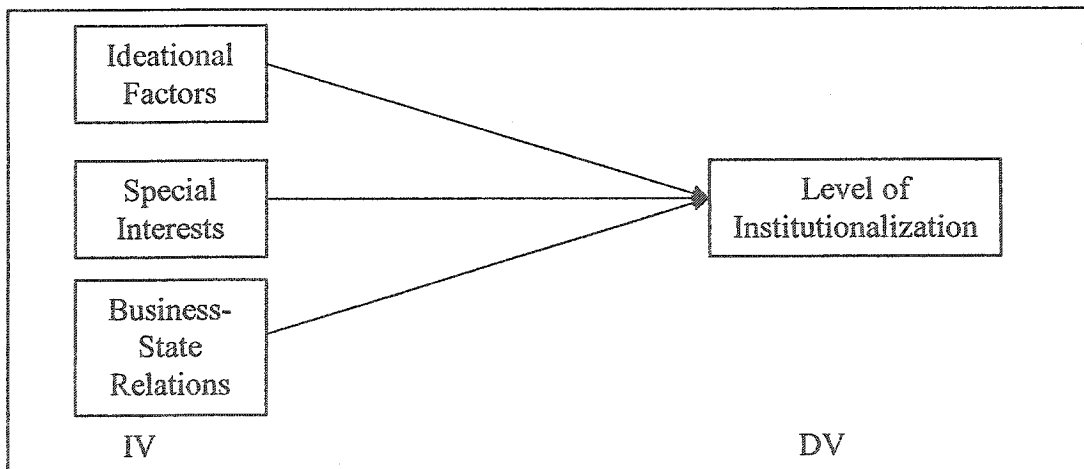
the level of institutionalization of a PTA (see figure 3.1). Integration schemes are therefore reflections of the regional economic relationships.

Figure 3.1: Systemic Factors to Institutionalization



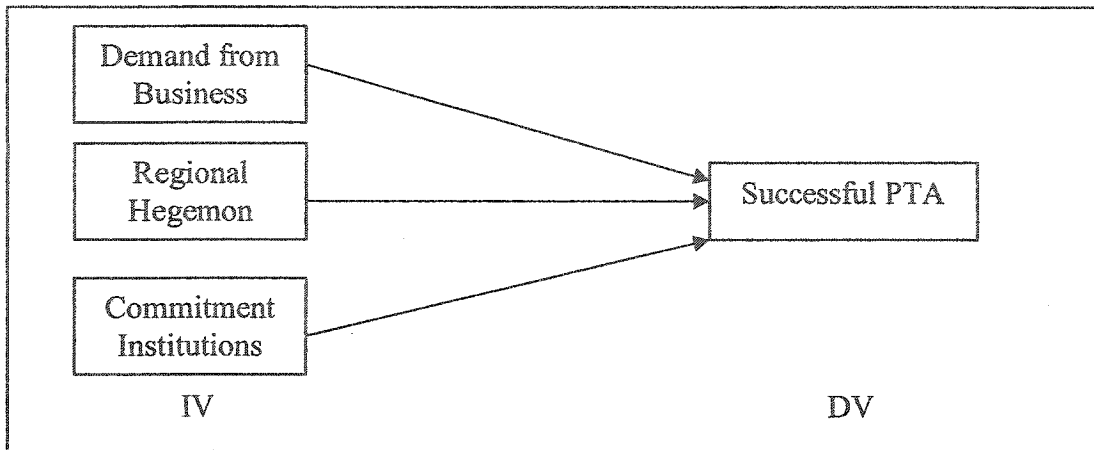
Others argue that the explanatory factors for variance in regional institutionalization lie within domestic structures, such as ideational factors, special interests and state-business relations (see figure 3.2).

Figure 3.2: Domestic Factors to Institutionalization



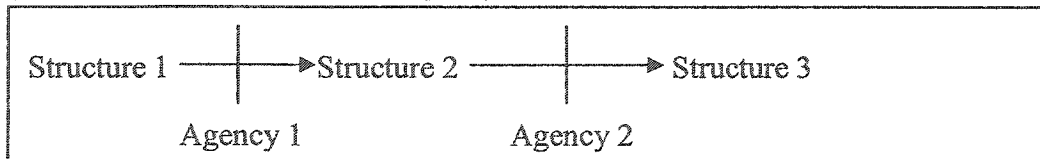
Mattli (1999) brings together elements from both schools of thought in order to isolate criteria for the success of a PTA. These variables are demand from business, regional hegemon and commitment institutions (see figure 3.3).

Figure 3.3: Mattli's Argument for Successful PTAs



The basis for the causal process that is argued in this thesis is a combination of these three arguments (suggested in Mansfield and Milner 1999: 620). In contrast to some scholars who focus on the causal relationship between certain political or economic factors and resulting PTAs, I argue that those models are incomplete, failing to account for the interaction between the existing structures and the agents involved. By applying Archer's (1996) model (see figure 3.4), we can portray the fact the debate is "about the terms of integration, and those terms are shaped by the power relations, market exchanges and contested identities of individuals and collectivities" (Katzenstein 1996: 126). Archer's model for the agent-structure debate suggests a process for the interaction of the structure of globalization and the member states.

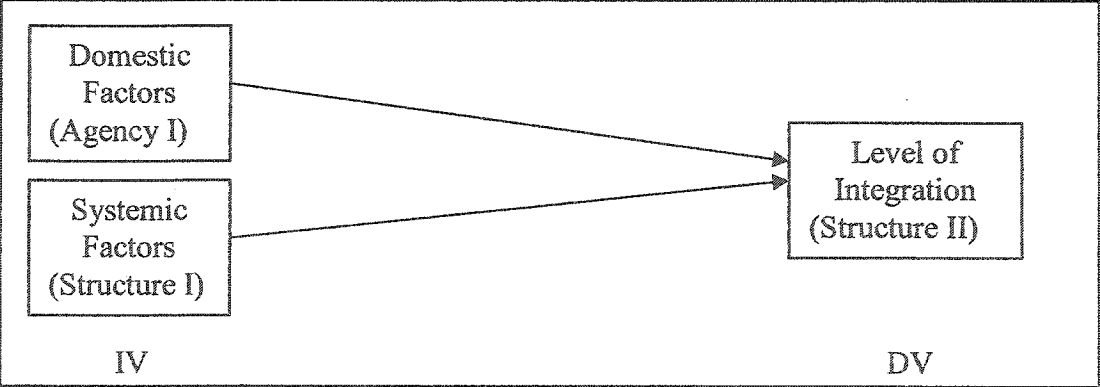
Figure 3.4 Archer's Structure/Agency Model



The model would suggest that at each step in the process, there is an interaction between the existing structure of globalization and the agency of the member states, with

the structure changing as the agents react to its pressures and each other. Structure I of Archer's model is set out to be the systemic realities at the time of the negotiations of the PTA. It is defined by the international and regional economic trends, relative economic weight of the states in the region and intra-regional trade. This international/regional reality can put pressures on its agents to adopt given policy and sets up the structural constraints under which negotiations will occur. Agency I is defined by the actions and positions taken by the potential member states. Structure II then becomes the integration scheme resulting from the negotiations between Structure I and Agency I. The resulting PTA (Structure II) then influences and shapes the policies of its members and prospective members. Agency II within Structure II is the resulting policy shifts of the member states, whether by the policy constraints of the scheme, or as a result of the economic benefits drawn from it. As in the case of Agency I, the most influential states of Agency II are the regional hegemon or leading states of the k-group. Finally, Structure III is any changes in the agreement resulting from amendments or re-negotiation of the treaty, specifically any that alter the level of integration. This would result in a combination of both the domestic and systemic explanations to the level of integration (see figure 3.5).

Figure 3.5: Combination of Factors and Archer's Model



To this skeletal structure this thesis argues that additional factors of the relevant superpower or global hegemon and regime type affect the level of integration that a region can achieve (see figure 3.6).

As in the existing literature, the preferential trade agreement remains the focus of study. However, instead of focusing on the necessary conditions for creation, institutional variance, or success, this thesis raises questions as to variables that affect the *level of integration* (i.e level of institutionalization and economic benefits) of PTAs. By positing an interaction of the aforementioned regional characteristics as independent variables, this study pushes the literature one step further, allowing for the systematic examination of the level of integration, by facilitating the isolation of case studies with similar characteristics but differing results.

3.4 Independent Variables: Causes for Variance in Regional Integration

Taking preferential trade agreements as the focus of study, the existing literature in IPE provides for the isolation of five main characteristics from the domestic and systemic levels, which become our independent variables. Drawn from the debates on institutional variance and success¹ of PTAs, they are the following: *level of trade, role of superpower or global hegemon, state-business relations, demand from business, and the political will of the regional hegemon or k-group*. I posit that these variables, usually studied separately within the realm of IPE, are the 'causal phenomena.' It is important to note that they will be considered in terms of *relative weight* between the cases, rather than bound to a given number.

3.4.1 Systemic Factors to Explaining Integration

3.4.1.1 Level of Trade between Member States

a) Definition: This variable is defined by the level of economic interaction (export/imports) between member states. It takes into consideration their prior dependence/independence and the complementarity of their exported goods in order to determine whether or not there are economic conditions necessary for integration. There is also an assessment of relative economic weight of the member states, in order to determine which domestic structures will be the dominant influence in the level of institutionalization.

b) Indicators: The most effective indicator of this is the percentage of intra-regional trade of total GDP.

c) Measurements: These will also be broken down into three levels: low (under 25 percent intra-regional trade), medium (25 to 50 percent intra-regional trade), high (over 50 percent intra-regional trade). These are arbitrarily set to examine the relative economic weight of each member within the region and the region for each member.

3.4.1.2 Hegemon or k-group

a) Definitions: The *hegemon* is the dominant state that can act as paymaster² and set the standard for convergence of the regulations addressed within the agreement. However, within a small group, the role of the hegemon may be taken up by a *k-group*, a small number of likeminded states. In this case the *k-group*³ acts as political leader for shaping the goals of the integration scheme, as well as acting as paymaster.

b) Indicators: Economic dominance in the region based on relative exports/imports, the percentage of market shares. There must also be signs of the ability to command authority from the other members, through examples of given policy decisions made under the hegemon's or k-group's leadership.

c) Measurements: In this case, measurement is based on a 3-level scale whether there is the presence of a hegemon, a k-group, or neither.

3.4.1.3 Role of Global Superpower or Hegemon

a) Definition: During the bipolar world of the Cold War the selection of the involved superpower will depend on which sphere of influence the states studied were under. Post-1991 the economic and political dominance of the United States makes it a global hegemon, whose influence shapes policies of all states with which it interacts.

b) Indicators: The stance of superpower or hegemon can be seen through the speeches of the leadership, financing of the project, launching of the initiative, or the provision of incentives or disincentives.

c) Measurements: The measurement is based on a 3-level scale progressing from opposition of the superpower, through indifference, to support.

3.4.2 Domestic Factors⁴ to Explaining Integration

3.4.2.1 Demand from Business

a) Definition: The business sector perceives a benefit, based on the potential for economic gain, in facilitating and expanding the trade relations between member states.

They will then organize to lobby their respective governments to enter into preferential trade agreements with other states.

b) Indicators: Demand from business will be assessed through the forae, or lack thereof of business participation, or instigation of the process.

c) Measurements: Demand will be assessed as low if there is little to no interest in integration. It will be considered medium if the push for integration is centered around one or few sectors, forae for business demands are government dominated and run. Finally, demand from business is high if there is a push for integration in many business sectors, and the presence of business instigated forae and/or membership within government delegations.

3.4.2.2 Political Will of Hegemon or k-group

a) Definition: The political will of all member states is necessary for an agreement to be signed. However, the political will of the hegemon or leaders of the k-group is the most influential for governments to sign, ratify and implement an agreement, thereby determining its level of integration success. It portrays commitment to the process of integration and increases the likelihood that they will make sacrifices should any be necessary for the successful implementation of the scheme.

b) Indicators: Political will of the hegemon or k-group can be seen at the most basic level through the existence of an agreement that has been signed. Other indicators are speeches made by members of government to the public and the legislature.

c) Measurements: Political will be assessed as follows: low (little or no discussions by political leaders of regional integration), medium (discussion and negotiation of an agreement), high (negotiation and signing of an agreement).

3.4.2.3 State-Business Relations

a) Definition: The prevailing role that the state has in the domestic economy (state directed economy, corporatist or pluralist domestic structure). This is seen as a combination of the ideational factors and domestic institutions within the literature. Since it determines the strength that individual positions or bodies can have in policy determination in the resulting scheme.

b) Indicators: State regulative and distributive powers, as well as relative strength of unions and business associations, are symptomatic of the role the state is seen as playing in the economy.

c) Measurement: In order to determine the influence of the state-business relations, they will be rated along three measures. They will be considered as low if there is little state intervention in the economy, and the state is seen solely as provider of national security. If there is some state intervention in times of crisis, and the state has distributive powers for national programs such as health care then it will score as medium. Finally, they will be weighed as high if state-society relations are highly structured and negotiations and agreements are struck between labor, business and government.

3.6 Intervening Variable

3.6.1 Regime Type

a) Definition: The IPE literature suggests that integration is facilitated by similarly structured states. In addition, democratic peace theory (DPT) argues that democracies do not fight wars with each other. This suggests that regime type (liberal democracy,⁵ authoritarianism, monarchy etc.) have different dispute resolution

mechanisms that result in difference when dealing with disagreements and conflict. The ability to form common dispute resolutions makes the tools available to governments. The key influence of this variable will be the number of different regime types within a region. This variance will be the factor measured by this variable.

b) Indicators: The type of government outlined in the constitutions of and in practice in the member states.

c) Measurements: The *variance* in regime type will be assessed on a scale of three, arbitrarily set for their effect on peace: low if there is only one type of regime; medium if there are two type of regimes, where one type is more present then the other. Finally, it will be measured as high if there are two regime types that are equally represented among member states or more then two types of regimes.

3.7 Dependent Variable

*3.7.1 Level of Integration*⁶

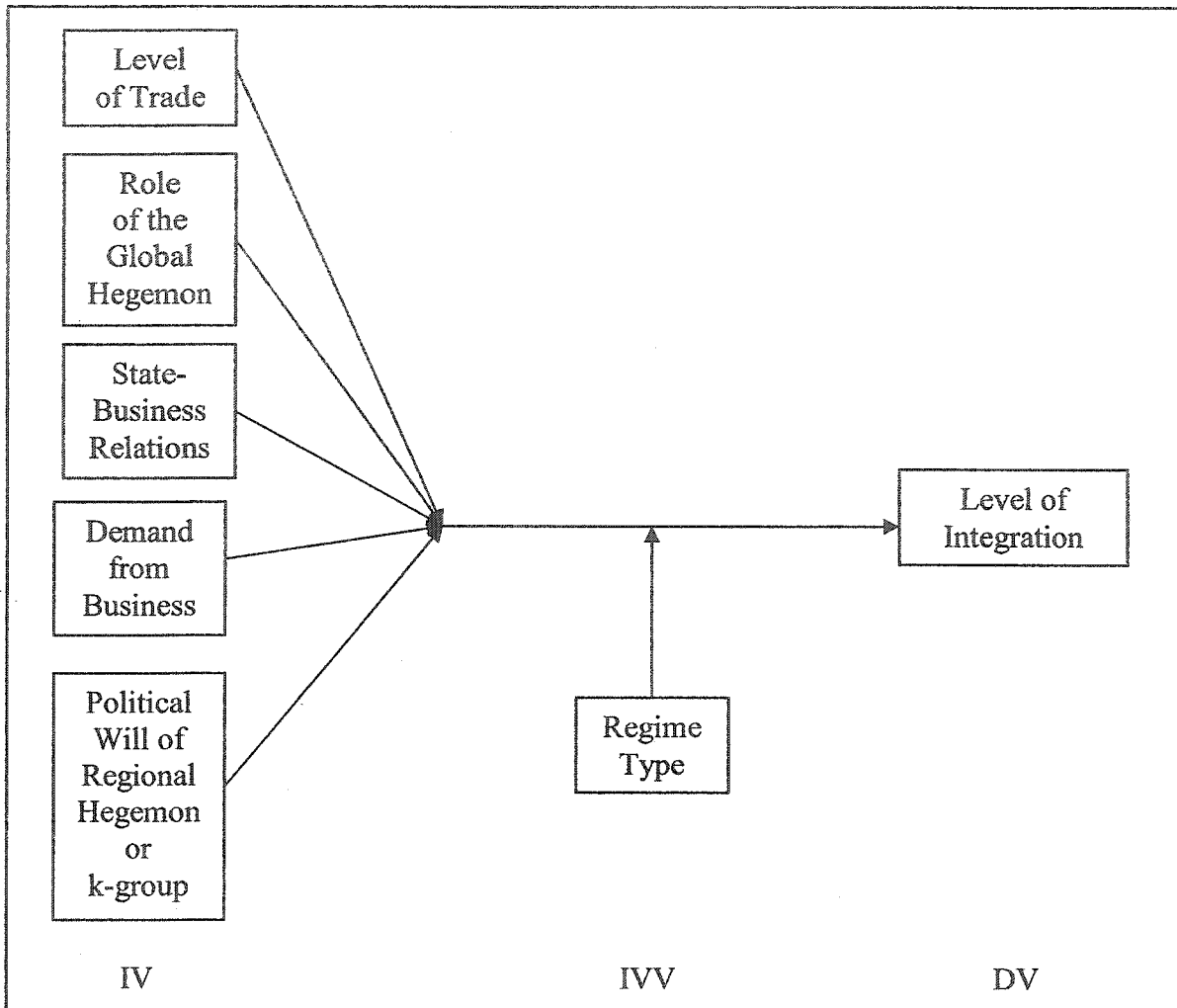
a) Definition: I expand from the basic definition of the level of integration, which is that of a free trade area to a political union, and the institutions that accompany it, to include the ability of the scheme to provide economic benefits to its members.

b) Indicators: The level of institutionalization of and economic benefits provided by the scheme. The formal and informal bodies created by the PTA, generally found within the text of the signed agreement. Economic benefits are primarily seen in the presence or lack thereof detailed economic agreements, as well as whether trade is the focus of discussions and negotiations during regional meetings.

c) Measurements: *Relative* levels of institutionalization will be determined based on the type of institutions within the PTA, rather than simply the number of institutions. The variance in measurement will be based on the extent of common regulations, structures and policies. It will be conducted in three stages with cutoffs being determined by whether convergence is restricted to one, both or all of the above mentioned areas and the number of sectors affected. Level of institutionalization will be assessed as low if there is little to no policy coordination; medium if there is some policy coordination between members, especially on trade policy with other states; and high if there is significant coordination, across policy areas and common regulations and structures.

Economic benefits are low when the issue of trade rarely appear in discussions between members, and there is no implementation of trade focused agreements. It will be assessed as medium if there are consistent discussions on trade and there is some incremental increase in the extent of the field of trade agreements. It will be considered as high if economic concerns dominate the regional forum and there is increasingly the number and depth of trade agreements.

Figure 3.6: Arrow Diagram of Causal Framework



The selection of the cases must reflect the variations in the levels of integration and regime type. In order to capture these differences, I have chosen the European Union (EU) and the Association of South East Asian Nations (ASEAN) as my case studies. I will be employing a comparative case study selection through a method of difference.⁷ Both cases have sufficiently uniform backgrounds: both lack of a regional hegemon and had a low level of regional trade. It is also important to note that they had both declared security concerns at their creation and certain members were initially rivals. Furthermore, both schemes have been established for well over thirty years, thereby have had time to

pursue deeper integration. However, the two have resulted in opposite *levels of integration*,⁸ with differences not only on their institutions, but also on their ability to provide economic benefits to their members. Where they differ is in terms of their *domestic structures* and their opposite *regime types* (EU is uniformly democracies and ASEAN a mix of three, democracy, authoritarianism and monarchy), allowing for a comparison based on the methods outlined below.

3.8 Methodology

I will be using two methodologies that will allow me to infer and then test the causal framework outlined above, a comparative case study and process tracing.

3.8.1 Comparative Case Study: Sizing Up the European Union and the Association of South East Asian Nations

King et al. (1994) state that effective, systematic comparative case studies are essential for good descriptions and, therefore crucial to the elaboration of any explanation. Well-selected case studies provide grounds for drawing descriptive inferences, which can then allow us to make a causal inference. This is especially the case in areas of new research, where general theories have yet to be developed.

The decision to employ this type of methodology is due to the phenomena examined in this thesis. This methodology is best used when examining “contemporary events over which the investigator has little or no controls” (Yin 1994: 9). Since the research question asks whether regional integration schemes, recent phenomena, foster peace, this methodology is ideal for use in this study. Furthermore, the selection of this

methodology is strengthened by the fact that the number of cases available for study is small. There is only one case where integration has deepened, from free trade area to monetary union and a common identity is suggested, the case of the EU. This combined with the lack of a general theory of regional integration provides the backdrop for drawing causal inferences from a comparative case study (Van Evera 197: 67-69).

When using a comparative case study to extrapolate a generalizable argument, there are methodological concerns as to the specificity of the cases and the significance of alternative explanation. Despite these challenges, there are advantages to using this method. Through the selection of cases for a controlled comparison by method of difference, this study seeks to address these concerns. Those common background variables serve as controls, facilitating the analysis of the effects of those variables that differ among cases.⁹

3.8.2 Process Tracing: Examining Path Selection and Outcomes in the EU and ASEAN

Process tracing is the method used in this study to isolate the variables outlined in the causal framework. It is the study of “the decision process by which various initial conditions are translated into outcomes” (King et al. 1994: 226). Through the framework outlined above, “the cause-effect link is unwrapped and divided into smaller steps;” so I can “look for observable evidence at each step”(Van Evera, 1997: 64). This focus on each step highlights the intervening variables involved in the process. This type of examination is therefore key in determining the factors of path selection and their effects on the possibility for peace.

This method tends to result in unique theories, lacking the antecedent conditions, or condition variables necessary for generalization. By process tracing in two cases, this thesis attempts to address these challenges, while drawing causal inferences from the European case.

3.8.3 Data Collection

In order to overcome the concerns arising from comparative case studies and process tracing, it will be crucial to “follow a procedure of systematic data collection on the same variables across units” (King et al. 1994: 45). The empirical evidence of this thesis will therefore be drawn from primary sources of economic data, such as trade statistics of government and international organizations (International Monetary Fund, United Nations Conference Trade and Development and Organization for Economic Cooperation and Development), government speeches and regional agreements or treaties. Contextual and historical evidence will be drawn from the academic literature.

3.8.4 Expected Results

Should this research design be accurate, certain results can be expected from the ensuing case studies. The first is that all these independent variables will be present at the negotiation and foundation of an integration scheme. If regime type is an intervening variable, then ASEAN, which has a more diverse one than the EU, will be found to achieve a lower level of integration due to conflicting views of organizational structures and powers. Furthermore, should disputes arise DPT would suggest that it would be more prone to militarized conflicts between its member. Each variable would be seen as having

a positive relationship with the level of institutionalization. Therefore, a low level of any one of them would serve as an impediment to the creation and implementation of a scheme. The literature also suggests that a high level of regional trade and the presence of a demand from business will be necessary for the establishment and implementation of a PTA. Finally, following Archer's model, what should be found is that the domestic factors will have a greater relative weight than the systemic ones; as agency shapes the new structure, which in turn sets the constraints on the agents.

The subsequent chapters of this thesis will outline the empirical evidence within both case studies. The next chapter will outline the historical evolution of the EU, with a detailed study of the last two phases of integration, and examine the effects of the variables outlined above. Chapter Four will then explore the case of ASEAN. This will include a historical examination of ASEAN's and progression towards the provision of economic benefits. Once again there will be a closer look taken at the two most recent forms of the ASEAN agreement. Finally, Chapter Five will identify the main findings of this comparative study and suggest future areas of research.

3.9 Endnotes

¹ The conditions and definition are taken from Mattli (1999: 41-59). Mattli also outlines the promise of commitment institutions within the created PTA as a weak condition (Mattli 1999: 43). This condition is incorporated within the thesis' causal framework through the dependent variable, the level of integration.

² According to Mattli (1999) paymaster means a state that can provide side-payments to member states that suffer from unequal distribution of gains (Mattli 1999: 50-7).

³ According to Olson (1965) in smaller groups, the collective action dilemma can be overcome when a group of like-minded members act together. They play the role of the hegemon.

⁴ Huelsemeyer (2000) posits that Mattli's systematic comparison of PTAs requires the addition of 'culture' in order to explain institutional variance between PTAs. Domestic peculiarities of the role of the state in the economy, which he defines as 'culture', therefore become key variables of analysis, since the culture of the dominant economic power will shape the resulting agreement. From this paper, I isolate two variables that are treated as condition variables for the level of institutionalization, domestic structures and level of trade between the member states.

⁵ There is debate within the literature about the categorization of regime types. The main area of debate is on the definition of democracy. Therefore, for the purpose of this thesis, democracy will be considered a liberal democracy with free, fair, and regularly contested elections, including freedom of speech and the dominance of the rule of law. The means of governance within the democracy, whether a parliamentary monarchy, or presidential system are not considered when looking at the variance within a scheme, since they have only a minor effect on the variance of norms and dispute resolution mechanisms.

⁶ Level of integration progresses from free trade area to customs union, monetary union and finally political union. Although it is not automatic that integration schemes deepen to move from one level to the next, for economic and political reasons of regulations and domestic support if a deeper level of integration is desired, the steps prior to it must be accomplished.

⁷ This method provides for the comparison of cases selected to have similar backgrounds, with variations in the variables that are the focus of study.

⁸ ASEAN is a free trade area and the European Union is a Monetary Union, heading to a political union.

⁹ This requirement for common background conditions precludes the selection of the North American Free Trade Agreement (NAFTA) for this study. Unlike all other PTAs, NAFTA's member states have no historical rivalries in the last century. Furthermore, the overwhelming dominance of the United States, both economically, militarily and politically, and the small number of member states make it unique among integration schemes internationally, whose members are more comparable in size and in greater numbers. Since NAFTA is an outlier, it cannot be used for a controlled comparison by method of difference.

CHAPTER FOUR

ASSESSING INTEGRATION IN EUROPE

Why should there not be a European group, which could give a sense of enlarged patriotism and common citizenship to the distracted peoples of this turbulent and mighty continent

Winston Churchill, at the University of Zurich in September 1946
(Patijn 1970: 29)

4.1 Introduction

The European Union's integration process has been held by many as the model for regional integration. This chapter draws on the theoretical chapter and test for the presence of the variables previously outlined. This will allow for the determination of which factors are the most important, and if the European Union could feasibly achieve the state of political union it is currently pursuing. For the purpose of this thesis, process tracing will be applied to the European Union (EU) in its two most recent forms: the European Economic Community (EEC) to the European Union. Each agreement will be examined independently in order to determine what were the most important variables that influenced its integration.

4.2 Before the European Economic Community: Laying the Foundations of European Integration

In order to understand how the European Union has attained the level of integration it has at present, it is important to understand the regional reality prior to the establishment of the European Economic Community (EEC).

4.2.1 The Organization for European Economic Cooperation

After WWII, economic life in Europe was devastated and had to be built anew. Soviet expansion had taken a portion of the region, including East Germany out the reconstruction plans. “The tensions and hatreds carried over from the recent conflict and the occupation and partial industrial dismemberment of Germany encouraged the perpetuation of nationalism” (Jensen and Walter 1965: 5). Faced with these circumstances it became clear that the individual states could not reconstruct the continent alone, encouraging the blossoming of the federalist idea in Europe. This idea was supported by the change in American aid doctrine. The Truman Doctrine stressed “the interrelatedness of the democratic world, it emphasized that such subjugation did concern the United States, and that world peace was necessary for American security” (Urwin 1995: 15). This was a pledge of support for Europe and the promise of a continuing relationship for the security of both sides of the Atlantic, which would be more certain if the European democracies were on a sound economic footing and able to contribute decisively to their own defense.

On 5 June 1947, US Secretary of State, George Marshall proposed the first systematic effort at European integration. He encouraged the region to establish a joint plan of action for economic recovery. “The program should be a joint one, agreed to by a number, if not all European nations” (Weil 1965: 6). This gave birth, in September 1947, to the Organization for European Economic Cooperation (OEEC) which oversaw, administered and helped to coordinate US aid coming into the region until June 1951. Making the OEEC, the first effective attempt to coordinate economic policies of the

states of the region through a supranational authority and its success laid the groundwork for the creation of the European Coal and Steel Community (ECSC).

4.2.2 Dreams of Integration

Support for European integration¹ could be found in various sectors of society, from academics, civil servants and government officials. In 1944, the Austrian economist Friedrich A. Hayek, one of the founding fathers of European integration, argued that the future of Europe depended on what would happen in Germany and that a federation would be needed (Gillingham 2003: 11). The permanent solution to the ‘German problem’ would depend above all “on the development of some Western European federal framework into which the German states are individually received as they are emancipated from Allied control” (Gillingham 2003: 13).

This ‘European Movement’ had the support of such politically diverse individuals as the Conservative Winston Churchill, the ex-Socialist premier of France, Léon Blum, the Christian Democrat premier of Italy, Alcide de Gasperi, and the prominent Belgian Socialist, Paul-Henri Spaak (Urwin 1995: 28). Ironically enough given the United Kingdom’s future position, it was Winston Churchill, at the University of Zurich in September 1946, who called for a new Europe. He argued that the solution to the post-war devastation was “to recreate the European Family [...] and provide it with a structure under which it [could] dwell in peace, in safety and in freedom,” building “a kind of United States of Europe” (Patijn 1970: 29).

4.2.3 The European Coal and Steel Community (1952-1958)

The political elite of Western Europe sought to rebuild European institutions that would have credibility and provide security to the population (Topan 2001: 8). The Schuman and Monnet plans² provided for the first step towards an effective political integration. Through the economic ties that were built, it satisfied the conviction that stability within Western Europe rested upon a rapprochement between France and West Germany (Swann 1996: 1, Urwin 1995: 44). As a result, the Treaty of Paris³ gave birth to the ECSC on 25 July 1952. An organization that was firmly backed by the US as “a way to expand the Ruhr’s output of coal and steel at a time of rising global tension resulting from the Korean War” (Williams 1994: 25).

The sectors of coal and steel were hit hard by the conflict, and the resulting shortages in supply impacted steel production; a necessity for the reconstruction of Europe (Gillingham 2003: 23-4). The Monnet Plan sought to increase it, tying Germany’s role of coal exporter to France’s coal deficient steel industry, and emphasizing the necessity to facilitate and guarantee trade in these two interrelated sectors. The main objectives were economic expansion, growth of employment, securing the supply of coal and steel and increasing the standard of living through the creation of a common market in those sectors (Topan 2001: 35, Urwin 1995: 49); requiring the coordination of production and trade policy. The institutions created by the Treaty of Paris had a supranational character, with powers to supercede the national authority of the ECSC’s member states in those policy sectors. The key to its success was the support of the governments of the two countries most affected by it, France and Germany.⁴ All sides regarded it as an achievement and a breakthrough in the fight for a united Europe, and set

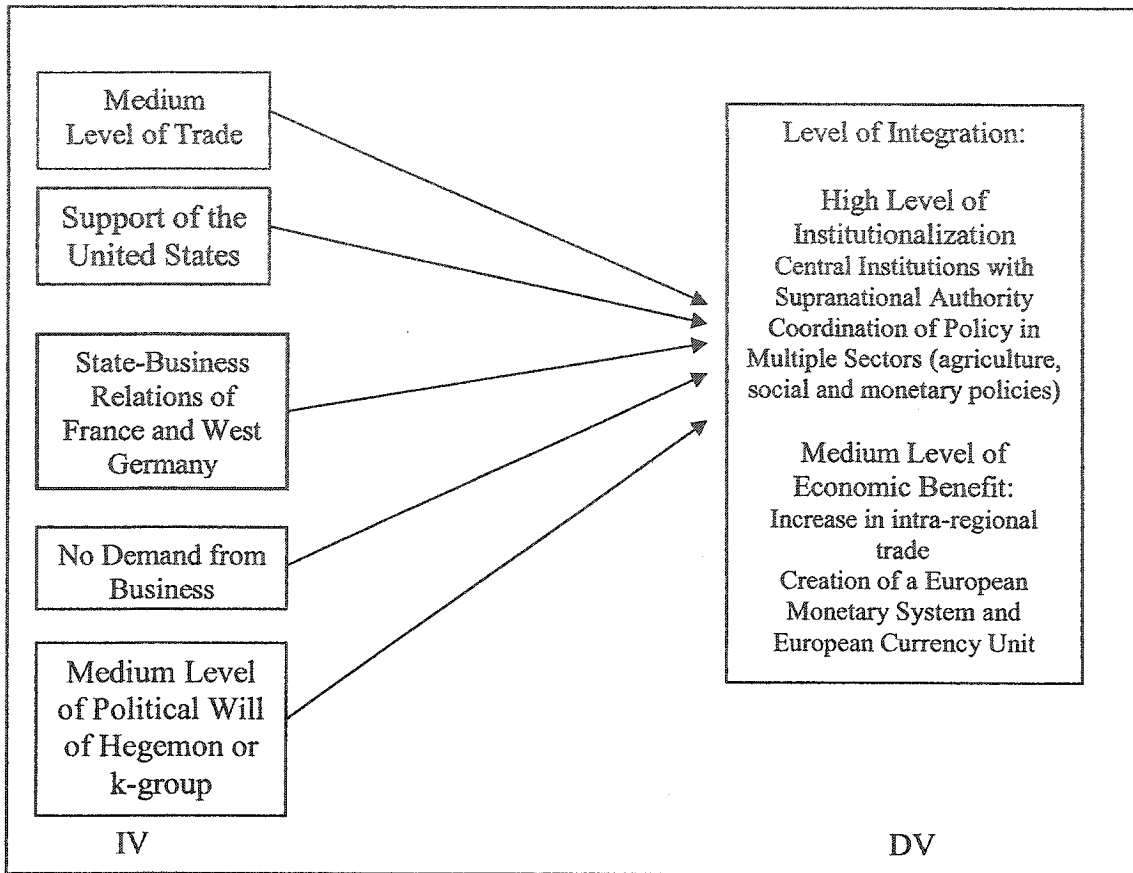
out to make the ECSC an effective organ of integration (Urwin 1995: 35). The ECSC allowed for the modernization of the coal and steel industries in France and the increase of production in Germany.

Although it was mainly symbolic, since national regulation had had to make only minor changes; the common market for coal and steel was completed in 1953. Even though the economic benefits provided by the ECSC were limited, they demonstrated that there lay a benefit in continuing economic integration, thereby acting as an impetus for higher levels of integration.

4.3 Leap of Faith: The Establishment of the European Economic Community (1958-1985)

By June 1956, suggestions were made for the elimination of customs duties within the common market, the establishment of a common external tariff and a common market for agriculture; as well as the free movement of labor and capital (Weil 1965: 19-30). This question was brought to the Ministers Conference at Messina, where the Netherlands' proposal for a common market and Monnet's idea of a nuclear energy community were addressed. On 25 March 1957, Belgium, France, West Germany, Luxembourg and the Netherlands⁵ signed the Treaty of Rome, which created the European Economic Community (EEC) and the European Atomic Energy Community (Euratom).⁶ Both came into force on 1 January 1958.

Figure 4.1: Application of the Research Design to the EEC



4.3.1 Systemic Factors to Affecting the EEC

Modeled on the ECSC, the EEC was much more ambitious and complex⁷ than its predecessor and sought to achieve a common market between its members (Article 2 of the Treaty of Rome). In order to reach this goal of free movement of goods, persons, services and capital,⁸ the EEC was to coordinate the economic and monetary policies and harmonize the fiscal and social policies, and law of its member states.

4.3.1.1 Level of Trade

The ECSC had provided for the definition of the protection of property rights concerning the coal and steel industry, responsibilities and limits of the member states

(Topan 2001: 44). It had allowed for the modernization of the coal and steel industries in France and the increase of production in Germany. Economies were still being reconstructed after the devastation of the War and the trade between the member states remained at medium levels. However, the economies of the six founding members were complementary. For example, West Germany was the largest importer for France, Austria, Belgium, Denmark, Italy, the Netherlands and Sweden (Gillingham 2003: 41).⁹ The successful implementation of the ECSC had exposed the potential for economic gain through further integration. In this variable, there was only a slight change from the previous case; existing level of trade was only 30 percent (IMF 1959) and not an important variable in determining the level of integration.

4.3.1.2 Role of the Superpower/Hegemon

In this search for increasing economic cooperation, the most influential superpower at the time was the United States. As had been seen from the foundation, American foreign policy was highly supportive of Europe's quest for reconstruction and economic independence. After the success of the ECSC and its continuing involvement in the OEEC, the American government saw this as a solidification of West German containment and reflection of the goals outlined in the Marshall Plan (Keohane 1984 : 146). This integration was solidifying European economic viability, containing the Soviet Union and ensuring that Germany would not rise up again to become a threat (Lundestad 1998).

4.3.2 Domestic Factors Affecting the EEC

Along with the systemic factors that placed pressure on the member states to embark on a PTA, domestic ones acted on them to shape the level of integration of the EEC.

4.3.2.1 State-Business Relations

The state-business relations of France and Germany were crucial in allowing for the establishment of the EEC. The postwar constitution of France¹⁰ and the lack of sovereignty of West Germany allowed for the possibility of the abrogation of national interests to supranational authorities (Urwin 1995: 27-8). The French Government, as was exemplified by the Monnet Plan, was a believer in *dirigisme*¹¹ and government intervention in those sectors that they deemed crucial to French reconstruction. In West Germany, the occupation led Adenauer to adopt a policy of *Westpolitik*, which sought to end the occupation by endearing itself to the West by any means necessary (Gillingham 2003: 24). Furthermore, the West German Government had a history of planning in heavy industry over the previous thirty years and a *corporatist* structure that found the central government employers and workers coordinating the economy together. The combination of these state-business relations in the two dominant member states made the creation of a common market possible, as both were willing to create a supranational policy formulating body and hand over some of their sovereignty.

4.3.2.2 Demand from Business

Although the demand for integration did not stem from the business community, their interests were incorporated within the institutional structure of the EEC. The Economic and Social Committee (Ecosoc) was created to act as a consultative body to the European Commission and ensure that the concerns of all parts of society were voiced. The Committee consisted of representatives of all social and economic categories,¹² and representatives of the general interest, which were appointed by a unanimous vote of the Council (Art. 193 and 194 Van Panhuys et al. 1968a: 803).¹³ The Commission would also consult with specialized groups such as COPA (the grouping of agricultural organizations) and UNICE (the industrial associations) (Swann 1978: 57).

The role of business increased shortly after the 1976 collapse of the world steel markets. West German producers, with the Dutch and Luxembourgers, organized rationalization groupings created to coordinate investments and production cutbacks; in response to which the French, to prevent German dominance, instigated the formation of the Community-wide EUROFER to lobby Brussels (Gillingham 2003: 128). This would be the first step towards business interest organized lobbying of Brussels for action in the area of integration.

4.3.2.3 Political Will of the Hegemon or k-group

France and Germany were to be the dominant economies and political players in the EEC. They became the leaders of the k-group that would set the regulations and the direction of integration. This is reflected in the Treaty by the fact that they were to

account, jointly, for over fifty percent of the EEC's operating budget, and the European Social Fund (ESF).¹⁴

France's support for the implementation and continuing integration during this time period fluctuated and had a direct effect on the level of effectiveness of the EEC, although it was ready to regionally open its elaborate system of 'indicative planning' (Pelkmans 1997: 20).¹⁵ Ideologically, the French considered European unification as the ultimate guardian of a European civilization. However, this ideological support was balanced by wanting to ensure a place for national sovereignty within this supranational organization. These parallel desires were reflected in the positions of the 'pro-European' French Prime Minister Edgar Faure, who came into power in February 1955 and his successor Charles De Gaulle. The nationalist attitudes of his predecessor had made the French National Assembly the place where the Treaty of Rome would stand or fall and his stance allowed for the birth of the EEC (Gillingham 2003: 41, Urwin 1995: 77-9, Archer 1994: 88).¹⁶

Its implementation, however, was left in the hands of the Charles De Gaulle after the Fourth Republic finally collapsed in 1958. This tempered France's political will. De Gaulle's nationalist prejudices were no secret and the Fifth Republic removed any mention of concession of power to supranational authority from their constitution (Urwin 1995: 85). He changed the interactions within the EEC, as he focused on increasing the role of the member states and heads of state vis-à-vis the European Commission. In 1959, President de Gaulle gained consensus for regular meetings of government leaders to discuss steps towards political integration (Urwin 1995: 86); while still guarantee the strength of national governments. This was most obvious in mid-1965, when he allowed

the negotiations on the financing of the Common Agricultural Policy (CAP)¹⁷ to collapse and withdrew the French representatives from the EC institutions, making a qualified majority vote impossible. This came to be known as the 'empty chairs' policy. This crisis was resolved in January 1966 by the Luxembourg Compromise,¹⁸ which effectively reinstated a member states veto for decisions in which their vital interests were at stake (Ungerer 1997: 39).

Germany had now gained full sovereignty and become an equal political and economic partner in the integration process. West German Basic Law outlined the goal of "to serve the peace of the world as an equal partner in a united Europe" (Hendriks and Morgan 2001: 38), making it politically committed to European integration and to the EEC in particular. Thus, West Germany invested diplomatically, economically and institutionally in the EEC, and bound its post-war development to it. It gained more from integration than any other state in terms of international status and influence (Hendriks and Morgan 2001: 39). Economically, Germany was a 'locomotive' for growth in Europe, since it had the most powerful economy (Albert and Ball 1984: 46). The leadership within European integration was punctuated by the spectacular Franco-German partnerships of: De Gaulle and Adenauer, Giscard d'Estaing and Helmut Schmidt, and later Mitterrand and Kohl, all of them committed to building Europe together, thereby facilitating successful integration (Gillingham 2003: 133, Hendriks and Morgan 2001: 5).

4.3.3 Assessing the Level of Integration

The goal of the Treaty of Rome was to “make a fresh advance towards the building of Europe [...] first of all, in the economic field.” The Inner Six considered it “necessary to work for the establishment of a united Europe by the development of common institutions, the progressive fusion of national economies, the creation of a common market and the progressive harmonization of their social policies” (Preamble to the Resolution adopted at the Messina Conference, Patjin 1970: 101). The implementation of the Treaty was successful in establishing the institutions of the EEC. In 1968, three years before it was scheduled in the Treaty, the Inner Six achieved the Treaty’s goal of eliminating all tariffs and quotas within the region and introduced a common external tariff. The customs union was born (Gillingham 2003: 53, Bhalla and Bhalla 1997: 158).¹⁹

The EEC stagnated in the 1970s, a period termed by many as ‘Eurosclerosis.’²⁰ The main problem during this time was structural, as integration was stalled by the transference of decision-making power from the mixed-economy welfare states, to the European level proved nearly impossible (Gillingham 2003: 81). This combined with the economic downturn of the period, sets up a pivot point in assessing the impact of the EEC.

4.3.3.1 Level of Institutionalization

The bodies created were given the independent budget²¹ and powers to satisfy the objectives of the Treaty. These bodies were: the Commission, the Council of Ministers,

the Assembly, the Court of Justice, and the Economic and Social Council that was to act as a consultative body for the Council and the Commission.²²

The Commission was conceived to be the counterpart of the High Authority in the ECSC (Jensen and Walter 1965: 26). Its nine members would act as the civil service of the EEC;²³ remaining independent by not working during their term in office (Art. 157 and 158, Van Panhuys et al. 1968: 796-7).²⁴ The task of the Commission was to draft proposals for the consideration of the Council of Ministers. It would act as a mediator between Member States and the EEC's interests and had the responsibility of overseeing the implementation of decisions and ensuring compliance (Swann 1978: 61). The Commission could formulate recommendations or opinions on matters raised by the Treaty or the Council. Making decisions by simple majority, it could shape measures taken by the Council and the Assembly, and enforced the rules laid down by the Council (Van Panhuys et al. 1968: 796).²⁵ In an effort to maintain a check on supranationalism, the Commission was required to send any decision up to the Council of Ministers for approval, before it could become law. Before sending a proposal to the Council, the Commission could consult the Committee of Permanent Representatives (COREPER)²⁶ from the member states in order to determine the level of contention of the topic. The two most important bodies of the EEC were therefore the Commission and the Council of Ministers.

The Council was a body that represented the Member States' governments. It was to be the ultimate controlling authority. Therefore, draft regulations and directives only became law if the Council agreed (Swann 1978: 64). Like the ECSC, the Council had one representative from each Member State's Government and was responsible for ensuring

the coordination of Member States' general economic policies (Van Panhuys et al. 1968: 794). Contrary to the ECSC, the Council was given the power to counterbalance the Commission in order to maintain a check on supranationalism. Most decisions were reached by simple majority, some by qualified majority.²⁷ The Council could also direct the Commission to study any relevant question (Article 152), in an attempt to keep a check on the supranational power of the EEC's Commission. The expansion of 1973, with the accession of the Denmark, Ireland and the UK, brought about changes in the European Council. The most significant was that meetings of the Council of Minister were now attended by the minister appropriate to the topic, while Heads of State met only in yearly Summits (Archer 1994: 112).

Like in the ECSC, the Assembly and the Court of Justice act as checks to the Council and Commission. Article 137 defines the role of the Assembly as the seat of the representatives of the peoples of the Member States and acts in an advisory and supervisory capacity (Van Panhuys et al. 1968: 793). The Assembly was responsible for representing the interests of the domestic populations,²⁸ since the delegates were to be directly elected from the local population. Like its counterpart in the ECSC,²⁹ it was to examine the decisions of Commission and the Council and discuss any questions that they may put forth. The Commission was accountable to the Assembly, through their ability to censure (Article 144 Van Panhuys et al. 1968: 794).

Finally, the Court of Justice would ensure the observation of the law in the implementation and the interpretation of the Treaty, through the supervision of the decision of the Council and Commission and the judging of the questions brought to it (Article 173). The Commission or any Member State could take any Member State to the

Court of Justice if the accused State had failed to abide by the obligations set out by the Treaty, or any of its decision-making bodies. Should that state be found wanting by the Court they were required to take the necessary measures to fulfill their obligations, or suffer penalties for said failure (Art. 169-172, Van Panhuys et al. 1968: 799).

It is important to note that the EEC increased complexity both in the Treaty and its distribution of power combined with the stated intent of a common market are both indicators of a higher level of institutionalization. This was reinforced by the attempt at rationalization of EEC bodies. The Merger Treaty of 1965 established a single Council for the ECSC, EEC, and Euratom, while maintaining the make up dictated in the respective treaties. It formally gave the Council COREPER to prepare its work and carry out its instructions. It established a single Commission for the European Communities to replace the High Authority of the ECSC and the Commission of the EEC and Euratom. It also merged the budgets with details as to the breakdown of the contributions of each institution. All officials and servants of the respective Treaties would now work for one general civil service (Van Panhuys et al. 1968: 889-98).

4.3.3.2 Economic Benefits

By the early 1970s, intra-regional (EEC-six) trade, both exports and imports had increased. Exports were up from 35 percent in 1955 to 50 percent in 1972; and imports from 32 percent in 1952 to 54 percent in 1972 (UNCTAD Handbook of International Trade and Development Statistics 1972 in Saunders 1975: 89). The Inner Six had also given up national competence for trade negotiations to the Communities (Pond 2000: 31). However, economic growth slowed during the 1970s and early 1980s. The rate of

rate of growth fell from 4.6 percent per annum between 1960 and 1973, to 2.3 percent between 1973 and 1980 (Albert and Ball 1984: 7). This was due to the lack of economic dynamism and flexibility. During the late 1970s and early 1980s, European competitiveness declined and there was low economic growth compared with other members of the Organization for Economic Cooperation and Development (OECD) (Swann 1996: 38, Moravcsik 1991: 72-3). In the late 1970s, West Germany agreed to increase its budgetary deficit in an effort to stimulate economic growth in the Community³⁰ (Albert and Ball 1984: 47). In an attempt to stimulate growth in poorer regions of the Community, the European Commission set up regional funds in 1975.

In 1978, after the fall of the Bretton Woods System and in response to the fluctuating US dollar, Schmidt and D'Estaing created the European Monetary System³¹ (EMS), aiming at creating monetary stability in the Community (Pond 2000: 31). The European Monetary Fund (EMF), a part of the EMS, would provide support to a floating exchange rate between European countries, creating the European Currency Unit (ECU) and taking as the first step towards monetary union (Gillingham 2003: 134). This strengthened member economies by making economic exchanges more predictable and stable, thereby allowing for more planning in trade.

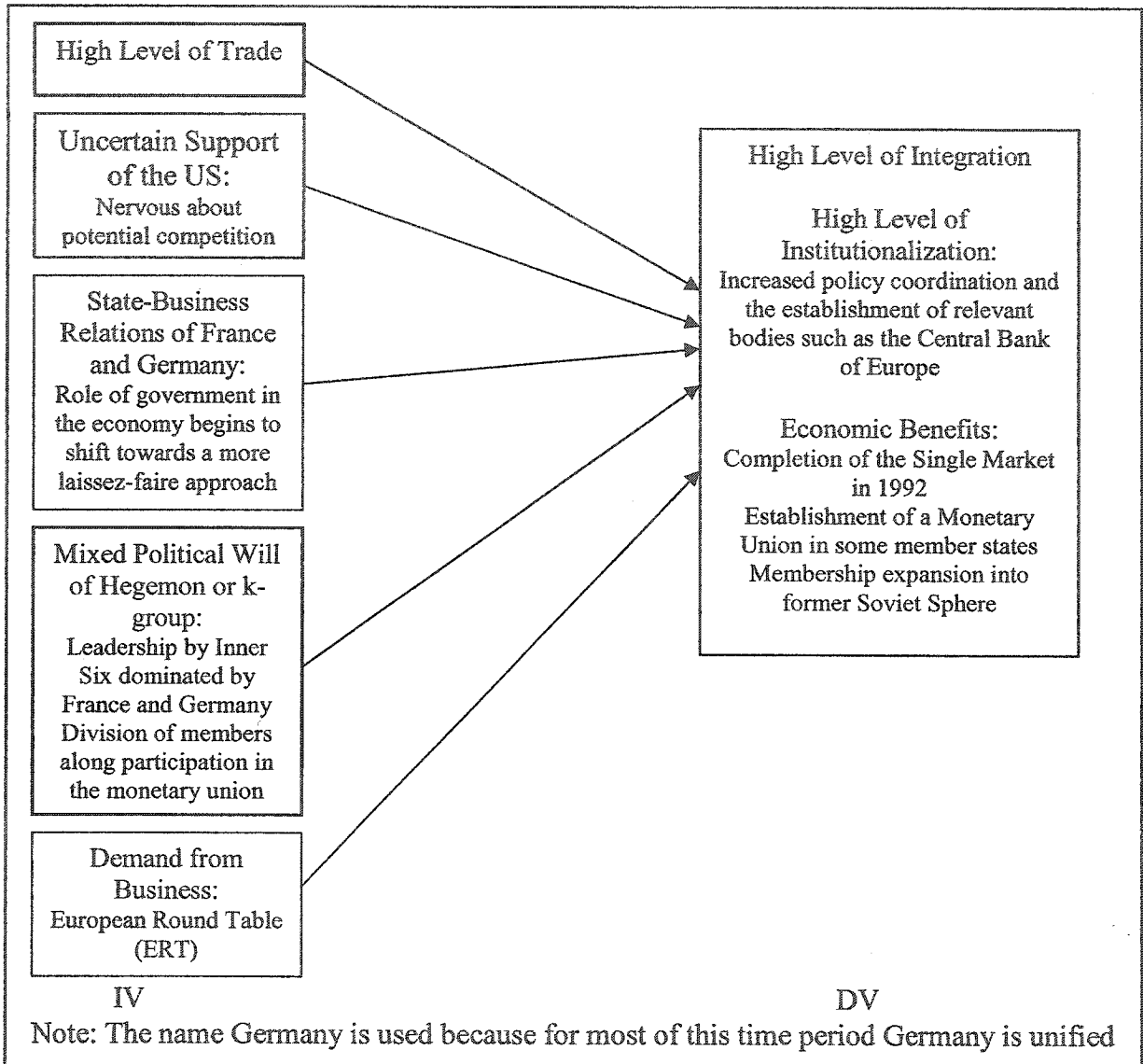
By 1986, the Community implemented the Treaty in the least regulated parts of the goods markets, as well as establishing a common competition policy and common tariffs and building the Common Agricultural Policy (CAP). All other instruments such as common social or macro-economic policies and the Social Fund were weakly developed. There was still no harmonization of regulations³² or transport policy. The free movements of services, capital and persons were still encumbered. The common market

was therefore still non-existent. What had resulted was “a kind of customs union in the goods and market supplemented by the CAP and competition policy for goods” (Pelkmans 1997: 34-35). Even faced with the economic downturn of the region during the late 1970s and 1980s, the regional integration scheme provided economic benefits to its members through the trade links provided by the successful implementation of the customs union.

4.4 Relaunching Integration and the Search for Expansion: The Birth of the European Union (1986-2004)

Although the EEC was successful in implementing a customs union between its members, there were a number of obstacles that still in place that prevented the achievement of a common market, and the free movement of goods, services, people and capital that it entailed. With the Single European Act (SEA) of 1986 the EEC set in motion a process that would ultimately culminate in a true common market by the end of 1992. The Single European Act was signed in Luxembourg on February 17, 1986 and came into effect July 1, 1987.

Figure 4.2 Application of the Research Design to the EU



4.4.1 Systemic Factors Affecting the Single European Act

Before we continue it is important to note, that unlike the EEC, the Single European Act (SEA) is a collection of treaty amendments and additions, not a Treaty in itself. Therefore, this section will examine evaluate the changes made to the institutions of the ECSC, and EEC. It deepens the level of cooperation and widens the scope of action in three broad areas: the institutional framework, specific instruments and foreign policy.

Furthermore, it laid down an explicit legal basis for already existent procedures and processes that were occurring outside the institutional framework of the Communities (Pelkmans 1997: 36). The SEA was to be the first step towards the creation of a European Monetary Union (EMU) and deepening integration on the continent.

4.4.1.1 Level of Trade

As mentioned previously, the level of trade between members had increased to 46 percent during the EEC (IMF 1986). In this case, the already high level of trade begot deeper integration. The progression towards a single market was the next logical step in order to facilitate trade and increase economic benefits. Even though internal tariffs had been removed, there remained barriers. Physical barriers were considered to be customs crossings and border checks, the removal of which would ease the wait at borders for individual and reduce the transport time for commercial freight. Technical barriers were due to the lack of unified technical standards for the production of goods within the Community,³³ as well as the recognition of training and qualifications of professionals,³⁴ and of licenses in the service industries, between Member States. Restrictions of capital movement³⁵ were also considered a technical barrier. Finally, fiscal barriers continued to exist in the form of the vastly different applications of the value-added tax (VAT) between states, leading to artificial price differences (Smith and Ray 1993a: 4-6). The removal of these obstacles would increase the economic benefits to the member states.

4.4.1.2 Role of the Superpower/Hegemon

Whereas the EEC had full support from the US, American reception of the SEA was lukewarm. The potential for moving from economic cooperation to foreign policy and defense cooperation concerned the US about its loss of influence on the continent (Lundestad 1986: 274). Although the US supported European economic progress, it perceived the SEA as competition and the potential creation of 'fortress Europe;' this was strengthened by the positions of Reagan and H. W. Bush. In fact, this concern led to the initiation of negotiations of a free trade area on the North American continent (Lundestad 1998).

4.4.2 Domestic Factors Affecting the Single European Act

Coupled with the global recession of the 1980s, the economic benefits provided by EEC spurred the desire for deeper integration. These forces were translated through the domestic factors, shaped by the EEC's success.

4.4.2.1 State-Business Relations

Although the domestic constitutions of France and Germany changed, the governments maintained their role as influential in the economy. However, the economic experiences of the 1980s had shifted the role of the state. It is, therefore, important to note the changes that had occurred within the economies of France and Germany that made the British model³⁶ of liberalization acceptable to what were still considered as government interventionist states. Writing at the time in question, the Harvard Business

School professor Malcolm Salter found that “the ancient civilization was all but “awash in political change” (quoted in Gillingham 2003: 232).

In France, privatization was under way and advancing rapidly. By the mid-1980s, the traditional French system of extensive industrial subsidies, controlled credit, and closed financial markets was being replaced with more market-oriented, open arrangements. More importantly, the two alternatives to liberalization and deregulation, namely a policy of autarky and nationalization³⁷, initially pursued by the Socialists had been discredited” (Moravcsik 1998: 341).

The new German Kohl government was moving slowly towards liberalization, but had promised to slash budgets, open capital markets, cut the state’s holdings in Volkswagen, and privatize Lufthansa (Gillingham 2003: 232). This was supported by the business sector as in 1982, the Bundesverband der deutschen Industrie came out in favor of single market liberalization, particularly opposing foreign subsidies to uncompetitive industries (Moravcsik 1998: 328-9).

4.4.2.2 Demand from Business

For the first time in the history of European integration, the business community played a significant role in lobbying for deeper integration and specific policy changes.³⁸ In 1983, the CEOs of the largest European companies founded the European Roundtable of Industrialists (ERT),³⁹ to function as a “nerve center for integration policy” (Gillingham 2003: 238). This resulted in a proposal draft on integration that called for market liberalization; dividing tasks by category (fiscal, commercial, technical and government procurement), emphasizing the importance of economies of scale, and

linking commercial liberalization and tax harmonization (Gillingham 2003: 239-40). Specifically, the ERT urged political leaders to harmonize economic and monetary policies and develop common standards to promote integration. They requested the redefinition of regional and social policies; an end to subsidies of uncompetitive/obsolete industries; as well as the promotion the free flow of people, information, and ideas. The ERT also sought the revamping of public policies in order to improve the risk/return relationship for European private investment,⁴⁰ and the facilitation of the emergence of transnational industrial structures⁴¹ (Mattli 1999: 78). In February 1984, the Union des Confédérations de l'Industrie de des Employeurs d'Europe (UNICE) called for majority voting in the EEC and has continued promoting market liberalization (Moravcsik 1991: 23).

The business community's demands did not go unnoticed as many of their suggestions were integrated in the SEA. These demands reflected the Commission's views as well and would forge the basis of a partnership where business leaders would help Brussels "organize and manage problems that would put money in the pockets of their companies and also leverage Commission power" (Gillingham 2003: 239-40). After the adoption of the SEA, the ERT formed a 'watchdog' committee to press for its implementation. In effect, the SEA blurred the distinction between government and the private sector, as the use of consultations mushroomed, and various think tanks that were in part advocacy groups, received contracts to help the EEC work out details of implementation (Pond 2000: 34).

4.4.2.3 Political Will of the Hegemon or k-group

West Germany had become the economic linchpin of the EEC. Even France had taken up a policy of convergence with West Germany, while continuing to be able to influence its neighbor politically through their bilateral institutions.⁴² The aforementioned Franco-German tandem remained at the heart of European integration and the liberalization of the Community did not happen until that shift had happened domestically and both countries were in support of it.⁴³ This alliance remained at the heart of the k-group with Italy and the Benelux states.⁴⁴ On the issue of increased political coordination, German, Dutch, and Italian officials had wanted joint foreign policy actions, and political/economic policy coordination more than security, while the French were skeptical of efforts to define a common security policy.

4.4.3 Assessing the Level of Integration of the SEA

The SEA was largely achieved by the end of 1992. The completed internal market meant increases of intra-European trade. By 1991, the EC was the largest trading unit in the world, accounting for fifteen percent of world exports, significantly larger than its closest competitor, the United States, at twelve percent. This was strengthened by the common foreign policy and economic negotiations where trade agreements had to be negotiated and signed with the EC, not just one of its members (Smith and Ray 1993b: 21).

4.4.3.1 Level of Institutionalization

One of the most crucial things the Treaty of Rome did was present a clear definition for an internal common market. It was described as “an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured,” to be completed by the end of 1992 (Pelkmans 1997: 38). This commitment was now no longer a political goal, but a legal responsibility (Van Oudenaren 1999: 260). It also added ‘mutual recognition’ as a regulatory principle;⁴⁵ committees on the environment and research and technology; and formal inclusion of the EMS. The Treaty elaborated policies on ‘economic and social cohesion,’⁴⁶ specifically structural funds and harmonization of health and safety in the workplace. It provided qualified majority voting⁴⁷ (QMV) to the European Council on measures affecting the internal market; and increased the role of the European Parliament (Moravcsik 1998: 315, Pelkmans 1997: 36-40, Urwin 1995: 230-235). Furthermore, it also established a Court of First Instance to hear the lesser cases presented to the European Court of Justice, thereby lightening their workload (Van Oudenaren 1999: 261).

The most significant part of the SEA for future integration was the section on liberalization. Containing 279 proposals, it outlined the steps for the creation of an internal market by 1992. It called for the elimination of non-tariff barriers; a comprehensive opening of trade in services and removal of domestic regulation that impeded competition; required reform of the state and the economy; and implied far-reaching changes in the relationship between the two. Included in the proposed package were the elimination of customs procedures, harmonization or coordination of industrial standards and regulations, liberalization of trade and investment, abolition of

discriminatory taxation, and the elimination of both preferential public procurement and provision of state aids (Gillingham 2003: 231).

The three most striking institutional changes were: qualified majority voting (QMV), mutual recognition and the new cooperation procedure. Since the Luxembourg Compromise of 1966, there had been a de facto veto hanging over the heads of decision-makers at the Commission and Council of Ministers. This reintroduction of QMV, which had been the original intent of the drafters of the Treaty of Rome, lifted the stalemate that had made significant decisions, such as criteria for enlargement of the Community,⁴⁸ difficult if not impossible. Member states did retain unanimity for decision of the accessions of new applicants and the enunciation of the general principles of new policies. This meant that once a policy had been adopted in principle, the implementation of said policy required only a qualified majority. This allowed the EEC to speed up the decision-making process by removing in most areas the ability of one or two states to block or stall a decision. In the end, to “overcome the qualified majority would require action from a minimum of three states” (Urwin 1995: 233).

The SEA also endorsed the principle of mutual recognition, this was crucial in overcoming the technical barriers still existing within the Community. It meant that one could dispense with the cumbersome and time-consuming paperwork for Commission requirements, which applied a single standard for products and processes within the Community. The requirement was now to meet the lowest acceptable standard prevailing in the Community (Gillingham 2003: 231-2).

It increased the power of the European Parliament, specifically it enhanced budgetary authority and allowed for qualified majority votes on issues presented by the

Commission. Whereas before Parliament was only required to be consulted on a piece of legislation proposed by the Commission before its adoption or rejection by the Council of Ministers, the SEA added a new procedure that would effectively give the Parliament the ability to slow down approval of certain legislation. Under the 'cooperation procedure', the Parliament gained the authority to propose amendments, that if accepted by the Commission, would be referred back to the Council for consideration (Gillingham 2003: 231-2). Furthermore, it could demand an explanation from the Council of Ministers as to why those amendments had not been adopted, thereby ensuring a second reading of the bill (Van Oudenaren 1999: 260-1). Where the European Parliament rejected or modified a proposal, the Council of Ministers could override the position only by unanimous agreement (Urwin 1995: 233). Under the 'assent procedure', the Parliament was required to approve, by simple majority vote, certain key legislative actions, including the Community budget and association agreements with outside powers (Van Oudenaren 1999: 260-1).

The SEA formally codified and brought into the institutions of the Community intergovernmental relations, such as the European Political Community and the European Council, that until then had no formal standing within the Community (Topan 2001: 103). The SEA also introduced an important change in the area of foreign policy. By the use of the word 'single' in its title, it took the first legal step towards the creation of a politically unified European entity. It essentially created a legal basis for European Political Cooperation. It set up the beginnings of a Common Foreign and Security Policy (CFSP), thereby legally obligating member states to consult and cooperate with each other on issues of foreign policy. This step, however, remained outside the boundaries of

the Community itself, the European Political Cooperation Procedure (EPC) was not integrated into the treaty and remained an intergovernmental body.⁴⁹ In order to increase the coherence of the EPC and move towards forging a common foreign policy, a permanent secretariat was founded that would service both the foreign ministers and the Commission in this area of activity (Urwin 1995: 234).

It also added two articles to the EEC Treaty under the heading of 'social policy.' Article 118A required member states to encourage "improvements in health and safety, especially in the working environment, by harmonizing conditions, while maintaining existing improvements" (Archer 1994: 149). Whereas, article 118B requested that the Commission develop "a dialogue between management and labor at a European level which, if both sides so wished, could lead to 'relations based on agreement'" (Archer 1994: 149).

Formally the level of institutionalization of the SEA did not differ from the Treaty of Rome, since it only sought to fully implement the common market outlined in its predecessor. What does become evident, however, in the changes that were made in order to accomplish this internal market was the difference in the state-economy relationship. In a precursor to what would be a significant step towards political union in the Maastricht Treaty, the SEA redefined the state's role in the economy as increasingly one of bystander, rather than conductor.

4.4.3.2 Economic Benefits

The decision to strengthen the 'economic and social cohesion' of the Community resulted in the adoption of the first Delors package in 1987. In exchange for supporting a

common market that ended their protectionism, the poorer Mediterranean states and Ireland saw their financial aid double between 1988 and 1993, as the now European Community's (EC) earmarked 'structural' fund increased (Pond 2000: 34). The success of the SEA is hard to measure due to the limited number of years prior to the implementation of Maastricht. However, intra-regional trade between the EC-12 went from around 40% in 1960 to almost 65% in 1989, with the most significant spikes being between 1960 to 1973 and 1980 to 1989 (Smith and Ray 1993b: 26).

The Single European Act catapulted the European Community into prominence and its institutions into a growth spurt. In the years between the SEA and Maastricht, the Commission grew exponentially. Its budget increased by about fifty percent, and the number of Commission employees reached 30,000. The population of lobbyists, intellectual service providers surrounding the EC increased to 10,000. This reflected the EC's added power and expenditures and the existence a "new symbiotic relationship between organized economic and social interests and the Eurocracy" (Gillingham 2003: 230). The reunification of Germany raised some concern among member states about the ability of the Community to deliver an endorsement of German unity within a strengthened European Community (Wallace 1991: 23). The responsiveness of the EC system since the implementation of the SEA made for a more efficient decision-making process; enabling it, in the summer and autumn of 1990, to include the five new Länder of the enlarged Federal Republic of Germany. An instance when the Community "behaved like a government rather than a loose confederation" (Wallace 1991: 23).

The newfound strength of the EC and the success in implementing the common market had served to relaunch the European ideal. The negotiation and ratification of the

Maastricht Treaty (a.k.a. the Treaty on European Union) was the most significant step in integration to date as it meant that member states would have to give up the significant power of control of monetary and economic policy. Simply within the name, Maastricht suggested the possibility of further integration into political union and a European state.

4.4.4 Systemic Factors Affecting the Maastricht Treaty

Negotiated during the early 1990s, the Maastricht Treaty came into force 1 November 1993. The Treaty included a Social Charter (Social Policy Protocol and Agreement), a European Social Fund, and European Regional Development Fund.

4.4.4.1 Level of Trade

The successful implementation of the SEA left only one major roadblock to a single market in the EC, the existence of 11 national currencies.⁵⁰ The other trade barriers had been removed between the Inner Six and the other members by 1992. The high level of trade between the member states, now 55 percent (IMF 1992), made the transition to a common currency a next step now that regulations had been harmonized and border checks removed.

4.4.4.2 Role of Superpower/Hegemon

Whereas the EEC had full support from the US, American reception of the SEA was lukewarm. The potential for moving from economic cooperation to foreign policy and defense cooperation concerned the US about its loss of influence on the continent (Lundestad 1986: 274). Although the US supported European economic progress, it

perceived the SEA as competition and the potential creation of 'fortress Europe;' this was strengthened by the positions of Reagan and H. W. Bush. In fact, this concern led to the initiation of negotiations of a free trade area on the North American continent (Lundestad 1998).

4.4.5 Domestic Factors Affecting the Maastricht Treaty

4.4.5.1 State-Business Relations

Given the proximity to the establishment of the European Community, the domestic structures of the member states of the now European Union (EU) remain unchanged. However, one important contribution was the role of the central bank within France and Germany. Within Germany, the Bundesbank shaped monetary policy. Since the mid-1970s, when France had tied its developmental policy to West Germany, the Bundesbank influenced French monetary policy as well. In the end, the Germans got their way in the negotiations of the monetary union. Its organization, methods, and rules reflect the preferences of a Bundesbank that would have preferred to remain freestanding.⁵¹ In this case, Germany had more political pull as the economically dominant state of the pair and the one giving up the stronger currency. The resulting agreement highlights the necessity to garner German support for the EMU, and due to this, Germany was able to dictate the terms of the agreement.

4.4.5.2 Demand from Business

Given the close proximity of signing and ratifying the Maastricht Treaty and the SEA, the role of the business sector carries over from the previous section, as many of the amendments implemented in this Treaty reflect the demands stated earlier.

4.4.5.3 Political Will of the Hegemon or k-group

The level of success of the implementation of the EU, therefore, lay in the hands of the dominant k-group, found in the Franco-German tandem.⁵² In Chancellor Kohl's report to the Bundestag from Maastricht, Kohl declared "the German-French partnership and friendship was, is, and remains decisive for Europe. Above all we are united with France in the vision that Europe grows together not only economically, but also politically" (Pond 2000: 45). Kohl wanted the EMU in order to reduce German visibility in Europe after reunification and the future northern and eastern expansions, expecting that they would increase German political power (Gillingham 2003: 234). Chancellor Kohl connected German unification to European unification. He described his goal as "the political unification of Europe" and said there was an "unstoppable current" flowing toward full economic and political union" (Garnham 1993: 203-6). However, the true test of the SEA came from its success at laying down the economic bases necessary for the creation of the European Monetary Union (EMU). The French backed the creation of the European Monetary Union in order to have a voice behind monetary policy, instead of, as had been the case since the policy of convergence, being led by the Bundesbank. Added on to this was a desire to 'stand up to the Americans' (Gillingham 2003: 234) and have Europe remain an important actor on the international stage.

4.4.6 Assessing the Level of Integration of the Maastricht Treaty

In effect the EMU criteria had created a two-track structure, where Member States that performed well and meet the criteria⁵³ were admitted to the EMU, while those that failed, or chose, to do so were excluded (Bhalla and Bhalla 1997: 161). The EMU was implemented and on 1 January 2000, with 10 countries putting the Euro into circulation, however some members still have not joined in.

4.4.6.1 Level of Institutionalization

The Maastricht Treaty provided for an unprecedented level of integration between the Member States. Once again, although referred to as a Treaty, Maastricht is an amalgamation of additions and amendments to the Treaty of Rome. Aside from the amendments covering economic and monetary policy, the Member States also attached seven Protocols and made five Declarations concerning EMU. Its main objectives were the creation of a monetary union, a European identity on the international scene and the establishment of European Union citizenship, as a step towards political union. The Treaty, essentially, erected two separate, but related entities: an economic community and a larger political union, but did not clearly define the relationship between the two (Gillingham 2003: 162).

Constructed along 'three pillars,' Maastricht assigns specific institutions of each pillar to a given objective. The first objective is to promote balanced and sustainable economic and social progress. This was to be achieved through the founding of the European Monetary Union (EMU) and a strengthened 'economic and social cohesion.' The related first pillar comprises, therefore, of a customs union, European Single Market,

the CAP, structural policy, as well as Economic and Monetary Union. With the SEA's successful implementation only a monetary union was left to be accomplished. This would require fixed exchange rates between the EU currencies, leading to a common currency; the integration of capital markets and a single monetary policy; a necessity for the successful functioning of the single market (Bhalla and Bhalla 1997: 161). The Treaty sought implement a common currency by 1 January 1999.

In order to establish the EMU, the Treaty dictated the establishment of the independence of member state's central banks. This would be done through the establishment of a European Monetary Institute (EMI), made up of the governors of central banks, and set up to strengthen cooperation between central banks and coordinate of state's monetary policies, in order to ensure price stability. The EMI would monitor the EMS; facilitate the use of the ECU; and prepare for Stage III of EMU (Archer 1994: 145). The Treaty also outlines the creation of the European Central Bank (ECB) and the European System of Central Banks (ESCB)⁵⁴ necessary for the implementation of a single currency. The tasks of the ESCB, according to article 105, are: "to define and implement monetary policy; to conduct foreign exchange operations; to hold and manage member state's official reserves; to promote the smooth operation of the payment system" (Archer 1994: 147). Ultimately, the ECB will have the exclusive right to authorize issuing of ECU bank notes by the ECB or national banks and member states will only be allowed to issue coins upon approval of the ECB (Archer 1994: 147).

The second objective of the Treaty was to strengthen the identity of the EU on the international stage. This required the establishment of the second pillar, a Common Foreign and Security Policy (CFSP), which was to clear the way for a common defense

policy (Topan 2001: 87). The CFSP replaced the existing EPC to deal with coordination of foreign policy. A Political Committee was also established to monitor situations where such a common policy would be relevant. However, it still lacked the status of supranational authority. The final text simply stated an EU identity should be developed “through the implementation of a common foreign and security policy which shall include the eventual framing in a common defense policy” (Urwin 1995: 255). Decisions remained largely intergovernmental in character, provide only a limited role for Community institutions⁵⁵ and were not subject to the jurisdiction of the European Court of Justice. Maastricht specified that foreign policy goals, such as safeguarding common values, fundamental interests, and independence of the Union, strengthening its security, and promoting peace and respect for human rights, should be pursued under the auspices of the CFSP. The members would act through ‘common positions’ and ‘joint actions,’ with decisions on joint actions requiring unanimity (van Oudenaren 1999: 266).

Thirdly, Maastricht aimed at strengthening the rights and interests of citizens. In order to do this, it established the third pillar of Justice and Home Affairs, which included a definition of an EU citizen⁵⁶ and a closer cooperation in matters of justice and home affairs. These included areas such as asylum policy, control of external borders, immigration from outside the Union as well as combating drug addiction and international crime, and in the longterm even sought to establish a European Police (Europol) (van Oudenaren 1999: 266-7). As is the case with the second pillars, it remains outside the Union structure, maintaining intergovernmental status and marginalizing supranational organs, such as the Commission and the European Parliament (Topan 2001: 87-8).

Another step towards the integration and coordination on a domestic level was the inclusion of a Social Charter in the Treaty. It was attached to the Treaty in the form of two protocols, concluded with the support of all member states except the UK. It covered matters such as the work environment, worker's consultation, gender equality in the labor market, social security and protection of workers, co-determination and the employment of third-country nationals (Archer 1994: 149). The Treaty also covers education, vocational policy, and research and technological development.

Finally, the Treaty instituted institutional changes to make the EU more efficient. It continued the expansion of power to the European Parliament begun by the SEA. It added two new procedures. Under co-decision, the EP could block legislation that was introduced by the Commission and passed by the Council of Ministers. This could be done by referring proposals back to the Commission or the Council for review in specified fields: the free circulation of labor, the internal market, the Framework Programs for research and development, certain environmental and consumer protection programs, and the trans-European networks (Gillingham 2003: 282). It was also given a say in the appointment of the Commission and the Commission president, hitherto a matter of exclusive concern for the Council of Ministers (van Oudenaren 1999: 267).

Another important addition to the Treaty that sought to ensure that powers would not be too centralized in areas directly affecting citizens was establishing the principle of subsidiarity. This guaranteed that issues of primarily local importance were to be taken as close to the citizens as possible. It also ensured that the Commission and other EU bodies were mindful of domestic distributions of power (van Oudenaren 1999: 267). Finally, in an attempt to guarantee a voice to various regions, it established a Committee of the

Regions to give a voice for policy input to regional entities of the Union (van Oudenaren 1999: 267).

4.4.6.2 Economic Benefits

The economic effects of the EMU, however, were not felt right away as the early 1990s, saw Europe fall into its worst recession since the 1930s. The European Monetary System fell victim to speculative market attack in September of 1992, forcing the British pound and the Italian lira to devalue by one quarter, and obliging Spain, Portugal, Ireland, and Denmark to devalue their currencies by a lesser, remaining within the EMS.⁵⁷ This economic downturn led some to suggest that the EMS system had collapsed, after the mid-1990s, however, the economy began to pick up. The accession of Austria, Finland and Sweden to the EU on 1 January 1995 brought a boost to the region, as this meant the inclusion of European states that could help shoulder the costs of running the EU. This resulted in increased levels of policy cooperation and an intra-regional trade level of 63 percent (IMF 2004).

4.5 Future Integration: Achieving Political Union on the European Continent?

Since Maastricht, the EMU has been implemented in ten of the initial twelve countries. This now common currency is one more symbol to the list of European ones. The European Union has a flag, an anthem, a currency, a population and a defined territory. With deepening integration, the steps are also being taken towards giving the EU more authority over its Member States. In October 2004, the Council approved and member states are now being asked to ratify a European Constitution, which would

solidify the bonds between member states and be a strong indicator for deepening integration towards a political union.

Even though it was British insistence that removed the references to federalism in the Maastricht Treaty (Urwin 1995: 253), continuing negotiations between the states of the EU suggest that there may be a future for, at the very least a confederation. The Treaty of Amsterdam cleared the way for negotiations on enlargement, strengthened the CFSP, and closer cooperation in third pillar matters such as immigration (van Oudenaren 1999: 271). The most recent enlargement of May 2004 increased EU membership to twenty-five members with significant economic disparities between the 'inner Six' and the new arrivals. This continues to raise the possibility of a two-tiered integration scheme with France, Germany and the Benelux countries proceeding towards political union, while the other states remain at the level of monetary or customs union.

4.7 Endnotes

¹ Two major schools of thought framed the debate of European reconstruction and integration. On one hand, there was Great Britain and the Scandinavian countries that were functionalists and focused on the construction of institutions purely focusing on economic cooperation. On the other hand were federalists, such as France, Benelux and Italy that sought the establishment of political *and* economic supranational institutions. Furthermore, within that debate, there were two different goals evident in the 1950s: a military or defence union, and an economic union (Williams 1994: 26).

² In May 1950, the French foreign minister, Robert Schuman, proposed a pooling of coal and steel resources in Western Europe. Schuman's proposal was that these resources be administered jointly by both

the states and a new supranational authority, with the ultimate goal of eliminating all tariffs in heavy industry. (Urwin 1995: 44)

³ The Treaty was signed on 18 April 1951. Once this structure was set up, the ensuing agreements required less time to be put into practice.

⁴ Although France and Germany were not on equal footing politically after the Second World War, the cooperation of both was crucial due to the complementarity of their markets and their economic importance to the region. Due to Germany's status of occupied territory at the time, the majority of the political power rested in the hands of France. However, France's economic weakness after the occupation and destruction of World War II, prevented it from being the paymaster that Mattli (1999) defines.

⁵ The EEC would later grow to twelve members with the accession of the United Kingdom, Ireland and Denmark in 1972, Greece in 1981 and Portugal and Spain in 1985.

⁶ Euratom's mandate sought to jointly monitor and develop the European nuclear industry. This would help assuage any continuing security concerns, since France would have the ability to supervise any future German nuclear arsenal. Although both these institutions were established by the Rome Treaties, this section will focus on the effects of the EEC as it served as the building block for future economic and political integration.

⁷ The Treaty of Rome had 248 articles and was supplemented by 4 annexes, 13 protocols and 4 conventions, whereas the Paris Treaty had only 100 articles and 1 protocol. It is very detailed with 112 clauses concerning the institutions, the international administrative rules and financial obligations of the members. Of the remainder, 29 apply to free movement of goods, 26 to the free movement of persons, capital, and services, and 18 to common rules concerned with eliminating distortions to competition. The clauses go as far as dealing with specific sectors and policies identified as crucial for integration. There are 10 dealing with agriculture, 11 with transport, 14 with common economic policies, 12 with social policy, 2 with the European Investment Bank, and 6 with the standing of overseas territories (Gillingham 2003: 62).

⁸ Article 3 of the Treaty specifies that the Community shall seek the elimination of duties between members, the establishment of a common external tariff, the freedom of movement of persons, services and capital, the establishment of a common agricultural policy, a common transport policy, harmonisation of

domestic laws relevant to the maintenance of a common market, the creation of a European Social Fund, the establishment of a European Investment Bank (Van Panhuys et al. 1968: 754).

⁹ By 1972, Germany had added Greece, Switzerland and Turkey to that list (Saunders 1975: 23).

¹⁰ The Preamble of the Constitution of the IVth Republic stated that “on condition of reciprocity, France will accept those limitations to her sovereignty which are necessary for the organization of defence and peace” (Hendriks and Morgan 2001: 23).

¹¹ The French system of ‘*dirigisme*’ constituted explicit government intervention with central economic and social planning.

¹² Particularly producers, farmers, carriers, workers, dealers, small craft industries, professional occupations

¹³ The votes were broken-down as follows: Belgium 12, France 24, Germany 24, Italy 24, Luxembourg 5, Netherlands 12 (Swann 1978: 72-73, Art. 193 and 194 Van Panhuys et al. 1968: 803).

¹⁴ The financial contributions to the budget of the Member States were broken-down as follows: Belgium 7.9%, France 28%, Germany 28%, Italy 28%, Luxembourg 0.2%, Netherlands 7.9%. The financial contributions for the European Social Fund were determined as follows: Belgium 8.8%, France 32%, Germany 32%, Italy 20%, Luxembourg 0.2%, Netherlands 7% (Art. 200 Van Panhuys et al. 1968: 804).

¹⁵ Indicative planning attempted to achieve overall and sectoral targets by a combination of a selective state-ownership, tax, and subsidy incentives, sectoral coordination and selective trade protection, complemented by centralised infrastructural policies (Pelkmans 1997: 20).

¹⁶ This weakness enabled France to gain concessions of the other five, which “in the words of a Nations Assembly resolution in January 1957, would enable France to ‘guarantee [its] essential...economic interests’” (Urwin 1995: 77-78).

¹⁷ The CAP sought to provide a single market for agricultural products with common prices, a common external tariff barrier and common financial responsibility throughout the EEC. It guaranteed prices to farmers through intervention buying by the EEC of surplus produce either when supply exceeded demand or if prices dropped below a previously defined threshold (Urwin 1995: 134).

¹⁸ This stated that when decisions where “very important interests of one or more partners are at stake, the Members of the Council will endeavour, within a reasonable time, to reach solutions which can be adopted by all the Members of Council” (Luxembourg Agreement, January 29 1966, in Patjin 1970: 177).

¹⁹ In 1977, a customs union was achieved with the three additional members.

²⁰ During this period, there was economic stagnation, inflation and unemployment that followed the oil crisis of 1973. The Member States desire to address these problems individually there was little or no progress on European Integration (Topan 2001: 64).

²¹ Unlike the ECSC, the Rome Treaty outlined a specific process for the establishment and breakdown of the EEC budget. The process for budget approval is outlined in Article 203 of the Treaty. The Commission compiles the draft then sends it to Council. It shall consult with the Commission or other relevant bodies if it wants to see any changes and vote on it by qualified majority. The Assembly then has one month to suggest any changes and send it back to the Council, otherwise the budget is set (Van Panhuys et al. 1968: 805).

²² The Convention Relating to Certain Institutions Common to the European Communities states that the duties of the Assembly for EEC, Euratom and the Common Assembly of the ECSC will be carried out by one single Assembly with the breakdown of the EEC. The same goes for the Court of Justices of the EEC and Euratom and the Court of the ECSC. The Economic and Social Committees of the EEC and Euratom will also be merged, with a specialized sections for the areas related to the implementation of Euratom. The expenses for these unified institutions will be shared equally by the two or three bodies involved (Van Panhuys et al. 1968: 814-817).

²³ Like the High Authority of the ECSC, the Commission consisted of nine members selected for their general competence, and mutually agreed upon by all member states, with no more than two members from the same Member State.

²⁴ In order to ensure this independence, article 158 provides for the removal of the commissioner and/or the suspension of their pension or benefits if there is a breach (Van Panhuys et al. 1968: 796).

²⁵ A regulation would be binding in its entirety and take direct effect in each Member State. A directive would be binding on any Member targeted as to the result to be achieved, but not the methods. A decision would be binding in its entirety on the Member concerned. Whereas, recommendations and opinions had no binding force (Art. 189 Van Panhuys et al. 1968: 802).

²⁶ The Merger Treaty formalized the existence of COREPER in Article 4 and this institution has become an essential part of the functioning of the Commission (Archer 1994: 111). If there were agreement within

COREPER then the legislation passed the Council without debate. Otherwise, areas of contention are isolated and referred to the Council to be debated and resolved.

²⁷ When a qualified majority was required, the votes were weighted as follows: Belgium 2, France 4, Germany 4, Italy 4, Luxembourg 1, Netherlands 2. Should a proposal emanate from the Commission twelve votes in favor were required in order to pass, in all other cases twelve votes cast by at least four countries were required (Art. 148 Van Panhuys et al. 1968: 795). After the French 'empty chair policy' of 1965, the Luxembourg Compromise was reached that effectively re-instated the veto in the Council. It stated that in cases where "very important interests of one or more partners are at stake, the Members of the Council will endeavour, within a reasonable time, to reach solutions which can be adopted by all the Members" (Luxembourg Agreement, January 29 1966, in Patjin 1970: 177).

²⁸ The number of seats was allotted by country as follows: Belgium 14, France 36, Germany 36, Italy 36, Luxembourg 6, Netherlands 14 (Van Panhuys et al. 1968: 793).

²⁹ The makeup of the Assembly of the ECSC was changed by the Convention attached to the Rome Treaty to representatives that are appointed or elected. Belgium 10, France 18, Germany 18, Italy 18, Luxembourg 4, Netherlands 10 (Van Panhuys et al. 1968: 664).

³⁰ On July 17, 1978, the Community made a decision to organize a concerted action to stimulate the economy by increasing the budgetary deficit of Member States by an average of 0.6 percent of gross national product (GNP). West Germany alone accounted for half of the increase in the overall deficit in 1978 and was virtually alone in pursuing the same policy in 1979 (Albert and Ball 1984: 47). Another example of how West Germany was becoming the economic paymaster of the European Community.

³¹ To this end, each member state's currency was given an exchange rate against the European Currency Unit (ECU - the value of which represented a basket of EC currencies). Bilateral exchange rates were maintained at +/- 2.25 percent of parity, although extra leeway was granted to the Italian lira. This Exchange Rate Mechanism (ERM) could be adjusted by unanimous decision. A European Fund for Monetary Cooperation (EMF) was also established. Member states would deposit twenty percent of their gold and US dollar reserves in this Fund in exchange for equal drawing right in ECUs, and also made available financial support to its member (Archer 1994: 143).

³² Fiscal harmonization had had a success in achieving that all member states implement a Value Added Tax (VAT), but there was deadlock on the rates or eliminating fiscal frontiers (Pelkmans 1997: 34-35).

³³ These included rules on the content and labeling of foods, chemicals, and pharmaceuticals; car safety standards; different procedures for public procurement (including important state-owned sectors such as water supply, the railroads, telecommunications, and electricity); different banking and insurance regulations; national rules on air, road and water transport; different rules on copyright and trademark protection; as well as varying degrees of compensation in agricultural production, production quotas and import quotas (Van Oudenaren 1999: 257, Bhalla and Bhalla 1997: 159).

³⁴ Even if their qualifications were recognized, the ability of a professional to work or set up a business in another Community country was strictly limited by rules on residency, working permits, and nationally oriented pension and insurance plans (Van Oudenaren 1999: 257).

³⁵ In fact, they served as important instruments of national policy. For example, central banks could lower interest rates and savers could not take their money and invest it in a neighboring country, where banks were offering a higher rate of return (Van Oudenaren 1999: 257).

³⁶ Lord Cockfield, formerly CEO of the drugstore chain Boots, was ‘personally and professionally’ very close to Margaret Thatcher” and shared her views of increased privatization and open market economies. He received a ‘carte blanche’ from Delors to make internal market policy and counted on him to “maneuver the White Paper through the collective body. In fact, it was discussed only once before the Commission – when a minor amendment was made to a single provision” (Gillingham 2003: 233).

³⁷ Until 1983, French economic policy was drafted by conceived by the more radical wing of the Socialist party. The policies of nationalization, direct intervention to increase employment, and increases in social welfare spending undermined international business and financial confidence in the French economy (Moravcsik 1991: 29-30).

³⁸ Big business and banks in Germany did not play as prominent a role in developing the proposals on trade liberalization that their British, Benelux, and extra-EC counterparts did. Nevertheless, most supported the 1992 program, since German industry was dependent on EC markets for nearly half of its exports (Moravcsik 1998: 328-9).

³⁹ European Industry Commissioner, Viscount Étienne Davignon, was the first to welcome big business to the decision-making process when he formed the European Enterprise Group (EEG), as a consultative body and a sign of the new producer interest in the Community. The group, representing firms like British Petroleum, Fiat, Ford, Hoechst, IBM, ICI, Shell, Solvay, and Unilever, was brought in to reform UNICE, and make that body more effective and reflective of business needs. These companies then came together to form the ERT (Gillingham 2003: 238).

⁴⁰ For example, this could be done by granting tax allowances for incremental research and development expenditures.

⁴¹ This could be done by eliminating fiscal impediments to mergers, and restructuring and simplifying the transactions between parent companies and their subsidiaries (Mattli 1999: 78).

⁴² Since the Treaty of Friendship of 1963, France and Germany had set up bilateral committees to coordinate policy. This was continuing as they had set up a permanent consultative committee in 1982 to begin bilateral security policy coordination (Pearson 1993: 185), as well as the policy of economic and social convergence of the 1970s.

⁴³ Another example was that monetary union was blocked from occurring until “capital flows were liberalized, it was also suspicious of proposals for an institutionalized European defense organization, preferring the test of joint action in the field of foreign policy (Moravcsik 1991: 28-9).

⁴⁴ Moravcsik (1991) argues that the SEA was not a result of elite within supranational institutions and business community negotiations, but instead a result of intergovernmental negotiations between France, Germany and the UK. This would seem to include the UK in the k-group necessary for the successful implementation of the SEA. However, I maintain that the UK had pushed for this type of liberalization and a free trade area, since its inclusion in 1973. This combined with its reticence to commit to the long-term goals of monetary union suggested by the SEA, and political union that were suggested in the Treaty of Rome, preclude the UK’s inclusion in the k-group.

⁴⁵ Until then when the Commission did regulate, it regulated all the details too, making it a slow and intricate process that could be easily stalled by a handful of member states. Furthermore, given that there were insufficient monitoring and limited compliance machinery, this meant only few regulations could be easily implemented (Pelkmans 1997: 38).

⁴⁶ This refers to regional policy aimed at narrowing income disparities between different Member States and regions of the EEC.

⁴⁷ These areas included some social policy matters, implementations of decisions relating to regional funds and Community research and development programs, and, most important, most measures “which have their object the establishment and functioning of the internal market” (Van Oudenaren 1999: 260). Only some aspects of social regulation and tax matters remained under unanimity.

⁴⁸ This would clear the way for Iberian membership.

⁴⁹ This meant that the Community institutions would not play a role in decision-making and that the decisions would not be subject to the European Court’s jurisdiction (Van Oudenaren 1999: 261). Nevertheless, the SEA made the Commission fully associated with EPC, and declared that the EPC’s views also be taken into consideration. The common positions arising from EPC consultations would be communicated to security institutions, such as NATO and Western European Union, making closer security cooperation feasible (Pearson 1993: 185).

⁵⁰ Luxembourg uses Belgian currency.

⁵¹ The ECB would be led by an epistemic community of financial officials and economists, whose characteristic formulas for integration included market-induced change from bottom up, free trade, conservative monetary and fiscal policy, and the need for frameworks of binding rules enforced by strong institutions. All this was at the heart of German economic policy (Gillingham 2003: 235). The five convergence criteria required for member states to qualify for membership in the EMU, corresponded to Germany’s ‘stability culture.’

⁵² The fact that the UK opted out of both the social charter and the single currency, support the prior choice of restricting analysis to France and Germany.

⁵³ The objectives that had to be met for membership were: a state’s inflation rate must be no higher than 1.5 percent above the average of the EC’s three best performers. The long-term interest rates cannot be higher than 2 percent above the average of the EC’s three best performers. Budget deficits should be no higher than 3 percent of GDP, although the Council allowed for some wiggle room and public debt no higher than 60 percent of GDP, also with some leniency. Finally, the Member State must have maintained exchange-rate adherence to the European Monetary System’s bandwidths for two years (Pond 2000: 47).

⁵⁴ The ECSB would be made up of the ECB and the member states' national central banks, and would be governed by the Executive Board of the ECB, an independent body of bankers selected for their competence and independent of their state and the Governing Board, which would consist of the governors of the national central banks (Archer 1994: 147).

⁵⁵ The role of the Commission was limited to suggesting actions be taken under the CFSP, but the member states also have the right of policy initiation.

⁵⁶ The concept of 'union citizenship' was not clearly defined in a legal sense, but rather granted the right to EU citizens to vote and stand in municipal and European Parliamentary elections in their countries of residence, irrespective of their nationality (Urwin 1995: 254).

⁵⁷ Without massive intervention by the Bundesbank, the French franc too would have plunged out of the bandwiths (Pond 2000: 50).

CHAPTER FIVE

ASSESSING INTEGRATION IN SOUTHEAST ASIA

5.1 Introduction

Contrary to our previous case of the European Union, the Association of Southeast Asian Nations' (ASEAN) integration process has been arduous at the best of times and non-existent at the worst. For the purpose of this thesis, process tracing will be applied to ASEAN in its two most recent forms. Unlike the case of the European Union, where the name changed with the addition of new end goals, ASEAN has maintained its nomenclature throughout. The turning points are therefore isolated based on the signature of agreements that affect the ultimate goal of the Association. The agreements studied are the Agreement on Preferential Trade of 1977 and the Framework Agreement on Enhancing ASEAN Economic Cooperation of 1992, which created the ASEAN Free Trade Area. Each agreement will be examined independently in order to determine what regional characteristics shaped its current level of integration and whether deepening integration is likely.

5.2 Before the Association of Southeast Asian Nations Preferential Trade Agreement of 1977: The Search for New Solutions to Old Problems

In order to understand how the ASEAN has attained the level of integration it has at present, it is important to understand the regional reality prior to its establishment.

5.2.1 A Colonial Legacy of Division

Unlike Europe, the concept of a Southeast Asian region is a relatively recent one, emerging only after the end of the Second World War and European colonialism. Until then, the region had been divided along colonial lines and each state was tied to its colonial power. The Philippines became autonomous from the United States in July 1946, after the end of the war with Japan.¹ Then came the independence of the Federation of Malaya from British rule in 1948. Indonesia gained its independence from the Dutch after United Nations intervention in 1949. Singapore was the last founding state to be decolonized, achieving self-government in 1959. After its independence from the British in 1963, along with Sabah (North Borneo), it joined the Federation of Malaya, creating the Federation of Malaysia. Singapore would leave the Federation in 1965 (Swee-Hock 1980a: 7-10). One of the few exceptions was Thailand, which gained its political independence after a bloodless revolution that set up a constitutional monarchy. This late withdrawal of colonial authority opened possibilities for new inter-state associations. The ongoing colonial disputes of the regions two largest states, Indonesia and Vietnam, however, remained obstacles to closer ties between states (Frost 1990: 3). Nevertheless, the nations of Southeast Asia were attracted to the idea of regionalism as a possible solution to some of the political and economic problems confronting them in this new period of economic independence (Swee-Hock 1980b: 322).

5.2.2 SEATO: A First Attempt at Regional Cooperation

Due to ongoing regional tensions and Cold War, the initial attempt at regionalism in Southeast Asia was spearheaded by external powers.² This first attempt was the

Southeast Asian Treaty Organization (SEATO). The legal framework for SEATO, known as the Southeast Asia Collective Defence Treaty, or Manila Pact, was signed on 8 September 1954, by Australia, France, New Zealand, Pakistan, the Philippines, Thailand, the United Kingdom and the United States. It outlined SEATO's role in deterring threats to the security and stability of the members from aggression and subversion. However, their effectiveness was undermined by the contradictory views between the US and the UK, and the hostile perception from China and Vietnam. This US-inspired organization was an attempt to establish an anti-communist regional association, but it included only the Philippines and Thailand from the region, thereby failing to foster regional cooperation. The ineffectiveness and inaction of the Organization culminated in the decision to dissolve SEATO announced in September 1975 (Frost 1990: 3).³

5.2.3 Moving to an Economic Focus: the ASA and MAPHILINDO

The failure to center the membership of SEATO in the Southeast Asian region, spurred the creation of two other associations, the Association of Southeast Asia (ASA) and MAPHILINDO, an organization regrouping Malaysia, the Philippines and Indonesia, which began to focus on economic goals.

5.2.3.1 The Association of Southeast Asia

The next regional organization was created on 30 July 1961. The Association of Southeast Asia (ASA), linked the Malayan Federation, the Philippines and Thailand. The primary aim of ASA was to promote economic and cultural cooperation among these three countries, but the achievements were limited because of its limited membership and

prestige, especially in terms of Indonesia's absence. This region was significant in as far as it was the first step towards regional economic cooperation and would serve as the template for ASEAN. It was also hindered by a territorial dispute that erupted between the Philippines and Indonesia, and Malaysia. The dispute was over the territory of the Sabah, or North Borneo, which the British had attributed to Malaysia.⁴ The ASA's cause was also impeded because it was seen as being politically too close to SEATO, of which two of its three members were parties (Frost 1990: 4). The ASA collapsed on 16 September 1963, when the Federation of Malaysia, comprised of Malaya, Singapore, Sabah, and Sarawak, was formed and the Philippines refused to recognize it, due to its claim (Khoman 1992, Huxley 1990: 83, Swee-Hock 1980b: 322).

5.2.3.2 MAPHILINDO

Announced in mid-1963, MAPHILINDO brought together Indonesia, Malaysia and the Philippines. It is significant since it was the first indigenous regional grouping that included Indonesia. Formed as a rival organization to the ASA, it sought to promote cooperation in the economic, military, cultural and social fields. MAPHILINDO was primarily designed for the welfare of the Malay region, making the non-Malay states of Thailand and Singapore uneasy. MAPHILINDO was quickly thwarted as a device for regional cooperation by the onset of, President of Indonesia, Sukarno's policy of *konfrontasi*/confrontation against the formation of the Federation of Malaysia and its claim to Sabah. This policy arose in September 1963 and MAPHILINDO, barely a few months old, was not institutionalized enough to survive the confrontation between two out of three members (Frost 1990: 4, Huxley 1990: 83, Swee-Hock 1980b: 322-3). The

inter-state disputes between Malaysia, the Philippines and Indonesia, which neutralized ASA and MAPHILINDO, highlighted the desirability of regional cooperation.

5.2.4 1965: A year of increasing instability

1965 marked a turning point in the region. Singapore was expelled from the Malaysian federation in August 1965. In the wake of the September 1965 abortive coup in Indonesia, President Suharto ended the policy of *konfrontasi* and Indonesia began to take steps to alleviate tensions. Suharto's 'New Order' enabled a *détente* between Jakarta and Kuala Lumpur, reducing intra-regional tension and allowing for a permissive environment for the creation of a new regional grouping.

There was also an escalation of the conflict in Indochina that was turning Southeast Asia into a target for great power rivalry (Huxley 1990: 83-4). The escalation of the Vietnam War in 1965 convinced the neighbouring Southeast Asian nations that insurgency movements in their own countries would derive substantial assistance, moral or otherwise, from other Communist countries. The common borders and interests of the potential member states would make coordinated actions against insurgents more effective, making the key to their survival as non-Communist states the formation of an alliance to cooperate on matters of mutual interest (Swee-Hock 1980b: 323). In the end, the decision was reached to make use of a regional organization to promote their economic development in order to establish peace and stability within each state and the region.

5.2.5 ASEAN's First Decade (1967-1976)

The predecessors of the Association of Southeast Asian Nations (ASEAN), ASA and MAPHILINDO, had both experienced stalemates due to member states bilateral tensions. The founding states Indonesia, Malaysia, the Philippines, Singapore and Thailand, shared a common perception of central concerns, including a commitment to anti-communism, anxiety about the situation in Indochina and the regional intentions of China (Frost 1990: 5). Most importantly, however, they saw threats to their independence, domestic stability and security. The basis for cooperation within the Association was found in their common belief that security and social stability are inter-related and drawn from domestic economic development.

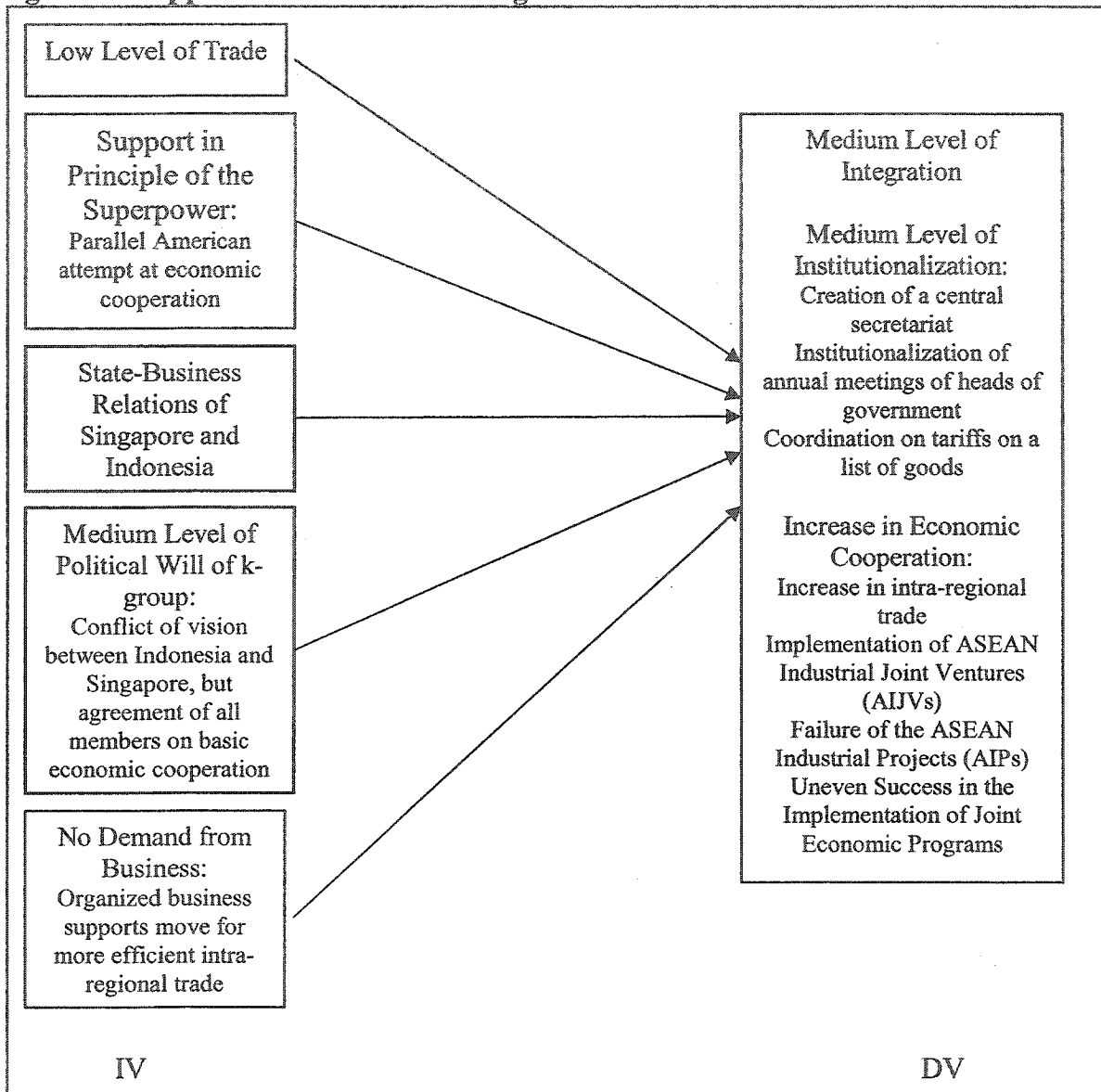
Member's primary objective was to further socio-economic progress by eliminating social and economic deprivation so as to undermine the appeal of communist revolutionary forces. This resulted in the drafting of a short, simply worded document the Bangkok Declaration. Signed 8 August 1967, it placed great emphasis on the spirit of equality and partnerships, and adherence to the principles of the UN Charter, with particular emphasis on the concept of territorial sovereignty (Swee-Hock 1980b: 325). It specified ASEAN's aims as accelerated economic growth; social progress and cultural development in the region through joint endeavors; and the promotion regional peace and stability. By stressing the sovereignty and equality of their membership, it set up the framework for cooperation as one of building on small steps, voluntary, and informal arrangements, in order to move towards institutionalized agreements (Flores and Abad 1997).

Although economic, social and cultural cooperation were stressed as the central objectives, ASEAN also represented a political '*entente*' between anti-Communist states that were threatened domestic Communist-led revolutionaries (Huxley 1990: 84, Swee-Hock 1980b: 325). With intra-regional trade of only 7 percent at its founding (IMF 1969), the priority given to economic cooperation was because it was seen as a tool to pave the way for cooperation in other fields and an essential precondition for achieving the aforementioned objectives. By the Bali Conference of 1976, the two main security concerns, the pre-existing tension between Malaysia, Indonesia and the Philippines and maintaining the region's neutrality from the Great Power Rivalry of the Cold War; had been addressed. Focus shifted to economic concerns since domestic development could ensure domestic stability.

5.3 Leap of Faith: Creating the ASEAN PTA, Paying Lipservice to Economic Integration (1976-1992)

After a decade of working on building trust between them, ASEAN member states decided that it was necessary for a meeting of the heads of government if economic cooperation were to be strengthened and a firmer economic program were to be agreed upon. This resulted in the Bali Summit of February 1976, which marked the beginning of ASEAN's increased cooperation.

Figure 5.1: Application of Research Design to 1976 ASEAN



5.3.1 Systemic Factors Affecting the 1976 ASEAN Declaration

The 1976 Bali Summit ended with a number of formal documents signed that strengthened the ties between member states of ASEAN. The Treaty of Amity and Cooperation in Southeast Asia (TAC) implicitly replaced the Bangkok Declaration of 1967 and set formalized the principles of mutual respect for the independence and sovereignty of all ASEAN member states. The second, the Declaration of ASEAN

Concord provided guidelines for action in economic, social, and cultural relations; and sought to “consolidate the achievements of ASEAN and expand ASEAN cooperation in the economic, social, cultural and political fields” (Declaration of the ASEAN Concord).

5.3.1.1 Level of Trade

ASEAN spent its first decade developing the concepts that would form the basis for its cooperation. Its meetings were crucial in fostering trust and working together informally and openly. Progress on economic cooperation was slow with their level of trade having only reached 15 percent (IMF 1979). This was partly because of the need for consensus decision making, which was blocked by the existing conflict between Indonesia, Malaysia and the Philippines. A number of inexpensive social and cultural projects were adopted, but economic cooperation was largely limited to the conduct of joint negotiations with General Agreement of Tariffs and Trade (GATT), Japan and the initiation of a dialogue with the EEC in 1972. This meant that the region remained dependent on industrialized market economies, with two-thirds of the total of exports going to Japan, the United States, and the EEC (Frost 1990: 5-6, Swee-Hock 1980a: 37, Swee-Hock 1980b: 354).

The economies of the region were competitive and predominantly agrarian, except for Singapore, whose economy focused more on manufacturing. On the one hand, Singapore’s economy was poor in natural resources, but had a skilled labor force. It was industrialized and export-oriented. On the other hand, Indonesia was rich in natural resources, but poor in terms of skill and technology. This made for conflicting visions of economic cooperation within ASEAN, especially between Singapore and Indonesia given

their opposite economies and economic priorities (Swee-Hock 1980a: 37). There were also high tariffs between the member states in order to minimize the access that other members had each other's economies.

Intra-regional trade in ASEAN was approximately 15 percent in 1976 (ASEAN Secretariat 2004a), when the planning for the Bali Summit began. After a decade of working towards economic cooperation, the level of economic integration achieved was insignificant (Swee-Hock 1980b: 354).⁵ The region continued to have an open dualistic economy and considerable dependence on foreign investment and aid. The dependence of economic growth on foreign capital has resulted in a widening of the economic disparity of industry among the five countries and in an increase in extra-ASEAN trade at the expense of trade among themselves (Swee-Hock 1980a: 39). ASEAN members continued to be tied economically to foreign powers, and saw that economic progress was only possible through increased economic coordination.⁶

5.3.1.2 Role of Superpower/Hegemon

Although the member states were in geographical proximity the USSR and China, the most influential superpower in their case was the United States due to their anti-Communist beliefs. The US wanted the establishment of a strong regional organization acting as a block against the USSR, however it remained disinterested in the progress of ASEAN since it was a small regionally founded organization, which did not include any of its main regional trading partners (i.e. Japan). During the peak of the East-West tensions, the US sought to exerted pressure to harmonize their foreign policy with the US'. This was impossible due to the non-aligned position that ASEAN member states

sought to maintain. This coupled with American desire, in the late eighties, to incorporate China into an economic agreement, made it difficult for the US to accomplish its political goals through cooperation with ASEAN (Sheikh Fadzir 1986: xii-iii). This resulted in a lack of “political will which could further accelerate joint cooperation” (Indorf 1986: 1); leading it to shift its focus to other regional organizations over which it had more control.

5.3.2 Domestic Factors Affecting the 1976 ASEAN Declaration

5.3.2.1 State-Business Relations

The role of the government within the economies of the member states also played a defining factor in the shape of the initial organization. The low level of economic ties continued to be exacerbated by the contradictory views of the domestic economic structures between Indonesia and Singapore. The Indonesian government had undertaken the coordination and implementation of government programs that were aimed at the economic development of the country. This was emblematic of the Indonesian concept of ‘national resilience,’ where domestic stability of a government is linked to its ability to provide prosperity to its population. The Government played a dominant role in the economy setting up government run companies that would seek to develop varying sectors of the economy. This was a stark contrast to Singapore, whose government continued to play a role only in as much as it was securing labor conditions for efficient running of the businesses on its territories. The other members had a varying degree of government involvement in their respective economies, but all agreed on a role for the government.

The variation of regimes between the member states were less influential, since all agreed on the presence of a governmental influence, than the continuing variation in the member's perceptions of the ultimate goal of ASEAN and the level of opening and coordination required by regional economies. Singapore and the Philippines continued to push for liberalization and the establishment of a free trade area. Indonesia, on the other hand, continued to believe that the key to economic development rested in government directed program. However, the example of the EEC had convinced Indonesia that some level of economic coordination was necessary if the region were to strengthen its economic bargaining position internationally.

5.3.2.2 Demand from Business

As was the case with the creation of the European Coal and Steel Community, the business community did not play a role in instigating or demanding the negotiations. However, it was not completely overlooked. There had been permanent committees set up to address the concerns and interest of different economic sectors, which included members of those businesses. This group was consulted before Economic Minister Meetings in order to help determine the priorities of debate, and help implement the decisions of the ASEAN, with little success.

Hence, the business community took matters into their own hands in 1971 and created of the ASEAN Chambers of Commerce and Industry (ASEAN-CCI),⁷ the primary membership of which was the national chambers of commerce.⁸ The private sector within the member states pursued intra-ASEAN cooperation through ASEAN-CCI. It sought to effectively organize business sector cooperation and coordination and

accelerate economic growth through joint endeavors. It was organized into Working Groups,⁹ industry clubs,¹⁰ which were associations of like-minded businessmen discussing ideas and submitting proposals on the development of intra-ASEAN trade and industries (Swee-Hock 1980b: 350). At this time, ASEAN-CCI acted as an organized lobby for business.

Business had increased its role since the foundation of ASEAN in 1967. The ASEAN-CCI had sought to increase the effectiveness of intra-ASEAN trade and the role and interests of business members in the region. The example of business was used to further favor the involvement of non-governmental actors in the integration process. This was done through affiliation¹¹ with ASEAN, which drew them into the activities of the Association, staying informed of major policies, directives and decisions and given the opportunity to participate in these activities. This ensured the interaction between the ASEAN committees and other actors (Rieger 1991: 79). Prior to the Bali and Kuala Lumpur Summits the business sector had begun to interact in non-regular meetings with the Foreign Ministers and the National Secretariat. The establishment of a central ASEAN secretariat and regular meetings of the economic ministers of the member states provided the access to the decision-makers that business would use in the future.

5.3.2.3 Political Will of Hegemon or k-group

The withdrawal of the colonial powers created a power vacuum that could have seen other outside powers step in for political gains. This heightened the necessity of member states to maintain their independence during the increase in the region's tensions after the beginning of the Vietnam conflict; acting as an instigator for the formation of

ASEAN (Khoman 1992). The lack of complementarity between the economies of the member states and the historical divisions between former members of the ASA and MAPHILINDO resulted in fractionated leadership within the organization. This division was reinforced by the fact that the largest market and the most industrialized and developed market were not within the same state. Indonesia had the largest population in the region, while Singapore was the most economically developed. This meant that there was no hegemon in the region, as was the case with the European Union.

However, unlike the k-group led by France and Germany that had a shared vision of the ultimate goals and level of institutionalization, the member states of ASEAN did not find themselves under the joint leadership of Indonesia and Singapore. The divergence between these states meant that in order for the region to act successfully to form a k-group, the goals set out by the organization must be amenable to all five founding members. This resulted in the initial goals of the organization were consciously left unspecified, but remained generalities, such as prosperity, stability and peace. The agreement was to create a regional association with the goal of assuring domestic stability and prosperity.¹²

This creation of a k-group allowed for the solidification of the political will of all parties involved. The political motives for joining ASEAN varied widely between the member states. Indonesia saw it as a way to break out of the isolation that had resulted from *konfrontasi* and a search for self-dependence. It was also aware of its potential as a regional leader, and wanted ASEAN to provide regional cohesion, so as to minimize great power intervention. Suharto was motivated to reconcile with the region and become

a constructive partner because of domestic economic troubles. Former Indonesian Foreign Minister Ali Alatas pointed out:

It was the convergence in political outlook among the five original members, their shared convictions on national priority objectives and on how best to secure these objectives in the evolving strategic environment of East Asia which impelled them to form ASEAN (ASEAN Secretariat 2004b).

Singapore, along with Malaysia and the Philippines, saw this as an opportunity to divert Indonesia's attention away from the confrontationist policies to more constructive channels.¹³ Singapore pursued ASEAN as an opportunity to interact with its neighbors in a manner that would emphasize its Southeast Asian, rather than Chinese identity (Leifer 1996: 13, Huxley 1990: 84). These diverging visions resulted in a political commitment to the creation of the organization in order strengthen regional ties, but no economic measures, or ultimate goal. This political will to ASEAN was implemented in the area of increased interactions and attendance of the ministerial meetings¹⁴ outlined in the Bangkok Declaration of 1967. The economic joint endeavors, however, failed to materialize in the first decade of ASEAN's existence.

As mentioned above, the divergent economic approaches of the two dominant countries led to conflicting views of the ultimate goals for the Association. During the negotiations, Singapore and the Philippines were pushing for across-the-board tariff reductions, whereas Indonesia and Malaysia were reluctant due to their protected industry. Trade liberalization through granting tariff preferences would hinder the industrial development of the less industrially developed states within ASEAN. However, economic cooperation was encouraged and supported by the member states. This resulted in an item by item approach, so as to achieve the consensus required by the Association.

The k-group was maintained by reducing the agreement to the lowest common denominator of integration. The member states also continued to support ASEAN's role as a collective bargaining force vis-à-vis the developed countries (Swee-Hock 1980b: 332).

5.3.3 Assessing the Level of Integration of the 1976 ASEAN Declaration

5.3.3.1 Level of Institutionalization

The TAC outlined the principles for the relations between members and the program for the Association's cooperation,¹⁵ thereby implicitly replacing the Bangkok Declaration. The Concord focused on intensifying cooperation in the areas of economic and social development, emphasizing the promotion of social justice and the improvement of the standard of living. These two documents would lay the foundation of the future interaction of ASEAN.

For the purpose of this thesis, the crucial document was the Declaration of ASEAN Concord. This would lay the foundations of economic and social cooperation for the future of ASEAN. The Declaration of Concord provided guidelines for action in economic, social, and cultural relations. Although focused on economics, the Declaration was more overtly political, stating that the stability of each member and the region was an essential contribution to international peace and security;¹⁶ and that the key to that was strengthening national and ASEAN 'resilience' (ASEAN Secretariat 2004b, Frost 1990: 8-9).

It called for economic questions to be treated with the same priority as political ones. It adopted economic programs¹⁷ that included cooperation on basic commodities such as food and energy, support for industrial projects in each of the ASEAN countries; and promotion of intra-ASEAN trade, in part through preferential trading arrangements. The Declaration outlined the cooperation of members in the production of basic commodities, particularly food and energy; and in the areas of exports and commodity agreements to increase export earning. It sought the establishment of large-scale ASEAN industrial plants, with five projects selected for implementation by member countries. Organizationally, it mandated the regular ministerial meetings to review the progress made and put forward new recommendations (ASEAN Secretariat 2004b, Frost 1990: 9, Swee-Hock 1980b: 329-340).

These two documents resulted in changes in the institutional structure of the Association of Southeast Asian Nations, while maintaining its decentralized style. The first significant change was the establishment of a permanent central ASEAN Secretariat in Jakarta, under the supervision of the Secretary-General, and the regularization of meetings between economic ministers (Frost 1990: 9, Swee-Hock 1980b: 329). The ASEAN Secretariat was composed of seven international staff members, which met respectively with the Foreign Ministers, Economic Ministers, the Standing Committee, other committees and sub-committees when necessary, and representatives of nations outside the alliance, and are responsible for coordinating the activities of the committees. They maintained the national secretariats in each country for servicing the annual or special meetings of Foreign Ministers, the quarterly meetings of Economic Ministers, and

meetings of various *ad hoc* and permanent committees¹⁸ of specialists and officials on specific subjects held in that country.

The ASEAN Ministerial Meetings (AMMs) and the Standing Committee continued to be the primary governing bodies and were joined by additional meetings of ASEAN ministers, including labor, social welfare, and education. The ASEAN structure remained complex and decentralized reflecting the need for decisions on key issues to be taken by high ranking national representatives with the authority to take decisions within their home states (Chatterjee 1990: 59, Frost 1990: 19). The economic goals outlined by the agreements resulting from the 1976 Bali Summit were put into practice by the approval of a preferential trading arrangement, a year later.

The Heads of Government, at the Kuala Lumpur Summit of August 1977, signed the Agreement on ASEAN Preferential Trading Arrangements, which took effect 1 January 1978 and established a commodity by commodity trade liberalization scheme that included a list of 71 products under the preferential trade agreement (PTA). Its objective was to gradually free intra-regional trade from divergent tariff barriers. In addition to reaffirming their Bali commitments, the leaders agreed to adopt further measures for greater regional cooperation. These were as follows: the establishment of an ASEAN swap arrangement with contributions to a fund, from which members may draw up to meet short-term international liquidity problems. Members also consented to the emergency pooling of rice and oil to benefit member countries in times of crisis; and the formulation of common policies on staple commodities to take mitigate the effect of global price fluctuations on export earnings. In order to improve intra-ASEAN shipping, including the simplification of customs procedures, and harmonization of statistics to

promote closer trade cooperation (Swee-Hock 1980b: 330-1). There was also an agreement for cooperation in the area of finance,¹⁹ involving customs, insurance, taxation and banking matters. Policy coordination in this area being crucial to freer trade and ASEAN founded the Committee on Finance and Banking (COFAB),²⁰ which articulated ASEAN positions on major international financial issues and cooperated, when necessary, with third countries (Chatterjee 1990: 71-73). There was thus a marked increase in the level of institutionalization and concrete definition of goals.

ASEAN existed primarily at the level of each members' political leadership, senior bureaucrats and business chiefs (Frost 1990: 20). This connection between political leaders was combined with a high level of political will and successfully implementing those structures that would facilitate the assurance of security. Trust between the political leadership allowed for the coordination and resolution of conflict between member states.²¹ Member states used the ASEAN forums, including the ASEAN Summits and the Postministerial Conferences with the Dialogue Partners²² in order to heighten the awareness about their concerns to the international community, specifically the US, Japan, Australia, and New Zealand. ASEAN governments were determined not to allow tensions to jeopardize their common goals of state-building and regime maintenance based on economic development (Leifer 1996: 14). Thus, these early economic cooperation schemes of ASEAN were aimed at attaining these goals (ASEAN Secretariat 2004a).

5.4.3.2 Economic Benefits

Between 1976 and 1978, ASEAN had seen the establishment of intra-ASEAN industrial projects, such as the ASEAN Industrial Projects (AIP), included in the ASEAN Industrial Complementation (AIC), and the establishment of a PTA that sought an item by item liberalization of intra-regional trade. For most of these projects, there were varying results and limited progress. Only four out of five projects were pursued, since Singapore withdrew from the AIP in 1978. By the early 1990s, the Indonesian and Malaysian projects for fertilizer production had been completed, but the other projects in Thailand and the Philippines, a soda-ash plant and copper fabrication plant respectively, had not materialized. While the products of these plants were included in the list of eligible under the PTA, it did little to further large-scale ASEAN industrial projects (Frost 1990: 8-9, Swee-Hock 1980b: 354).

The AIC failed to introduce the economic cooperation within the Association that was necessary for it to function as an integrated economic bloc. One of the main reasons was the absence of established goals and guidelines and the necessity for unanimous consent (Chatterjee 1990: 69-70).²³ In response to this, and the continuing problems being faced by such government-sponsored economic cooperative efforts, attention focused on the private sector.

In 1980, the ASEAN-CCI proposed a new mode of cooperation; ASEAN industrial joint ventures (AIJVs),²⁴ which was supported by the ASEAN Economic Ministers (AEM) in October 1983. However, few projects were approved due to the complexity and length of the approval process, which started at the regional industrial club level, through ASEAN-CCI, the AEM, the Foreign Ministers and then finally the

Heads of Government (Frost 1990: 12). During this period, ASEAN cooperated in the areas of agriculture, food and forestry, through groups such as the ASEAN Food Security Reserve (AFSR), the ASEAN Fisheries Development Center (AFDC). It also saw policy coordination in minerals and energy, transport and communication, and tourism, through the Committee on Industry, Minerals, and Energy (COIME), the Committee on Transport and Communication (COTAC), the ASEAN Tourism Information Center (ATIC) (Chatterjee 1990: 73-77).

The most significant change in terms of regional integration was the establishment of the Preferential Trade Arrangement in 1977. Most ASEAN countries had been seeking to develop their nascent manufacturing and other non-traditional sectors behind a wall of protective tariffs. These walls often took the form of complex regulations, designed to discourage foreigners seeking market access. The PTA continued to guarantee a level of protection. Under Article 12 of the PTA, even when foreign traders did access a market, a domestic producer could stop such trade with the help of the emergency measures, designed to prevent 'serious injury' to domestic producers facing import competition (Chatterjee 1990: 66). This was a measure taken along with the list of products included in the PTA and the exclusion of 'sensitive items' to protect the member state's domestic economies. The proliferation of the items on the inclusion list, which had reached 2, 327 items by the end of 1979, as well as the administrative complexity of item by item liberalization, led to the inclusion of an across the board approach to liberalization by the end of 1980.²⁵ This was mitigated by ceilings on the maximum value of the products and the maintenance of exclusion lists.

At the Manila Summit of 1987, an Enhanced PTA Programme was adopted to further increase intra-ASEAN trade. The agreements reached were aimed at harmonizing guarantees for intra-ASEAN investment; putting half of intra-ASEAN trade under the PTA within five years; and freezing and gradually reducing non-tariff barriers to intra-ASEAN trade (Frost 1990: 25). Nevertheless, the goals of liberalizing trade and thus increasing intra-regional trade failed to materialize in a significant manner and by the early 1990s the level of trade remained under twenty five percent. From 1978, when intra-ASEAN trade as a percentage of total ASEAN trade was 15.6 percent there was only a slight increase, by 1985, to 17.6 percent (Naya 1987: 68). The regional patterns continued to be dominated by two countries, Japan and the USA, which in 1985, accounted for forty five percent of their exports and thirty-five percent of their imports (Chatterjee 1990: 64).

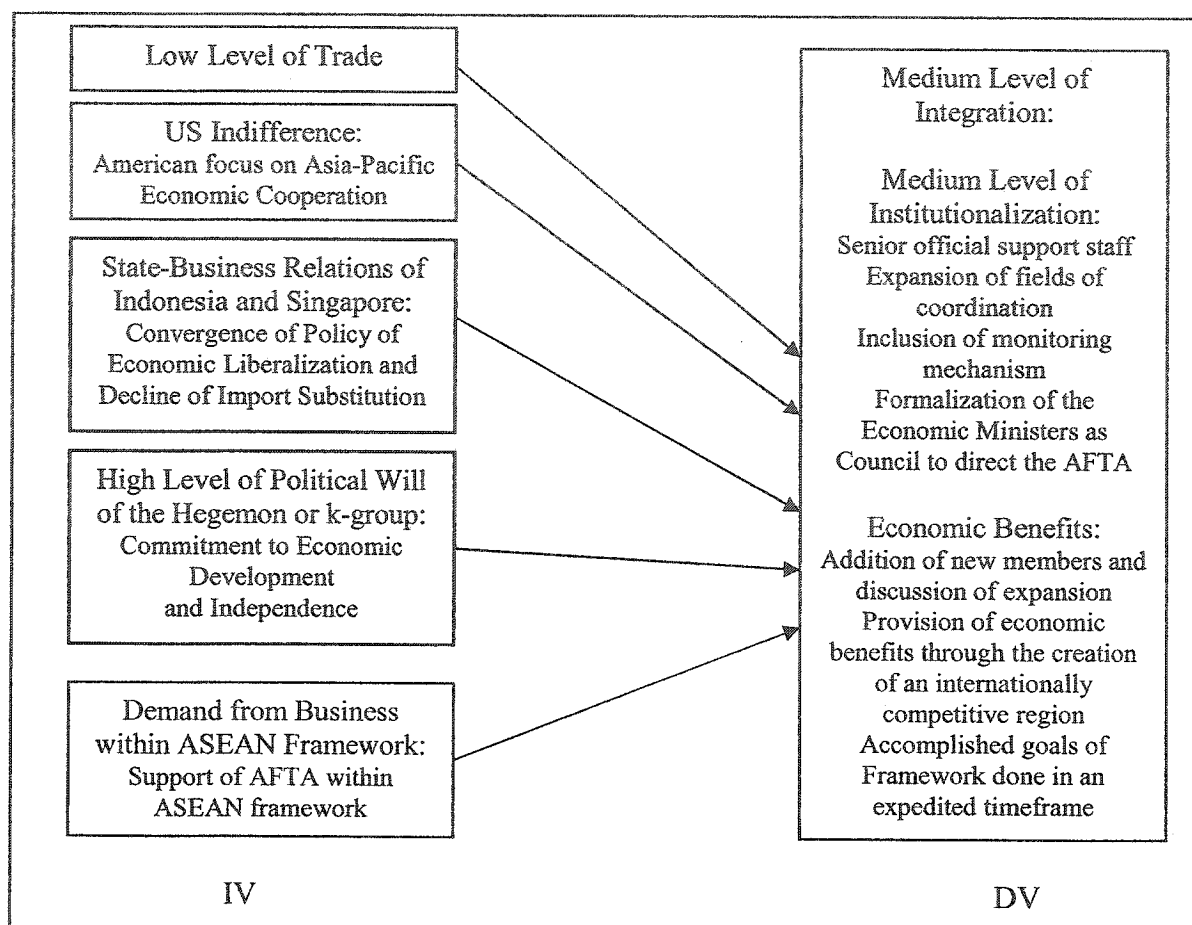
Although ASEAN established the framework necessary to improve the level of intra-regional trade, the ongoing economic similarities and ties to extra-regional states prevented it from providing the significant economic benefits its sought. ASEAN states' economic performance were not the only factor of evaluation, since the members never agreed to sacrifice their respective national economic interests. Through their unanimous decision-making procedures under the PTA, states could dictate the level, rate, and effectiveness of intra-ASEAN trade liberalization. This limited the measurable effects of economic integration. Nevertheless, since 1976, ASEAN increasingly assumed the role of an agent for regional economic cooperation, establishing measures for economic cooperation at the urging of both the member governments and the private sectors (Swee-Hock 1980b: 332). ASEAN also took a position on the international stage moving beyond

the bilateral discussions with Dialogue Partners, such as Japan and the EEC. In a reflection of concerns about international trade, the ASEAN Economic Ministers in October 1988 agreed on a joint stance for the 'Uruguay Round' of GATT international trade negotiations (Frost 1990: 14).

5.4 Relaunching Economic Integration and the Search for Expansion: the Discussions over the ASEAN Free Trade Area (1992-2004)

The end of the Cold War brought about the relief of regional concerns of being caught within a Great Power rivalry, and removed the most significant support to domestic Communist insurgents. With no immediate threat, the focus could now turn to closer economic cooperation. Following the increases in cooperation that resulted from the 1977 PTA and the 1987 Enhanced PTA, the members of ASEAN sought to increase their economic benefits by continuing to strengthen their economic ties. In January 1992, ASEAN agreed to establish an ASEAN Free Trade Area (AFTA). Made possible by the shift in domestic economic policies and the prompting of the business community in the region, the members succeeded in implementing steps towards deeper economic integration. The result of this agreement was a solidification of member states diplomatic ties, and following the Asian financial crisis of 1995, strengthen their economic ties. The diplomatic and economic results of the Association prompted the desire of other members of the region to join, resulting in the achievement of an ASEAN of 10 members, with the inclusion of Cambodia, Laos, Myanmar, and Vietnam by the mid-1990s, and discussions towards continued expansion.

Figure 5.2: Application of Research Design on Post-1992 ASEAN



5.4.1 Systemic Factors Affecting Post-1992 ASEAN

5.4.1.1 Level of Trade

Even with the implementation of the Preferential Trade Agreement for over a decade, trade between member states remained low. Intra-regional trade in ASEAN was had only increased slightly to 18 percent in 1992 (IMF 1992) and member states had come to the realization that higher levels of economic integration required further liberalization.

The dependence of economic growth on foreign capital had continued and foreign investment in the region was at all-time high, at the expense of trade between the members. This meant that the ASEAN members remained economically tied to foreign powers, and economic progress required increased economic coordination in several fields. Singapore continued to specialize in manufacturing and an export-oriented economy and remained a liberalized trading area. Indonesia had begun to move away from import substitution due to its failure to provide the economic development desired. The members still did not have complementary economies as their economies had begun to focus their efforts on the establishment of multinational corporations for production and manufacturing of goods. This meant increased competition between member states, while necessitating an increase in economic cooperation in order to facilitate the trade and shipments of goods within the region, thereby attracting international investment to the region as a whole.

5.4.1.2 Role of Superpower/Hegemon

US-ASEAN relations remained positive, but minimal until the end of the eighties, the focus turning to the Pacific region as a whole. With the end of the Cold War, American interest in ASEAN waned. The height of regional trilateralism between the US, Japan and ASEAN had passed and ASEAN became a supplement to US policy in the region (Indorf 1986: 2). Instead, the US turned its focus to the Asia-Pacific Economic Cooperation (APEC), because of its membership in it, as well as that of Japan and Australia, and promoted its creation in 1989 (Cossa 2003: 207). Their common policy focus was also seen on ideological and security issues such as the Vietnam conflict, in

which case their provision for aid and trade was in direct conflict with ASEAN policy. Furthermore, the US was concerned about the economic model that the member states were implementing that had led to significant economic growth and continued direction of the state. These divergences in policy and interests caused increasing separation between ASEAN and the US (Cossa 2003, Ingdorf 1986). Therefore, while the US remained encouraging of ASEAN's attempts to liberalize its trade, it provided no direct support to the members, focusing instead on states within its realm of influence in the Asia-Pacific region more broadly.

5.4.2 Domestic Factors Affecting Post-1992 ASEAN

5.4.2.1 State-Business Relations

The early 1990s had also brought the General Agreement of Tariffs and Trade (GATT) and the European Community implementation of Europe 1992. The example set by those two groups and the emergence of regional integration schemes internationally, suggested that continuing liberalization was the most efficient way to promote their domestic economic development. However, contrary to adopting the Western model of liberalization espoused by the International Monetary Fund, which goes hand in hand with privatizing the economy and removing the prominent role of government, ASEAN states maintained the dominant role for the government in the economy. Indonesia had turned away from import substitution, given its failure to provide it with significant development. Instead, it turned its attention to drawing on its strength, its large population, to promote the establishment of manufacturing industries on its territories.

Once again, this put it at odds with the economic leader of the region, Singapore. Instead of increasing the complementarity of their economies, the shift of member states towards the manufacture and export of goods made them competitors.²⁶ They were now, however, all facing towards the ultimate goal of market access, through the reduction of tariffs, and the liberalization of their economies. This made possible to declare ASEAN's economic goal as the creation of a Free Trade Area.²⁷

5.4.2.2 Political Will of Hegemon or k-group

The region still lacked a credible hegemon, since no member had the market and industrial strength to act as paymaster. The global liberalization pressures, the resulting ASEAN commitments to the GATT, and the economic benefits provided by other regional integration schemes to their members, brought about a convergence of positions on the establishment of a free trade area, thereby strengthening the k-group.²⁸ An example of this shift was seen as early as 1985 when all ASEAN leaders stated that the existing level of integration was inadequate and that deeper integration was favorable (Riegger 1991: 20). The AFTA was thus seen as the next logical step in the members' pursuit of regional resilience, as stated in the Preamble of the Framework Agreement.

This convergence of positions was consolidated after the 1997 Asian Financial Crisis, when the economic shock and International Monetary Fund (IMF) response cemented the move towards deeper integration. As will be seen below, ASEAN was successful in implementing the goals of the Framework, and in fact did so in an accelerated timetable. In addition, ASEAN promoted cooperative activities with organizations with related aims and purposes, such as ASEAN-Chambers of Commerce

and Industry, ASEAN Business Forum, ASEAN Tourism Association, ASEAN Council on Petroleum, ASEAN Ports Association, ASEAN Vegetable Oils Club, and the ASEAN-Institutes for Strategic and International Studies. By the turn of the century, there were more than 50 affiliated organizations.

5.4.2.3 Demand from Business

Since the creation of the ASEAN-CCI in 1972, ASEAN's business sector has been actively participating in the region's economic cooperation. Through the business instigated AIPs, to their feedback in the areas of AIC, the private sectors of the ASEAN member nations have made significant contributions to the economic development and transformation of their economies. Their influence can be seen by the proliferation of 'affiliates'²⁹ to the ASEAN Secretariat, by the early 1991 there were over thirty such groups (Rieger 1991: 79-92, Chatterjee 1990: 62). The changes also succeeded in increasing the participation of the business sector as the ASEAN-CCI created direct counterparts to certain ASEAN committees,³⁰ which shared informal relationships (Rieger 1991: 82-3). This growing interest put weight behind demands of the ASEAN-CCI for further access to market. This was the case at the July 1986 ASEAN-CCI Council meeting, when they demanded that the ASEAN governments adopt meaningful measures to integrate ASEAN markets and prepared proposals for the ASEAN Summit. This pivotal role for the private sector was maintained, since the Agreement on the Common Effective Preferential Tariff (CEPT) for the AFTA specifically encouraged them to provide inputs in the implementation of CEPT/AFTA. This was to be achieved

through the ASEAN-CCI and direct and regular consultations with the AEM and Senior Economic Officials' Meeting (SEOM).³¹

5.4.3 Assessing the Level of Integration of Post-1992 ASEAN

5.4.3.1 Level of Institutionalization

The combination of the low levels of intra-regional trade and competitive member markets resulted in the creation of the AFTA with progressive integration and minimal supranational authority to institutional structures. The objective of AFTA was to increase the region's competitive advantage as a production base geared for the world market. The Framework Agreement on Enhancing ASEAN Economic Cooperation, signed by the Heads of Government in January 1992, resolved that all member states agreed to establish and participate in AFTA, whose goals will be reached within 15 years. The CEPT Scheme,³² outlined in the Agreement on the Common Effective Preferential Tariff Scheme for the AFTA, was to be the main mechanism for achieving free trade. The ultimate goal was to reduce or eliminate tariff and non-tariff barriers between members the import and export of products included in the list that was being used by the PTA. However, members were permitted to adopt measures which they considered necessary for the protection of their national security, public morals, human, animal or plant life and health, and the protection of articles of artistic, historic and archaeological value (ASEAN Secretariat 2004a, Framework Agreement on Enhancing ASEAN Economic Cooperation 1992).

In order to achieve this goal, ASEAN established some new institutional structures. A ministerial-level Council,³³ whose members were selected by the AEM, was set up to supervise, coordinate and review the implementation of the AFTA and report to the AEM. In addition, the ASEAN Secretariat would act as a monitoring body, responsible for monitoring the progress of any arrangements arising from the Agreement, with the support of the AEM and its subsidiary bodies. In order to settle any disputes that might arise from the implementation of the Framework Agreement outlines a dispute settlement mechanism (DSM). Continuing with the tradition of the TAC, disputes were to be settled amicably between the parties, with the Council designating a dispute settlement body when necessary.

In addition to the Council, the members established Senior Economic Officials' Meeting (SEOM), which would meet on a quarterly basis to provide support and expertise for the effective coordination and application of the CEPT of the AFTA in the member states.³⁴ Along with SEOM, the Agreements also established an AFTA Unit within the ASEAN Secretariat³⁵ and National AFTA Units in respective member governments in order to ensure the smooth implementation of the CEPT. These Units were specifically tasked with monitoring, coordinating, policy research and public relations relating to the AFTA (ASEAN Public Information Unit 1995). The establishment of a Council and the specific Units within the Secretariat and the National Government, as well as the establishing a monitoring procedure, shows an increased level of institutionalization.

5.4.3.2 Economic Benefits

At the heart of consolidating the regional security lay the concept of regional ‘resilience’ which finds the basis of security in economic development and prosperity. Economic prosperity was actively pursued since 1992 and the implementation of the AFTA and the CEPT was successful in increasing intra-regional trade. Within three years from the launching of AFTA, exports among ASEAN countries grew from US\$43.26 billion in 1993 to almost US\$80 billion in 1996. In the process, the share of intra-regional trade rose from 20 to almost 25 percent (ASEAN Secretariat 2004a). However, the Asian Financial Crisis caused a contraction in regional trade (ASEAN Secretariat 2004b). The impact of the Crisis highlighted the fact that the region was still at risk from external economic influence. So, in order to prevent a recurrence of the financial crisis, the ASEAN Finance Ministers, in October 1998, agreed on a framework for closer consultations on economic policies called the ASEAN Surveillance Process (ASP).³⁶ The ASEAN Vision 2020 also affirmed an outward-looking ASEAN playing a pivotal role in the international community and advancing ASEAN’s common interests. Cooperation with other East Asian countries was accelerated with the holding of an annual dialogue among the leaders of ASEAN, China, Japan, and the Republic of Korea, resulting in a 1997 and 1999 statements and frameworks of cooperation between them (ASEAN Secretariat 2004a).

The dynamism of this Agreement has been the subsequent signing of four documents that specifically dealt with economic integration, from accelerating the proposed timetable to discussions of a customs union. In 1997, the ASEAN leaders adopted the ASEAN Vision 2020, which called for ASEAN Partnership in Dynamic

Development aimed at forging closer economic integration within the region. It resolved to create a stable, prosperous and highly competitive ASEAN Economic Region, in which there is a free flow of goods, services, investments, capital, and equitable economic development and reduced poverty and socio-economic disparities (ASEAN Vision 2020).³⁷ The first step towards achieving this was the Hanoi Plan of Action (HPA), adopted in 1998. The HPA laid down specific steps and measures to be taken between 1999 and 2004 in order to strengthen macroeconomic and financial cooperation, advance economic integration and promote social, science and technology and information technology infrastructure, as well as human resources development (ASEAN Secretariat 1999). Along with this came the Statement of Bold Measures, in December 1998, containing concrete measures further liberalizing and integrating ASEAN economies³⁸ (ASEAN Secretariat 1999). Progress in all areas has been slow but steady and inter-regional trade has now reached 22 percent (IMF 2004).

5.5 Future Integration: Possibility for Deepening and Expansion ASEAN+3?

As a result of the cooperation of the member states in the areas of security and economic integration, ASEAN now coordinates policy in a variety of areas. In order to build a community of 'caring societies', the ASEAN leaders decided to expand cooperation in order to ensure prosperity through human development, technological competitiveness, and social cohesiveness. Specifically, this includes action plans on social development, culture and information, science and technology, the environment, drug abuse control, and combating transnational crime (ASEAN Secretariat 2004a). In addition to these plans, ASEAN has several specialized bodies and arrangements

promoting inter-governmental cooperation in various fields. These bodies ranged from the fields of education and youth development, to meteorology.³⁹ ASEAN continues to negotiate as a group and maintains contact with other inter-governmental organizations, namely, the Economic Cooperation Organization, the Gulf Cooperation Council, the Rio Group, the South Asian Association for Regional Cooperation, and the South Pacific Forum.

The most significant changes in the region have come in recognition of the repercussions of the Crisis and the financial interdependence in East Asia, ASEAN stepped up its cooperation with China, Japan and the Republic of Korea, reflected in the 1999 Manila Declaration. At their March 2000 meeting, the ASEAN+3 finance and central bank deputies proposed a regional support mechanism that would include setting up a network of East Asian training and research institutes and a regional financing arrangement to supplement existing international facilities. They also agreed to set up a system of monitoring capital flows and strengthen the regional surveillance mechanism in East Asia (ASEAN Public Information Unit 2000). The near future will most likely see these ties strengthened as discussions have now begun on the possibilities of establishing an ASEAN Monetary Union with the participation of China, Japan, and the Republic of Korea.

5.7 Endnotes

¹ Filipino autonomy should have come earlier, after Congress passed a law in 1934 granting the country a large measure of autonomy and independence after ten years.

² The next external attempt to create a regional organization came in 1966, when the regional groups were paralyzed by the Sabah dispute. This grouping included East Asian nations like Japan and South Korea, as well as Australia, Malaysia, New Zealand, the Philippines, South Vietnam, Taiwan, and Thailand, and was known as the Asian and Pacific Council (ASPAC). This was not to be as the admission of the People's Republic of China and the eviction of Taiwan made it impossible for some states to remain members of the Council. ASPAC folded in 1972 (Khoman 1992, Frost 1990: 3).

³ SEATO was formally disbanded in mid-1977.

⁴ Tensions rose and eventually led to Malaysia calling on the UK for assistance. Leading to another external intervention in the region.

⁵ Between 1967 and the early 1970s, trade among the ASEAN members went from 12 to approximately 15 percent of total trade (ASEAN Secretariat 2004a).

⁶ In fact, with the exception of Singapore, the main trading partners for members were outside the region.

⁷ The ASEAN-CCI was led by a Council of representatives from each national chamber of commerce. The ASEAN-CCI had no permanent secretariat, and the country elected to the Presidency provided the administrative support (Swee-Hock 1980b: 350).

⁸ The ASEAN-CCI consisted of the Kamar Dagang dan Industri Indonesia, the National Chamber of Commerce and Industry of Malaysia, and the Philippines Chamber of Commerce and Industry, the Singapore Federation of Chambers of Commerce and Industry, and the Joint Standing Committee on Commerce and Industry in Thailand.

⁹ The work of the ASEAN-CCI was organized within six working groups: 1) the Working Group on Industrial Complementation; 2) on Trade; 3) on Shipping; 4) on Banking; 5) on Tourism; and 6) on Food, Agriculture and Forestry (Swee-Hock 1980b: 350).

¹⁰ By 1980, fifteen industry clubs have been formed: the ASEAN Federation of Agricultural Machinery Manufacturers; the ASEAN Automotive Federation; the ASEAN Federation of Cement Manufacturers; the

ASEAN Ceramics Industry Club; the ASEAN Chemical Industries Clubs; the ASEAN Federation of Food Producing Industries; the ASEAN Federation of Glass Manufacturers; the ASEAN Federation of Furniture Manufacturers; the ASEAN Iron and Steel Industry Federation; the ASEAN Pulp and Paper Industry Club; the ASEAN Leather Based Products Club; the Rubber Industries Association of Southeast Asian Nations; the ASEAN Shipbuilders and Shiprepairers Club; and the ASEAN Federation of Textiles Industries (Sweet-Hock 1980b: 351).

¹¹ Other privileges include the permission to use the name 'ASEAN' and to display their official emblem in correspondence and other forms of communication at its official meetings and to have access to ASEAN documents on a selective basis for research purposes (Rieger 1991: 79).

¹² The negotiations for this document were conducted in an informal manner, later described as 'sports-shirt diplomacy.' This was, however, not an easy process, since each party brought varying historical and political perspectives to the table. "With goodwill and good humor, as often as they huddled at the negotiating table, they finessed their way through their differences as they lined up their shots on the golf course and traded wisecracks on one another's game, a style of deliberation which would eventually become the ASEAN ministerial tradition" (Flores and Abad 1997).

¹³ Thailand hoped that ASEAN would serve as a 'collective political defence', potentially replacing its alliance with the US (Khoman 1992). The Philippines saw ASEAN as a tool for building a regional identity and strengthening trading ties, so as to counter-balance its ties with the US.

¹⁴ The yearly Ministerial Meetings and Special Ministerial Meetings resulted in important decisions. An example of this was the March 1971 AMM that sought to outline the goal of limited free trade and the Special Meeting in November that same year that adopted the Kuala Lumpur Declaration designating ASEAN as a Zone of Peace, Freedom and Neutrality (ZOPFAN).

¹⁵ It sought "to promote perpetual peace, everlasting unity cooperation among peoples which would contribute to their strength, solidarity and closer relationship" (Frost 1990: 9). The Treaty spelled out the basic principles of the relations between members. These included mutual respect for the sovereignty, equality, and national identity of all members; the right of every state to be free from external interference, from members or external states; the peaceful settlement of disputes; the renunciation of the threat or use of force; and effective cooperation among themselves. Envisaged as the foundation of a strong Southeast

Asian community, its aims were to promote regional security by enhancing regional 'resilience', through the cooperation in all fields; based on the principles of self-confidence, self-reliance, mutual respect, cooperation, and solidarity (ASEAN Secretariat 2004a). It also provided a process for the peaceful settlement of disputes by establishing a high council composed of ministerial representatives and to this day, it is the only indigenous regional diplomatic instrument for the peaceful settlement of disputes. (ASEAN Secretariat 2004a, ASEAN Secretariat 2004b, Frost 1990: 9).

¹⁶ It also endorsed the early establishment of the Zone of Peace, Freedom and Neutrality, in order to strengthen political solidarity by harmonizing views, coordinating positions and, where possible, taking common actions. In reference to security, it allowed for the cooperation with non-ASEAN states based of the needs of each member states (ASEAN Secretariat 2004b, Frost 1990: 8-9).

¹⁷ These plans were provided with additional substance in a meeting of economic ministers held the following month, March 1976.

¹⁸ The committee structure is made up of eight permanent committees. Five deal in economic matters, under the purview of the economic ministers, while the other three are responsible for social, cultural and science and technology-related matters, operating under the Standing Committee. Within the Standing Committee were audit and budget committees, responsible to the foreign ministers (Chatterjee 1990: 59).

¹⁹ The major objectives of intra-ASEAN financial cooperation were to facilitate the movement of financial resources within ASEAN; harmonize the regulations relating to customs and duties affecting intra-regional trade; and help eliminate double taxation within ASEAN and prevent tax avoidance by multinational corporations (Chatterjee 1990: 71).

²⁰ This focused was inspired by the Special Committee of ASEAN Central Banks and Monetary Authorities, which was formed in 1972, and was the first regional body to be set up for financial cooperation. Its primary function was to evolve a common ASEAN approach to understanding and responding to developments in the international financial arena, and cooperate in financial matters within the association. COFAB took over its role after its inception (Chatterjee 1990: 71-72).

²¹ This was a success, since ASEAN was intended to increase the security of its members, without requiring that they contribute through a formal military association. Although some members engaged in bilateral

military cooperation, which included joint border operations, regular senior staff consultation and some moves towards arms standardization (Frost 1990: 20).

²² At the Kuala Lumpur Summit in 1977, the ASEAN heads of government met with the Prime Ministers of Australia, Japan and New Zealand, the first time that they had held consultations as a group with the leaders of non-ASEAN countries. The next year, the first Postministerial Conference took place immediately after the ASEAN Ministerial Meeting. This was a gathering among ASEAN and its dialogue partners, Australia, Canada, the European Union, Japan, New Zealand, the United States and the United Nations Development Programme (ASEAN Secretariat 2004b). Four more countries have since joined the ASEAN dialogue system: China (1996), India (1996), the Republic of Korea (1991) and Russia (1996).

²³ An example of this was the ASEAN Automotive Federation (AAF), which had proposed two packages under the AIC scheme in 1976. Both these involved the production and distribution of automotive parts in ASEAN countries. The ASEAN economic ministers approved one of these proposals in October 1983, while the other has been postponed indefinitely owing to the failure by the member countries to agree on the allocation of products amongst themselves (Chatterjee 1990: 69).

²⁴ Under this concept, an AIJV project involving investors from at least two ASEAN countries owning a combined minimum equity would qualify for a 50 percent tariff cut within the project participating countries (Frost 1990: 12).

²⁵ The April 1980 meeting of ASEAN economic ministers resulted in an agreement of 20% across-the-board tariff reduction for intra-group imports valued at less than US\$50,000 per item.

²⁶ Although the Preamble of the Framework Agreement on Enhancing ASEAN Economic Cooperation, states that the economies of the member states are complementary, the existing levels of intra-regional trade were below 20 percent, which suggests otherwise.

²⁷ The influence of the GATT, the recognition of the impediments of tariff barriers and the desire to increasingly liberalize their economies are outlined within the Preamble of the Framework Agreement on Enhancing ASEAN Economic Cooperation of 1992. This even goes as far as to suggest a role for the region on an international level.

²⁸ The founding five member states remain at the heart of the directing ASEAN, since the members that acceded afterwards, joined based on the existing vision of liberalization of trade with strong national governments and seeking to transform the region into an internationally competitive unit.

²⁹ Affiliation ensures that the private sector participates in ASEAN activities and projects and allows them to use the ASEAN emblem and the name in their correspondence, thereby giving these groups legitimacy (Chatterjee 1990: 62).

³⁰ These were the Working Group on Industrial Cooperation (WGIC) to COIME; the Working Group on Trade (WGT) to the COTT; Working Group on Food, Agriculture and Forestry (WGFAF) to COFAF; the Working Group on Transportation and Communication (WGTAC) to COTAC (Rieger 1991: 82-3).

³¹ In order to facilitate this collaboration, the agenda for SEOM was circulated to the ASEAN-CCI in advance so as to enable the ASEAN-CCI to provide its responses during the Meeting.

³² The Common Effective Preferential Tariff (CEPT) Agreement for AFTA required that tariff rates levied on a range of products traded within the region would be reduced to between zero and five percent and that quantitative restrictions and other non-tariff barriers be eliminated.

³³ The Council would be composed of representatives from each Member Country and the Secretary-General of ASEAN.

³⁴ The SEOM was supported by an Interim Technical Working Group on CEPT for AFTA, whose members consist of representatives from various government agencies affected by the implementation of the CEPT, such as officers of the customs departments and the ministries dealing with trade.

³⁵ The AFTA Unit in the ASEAN Secretariat established close ties with the National AFTA Units, thereby increasing coordination among the bodies in charge of implementing CEPT for AFTA.

³⁶ The ASP included monitoring the global, regional and national economic and financial developments and reported to the AMM twice a year in the ASEAN Surveillance Report. The institutional addition to ASEAN was the peer review, which provides a forum for the ASEAN Finance Ministers to consider jointly unilateral or collective action to counter potential threats to any member economy, as well as domestic economic policy (ASEAN Public Information Unit 2000).

³⁷ The ASEAN 2020 vision strengthened ASEAN's institutions and mechanisms, including the power of the Secretariat. Coming out of the Asian Financial Crisis, the members of ASEAN resolved to promote closer

consultations in macroeconomic and financial policies. They were also determined to fully implement the AFTA, as well as the ASEAN Investment Area by 2010; consolidate and expand extra-ASEAN regional ties and promote financial sector liberalization and closer cooperation in money and capital market, and customs matters. It also targeted development and regional cooperation in science and technology; in the field of energy and utilities; as well as continued food security and enhanced international competitiveness of food, agricultural and forest products. The members also committed to improving regional infrastructure, communications, and human resource development through quality education (ASEAN Vision 2020).

³⁸ The Statement strengthened ASEAN's commitment to an acceleration of the establishment of the AFTA and ASEAN Investment Area (AIA). Furthermore to encourage investment, the leaders agreed to waive the 30% national equity requirement for firms wishing to take advantage of the AIA.

³⁹ Some of these bodies are ASEAN University Network, ASEAN-EC Management Center, ASEAN Center for Energy, ASEAN Agricultural Development Planning Center, ASEAN Earthquake Information Center, ASEAN Poultry Research and Training Center, ASEAN Regional Center for Biodiversity Conservation, ASEAN Rural Youth Development Center, ASEAN Specialized Meteorological Center, ASEAN Tourism Information Center, and ASEAN Timber Technology Center.

CHAPTER SIX

CONCLUSION: WHAT EXPLAINS VARIANCE IN INTEGRATION?

6.1 Introduction

The two preceding chapters have outlined how regional integration schemes in Europe and Southeast Asia have varied in their success at achieving high levels of integration. The following chapter will address the second part of the thesis question, whether the policy coordination and avenues of communication opened by these schemes are affected by regime heterogeneity. The first section will examine the findings that can be drawn from the two empirical chapters. The second will provide an overview of a revised framework for the analysis of PTAs. The final section will list some general findings drawn from the two case studies and possibilities for future research.

6.2 Drawing lessons for Europe and ASEAN: Regional Integration and Regime Type

Based on the case studies of the European Union and ASEAN in the empirical chapters, it can be deduced that of the two hypotheses being tested, the first can be accepted and the second rejected.

6.2.1 Political Will of the Hegemon or k-group as the Main Determinant of the Level of Integration

The first hypothesis posits that the level of political will of the hegemon or k-group has a positive effect on the level of integration in a region. Observation in both the EU and ASEAN support this statement, thereby suggesting that in the case where there is a lack of hegemonic dominance by one state, the level of integration achieved will be determined by the lowest common denominator of the leaders in the k-group. The resulting PTA will then reflect the leaders domestic factors.

Figure 6.1: Findings Related to Hypothesis 1

- In determining the level of integration, the most important factor was the domestic factors of the dominant states in the k-group.
- Successful implementation of the scheme was most strongly influenced by the level of political commitment/will to the ultimate goal of the scheme.
- In both cases a medium level of institutionalization was required in order to provide a minimal level of economic benefits.
- Pre-existing levels of trade and demand for business were found to have a negligible effect on the level of integration.
- The speed with which a scheme was able to implement its agreement and provide economic benefits was positively related to both the level of political will and the involvement of business.
- Although support of a Superpower or Global Hegemon facilitates the establishment and implementation of a scheme, it is not a requirement. However, its opposition can significantly slow down the process of deepening integration.

Within the process of integration, domestic factors seem to have more influence on the shape of integration than the systemic ones. The case of ASEAN shows that a region with minimal intra-regional trade and no regional hegemon can still establish and successfully implement an agreement on free trade. This was also found to be the case in Europe. The main difference between these two cases was the complementarity of the member states economies. Whereas the states within the EU had highly complementary economies, especially in the areas of coal and steel, the

first targets of integration; the founding states of ASEAN were predominantly competitive. These findings suggest that it is the potential for regional trade that is more important than the level of trade at the time.

State-business relations influence the shape that integration can take, based on the role of the state in the member states' economies; the most influential of which are the hegemon or leaders of the k-group. The cases show that if the k-group agrees then rapid and high levels of integration is possible. However, as was seen in the case of ASEAN, the diverging state-business relations of the member states limited the options for institutionalization. Coupled with the belief of all members in the necessity for national independence, this prevented higher levels of integration. In time, a preferential trading area and then free trade area were both instigated. In contrast, the European Union was shaped by countries that agreed on the role government should take in the economy and thus could negotiate and establish a deeper level of integration more rapidly.

Contrary to the literature, demand from business was found to be unnecessary for the establishment of an integration scheme. The business sector got involved at later stages of integration in ASEAN and the European Union. Both cases seem to suggest that the inclusion of the business sector in the decision-making process, minimally within a consultation process, is important in rapidly and effectively implementing economic arrangements. Integration was found to speed up and eventually deepen when business was involved.

Hegemony was lacking in both cases, but drawing on regime theory, they were able to sustain the functioning regional leadership through a k-group. It is the

coherency of this k-group that determines the ability of a scheme to achieve a deeper level of integration. The cases show that if the dominant economies have divergent state-business relations and economic outlooks, then the leadership is lacking within the group; and negotiations for the progression of integration are conducted at the lowest common denominator in order to ensure the survival of the k-group. This inevitably slows down the process of deepening integration, but guarantees political commitment to each step within it. This is important in order to determine which member's political will is necessary in order for successful integration to occur.

The political will of this k-group is crucial for the successful implementation of an integration scheme. The case of ASEAN demonstrated that integration can occur with no active demand from business, nor the presence of a hegemon, but with a high level of political will for economic cooperation among its members. In the case of the EU, its initial formation also did not include the business sector, nor the presence of a hegemon, since both Germany and France were economically devastated after WWII. However, both were committed to the reconstruction of their economies and the region.

Finally, the empirical evidence shows that the support of the Superpower or Global Hegemon is not a necessity for the establishment of a PTA. In the case of the European Union, the United States was not only supportive but provided financial aid in the first steps of European integration, the OEEC. However, as integration deepened, the US became increasingly distant from its support for the EU. Although not explicitly opposed to the creation of a European Monetary Union, the US was concerned with the EU's potential competitive power should the EMU succeed. This

did not prevent the region from successfully implementing the Euro in ten member states. In the case of ASEAN, the US was supportive of its establishment as a block to the Soviet Union. However, it was in essence indifferent to its development due to its focus on American initiated groups such as SEATO, and APEC. This indifference left ASEAN members to build the Association on their own without external incentives or interference. This evidence suggests that the role of the hegemon or superpower is minimal, it may influence the speed with which a scheme can be established and progress to higher levels of integration.

6.2.2 The Influence of Regime Type

The second hypothesis of this has been rejected. The diversity of regime types in the region is not a determining factor for achieving integration. ASEAN and the EU were opposing cases in terms of regime diversity, but both were able to overcome their diverging views of the state and move towards deeper integration.

Figure 6.2 Findings Related to Hypothesis 2

- Regime type does not effect a given scheme's ability to establish an effective PTA.
- Regime heterogeneity does not alter the outcome, but influences the speed at which the progression within a scheme can occur.
- Regime heterogeneity combined with lack of clear leadership within a k-group results in incremental progression of a scheme, through negotiations to the lowest common denominator.
- Where divergence within the k-group occurs, an economic crisis will crystallize political will within the k-group and decrease the effect of regime variance. In both cases it resulted in movement towards deepening integration.

The EU was not only homogenous in its regime makeup, but all the members were democracies, raising the possibility of its ability to achieve high levels of integration was due to its similar domestic political structures. Furthermore,

according to DPT, the homogeneity of democracies decreased likelihood of the initial disputes being resolved through military conflict. However, ASEAN seems to disprove that fact. Comparing the two cases, both were economically weak regions at the time of integration, both lacked a hegemon, and both began integration by targeted liberalization. The significant differences, for this study, were the fact that the EU had complementary regional economies and a homogenous regime type between its members, while ASEAN had non-complementary regional economies and heterogeneous regime types between its members. The fact that both were able to overcome initial intra-regional security concerns, the dispute over the Sabah and the Franco-German rivalry, and progress incrementally towards deeper integration suggests that the success of the schemes, rather than regimes, influenced the outcomes.

This is not to say that regime diversity has no impact on the level of integration in a region. Instead, I suggest that regime influences the speed at which integration can occur in as much as it shapes the state-business relations within the PTA. The variance in regime type between the economically dominant states within the k-group can also contribute to slowing down the process, by making clear leadership more difficult and requiring the negotiation of agreements to the lowest common denominator.

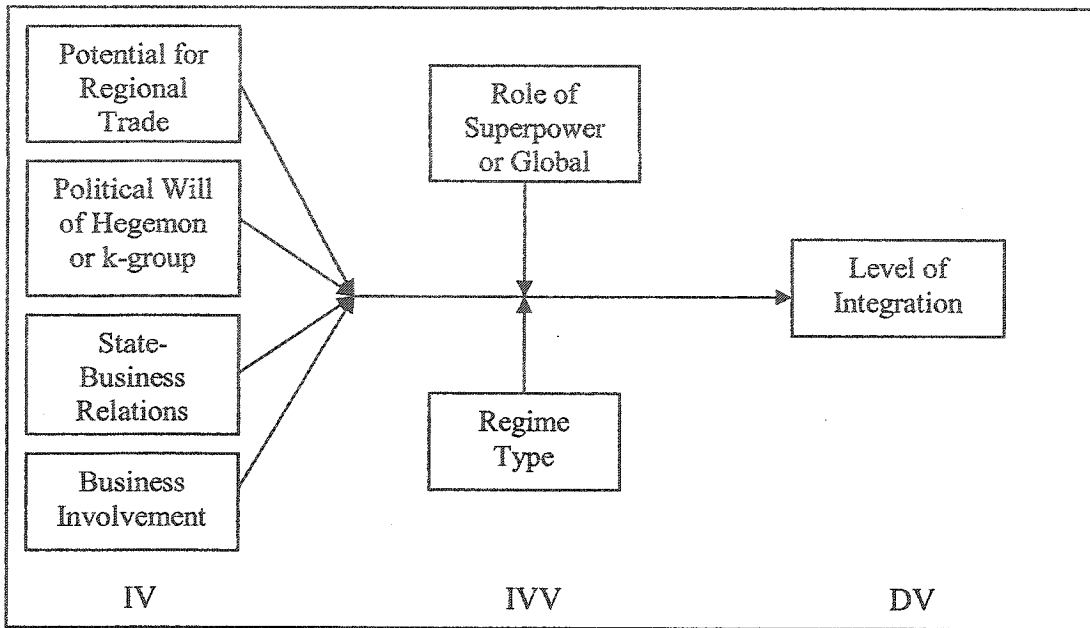
ASEAN has shown that a democratic government is not necessary to successfully integrate a region. As long as the member states have a similar vision of the ultimate goal, economic integration is possible. In addition, what may also make the role of regime types less important is the existence of an external threat or

economic crisis that can drive and crystallize political will. In the case of Europe, the external threat was the USSR in Berlin and the economic crisis the devastation of WWII. In the case of ASEAN, the threat was the potential for externally sponsored communist insurgency and Great Power interference in the region. In both cases, an economic crisis, the recession in the early eighties in Europe and the Asian financial crisis in ASEAN, acted as a catalyst for a deeper integration, and the crystallizing political will.

6.3 So What Explains the Variance: Suggesting a Revised Version of an Analytical Framework

As has been established in the previous chapters, the regional integration schemes were shaped by a combination of both systemic and domestic factors. At the start of this thesis, I outlined an analytical framework that proposed a list of independent variables affecting a region's level of integration (*level of trade, role of the superpower or global hegemon, state-business relations of member states, political will of regional hegemon or k-group and demand from business*). However, this research has shown that not all are equally influential and some are not independent variables (see figure 6.3).

Figure 6.3 Revised Version of the Analytical Framework



The results drawn from the case studies unveil necessary revisions to my analytical approach. The most influential variables (i.e. *state-business relations of member states* and *political will of regional hegemon or k-group*) are maintained, and *the role of the superpower or global hegemon* is downgraded to the level of intervening variable (IVV). *Demand from business* is shifted to *business involvement*, mirroring the case studies where demand from business did not exist in most cases, while their participation in practice was beneficial. *Level of trade* is also changed to *potential for regional trade* in order to reflect the findings of the research that highlight the importance of economic complementarity over pre-existing levels of trade. Both remain as independent variables, albeit of less significance ones than the other two.

6.4 Some Conclusions and Future Research

The plausibility probe conducted in this study posits that the level of integration of a given PTA is shaped by the interaction of systemic and domestic factors. Also, it is important to note that the cases examined seem to indicate that regime type does not dictate a region's capacity to establish and deepen its level of integration, although it may influence the timeframe in which it can be reached. Given its application to the two extreme cases, the analytical framework applied in this study can be replicated, and future research should examine whether the observations hold true with the other cases of integration schemes around the world. Access to first hand accounts and interviews was limited during the investigation of this project due to time and space constraints. Therefore, continuing study in this area should also take a closer look at the decision-makers within this process to determine whether this suggested relationship is a causal one.

This thesis raises some questions relevant to the literature by positing that integration schemes can be compared in a manner that would explain their institutional variance as well as effectiveness for the provision of economic benefits. However, the approach is limited in determining level of integration prior to the formation of the scheme and explaining the complete lack of integration in certain regions. Future research is necessary to find the tipping point in the presence of these factors that would make a region decide to undertake a PTA. More examination of the identity building factors that would be necessary for a region's move towards a political union. Specifically, a quantitative study should be conducted to examine

whether the symbols and institutions that are present affect the perceptions of the citizens within the region, making a common political identity plausible.

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