

MSc. International Relations and Diplomacy



**REGIONAL ECONOMIC INTEGRATION AND
DEMOCRATIZATION IN SOUTHEAST ASIA
WHY IS AUTHORITARIANISM ENDURING IN THE REGION?**

Master Thesis

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1 Introduction

The European Union (EU) was established in 1993. Yet, the sense of community had already begun by 1951 under the setup of the European Community of Coal and Steel. It took only 40 years for the international organization to transform into a supranational institution. Meanwhile, the Association of Southeast Asian Nations (ASEAN) was formed in 1967 which was long before the formal integration of the EU. Today, ASEAN still focuses on economic exchange and aims to create a common ASEAN market. From the political viewpoint, it remains an informal and non-institutional organization which is far behind the EU model.

The intensity and speed of institutional changes differ as regional institutions do not necessarily converge into a particular model or towards a reference point provided by other more aspired model such as the EU. The EU experience arguably affects the way in which regional integration is theorized and is often fundamental to study other regional cooperation. As regional integration is gaining momentum in international relations, the theories of regional integration have been applied to ASEAN less systematically. Although the structure and process of region-building show similarities, it is essential to emphasize the differences. Theories and concepts that are developed according to the EU experience might only partially be used as comparison or a starting point. The regional integration models could be easily imitated but are difficult to be applied in entirety since different regions share different levels of economic development and less homogenous political systems.

As a regional intergovernmental organization, ASEAN aims to accelerate economic growth and trade through closer cooperation among member states (ASEAN, 2017). There is measurable success on its economic development within the region; however, there is limited achievement in terms of political development (Aminuddin & Purnomo, 2017). Since the establishment of ASEAN Economic Community (AEC) in 2015, ASEAN as a single identity currently represents the world's third largest market in relative to its size and economy (World Bank, 2016). The facilitation of trade has improved and hence interdependence within the region has increased. As of 2015, the poverty rate in the region has reduced from 33 percent to 15.3 percent since 2000 (Majumdar, 2016). Half of the number of ASEAN member states falls into the category of flawed democracies while the other half remains under authoritative rule (The Economist Intelligence Unit, 2018). The authoritarian countries

have gone through economic reform by shifting from a planned economic model to mixed economies. Countries with a mixed economy benefit greatly from a deeper integration of the ASEAN Free Trade Area (AFTA) and show no sign of progress towards political regime change especially in favor of the evolving state development in the era of neoliberal globalization.

On one hand, Myanmar has liberalized its political system for the first time after decades of military control. The government remains a quasi-civilian regime administration as the military retains absolute power in national security and border affairs (Win, 2016). However, the transition has helped to lift economic sanctions which then promotes trade. On the other hand, Thailand's democracy has been questioned after a vicious cycle of coups taking control of its government (Jordan & Jagtiani, 2017). Yet, the country remains as one of the largest economic contributors in the region. Democracy in the region is merely electoral and can be seen in Cambodia, Laos and Vietnam, where democracy produces 'elected autocrats' (Kurlantzick, 2012). Given the fairly high economic integration, it remains questionable that the regional institution is less politically integrated in order to consolidate democracy in Southeast Asia. Observers of state democracy fear that democracy in the region is in decline, not that democracy is receding but it is authoritarianism that is enduring (Pepinsky, 2017). Thus, the focus of this research is to apply complementary theories to the ASEAN context without presuming a particular causal relationship derived from the EU experience.

1.1 Research Question

Drawing from the discussion above, the aim of this research is to reflect the concepts of regional integration in a more critical and reflexive approach. Using highly theorized approaches that focus on a certain conceptual level to study the empirical differences between regions would risk undermining the important differences in the integration policy among member states. As the regionalization in Southeast Asia is predominantly driven by economic interest through a trade bloc, the causal mechanism between regional economic integration and democratization in the Southeast Asian region should be the focal point. Hence, this

research attempts to turn over the conventional wisdom of the causal mechanism that economic integration leads to democracy, by asking the question:

How does regional economic integration impede democratization in Southeast Asia in the era of neoliberal globalization?

The initial assumption is that a perverse effect exists between economic integration and democracy after a certain level of integration and development in a changing economic environment. This research determines whether the assumption is supported. The diverse political systems with clashing cultural foundations in the region pose the challenge to generalize the experience of regional integration through the EU context. It has to go beyond the EU experience to determine whether the effect of economic integration is positive or negative on the process of democratization in Southeast Asia. Focusing on the theories derived from the EU experience, this thesis attempts to show that there are various approaches that could study different forms of regional integration as it is not possible for one theory to account for different empirical trends of regional integration.

1.2 General Understanding of Regional Integration

The theory of regional integration has taken the center stage of international relations and international political economy as the theory generally derives from the model of the European Union (EU). Unsurprisingly, the EU model often serves as a major reference point or a standard model of integration in attempts of region building in other parts of the world. The EU has subsequently expanded its foreign policy to maintain external relations with most regions in the world. Whether the promotion or export of the integration model lies in the agenda of the EU, it encourages countries to adopt the model of Europeanization in order to obtain closer relations with the EU (Borzel, Pamuk, & Stahn, 2008). In a way, the EU has developed certain criteria into its foreign policy while signing agreements with external partners especially for third world and developing countries. The most contested criterion undoubtedly is the concept of democracy (Grugel, 2004; Smith, 2008). In the EU case, apart from geographic proximity, democracy seems to be the most important element that increases the intensity of economic cooperation.

Rattanasevee (2014) explains that there is no commonly accepted definition of region which extends to the term regionalism is due to the lack of precise concepts and methods to distinguish member states that form into groups that could be comparable with other groups. Most would consider “regionness” (Hettne & Soderbaum, 2000) to the process and structure of building a region based on geographical proximity, closer socio-cultural linkages, similar economic ground, as well as a certain degree of cultural homogeneity and sense of community (Borzel, 2011; Hurrell, 1995; Rattanasevee, 2014; Russett, 1967). As the term regionalism is commonly treated as an instance of international cooperation between countries of close geographical proximity, it is also used synonymously with regional cooperation and regional integration (Borzel, 2011). However in political science, regional cooperation could be perceptibly different from regional integration on a continuum. Regional cooperation is usually referred to the joint effort to solve collective action problems through intergovernmental institutions. By contrast, regional integration refers to political authority that is delegated to make binding decisions by setting up a supranational institution (Borzel, 2011).

However, Borzel (2011) mentions that economic integration is more comprehensive as the issues that are usually trade-relevant are covered by regional agreements. In addition, the degree of interference on economic affairs by the government or the private sectors is less complicated than integration in other areas. There are existing typologies of regionalization that categorize regional cooperation into five patterns which also varies by degree of integration (Warleigh-Lack, 2008, p. 52). These five types of regionalization are categorized into structured, dominance, security, network, and conjoined regionalization. The EU model is classified as structured regionalization where authority is delegated to many policy areas under a complex multi-layered entity. ASEAN falls into the category of network regionalization which Warleigh-Lack (2008) explains is an identity-driven response to globalization. It is less institutionalized and relies primarily on intergovernmental cooperation.

There are a number of theories and approaches that are applied to the concept of regional integration (Frieden 2002; Mansfield, 1998; Mattli, 1999; Moravcsik 1997). The rationalist approach is widely applied in explaining regional economic integration. The material gains are seen as the drivers to demand for increasing regional integration. The demand is also driven by the need to cope with globalization due to greater competition since global markets, labors, technologies, and information are increasingly mobile which made the flow of these factors hard to control (Mattli, 1999; Schirm, 2002). The neofunctionalist

approach emphasizes the benefits of trade liberalization and the benefits are often not equally shared among interest groups. Hence, it requires joint forces to solve transnational problems. Thus, regional integration leads to the emergence of a single European market and a Euro zone. The liberal intergovernmentalist approach has a starting point similar to neofunctionalist. Domestic interest groups form alliances across borders to channel their interests in order to gain influence in the international decision-making process (Moravcsik, 1998).

Economic integration is not just about breaking down national barriers but it also to cope with negative externalities of liberalization and globalization (Borzel, 2011). While the demand for regional integration is predominantly driven by economic interdependence, the benefits of increasing trade creates a spill-over effect which extends to political and security issues. The economic integration is also seen as a means to overcome the resistance of national authority against policies that lie at the core of state sovereignty (Haas, 1967; Mitrany, 1966). Other than geographic proximity, democratic principles are also seen to be an important factor that increases the intensity and depth of economic integration among member states (Mansfield, Milner, & Rosendorff, 2000).

To treat the EU model as a universal concept, a quick glance would appear to confirm that the model has the character of 'one-size-fits-all'. If the EU experience is applied unquestioningly to other regional institutions, a direct comparison of different models is unable to reflect the dynamics of regional integration. It also undermines the important differences projected by other regions and it is essential for this research to examine how the theories derived from the EU experience can play out in different regions. Hence, this thesis intends to obtain a better understanding of the dynamics of regional integration by focusing on the element of democracy in the integration process.

2 Methodology

2.1 General Research Strategy

The scope of research question indicates an explanatory research framework that reveals the causal mechanisms between regional economic integration and progress towards democracy through the studies of the causes of events. To study the relevant events leading to an outcome, the explanatory research can build a retrospective account of why and how a particular event occurred, in this case the effect of regional economic integration on the progress of democratization. Such empirical research also serves to test theories or to be used to apply with existing theories as this research shall be supported by descriptive means to provide necessary information and explanation of cases that shall be applied in this research. In existing academic research in the field of economic integration, Asian Development Bank conducts research through the use of content analysis by interpreting data, tables, and charts collected from ASEAN Secretariat database (in Hill & Menon, 2010). As Hill's and Menon's (2010) research does not aim to study the causal relation of regional economic integration and democracy, the current research adopts a similar research design of Asian Development Bank working paper using documentary analysis. As the working paper does not go over the aspect of democracy, this research shall expand the scope to determine the causal relation between regional economic integration and democratization.

This research adopts congruence analysis to reflect on the relationship between empirical observations and theories. A diverse set of observations is gathered to connect empirical cases to multiple theories. **Congruence analysis approach** is an explanatory research design that uses case studies to determine the relative strength of theories based on empirical evidence. Blatter and Haverland (2012) distinguish two subtypes of congruence analysis where the first subtype is a competing theories approach and the second subtype is a complementary theories approach. This research will apply the second subtype of congruence analysis by assuming that theories do not necessarily lead to contradicting implication but rather complementary in the real world. Blatter and Haverland (2012) point out that this plurality of theories can provide more comprehensive explanations as well as to highlight explanatory insights that are could be easily neglected. However, results obtained might not

be generalizable to other causal mechanisms beyond the ASEAN context as the comparative method is not employed in this research.

2.2 Case Selection

This research focuses on theories that derive from multiple dimensions such as regional integration, characteristics and functions of states, and economy. These theories are tested on regional organization in the Southeast Asian region, ASEAN. This research uses congruence analysis to study ASEAN as a whole. There are ten member states in ASEAN. However, this research focuses on nine member states excluding Brunei due to a lack of publicly available resources. With the assumption that ASEAN has shown little progress in political integration to promote democratization in the region, the time frame of study is set to a period of ten years starting from 2006 which was before the adoption of the ASEAN Charter. The ASEAN Charter was adopted in 2007 and its application began in 2008. The Charter serves as the foundation of the ASEAN Community that provides the institutional framework for ASEAN. Based on the context of the Charter, it is assumed that it consolidates the integration among member states through enhanced commitment especially regarding political aspects. The time frame from year 2006 to 2016 would be the best fit to study the level and commitment of integration in the era of neoliberal globalization.

To generate comprehensive study of this research and to test the theories on a particular member state, this research further analyses one member state, which is the Kingdom of Thailand. Thailand has been playing an essential role in the emergence of regional integration in Southeast Asia. It is the only country that escaped colonial control and was able to retain its unique culture that is embedded in the nation-building process. However, Thailand has also absorbed the Western ideas of modernization to strengthen its rule and slowly integrated into the global economy. As one of the founding members of ASEAN, Thailand continues to promote ASEAN through extensive inclusivity of its people. ASEAN has been a main pillar of Thai foreign policy which allows Thailand to slowly transform into a business hub. The country has continuously and actively contributed to ASEAN's centrality in the region. However, the survival of democracy in Thailand has been a conflicting issue in recent years. Thailand's democracy is undermined by the vicious cycle of military coups. The people of Thailand are facing human rights crisis. Would the political instability in Thailand

risk the economic development and gradually halt the democratization process in the country? With little progress towards democracy, the striking economic performance in Thailand can provide better insights for this research to connect the empirical evidence and abstract theories.

2.3 Data Collection

The secondary resources are obtained from official statements, foreign policies, media statements, opinion editorials, and featured articles that are publicly accessible. To trace the progress and level of integration, this research looks into, for instance, the context of discussion in ASEAN Summits and relevant forums and meetings in the region. Besides analysing secondary sources, field research is conducted to collect primary sources to bring new insights for this research that studies beyond the conventional wisdom on the causal relations between democracy and economy. With limited contextual information that can be derived from secondary data, interviews were conducted. Results that are gathered from secondary resources and interviews are compared to find out if they are consistent or contradicting.

Interview requests were sent out to political economy scholars and diplomats based in the Southeast Asian region. Semistructured interviews were the best means of gathering primary data for this research with the use of open-ended questions that covers specific areas of interest. Properly structured questions and topics serve as interview guides for the author to have full control of the interview (Bernard, 2002). Interviewees can freely express their opinions which include ideas that would reject the proposed hypotheses of the research. The interview guide is divided into sections addressing specific areas and an in-depth discussion on the indicators of concepts. Then, questions regarding the causal mechanisms between concepts and theories are asked to determine the possibility of supporting or rejecting hypotheses of the research. Prompts and probing questions are used in order for the interview to be effective as it would stimulate more information from the interview subjects (Bernard, 2002).

3 Literature Review

The emergence of regional organizations after the outbreak of the Cold War has proliferated which often leads to shared observations that the increase in economic interdependence and integration is studied in the Cold War context (Lupel, 2004; Omae, 1995; Schulz, Soderbaum, & Ojendal, 2001; Strange, 1996). Scholars then develop the concept of Europeanization to study how the EU model has shaped economic and political outcomes in the region. (Borzel & Risse, 2007; Featherstone & Radaelli, 2003; Knill & Lehmkuhl, 1999). Various causal mechanisms are developed to study the impact of integration upon policies, institution, and domestic structure of member states. Theories have been developed to study the phenomena of increasing numbers of regional organizations. However, Borzel (2011) points out that the Cold War was not necessarily the turning point that leads to the wave of regional integration. In fact, regional integration has surged before in Latin America during the 1950s and 1960s (Fawcett & Serrano, 2005). Borzel (2011) suggests that countries which cooperate through trade subsequently form 'defensive regional blocs' (p. 12). However, he emphasizes that increase in economic integration does not necessary indicate that the countries will go through political and economic reform to be part of the global trade regime.

There is very little literature which studies the causal relation between regional economic integration and democratization. There are a series of working papers produced by Asian Development Bank that study the regional integration in Asia but few that goes over the aspect of democracy. Existing literature focuses mostly on the causal relations between institutions and integration and between economic development and democracy respectively. Some scholars see democracy to have inverse effect with economic development. They claim that wealthy countries could develop to a high economic level not solely because of democracy but for other reasons. Przeworski and Limongi (1997) argue that economic development comes first as it is necessary to create a favorable environment for democracy. The economic development of wealthier countries would eventually slow down after democracy is established. Meanwhile, poor countries need to achieve a certain level of economic growth in order to create favorable environment for democracy such that economic growth can be enjoyed to an extent not retarded by democracy (Przeworski and Limongi, 1997, p. 169). On top of that, the role of democratic development to construct a regional community remains ambiguous in the Southeast Asian region as political leaders have even

claimed that ‘democracy is an unaffordable luxury until sufficient economic prosperity was achieved’ (Thompson, 2004, p. 1083).

In fact, the arguments above provide similar perceptions relevant to economic integration. Regional economic integration can be realized in multiple ways as it does not derive from or follow one particular model. Hence, particular framework that explains regional economic integration suggested by the EU experience should not be interpreted in a way that regional integration is a European phenomenon. In this case, democracy in Southeast Asia has the likelihood to emerge in a way that is more contentious as the countries in the region are far from liberal democracies. The process of democratization in the region lies in the interest of member states and is perhaps affected by other external factors which neglects the importance of political development. The English school of international relations (ES) is claimed to best capture the ASEAN’s ability in reinforcing a normative environment in Southeast Asia (Narine, 2006). The ES highlights that the creation of regional identity is not necessary for states to cooperate. States will rationally cooperate with another when they perceive the advantages of working together will sustain their power in international politics (Narine, 2008, p. 413).

To study the function of ASEAN as an organization, scholars have tested a number of theoretical approaches that help narrowing the choice of theories to be applied in this research (Acharya, 2001; Eaton & Stubbs, 2006; Jones & Smith, 2002; Narine, 2008). Of the most widely used theories to study institutions, Narine explains that the constructivist theory is most applicable yet limited to the case of ASEAN. As the constructivist theory emphasizes the shaping of identity that promotes acceptable regional behavior, this emphasis misapprehends the nature of state interaction among ASEAN members. It is argued that what lies in the core values of ASEAN “often work *against* the development of a cohesive regional organization” (Narine, 2008, p. 412). As a pluralistic community, ASEAN’s ability to promote cooperation between members is reflected in the shared common interests but it lacks a strong sense of collective identity that weakens the institution (Collins, 2007; Emmerson, 2005).

Levy (2008) presents a distinct approach to study how economic integration can foster democracy. He highlights the means of democratization rather than the motive to democratize. He argues that ‘incipient democracy’ should be treated as a latent variable because the progress towards democracy is less observable in its earliest stages (Levy, 2008, p. 7). His

argument is illustrated in the case of China where the opening of its economy allowed the country to become one of the largest trade partners in the region. However, the democratic progress in China is seen to have advanced little based on dominant measures of political development. Yet, he argues that China's economic liberalization allows greater potential for democratic progress compared to the period before opening up its market. He highlights that an increase in the means to achieve democratic change can enhance the potential for democratic progress.

The means to achieve democratic change is also necessary to increase economic integration. However, Levy (2008) also clarifies that his argument might not apply to countries that concentrate in single extractive industries given the abundant natural resources. He points out the paradoxical situation of the 'resource curse' that retards economy when the countries are overly dependent on the natural resources and neglect investments in other sectors (Levy, 2008, p. 3). This approach however is not applicable to ASEAN as it represents a pluralistic region. The ASEAN members have developed a sense of closeness despite different views of democracy. ASEAN norms and culture are shaped along the development. Hence, these norms and culture lessen the potential for democratization when members are already accepted as the way they are as one ASEAN community. As Levy's study does not account for the case of ASEAN, it will not be applied in this research.

The research of Magistretti and Tabellini (2017) points out that economic integration may generate heterogeneous effects on democracy which is dependent on the institutions of trade partners. Although the result shows that economic integration with democratic trade partners is positive on democracy, this positive effect of spreading democracy through learning processes is more effective in countries with weak institutions and low levels of economic development. They highlight that through the same channel of promoting democracy, the impact of economic integration on deeply rooted autocracies is however, substantially different on the process of democratization. The effects on the process of democratization depend on the institutions of the countries as the government or ruling elites in autocracies are in better position to suppress political liberalization and thus hinder the emergence of democracy. The direction of the change depends on the identities of groups, parties or entities involved or benefited from the trade, or on the existing institutional environment.

Moreover, Cheibub and Vreeland (2011) draw on the modernization theory and argue that economic development does not result in the emergence of democracy but the correlation between these two factors derives from the survival of democracy. They point out that authoritarian regimes are unlikely to progress towards democratization despite the increasing level of trade and economic development. Przeworski (2005) explains that the cost of becoming dictator is relatively low in poor countries and the chances of democracy to survive are slim. Thus, poorer countries face higher risk of reverting to authoritarian regime. These literatures highlight the correlation between institutions of states and progress towards democracy. Thus, this research shall borrow Margistretti's and Tabellini's study and apply to the analytical framework.

The ES fails to consider the stability of domestic politics in developing countries. Stability of domestic politics affects the nation-building process, which then shapes the nation's foreign policy (Narine, 2008, p. 413). Meanwhile, Genna and Hiroi (2015) suggest that democratic conditionality can promote democracy and domestic political stability. In this case, democracy becomes a condition to be part of a regional integration organization treaty. These conditions are known as democracy clauses. Democracy clauses are usually found in regional integration organization treaties. Such democracy clauses are essential for membership conditionality for the expansion of regional economic integration. They note that domestic political instability will have negative spillover effect which would impede the success of economic integration. They further suggest the need to legalize democracy as a membership conditionality so that member states that share similar principles can overcome collective action problems more effectively (p. 1).

Besides, legalizing democratic conditionality can also be a justification for intervention in member states' domestic affairs (Genna and Hiroi, 2015, p. 17). Such democratic gains are seen to be effective in promoting democracy within a region. However, if democratic conditionality can justify for interference in domestic affair, this suggestion shall not be applicable in the context of ASEAN. Based on Hedley Bull's concept of IR, Narine argues that ASEAN members "embrace policies at odds with the values embodied in ASEAN" is in fact a fundamental commitment in pursuing state sovereignty (Narine, 2006, p. 200). Whether the regional integration endures, it depends on the commitment of ASEAN member states towards securing national sovereignty. These studies highlight different mechanisms that might be operating in ASEAN and hence shall be further elaborated in the analytical framework.

4 Analytical Framework

4.1 Theories and Hypotheses

Regional economic integration exists in the context of ASEAN but there is a clear distinction from political integration in the region. Hence, the main argument of this research is that concentrating on economic integration while deliberately avoiding political integration impacts the process of democratization as it lessens the political learning and sharing of democratic values among member states. Most integration theories are limited to the context of European integration. Scholars often ask whether existing regional integration theories can be projected to other regions. Different aspects of the integration process have to be explained with different theories as the phenomenon of regional integration can be a result of various driving force (Haftel, 2013; Puchala, 1971). This is where different theories or multi-causal frameworks come into play as such approaches are more capable in analyzing the dynamics of integration (Cornett & Caporaso, 1992).

This paper proposes two analytical frameworks to study the process of regional economic integration: **intergovernmentalism** and **neoliberalism**. Both intergovernmentalism and neoliberalism are the driving force of closer economic integration. But the same driving forces could also be the factors that cause negative change in levels of democracy. By capturing the multidimensionality of the framework, the key concepts that will be analyzed under the proposed framework are *regional economic integration* and *democratization*. To compensate the theoretical frameworks that might not be capable of fully explaining the aspects of regional integration, this research draws on two other relevant theories namely **collective action** and **institutions**. By drawing on these two additional theories, this research emphasizes the roots of motivation that led to closer integration as they are often overlooked. A sounder understanding of the relationship between regional economic integration and democracy is necessary as it is particularly complicated not only for statistical difficulties but also due to the lack of unambiguous theoretical consensus. The causal mechanism could be unidirectional or non-linear or possibly cause a perverse effect.

4.1.1 Intergovernmentalism

The theory of intergovernmentalism is developed from the realist approach. It was then revised into liberal intergovernmentalism by Stanley Hoffman in 1965 to counter-argue the neofunctionalist approach (Rattanaseeve, 2014, p. 49). Although the idea of realism contrasts to neoliberalism, both versions still emphasize the state-centric perspective where states' interests converge to achieve beneficial collective outcomes (Sterling-Folker, 2010, p. 114). States will unify to achieve specific goals by creating international regimes or informal institution that would consist of certain norms and decision-making procedures. Such norms in ASEAN is often referred to the unique political approach of 'the ASEAN Way'. The ASEAN diplomacy and cooperation center on a cultural basis known as 'the ASEAN Way' (Acharya, 1998, p. 57). The ASEAN Way of consultation and consensus is characterized by an informal, personal, and pragmatic approach (Acharya, 1998; Hill & Menon, 2010). ASEAN's decision-making is based on consensus more than majority rule. It has been a puzzle for observers that ASEAN members refused to criticize or touch upon contentious issues such as human rights and territorial disputes. This puzzle then leads back to ASEAN's noninterventionist policy that is enshrined in the ASEAN Charter (Angara, 2017).

The principle of non-interference in member states' domestic affairs explains the durability of regionalism but has limited effectiveness to operate as a single entity in political development. Hill and Menon (2010) point out that ASEAN leaders deliberately avoid creating a supranational regional institution and serve no more than a diplomatic facilitator or a trade bloc. However, relationship building is already half the challenge to solving other issues and this could be one of the largest obstacles in sharing democratic values. The characteristic of the 'ASEAN Way' projects the durability of ASEAN but it also "limits the effectiveness and capacity for strong and decisive action" in the region (Hill & Menon, 2010, p. 2). Regionalization and globalization complicate the concept of sovereignty. A loss of sovereignty would imply a loss of control over one's national interest and policy. It is less likely for ASEAN to develop formal mechanisms which coordinate policy that operates towards democracy. ASEAN member states realize the preeminent importance of building solidarity and self-sustainable mechanism and aim for economic growth regardless of democratic principles. But achievement of economic growth is not always followed by an increase in sharing democratic values especially when the concept of liberal democracy differs in the Asian region (Aminuddin & Purnomo, 2017, p. 25). Hence, the establishment of

ASEAN Charter and the ASEAN Community allows member states to secure their common goals rather than focusing on competing interests.

Thus, hypothesis one and hypothesis two derive from the theory of intergovernmentalism.

H1 Regional economic integration that drives member states to form a common political agenda increases member states' resistance to external pressure to democratize.

H2 The respect of state sovereignty and the principle of non-interference in internal affairs increase the attention given to economic development while successfully excluding political issue of democratization.

4.1.2 Intergovernmentalism and Collective Action

Genna and Hiroi (2015) point out that political instability in one country generates negative spillover and hinders the economic success of regional integration (p. 17). Domestic political instability prevents member states from deeper integration. In this regard, they suggest that “domestic political stability is a collective good for regional integration organization” (p. 4). Scholars assume that political instability would reduce economic welfare of a country and when one issue area (political issues) lacks cooperation, it will have the same impact on another issue area (economic welfare) (Gleditsch & Ward, 2006; Johnson & Urpelainen, 2012). As integration organization would deepen the economic integration among member states, Genna and Hiroi (2015) assume that the anticipation of spill-over would in turn encourages member states to collectively defend the shared benefits and prevent the backsliding of democracy within countries that are part of the regional integration (p. 2). Hence, the success of integration depends on the collective actions and behaviors to produce desired outcomes (Koremenos, Lipson & Snidal, 2004).

Regional integration is intended to provide security for member states against external threats and from contemporary global issues. When the cooperative effort can maintain stability in the region, it would “boost security and lock in democracy” (Grenade, 2016, p. 509). This can be projected in 2008 economic crisis where a collective approach from the EU was needed to bail their member states out of the crisis. Aminuddin and Purnomo (2017) also emphasize the importance of maintaining political stability in a region. Conflict between one member state and actors outside the region, to some extent will influence the political stability within the region. Yet, if member states are reluctant to be involved in domestic

issues of another, it would limit the effort to promote regional democratization (Aminuddin & Purnomo, 2017, p. 30).

Thus, hypothesis three derives from both theories of intergovernmentalism and collective action.

H3 Political instability in one country can have negative spillover effect and impede the economic success of regional integration and may hinder sharing of democratic values among member states.

4.1.3 Neoliberalism in Political Economy

Neoliberalism is one of the most debated theories given the wide range of definitions from political, social, and economic dimensions. The IR neoliberalism, or neoliberal institutionalism derives from the theory of liberalism which is developed by Immanuel Kant. Theory of neoliberalism focuses on absolute gains rather than relative gains in international relations. When states come together their self-interests will be unified and hence states have to decide on their interest priorities based on cost-to-benefit analysis to obtain international collective outcomes (Sterling-Folker, 2010, p. 115). Although this concept of neoliberalism is capable of explaining the establishment and evolution of ASEAN, this section however focuses on the context of economy and trade instead of the institution itself. Hence, the theory of neoliberalism of this research employs the political economy insights provided by social scientist, David Harvey. Neoliberalism supports free trade, free market, and privatization of capitals which is often associated with capitalist economy. Harvey explains that countries gradually adopt neoliberal policy to liberalize their economies after the collapse of the Soviet Union (p. 3). It is assumed that such policy is best for a nation's welfare by "liberating individual entrepreneurial freedoms and skills" with minimal amount of state interference (Harvey, 2005, p. 2).

Harvey's analysis of neoliberalism stems from Marxist theory about the nature of capital itself. The outcome of neoliberalism resembles the revolutionary process of 'creative destruction' due to intense pursuance of information technologies. It impacts not only institutional power and frameworks but also have significant effect on divisions of labor, social relations, and welfare provisions (Harvey, 2005, p. 3). This is consequent to industrial

revolution that restructures the economy in order to replace it by innovation and competition. Thus, Harvey sees the common understanding of neoliberalism as a hegemonic discourse that leads to pervasive effects on how it is interpreted in today's political and social context. Harvey (2005) claims that neoliberalism is an intensification of capitalism which resurges after the opposition of Keynesian interventionism (p. 21). He then portrays neoliberalism as the extension of freedom and democracy. Standing from a Marxist point of view, he argues that neoliberal governance and democracy are incompatible. In Harvey's words, neoliberalism "restores class dominance" (p. 40). This is because neoliberal policies supports privatization of capitals which provide conditions for capital accumulation by economic elites. The increase freedom of accumulating capitals would risk the restoration of class power by economic elites (p. 19). The redistribution of capital would increase social inequality (Harvey, 2005, p. 16). Hence, a persistent rise in social inequality under neoliberalism might not create a favorable environment for democracy.

Meanwhile, the theory of neoliberalism also predicts and explains a phenomena such that countries will be better off when they integrate (Genna & Hiroi, 2015, p. 2). By breaking down geographical barriers and trade barriers between domestic and international affairs, the many aspects of neoliberalism can address the interactions among governments when state boundaries are increasingly permeable (Little, 1996). Krugman and Obstfeld (2008) explain that integrated markets and free trade can promote economic growth through economies of scale. Markets can operate more efficiently but provided there is a politically stable environment. ASEAN has entered into multiple free trade agreements with countries outside the region. These agreements are radically altering the global sourcing and manufacturing landscape that makes trade more favorable. Thus, the ASEAN Free Trade Area (AFTA) contributes to the regional stability by promoting interactions between states and increase economic interdependence. This in turns fosters a neutral environment for member states to address not only economic issues but also other shared challenges in the era of globalization.

The political institution in East Asia has set path of democracy in the region but more or less from the outgrowth of capitalism which is commonly associated with the Western value of industrialization and economic reform in the context of neoliberal globalization. However, the use of market mechanisms to liberalize economy did not suggest further political reform (Grenade, 2016). Economic reform and trade could drive economic growth which would bring higher incomes. Economic growth can create an environment that is favorable for democracy (Przeworski and Limongi, 1997, p. 169). Paradoxically, market-led

economy can promote as well as can impede democracy (Grenade, 2016, p. 512). Similar to Harvey's arguments, Grenade also points out that conditions of democracy might not be supportive in the context of capitalist economy. The logic of economic integration creates trade and welfare gains is geared to enhancing prosperity and narrowing the inequality gap among member states. However, as a result of neoliberal globalization, the key issue stems from the contradictions of capitalism that increase the inequality gap which divides the rich and the poor within a country.

The drivers of income inequality are differentiated into exogenous drivers and endogenous drivers (UNDP, 2013). Exogenous drivers of income inequality are trade globalization, financial globalization, and technical change (UNDP, 2013, p. 72). The link between trade and inequality is explained by the Heckscher-Ohlin model. It is predicted that inequality in developing countries will decline when trade increases as it requires more unskilled labor. However, evidence shows the contrary when inequality rises during rapid globalization. Yet, models of trade and income distribution are not sufficient to justify the relations between trade and inequality but they are the triggers to shifting in factors of production and labor institutions (UNDP, 2013, p. 73). Other endogenous factors that drive income inequality include macroeconomic policies, labor market policies, and fiscal policies such as taxation and government expenditure (UNDP, 2013, p. 72). The outgrowth of regionalization and globalization can be ironic as growing inequalities can distort the distribution effects of national wealth (Grenade, 2016, p. 512). Uneven development within a country leads to polarization and social antagonism and such environment is not favorable for democracy.

Thus, hypothesis four derives from the theory of neoliberalism.

H4 Regional economic integration widens the income inequality gap *within* a country and undermines the state, pushing it away from democratization.

4.1.4 Neoliberalism and Institutions

Following the above discussion, the problems of income redistribution and social inequality stem from the contradictions of capitalism underpinned by neoliberal economic globalization. It is assumed that neoliberalism is able to reverse the various political and economic gains made under the Keynesian welfare state policies and emphasizes the limited

state interference in the free market economy. As a result, Harvey draws attention to the important role of the state in a neoliberal economy. Hence, Harvey (2005) defines and justifies state intervention in the neoliberal economy as the following:

Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee, for example, the quality and integrity of money. It must also set up those military, defence, police, and legal structures and functions required to secure private property rights and to guarantee, by force if need be, the proper functioning of markets. (p. 2)

Countries that liberalize their economies and trade would create ‘winners’ and ‘losers’. Winner are those whom benefit from capital accumulation while the losers are those that require protection and welfare security. Moreover, a social and moral economy can be fostered through state intervention (Harvey, 2005, p. 11). Thus, state intervention can coexist with neoliberalism on the condition that is it kept minimal and in necessary areas. If national policy that liberalizes domestic economy risks the tendency towards a minimal state, it arguably requires more government intervention to provide public goods and to protect less efficient industries (Litonjua, 2008). However, the amount of authority is not something that can be monitored nor can the intention behind interference can be controlled. Issues in various areas are given necessary attention only when they are on the list of priorities. As privatization and capital accumulation tend to advance in the industrial sectors and services sectors, the investment in agricultural sector slowly decreases. As resources allocation becomes disproportionate, the neglected sectors will require more subsidies and deeper protectionism (Hashimoto, 2009). Unsurprisingly, it would be reasonable for state intervention. Whether the reallocation of resources and change in policy will be handled as demanded by the nation, it depends if the government is promising.

In addition, the research of Magistretti and Tabellini (2017) shows that democratizing effect of economic openness is driven by integration with democratic partners (p. 26). The institutional learning channel will only be consistent when trading with democratic partners. They suggest that economic integration can affect the process of democratization through

‘supply’ and ‘demand’ factors which then would promote or hinder institutional change of a country (p. 21). Magistretti and Tabellini (2017) illustrate that democratic trade partners may supply democratic values which allow less democratic countries to decide whether to adopt more inclusive institutions. If the less democratic countries are aware that democratic institutions outperform autocratic institutions, arguably they would choose to democratize (p. 28). As for the demand side, the authors suggest that trade provides learning channels or promotes cultural exchange. In this case, citizens of less democratic countries perceive the benefits of being politically inclusive and would in turn demand for democratization. Regardless, the decision of institutional change lies in the hands of the state.

However, Magistretti and Tabellini (2017) also stress that the learning channel that may enhance institutions would only be effective for countries with weaker initial institutions (p. 26). For ruling elites in a better position to suppress democracy, the effect on institutional change may be insignificant even when trading with democratic partners. For this reason, this research suggests the contrary that integrating with less democratic partners will enhance the durability of authoritarianism within a country. The question of what leads to the enduring of autocracy remains. It could be the result of shifting power from West to East that would more or less influence the perception towards democracy in different regions. Besides, observers of state democracy argue that the Chinese model of state-led capitalism is seen as a successful system and assume that such model of institution is trending in the Asian region (Pongsudhirak, 2018). Such Chinese model could be the strength of durable authoritarianism in less democratic countries (Pepinsky, 2017).

Thus, hypothesis five and hypothesis six derive from both theories of neoliberalism and institutions.

H5 Regional economic integration requires more government regulation, which potentially increases state intervention and impedes democratization.

H6 Trading with less democratic partners enhances the durability of authoritarian rule of a country and this could impede democratization.

4.2 Operationalization of Concepts

The focus of this research is to determine the causal mechanism between regional economic integration and democratization. The major indicator of *regional economic integration* (key independent variable) is determined according to the removal of tariff and non-tariff barriers for intra-ASEAN trade. Other indicators of integration taken into consideration from globalization perspectives such as members' contributions to total ASEAN GDP, and the relevance to multiplicity of flows (trade flows, capital flows and human flows) in the region (Arribas, Perez, & Tortosa-Ausina, 2006). These data will be obtained from World Bank database, ASEAN Secretariat database, and Asian Development Bank working paper series. These secondary resources provide both numerical data and descriptive texts which is compatible for the research design of this research. Multiple sources are analysed to determine one indicator in order to ensure that the information provided from one source does not differ much from the other.

The same applies to the indicators of democratization. The index of *democratization* (dependent variable) is determined by the changes in the score of democracy in the propose period of time. Democratization is a process that “encompasses both the emergence and the sustainability of democracy” (Cheibub & Vreeland, 2016, p. 6). It is an institutional transition towards democracy. The indicators of democracy used for this research are based on the Democracy Index in The Economist Intelligence Unit (The EIU) annual report and Freedom in the World report of Freedom House. However, the definition of democracy has long been contentious as it questions the idea of countries to be qualified as democratic. That being the case, democracy index covers all possible elements that qualify countries as democratic. The democracy index in The EIU assesses five important elements of democracy, namely electoral process and pluralism, civil liberties, the functioning of government, political participation, and political culture. These score are classified into four types of regime: full democracy, flawed democracy, hybrid regime, and authoritarian regime. Meanwhile, the Freedom in the World report composes both democracy scores and supporting descriptive texts that explain the state of democracy in different regions in the world. The annual change of scores and ranks of the ASEAN countries will determine the progress or improvements in moving towards more democratic regime.

To study the multiple aspects of integration, nine relevant indexes are drawn to test the hypotheses. These indexes drawn from the hypotheses are: *common agenda*, *external*

pressure, respect of sovereignty, political instability, spillover effect, income inequality, government intervention, trade partner, and institutional change. Although each hypothesis involves multiple aspects of integration, all these aspects are consequent to regional economic integration. And they are all assumed to be the impediments to democratization.

H1 Regional economic integration that drives member states to form a common political agenda increases member states' resistance to external pressure to democratize.

The first hypothesis focuses on how ASEAN member states cope with external pressures as a common identity representing its region in international relations. Two indexes are formulated to operationalize this hypothesis which are *common agenda* and *external pressure*. The *common agenda* is the collective actions taken by member states to make decision in dealing with issues and challenges received out the region. Events and actions that are considered establishing a common agenda are for instance, signing new agreements with non-member states, formulating new policy for the organization, and developing a new plan that concentrates on certain areas. *External pressure* consists of subjective elements which include actions or events that happen outside the region but has significant impact on the cohesion of ASEAN member states. For instance, a change in power structure, change in foreign policy of non-member states, trade sanctions, expression of disapproval by non-member states, and territorial invasion by non-member states.

H2 The respect of state sovereignty and the principle of non-interference in internal affairs increase the attention given to economic development while successfully excluding political issue of democratization.

The third index derives from the second hypothesis. This index is *respect of state sovereignty* as it represents the importance of committing to the principle of non-interference in internal affairs of other member states. Seeking for peaceful dispute settlement is the attribute of respect of state sovereignty. To a greater extent, it also identifies the reluctance or avoidance of member states to publicly discuss the domestic issues of other member states when such domestic issues have already provoked disagreements in the international community. This research will then look into the contents of meetings and dialogues. Furthermore, the

ASEAN's decision-making is characterized by consultation and consensus. Hence, these characteristics are also the attributes of respect of state sovereignty.

H3 Political instability in one country can have negative spillover effect and impede the economic success of regional integration and may hinder sharing of democratic values among member states.

Hypothesis three is formulated from the assumption that political instability would reduce economic welfare of a country and has a spillover effect to other member states. If member states can collectively defend the shared benefits from integration, it can prevent the backsliding of democracy of countries. Hence, the fourth index is *political instability*. *Political instability* includes domestic issues that occurs in one country such as political revolt and race riots. It also refers to international disputes between two or more countries, for instance territorial disputes and trade war. Hence, it includes interstate and intrastate violence. The index of *spillover effect* shall be evaluated based on the changes in bilateral or multilateral relations between states, such as altering foreign policies.

H4 Regional economic integration widens the income inequality gap *within* a country and undermines the state, pushing it away from democratization.

The *income inequality* is an objective indicator. It shall be evaluated by comparing whether the distribution gap of household or individual income of each member states has increased within a proposed timeframe. The income inequality gap of each member state will be assessed individually and not in comparison with one another. The percentage of changes in income equality is obtained from the World Bank database.

H5 Regional economic integration requires more government regulation, which potentially increases state intervention and impedes democratization.

Hypothesis five is formulated with the assumption that certain groups in capitalist economy requires more protection from trade liberalization. As a result it is reasonable to have state intervention. Whether state intervention impedes democratization depends on the intention of intervention. Hence, *state intervention* can be any policies implemented by the government to

control the economy and the freedom of private sectors. These attributes include increasing state-owned enterprises, amending trade rules and regulations, and imposing new taxation scheme.

H6 Trading with less democratic partners enhances the durability of authoritarian rule of a country and this could impede democratization.

Hypothesis six highlights that the heterogeneous effects on democracy generated by economic integration depend on the institutions of trade partners. States with weaker institutions will become democratic as they trade with democratic partners. But this research states the contrary. To test the hypothesis, two indexes are formulated. *Trade partner* represents the most important trade market(s) and the characteristics are classified as democratic and less democratic. Whether trading with these *trade partners* will have significant impact on the democratization of a country, it takes the *institutional durability* into consideration. The index *institutional durability* is determined by whether democratic transition events occur or dictatorship remains in power (Wright & Bak, 2016). Whether an institution endures, it depends on the stability of political regime.

5 Background to Regional Integration in Southeast Asia

This chapter is divided into three sections. The first section provides an overview of the emergence of regional integration in Southeast Asia. It explains the incentives that motivate the countries to establish an organization which slowly cultivates a sense of community. The second section highlights the political and economic backgrounds that underpin the establishment and developments of ASEAN. It gives a better understanding of the structure and process of region-building as a result of increasing economic interdependence. The third section outlines the initiation of economic reforms in the region.

This chapter outlines the important stages of Southeast Asian states establishing an intergovernmental organization. The diverse historical background of each nation leads to the unique path of economic and political development in the region. Each nation develops at a different phase because some were not able to benefit from industrialization at an earlier stage of the industrial revolution. Because colonization has fundamentally changed the political and economic development, most colonies were imposed with extractive institutions that were created by the European colonial empire (Acemoglu & Robinson, 2012). The extractive institutions essentially fueled the persistence of absolutism which vested authoritarian regimes. Arguably, democratic regimes are born out of colonial regimes (Fowler, 2015). Political and economic history and culture affect each country's march towards democracy. Thus, it is essential to understand the region-building process in order to capture the driving forces of integration.

5.1 The Emergence of Regional Integration in Southeast Asia

The Southeast Asian countries have not developed uniformly and since then established a community towards complex social problems. Southeast Asia consists of eleven countries namely Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, and East Timor. These countries have developed largely in isolation from each other due to geographical characteristics which also make them more vulnerable to external intervention (Frost, 1990). European colonization has further divided the Southeast

Asian societies. Following the Second World War, the countries gradually gained independence from their colonizers. However, conflicts continued to spread in the region during the post-war period. The after war reconstruction and state-building process have not ameliorated. The region was left in a state of flux, replete with internal challenges including communist insurgencies and territorial disputes.

The victory of the Chinese Communist Party (CCP) in the Chinese Civil War in 1949 was the spark that set off the revolutions in Asia (Bergin, 2016; Mysicka, 2015). The CCP was spreading communist ideologies by providing economic and military support to communist parties across Asia. The spread of communist rule was significant in South Vietnam, Laos, and Cambodia as communist organizations have already taken root for a long period of time. Communism became the leading force to oust colonial control. The communist movements were widespread across Thailand, Malaysia, and Indonesia but the insurgencies were contained due to the US military involvement. The Cold War struggle between the United States and the Soviet Union as well as the battle between the Soviet Union and China had created a relatively unstable region in East Asia. The US took the initiative to promote regionalism in Southeast Asia by establishing the Southeast Asia Treaty Organization (SEATO) in 1945. Its purpose was to contain the impact of communism in the region through joint military exercise supported by colonial powers. The organization was dissolved when the members started to withdraw from military cooperation. The colonial experience has not only fuelled the sense of nationalism but also caused resistance to external threats. The resistance to external pressure has become an essential component in promoting a sense of regionalism.

The discontents of the Southeast Asian nations which underlie the insurgencies have also fuelled the sense of nationalism to fight against external threats and foreign occupation. The situation has created the need for joint effort between the Southeast Asian nations. In the midst of insurgencies in the early 1960s, the Association of Southeast Asia (ASA) was formed by non-communist countries namely Thailand, Malaysia, and the Philippines (South Centre, 2007). ASA was set up to promote economic cooperation in order to lift the nations out of poverty. However, each state had different view of how the institution should be structured. In addition, territorial disputes between Malaysia and the Philippines have dismantled the confidence building in the region and left ASA ineffective. Then, the Greater Malayan Confederation, also known as MAPHILINDO was set up by Malaysia, the Philippines, and Indonesia in hope to unite the Malay people that were divided during

colonization. As the territorial disputes were ongoing, the union eventually collapsed. As most Southeast Asian nations were in the process of state-building, securing sovereign states was the key issue to stabilize the region. Although SEATO, ASA, and MAPHILINDO have collapsed, the external threats, territorial disputes and issue of state sovereignty have made the nations aware of the need for regional cooperation. These internal hostilities were the precursors of the establishment of ASEAN.

5.2 The Establishment and Development of ASEAN

On August 8, 1967, the Bangkok Declaration, also known as the ASEAN Declaration was signed by the foreign ministers of Thailand, Indonesia, Malaysia, Singapore, and the Philippines. In order to pave way for stronger regional integration, Thailand has facilitated the reconciliation among the Philippines, Malaysia and Indonesia over territorial disputes. By founding ASEAN, their primary goal was to reduce the tension among member states (Narine, 2002). ASEAN in its infant stage was all about confidence building and nation building. Despite the absence of a legal framework, the member states adjusted their diverse interests and preferences to develop the region into an economic hub. Subsequent to the formation of ASEAN, there were redistribution of power among the US, China, and the Soviet Union (Weber, 2009). ASEAN reacted to the power shift by declaring their region as nonalignment under Zone of Peace, Freedom and Neutrality (ZOPFAN) in 1971. The intention was to seek guarantee from the major powers that the Southeast Asian region will not become their conflict zone. The declaration was also meant to reduce foreign military influence in the region. (Narine, 2002). Consequently, ASEAN can better attain domestic stability and greater control over economic development in the region.

After Brunei became the sixth member, ASEAN member states formed the ASEAN Free Trade Area (AFTA) in 1992. AFTA is a trade bloc agreement that aims to lower intra-regional tariffs and to attract more foreign investments. In order to remain competitive in the international market, ASEAN has expanded its membership to the communist states of Vietnam, Cambodia and Laos. Myanmar is also the latecomer and all four of them were required to commit to tariff reduction according to the AFTA agreement. Due to diverse economic structure and different progress of socio-economic development, it was not until

the late 2000s where the tariff reduction commitments of the latecomers come to par with the founding member states. Since the region is rich of natural resources, ASEAN has directed its trade to be export-oriented. The US and the EU are the largest export markets while Japan is one of the largest sources of ASEAN imports.

Table 1. The ASEAN member states and observer states

Country	Capital	Population (Millions)	Area (Sq. Km.)
Brunei	Bandar Seri Begawan	0.4	5,270
Cambodia	Phnom Penh	15.7	176,520
Indonesia	Jakarta	261.1	1,811,570
Laos	Vientiane	6.7	230,800
Malaysia	Kuala Lumpur	31.1	328,550
Myanmar	Naypyidaw	52.8	653,080
Philippines	Manila	103.3	298,170
Singapore	Singapore	5.6	709
Thailand	Bangkok	68.8	510,890
Vietnam	Hanoi	94.5	310,070
<i>Observer States:</i>			
East Timor	Dili	1.2	14,870
Papua New Guinea	Port Moresby	8.0	452,860

Source: World Bank Database, 2017

Due to increasing economic interdependence among ASEAN member states, there is certain degree of togetherness. The centrality of regional cooperation and the basis of decision making derive from consensus of all member states. However, to speak as one voice remains a challenge for ASEAN. Different perceptions of change leads to different policies and institutions that shape the structure of the organization. Moreover, their interactions have mainly focused on economic, socio-cultural, and security issues. It is important to mention that it was the financial crisis in 1997 that made them realize the need to be more integrated in multiple areas. ASEAN was unable to counter the crisis when the member states had to restore their own economy. The crisis has revealed ASEAN's vulnerability and its very limitations as a non-institutional organization (Narine, 2008). Although ASEAN is presented as a united economic bloc, it was however not designed to handle regional issues as one identity. The financial crisis has brought ASEAN member states to work together more closely by taking practical measures to deal with the organization's weaknesses. It was in

2007 that the member states came to the decision of bringing the organization to another level by establishing the ASEAN Charter.

By establishing the ASEAN Charter, the members of ASEAN have entered into a new common legal framework. The charter serves as a foundation that legally binds the existence of ASEAN in the Southeast Asian region. To restore the confidence built among member states as well as the confidence in the region's economic success, a legal framework is necessary to create an organizational body from a common view. It not only serves the basis to boost its economic cooperation, the purpose of the charter fundamentally lies in the increasing commitment of the members to be politically integrated. Hence, the ASEAN Charter is a community-building guide that leads the organization beyond an economic bloc. Since then, ASEAN has also improved its trade relations with partners in the region. As the region becomes an attractive business hub, ASEAN, Japan, Republic of Korea, and China set up a forum known as ASEAN Plus Three (APT). The APT was initiated in 1997 and the cooperation was reaffirmed in the same year the ASEAN Charter was established. The APT becomes the main engine towards building an East Asian community with ASEAN as the driving force.

The ASEAN Community is a major milestone in the bloc's history, which was formed in 2015. The ASEAN Community comprises three pillars, namely ASEAN Political-Security Community, ASEAN Economic Community, and ASEAN Socio-Cultural Community. Each pillar is designed with its blueprint as a roadmap towards deeper regional integration. These pillars are formulated with strategic objectives and methods to achieve progress in areas deemed necessary for the evolution of ASEAN and its society. The ASEAN Economic Community (AEC) stands as the most important pillar as it serves as the foundation to the realization of the other two pillars. The AEC builds on the existing economic mechanism and consolidates the AFTA in order to create a competitive and cohesive industrialization hub. Investments are directed to capital and skilled labor industries, intellectual property protection, technology and infrastructures, and e-commerce policies. ASEAN also invests heavily in the development of Small and Medium Enterprises (SMEs). SMEs are given the required attention so they can remain competitive and slowly integrate with the global economy.

Meanwhile, the ASEAN Socio-Cultural Community (ASCC) strives for a community that engages with the people where the people could enjoy the benefits of being part of

ASEAN. ASCC is adopted to lift the quality of life of the people. The blueprint of ASCC consists of elements that are people-oriented such as social welfare and protection, social justice and rights, and environmental sustainability. Ultimately, ASCC blueprint is designed to build a common ASEAN identity and small part of the blueprint pertain to human rights. ASEAN is observed to be ineffective in dealing human rights issue and this seems to be the predominant cause of democracy in decline. Then, the ASEAN Political-Security Community (APSC) strives for a politically stable and peaceful region. It also serves as the guide to peaceful settlement of disputes. However, it is not designed to create a defense bloc. APSC promotes a rule-based community that respects the solidarity and the member states. It also promotes the strengthening of political collaboration among member states. Thus, APSC envisages the cooperation of members in conflict prevention and conflict resolution. By adopting the three pillars of ASEAN Community, it strives to preserve a regional identity that emphasizes unity in diversity and ultimately transforms into a dynamic region that is well integrated in the world.

5.3 Economic Reform of Member States

The increasing economic interdependence of ASEAN member states is the linchpin of the regional economic integration. However, it has taken a long period of time until all ten member states can fully commit to the tariff reduction scheme of the AFTA. Each member state is developing at a different speed. This is due to the economic system adopted by the nation states in the early stage especially for the ASEAN latecomers that are under strong influence of communist ideologies. The founding members of ASEAN (Indonesia, Malaysia, The Philippines, and Thailand) are newly industrialized economies that run under the system of market economy. These countries are rich of natural resources and are export-oriented. Their economies are transitioning from agricultural based to manufacturing and service based.

As for the city-state Singapore, the country lacks natural resources but has successfully created a highly attractive investment climate. It has one of the highest per capita income in the world. The government plays an important role in the nation's economy as a number of the largest corporations are state-owned enterprises. Brunei has a mixed-economy system but its economy is predominantly supported by the export of petroleum and gas. The

economies of Vietnam, Cambodia, and Laos have been rising rapidly in recent years as they benefit greatly from regional economic integration. In the past, these three countries instituted highly centralized planned economy. However, they have undergone economic reforms by shifting the planned economies to market economies. Despite the diversity of political structure and policies in the region, the ASEAN member states share a common feature which is moving from import substitution towards outward-looking policy orientation. This important feature of economic development has facilitated the economic integration in the region.

6 Findings & Discussion

This chapter combines research findings which are then subjected to analysis. Most findings are obtained from official statements, foreign policies, media statement, opinion editorials, and featured articles that are publicly accessible. They also include the results collected from five interviews. Two interviewees requested to be anonymous in the research and are only willing to be referred as ‘diplomats based in Thailand. Other interviewees gave their permissions to mention their names and positions in this research. The results collected from interviews are analyzed whether they support the findings gathered from the secondary resources or do they contradict. If the results are consistent, hypotheses shall be confirmed. If the results are contradicting, hypotheses shall be rejected.

This chapter is divided into two major sections. The first section elaborates the cause-effect chain to the case of ASEAN under the theoretical framework of this research. The discussion will lead to the acceptance or rejection of the hypotheses. Subsequently, the second section provides in-depth analysis on single member state, Thailand. The discussion is based on a demand model. It resembles Michael W. Fowler’s model for political change by determining the supply and demand factors that lead to the variation between countries’ levels of democracy. This model aims to find out how these factors lead to a change in level of democracy. Fowler (2015) assumes that the factors that influence positive democratic change can also be the factors that cause negative change in the levels of democracy. Whether the outcome is positive or negative, the structural influence depends on the supply and demand of democracy. With a similar approach, the findings of this research are analyzed based on the demand which promotes democratization. The factors or the determinants that influence the promotion of democratization are the concepts operationalized based on the hypotheses under the proposed analytical framework.

6.1 ASEAN towards a common regional identity

▪ **Regional Economic Integration in ASEAN: How far has it reached?**

The founding members of ASEAN have formed ASEAN Free Trade Area (AFTA) in 1992. The aim of AFTA is to lower intra-regional tariff in order to promote the manufacturing sector of all ASEAN member states. Six ASEAN members comprising Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand have successfully completed a free trade area in 2010. These countries have lowered tariff range to 0-5 percent on 99 percent of the products listed in the Common Effective Preferential Tariff (CEPT) Scheme.¹ In 2015, the six members have eliminated the tariff to zero on 99.2 percent of tariff lines in the CEPT. The newer members, namely Cambodia, Laos, Myanmar and Vietnam have successfully eliminated import duty to zero for 90 percent of the products in the CEPT.² With ten members collectively representing the region, ASEAN was the sixth largest economy in the world with a combined GDP of 2.55 trillion US Dollar in 2016. ASEAN share in the world GDP was constantly rising since 2006 with 6.2 percent growth in 2016.³

ASEAN has undertaken significant structural reforms since the Asian financial crisis in 1997/1998. With acknowledgement that regional cooperation has to be taken to a higher level, ASEAN member states expanded their cooperation to financial sector in order to safeguard the region from future economic crisis. Following the global financial crisis in 2009, ASEAN leaders reaffirmed their commitments to promote free flow of goods, services and investment, and also to facilitate free flow of labor and capital.⁴ Greater economic integration can be seen when ASEAN Finance Ministers have been attending the ASEAN Capital Markets Forum (ACMF) that is held twice annually since establishment in 2004.⁵ ACMF aims to achieve greater integration in regional capital markets and strategic issues are outlined in the ASEAN Economic Community (AEC) blueprint 2015.⁶

Since the establishment of AFTA in 1992, the joint efforts in economic development and nation-building have been positive and promising. The Asian financial crisis gave

¹ ASEAN Secretariat.

² Malaysia's Free Trade Agreement. ASEAN Free Trade Area (AFTA).

³ ASEAN Economic Progress Report 2017

⁴ Press Statement on the Global Economic and Financial Crisis, 1 March 2009.

⁵ New Straits Times, ASEAN Ranked Sixth as the World's Largest Economy, 2017.

⁶ Press Release: ACMF Facilitates Cross Border Fund Raising and Investment, 2015.

ASEAN an important lesson such that fostering closer and sustainable trade require more effort in developing greater robustness against shocks as a common financial market. The global financial crisis in 2007 was merely a hiccup for ASEAN member states. The economy in the region has been resilient and those that experienced with a sharp fall in growth were able to recover in a short period of time. It is apparent that ASEAN has developed steadily along the changing political and economic environment since the year 2006. Yet, the path towards closer economic integration is not without challenge. While economic growth is in the rise, deeply rooted ethnic conflicts, human rights and social issues have result in a hostile situation in the region since 2010. Domestic conflicts could harm a country's economy and then undermine the regional stability.

- **Is democracy backsliding in Southeast Asia?**

The Freedom in the World 2007 report states that there was little change in the global state of freedom in the world. Worrysome trends were emerging in the year 2006 as the stability of democracy in many countries faced serious threats. Based on Freedom House' annual survey of political rights and civil liberties, many countries that are designated as Free has developed little towards democracy. Surveys suggest that the phenomena is contributing to a trend of "freedom stagnation".⁷ Systematic efforts to weaken pro-democracy forces are significant among authoritarian regimes in Asia. The regional findings show a setback in freedom in a number of countries in Asia. The region has experienced the largest drop in scores in 2006. Countries such as the Philippines and Malaysia experienced setbacks due to ethnic and religious divisions. Jennifer Windsor, Executive Director of Freedom House points out that democratization had little progress even in countries that held democratic elections. This was a result of weak democratic institutions.⁸ There was also a trend of growing pushback targeted at democratic movements in authoritarian countries. However, positive development was absent in the year 2007 and the decline of democracy was most pronounced in South Asia. As for the year 2016, Freedom in the World 2017 report, there were increasing obstacles to political reform in authoritarian societies. After the newly elected president

⁷ Freedom House, Freedom in the World 2007 Report.

⁸ Ibid.

Duterte of the Philippines carried out war on drugs, the shocking death tolls have called for special attention.⁹

As the definitions of the terms ‘freedom’ and ‘democracy’ are contested with ongoing debate, they are often used interchangeably. The Freedom House analysis focuses on political rights and civil liberties, to a lesser extent it covers very few aspects of democracy. Hence, this research will also employ the findings from The Economist Intelligence Unit (The EIU) to support the results obtained from the Freedom House. Table 2 presents a comparative view of democracy index of ASEAN member states in year 2006 and 2016 respectively.

Table 2. Democracy Index of ASEAN Members States in 2006 and 2016

ASEAN Member States	Classification 2006	Score 2006	Classification 2016	Score 2016
Brunei	N/A	N/A	N/A	N/A
Cambodia	Hybrid Regime	4.77	Hybrid Regime	4.27
Indonesia	Flawed Democracy	6.41	Flawed Democracy	6.97
Laos	Authoritarian Regime	2.10	Authoritarian Regime	2.37
Malaysia	Flawed Democracy	5.98	Flawed Democracy	6.54
Myanmar	Authoritarian Regime	1.77	Hybrid Regime	4.20
Philippines	Flawed Democracy	6.48	Flawed Democracy	6.94
Singapore	Hybrid Regime	5.89	Flawed Democracy	6.38
Thailand	Hybrid Regime	5.67	Hybrid Regime	4.92
Vietnam	Authoritarian Regime	2.75	Authoritarian Regime	3.38

Source: The Economist Intelligence Unit, 2017

Based on Table 2, democracy in half of the member states has been stagnant. It shows very minor positive development towards democracy. However, Myanmar and Singapore have made significant progress in the last decade with an increase in overall score from 1.77 to 4.20 and 5.89 to 6.38 respectively. According to the democracy index breakdown, Myanmar’s major improvements are significant in electoral process and pluralism, functioning of government, and political participation.¹⁰ Similarly, Singapore displays positive development in increasing political participation. To the contrary, Cambodia and Thailand experienced a decline in democracy with a decrease in overall score from 4.77 to 4.27 and 5.67 to 4.92 respectively. Both Cambodia and Thailand have setbacks in their

⁹ Freedom House, Freedom in the World 2017 Report.

¹⁰ The Economist Intelligence Unit, Democracy Index 2017 Report.

electoral processes and functioning of governments.¹¹ According to Freedom in the World report, Thailand has experienced a negative status change from Partly Free to Not Free.¹² There was slight development in 2007 where Thailand improved from Not Free to Partly Free due to the holding of elections by end of 2007.¹³ In Thailand, the National Council for Peace and Order (NCPO) is led by the military junta that seized power in 2014. The NCPO has imposed restrictions on political right and civil liberties. Freedom of speech is restrained under the government's issuance of the *lèse-majesté* law. In addition, the military government has forestalled further electoral plans.¹⁴

Observers explain that autocracy is looming over the region. But this does not mean that democracy is declining or non-existent in countries labelled as authoritarian. Moreover, the minimum thresholds for democracy could change over time. For instance, election could be the fundamental contribution or element to democratic governance. Countries including Indonesia, Malaysia, Philippines and Singapore are countries that score high in political participation by the people. Yet, these countries were accused of human rights violation such as mistreatment of indigenous population in Papua province, media censorship in Malaysia, extrajudicial killings in the Philippines, and restricted freedom of speech in Singapore.¹⁵ Fowler (2015) emphasizes that most democratic regimes are born out of autocratic regimes or colonial regimes through democratic transition (p. 9). He also points out that political change does not equal to regime change. Moreover, whether democracy can emerge is dependent on the preferences of political actors. What shapes the preferences of the political actors matters most. These essential elements are security, economy, and norms (Fowler, 2015). Hence, political actors make decisions according to institutional interests and cost and benefits of democratic change. Hence, change in democracy is not simply a matter of elite choice (Fowler, 2015, p. 28).

¹¹ Ibid.

¹² Freedom House, Freedom in the World 2007 Report.

¹³ Freedom House, Freedom in the World 2008 Report.

¹⁴ Freedom in the World 2017 Thailand Profile.

¹⁵ Events reported by Human Rights Watch.

- **Do common agendas and external pressure influence democratization?**

Over the past decade, ASEAN has adopted multiple common agendas to consolidate its institution. ASEAN conferences and dialogues will be held annually or semiannually to facilitate information exchange and to foster discussion on contemporary challenges. The ASEAN Regional Forum (ARF) is held annually to promote open dialogue and consultation mainly on political and security issues. In this context, political issues do not contain any discussion regarding democracy. The context of discussion under the political and security aspects consists of shaping and sharing norms, and seeking for conflict solution and peaceful processes in dispute settlements. The ASEAN Summit is a semiannual, regional and international conference to strengthen cooperation of members in all aspects of development. As for the East Asia Summit (EAS), it was initially led by members of East Asian, Southeast Asian, and South Asian regions. The EAS has then expanded its membership to include the U.S. and Russia to discuss issues beyond ASEAN.¹⁶ The purpose to expand the EAS membership is unknown. However, the participation of the U.S. and Russia increases the scope of external influence towards ASEAN and the region.

Based on the review of East Asia Forum, observers question the roles of Philippines and Thailand as the U.S. treaty allies in Southeast Asia. The foreign policies of Philippines and Thailand have thrown the perception of the U.S. alliance into disarray. Since Philippines' President Duterte took over office, he explicitly expressed the frustration of the U.S. intervention in human rights and security issues in the Southeast Asian region.¹⁷ Meanwhile, the Thai-U.S. relations have deteriorated since military coup in 2014. The U.S. has downgraded its military cooperation with Thailand. However, observers claim that Thailand has undertaken joint military exercises with China. Observers explain this phenomena as a fear of major powers interfering in internal security problems.¹⁸ In April 2014, then Secretary of Defense of the U.S., Chuck Hagel attended a dialogue between countries in the Asia-Pacific. The press release of the US. Department of Defense mentioned that the purpose of the participation by the U.S. is to rebalance the military relationship between the U.S. and ASEAN. Chuck Hagel stated that the U.S. recognizes ASEAN as it represents the only organization in the Asia-Pacific. He replied that ASEAN is an organization that has cohesiveness and coordination among ten nations. Attending the dialogue gives them the

¹⁶ ASEAN Secretariat.

¹⁷ Time. Philippines' Duterte Calls for Removal of U.S. Troops from His Country. 13 September 2016.

¹⁸ East Asia Forum. What's Wrong with the United States' Southeast Asia Allies? 18 October 2016.

opportunity to communicate, coordinate and to reinforce the U.S. intention to cooperate with ASEAN.¹⁹

In order to withstand the pressure from the evolving political and security environment, ASEAN has established a peace treaty known as the Treaty of Amity and Cooperation (TAC).²⁰ The ASEAN Charter is built upon the TAC. This foundational treaty is still effective until this day as it outlines the code of conduct for ASEAN member states to govern inter-state relations in the region. In the past decade, ASEAN has actively encouraged nation states outside the region to endorse this code of conduct. Countries that acceded to the TAC must abide to the principles of respecting ASEAN's role in the region. By signing the treaty, countries agree not to engage in any activity that could threaten the political and economic stability, sovereignty, and territorial integrity of the member states. France, East Timor, the Democratic People's Republic of Korea, the EU, the U.S., China and Brazil have acceded to the TAC one after another in the period between 2006 and 2016.²¹

To pursue greater regional cooperation and integration, ASEAN has established the ASEAN Community in 2015. The ASEAN Community builds on three pillars to achieve sustainable development that reflects the security, economic, and socio-cultural dimensions.²² The three pillars are mutually reinforcing and each has its own blueprint that outlines ASEAN's vision. By establishing the ASEAN Community, ASEAN has taken one step further in promoting and protecting human rights. Human rights stood a small part of the ASEAN Socio-Cultural Community (ASCC) blueprint which is designed to focus on improving quality of life and creating equitable access to opportunities for all. Under the section of Promotion and Protection of Human Rights, the first strategic measure is outlined as:

Promote regional inter-sectoral mechanisms towards a holistic and multi-disciplinary approach in enhancing quality care, wellbeing, gender equality, social justice, human rights and fundamental freedoms, especially the vulnerable groups, in response to all hazards and emerging social and economic risks/threats. (ASCC Blueprint, 2015, p. 9)

¹⁹ U.S. Department of Defense News Article. Hagel: ASEAN Meeting Reflects Commitment to Asia-Pacific. 2 April 2014.

²⁰ The Treaty of Amity and Cooperation in Southeast Asia 1976.

²¹ The Nuclear Threat Initiative. ASEAN, 2017.

²² ASEAN Community.

Although the ASCC blueprint consists of human rights element, it requires observation and monitoring whether ASEAN leaders uphold the practice. Moreover, ASEAN has also adopted the Master Plan on ASEAN Connectivity 2025 which succeeds the Master Plan in 2010. The Master Plan is designed to invest in the younger generations of the people of ASEAN. It focuses on developing areas in digital innovation, seamless logistics, sustainable infrastructure, regulatory excellence, and the mobility of people.²³ Both agendas aim to deepen regional integration and international cooperation.

It is reasonable that ASEAN member states cooperate to preserve their common interest and to achieve beneficial collective outcomes. Regional cooperation allows ASEAN members to preserve their common interest mainly in economic development to support each other through increasing intra-trade in order to withstand the pressure from the evolving political and economic environment. In this case, it creates opportunity for state to allocate wealth as it wishes and this often falls into the hands of ruling elites under autocratic regimes. Forming a regional organization fills the power vacuum left by the major powers and is able to provide the countries with self-sustainable mechanism which concentrates on nation-building and economic development.

While attaining security guarantees from actors outside the region, ASEAN constantly revises its agendas in order to protect their status quo in the region. Major powers interfering domestic politics and internal security affairs are perceived by ASEAN as an intent of external powers to destabilize the cohesiveness and harmony in the region. Due to geographical factor, ASEAN as the only legal representative in the Southeast Asian region struggles in between the power politics of the U.S. and China. For this reason, ASEAN is always at a disadvantage position in most issues as the countries in the region need military aid and foreign investments.²⁴ External pressure is a source to both supply and demand to promote democracy in the region. However, it is more evident that the areas of discussion have been focusing on security issues and economic development. Human rights and democracy issues are the least to touch upon in ASEAN's agenda. Hence, ASEAN's agenda has more negative influence on the democratization despite the external pressure pushing towards democracy. Therefore, the hypothesis *regional economic integration that drives member states to form a common political agenda increases member states' resistance to external pressure to democratize* is supported.

²³ Master Plan on ASEAN Connectivity 2025.

²⁴ Interview with Dr. Ngeow Chow Bing, 2018.

▪ **Does respect of state sovereignty influence democratization?**

Despite the ongoing critique from international community over human rights issues in the region, ASEAN leaders maintain their respect for the principle of non-interference in internal affairs of other states. Since the establishment of ASEAN in 1967, its members adhere strictly to the principle that is stated in the ASEAN Charter and the Treaty of Amity and Cooperation (TAC) as “respecting the fundamental importance of amity and cooperation, and the principles of sovereignty, equality, territorial integrity, non-interference, consensus and unity in diversity”.²⁵ The adherence of the principle can be observed from a number of issues that shaken the regional stability. Although these issues are under the administration within the nation’s border, the abuse of human rights have drawn attention and criticism from the international community.

ASEAN has not been active in promoting regional stability in certain conflict areas and this is partially due to the noninterventionist principle. The vicious cycle of military coups in Thailand has resulted in a political turmoil. ASEAN member states have remained silent as they were reluctant to speak out against the human right abuse.²⁶ The silence was said to have deepened the human right crisis in Thailand. The same applies to the Rohingya crisis in Rakhine state of Myanmar.²⁷ In response to the Rohingya crisis, Prime Minister of Singapore stated that Myanmar has to resolve its domestic issues and what the others could do is to “encourage and discuss”.²⁸ In the contrary, Foreign Minister of Malaysia called for ASEAN to coordinate humanitarian aid seeing that the crisis in Myanmar has become a regional concern that should be resolved together. Malaysia’s intervention is seen to have marked a break in the principle of non-interference.²⁹

The reluctance to criticize and to intervene the domestic affairs of other member states can also be seen in the case of Philippines’ ‘war of drug’.³⁰ The President of Philippines Rodrigo Duterte has launched a drug war to wipe out illegal drug trade through endorsement of extrajudicial killings. The ‘war of drug’ in the Philippines was not touched upon during the 31st ASEAN Summit which was hosted in the Philippines. In the statement of the chairman, it was stated that ASEAN recognizes that illegal drug trading is affecting both

²⁵ ASEAN Charter 2007.

²⁶ The Nation. ASEAN’s Shameful Silence over Thai Rights Crisis. 18 May 2016.

²⁷ Aljazeera. Rohingya Face Myanmar ‘Ethnic Cleansing’: UN Official. 25 November 2016.

²⁸ Fox and Hedgehog. Rohingya Crisis: Rethinking ASEAN’s Principle of Non-Interference. 22 December 2016.

²⁹ Reuters. Malaysia Calls for ASEAN to Coordinate Aid for Myanmar’s Rohingya. 19 December 2016.

³⁰ Aljazeera. Philippines: Inside Duterte’s Killer Drug War. 8 September 2016.

ASEAN member states and countries outside the region and stated that they are committed to create a drug-free ASEAN.³¹ Apart from the initiation of drug policy, the tension created over the South China Sea dispute has reached a deadlock between ASEAN member states and China. The deadlock has highlighted the weakness of ASEAN's institution. There were also overlapping claims of the maritime territory among the Philippines, Malaysia, Vietnam and Brunei. The maritime dispute could not be resolved as China denies the international tribunal court ruling. However, the joint communique endorsed by ASEAN against China's military expansion on South China Sea seemed to have eased the tension of disputes. ASEAN then reaffirmed the ASEAN-China relations and will continue to improve economic cooperation.³²

Unlike the EU, ASEAN sees supranationality and state sovereignty as invariably contentious matters which lead to questions of legitimacy, accountability, and representation. It is evident that ASEAN member states adhere strictly to the principle of non-interference in domestic affairs of other member states. State sovereignty has become the basis to justify one's control over its own national interest and policy. This phenomena puts the ASEAN leaders into a state of political ignorance. To foster and preserve the ASEAN cohesiveness, ASEAN leaders concentrates on building solidarity and self-sustainable mechanism. Due to experience of colonization, ASEAN leaders are suspicious of the motive behind cooperative efforts of each member. Hence, showing commitment to the principle of non-interference is a guarantee to securing state sovereignty.³³

If the principle is removed from the ASEAN Charter, ASEAN would not have achieved what it has achieved today. The principle exists to prevent unstable domestic politics to spillover across neighboring countries. Meanwhile, ASEAN leaders can focus on economic development rather than each country's domestic affairs. It is necessary for the government to first fulfil the basic needs of the people (until the country achieves at a certain level of economic development), then government can focus on the policy for human rights.³⁴ Hence, ASEAN member states support each other through economic development regardless of democratic principles. For this reason, ASEAN leaders divert the attention from democratic principle issues to economic cooperation, which leads to negative influence on the democratization in the region. Therefore, the hypothesis *the respect of state sovereignty and the principle of non-interference in internal affairs increase the attention given to*

³¹ Chairman's Statement of the 31st ASEAN Summit 13 November 2017.

³² Joint Communique of the 49th ASEAN Foreign Ministers' Meeting 2016.

³³ Interview with Mr. Muhammad Harris bin Zainul, 2018.

³⁴ Interview with Dr. Ngeow Chow Bing, 2018.

economic development while successfully excluding political issue of democratization is supported.

▪ **Do political instability and spillover effect influence democratization?**

To achieve towards common objectives, it requires collective action by fostering deeper integration among member states. Apart from international security issues, ASEAN member states have been persistent on addressing transnational crimes and border issues in the region. The 28th ASEAN Chiefs of Police Conference in 2008 and the 29th Conference in 2009 were held in Brunei and Vietnam respectively. The aim of the conference is to seek for resolutions regarding drugs trafficking, human trafficking, and arms smuggling. ASEAN gives particular attention to these issues and further emphasized that ‘mutual assistance’ will be provided to each other in handling these problems.³⁵ The Joint Declaration of the 10th annual ASEAN Defense Ministers’ Meeting (ADMM) was established in 2016.³⁶ The declaration reiterates the commitment of member states to effectively handle transnational crimes and border challenges. However, there is no significant spillover effect of transnational crimes to the economic welfare of member states.

There are a few issues in recent years that have affected the regional stability and ASEAN’s confidence. Certain issues have been brought up in previous section. These issues include Thailand’s political unrest³⁷, Myanmar’s unfair election law announced by its military government³⁸, the Rohingya crisis in Myanmar’s Rakhine state³⁹, and the South China Sea dispute between the Philippines and China.⁴⁰ Thailand’s military coup took over civilian government in 2006.⁴¹ There were a series of anti-government protests which were suppressed by the military. The political instability adversely affected Thailand’s economy. It has damaged the tourism sector and also undermined investors’ confidence.⁴² Democracy that was restored in 2008 did not last for the year when former Prime Minister Thaksin Shinawatra and his family were found guilty of corruption and fraud.

³⁵ Joint Communique of the 29th ASEAN Chiefs of Police Conference 2009.

³⁶ Joint Declaration of the ASEAN Defence Ministers on Promoting Defence Cooperation for a Dynamic ASEAN Community 2016.

³⁷ Euro Monitor. Political Instability in Thailand Affects ASEAN. 6 July 2010.

³⁸ The New York Times. Myanmar’s Sham Election. 3 Oct 2010.

³⁹ The New York Times. Ethnic Cleansing in Myanmar. 12 July 2012.

⁴⁰ PCA Press Release: The South China Sea Arbitration. 12 July 2016.

⁴¹ The New York Times. With Premier at UN, Thai Military Stages Coup. 20 Sept 2006.

⁴² Ibid.

The political turmoil has negative spillover effect on neighboring countries as some investments also originate from ASEAN member states. The 14th ASEAN Summit that should take place in Thailand in 2008 was postponed due to the political unrest.⁴³ Consequently, urgent matters that required attention had to be discussed bilaterally through informal channels. But it was difficult to reach consensus because the whole process was time consuming especially when other member states have prior concerns over other regional matters.⁴⁴ Thailand's GDP contracted by 2.3% in 2009.⁴⁵ Consequently, the demand for Thai exports experienced a sharp fall. Since Thailand's economy is the second largest in contributing to ASEAN's GDP, the political unrest is also a concern for ASEAN.⁴⁶

In the aftermath of the 2008 global financial crisis, the economies of the Southeast Asian nations have slid to a recession after a sharp fall of GDP growth which is visible in year 2009. Hence, the crisis also played a major part as the cause to sharp fall in the Southeast Asian economies. However, this research highlights the variation in the GDP growth across ten member states of ASEAN. This research deduces that the financial crisis was not the sole reason to have created a spillover effect to neighboring economies. The economies that were not severely impacted by the crisis in the region include Brunei, Indonesia, Laos, Myanmar and Vietnam (see Chart 2). Meanwhile, a sharp fall in the GDP growth in 2009 displays a similar pattern which is more evident in Cambodia, Malaysia, Philippines, Singapore and Thailand (see Chart 1). This allows the research to trace back to the political instability in Thailand.

The spillover effect is most evident in Cambodia. Thailand and Cambodia share a border and have developed close cooperation in the energy sector. After the former Prime Minister of Thailand, Thaksin Shinawatra was ousted from office in 2006, he became a personal advisor to the Cambodian Prime Minister Hun Sen and an economic advisor to the Cambodian government. Thailand is an important energy hub and has been supplying electricity to countries in the region. The tension between Thailand and Cambodia escalated into a diplomatic crisis. Due to the political turmoil in Thailand, the energy cooperation programmes between Thailand and Cambodia had to be called off. Nonetheless, the spillover effect will create conflicts in other areas when member states fail to collectively defend their

⁴³ Press Release: Statement from Secretary-General of ASEAN on Postponement of 14th ASEAN Summit, December 2008.

⁴⁴ Interview with Diplomat B, 2018.

⁴⁵ Bank of Thailand, GDP Growth in Q4 2009.

⁴⁶ Ibid.

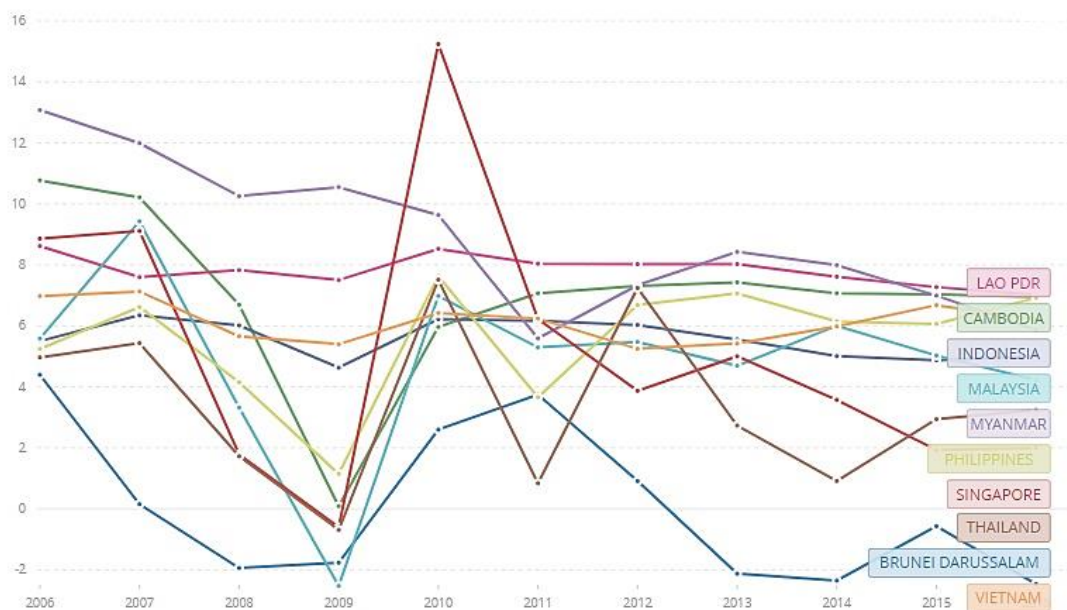
shared benefits. Hence, this can justify the assumption that political instability would reduce economic welfare of a country and it will have same impact on another issue areas.

Chart 1. GDP Annual Growth (%) of Cambodia, Malaysia, Philippines, Singapore and Thailand from 2006-2016.



Source: The World Bank and OECD National Accounts data files.

Chart 2. GDP Annual Growth (%) of ASEAN member states from 2006-2016.



Source: The World Bank and OECD National Accounts data files.

Before Myanmar underwent a political and economic reform, it was fully controlled by its military government. As a result, the US imposed economic sanction on Myanmar as a measure to promote human rights and democracy in Myanmar.⁴⁷ The sanctions included a ban on all imports from Myanmar, asset freeze on Burmese institutions, visa restrictions, and prohibition of financial transaction and service to Myanmar.⁴⁸ The sanction broadly affected Myanmar's economy, and it was also partly due to mismanagement of the military government. This situation led to critical statements of the military government by ASEAN leaders. The increasing pressure from ASEAN successfully led to public recognition for democracy by the military government in Myanmar.⁴⁹ After the military has held national elections, foreign ministers of ASEAN called for the U.S., the EU, Canada, and Australia to review the sanctions imposed on Myanmar so that the country can implement political and economic reforms.⁵⁰ After the political and economic reform, the Rohingya crisis calls for attention. As this would damage the confidence building among ASEAN member states, the human rights issue in Myanmar would affect ASEAN's integration in the long term.⁵¹

The South China Sea dispute between the Philippines and China raised in 2016 has yet to have a conclusion. There is insignificant impact on the trade relations between China and ASEAN despite the tension created with a few ASEAN member states over the overlapping claim of islands.⁵² Subsequently, Philippines was chairing the East Asia Summit where most countries raised concern about the dispute but did not bring up the tribunal ruling that denied China's claim.⁵³ Whether it was due to the ASEAN principle of non-interference or to collectively defend the regional cohesiveness in Southeast Asia, ASEAN member states are inclined to forge joint development in economic issues. By drawing a conclusion from the above discussion, political instability and spillover effect increase the demand for democracy. But the political struggle in the region has negative influence on democratization. Therefore, the hypothesis *political instability in one country can have negative spillover effect and impede the economic success of regional integration and may hinder sharing of democratic values among member states* is supported.

⁴⁷ The Department of the Treasury. OFAC, Burma Sanctions Program. 9 Sept 2015.

⁴⁸ U.S. Department of State. Report on U.S. Trade Sanctions Against Burma. 28 April 2004.

⁴⁹ Ibid.

⁵⁰ Firstpost. ASEAN Summit: Lift Sanctions on Myanmar, SE Asia tells West. 4 April 2012.

⁵¹ Nikkei Asian Review. Cracks Appear in ASEAN over Rohingya Crisis. 25 Sept 2017.

⁵² Nikkei Asian Review. South China Sea dispute 'toned down' at ASEAN Meeting. 14 Nov 2017.

⁵³ Reuters. ASEAN Gives Beijing a Pass on South China Sea Dispute, cites 'Improving Cooperation'. 30 April 2017.

- **Does income inequality influence democratization?**

According to Asian Development Bank (ADB) op-ed, income inequality across countries and regions has narrowed significantly due to robust economic growth. However, the author highlights that income inequality gaps within countries have widened.⁵⁴ Based on ADB data, inequality has worsened in large part of developing Asia and Indonesia is among them.⁵⁵ It is pointed out that inequality can affect growth in long term and government has to lower the impact in order not to let inequality undermine the growth of the country. High inequality can also leads to social tensions and political problems. It is mentioned that technological change, market deregulation, and globalization are contributing factors to rising income inequality and not everyone can be benefited equally.⁵⁶ Other source also draws attention to the high income inequality in Southeast Asia which is caused by rural-urban divide.⁵⁷

GINI coefficient is one of the most comprehensive indicators representing income inequality. Higher GINI index represent more unequal income distribution where index 100 represents a perfect inequality. The GINI coefficient of ASEAN is 40.5.⁵⁸ Table 3 shows the change of income inequality of ASEAN member states. However, the data is incomplete as the latest GINI coefficients of a few countries are not retrievable. Rising inequality is evident in Indonesia, Myanmar, and Thailand. Based on the analysis of *The Diplomat*, ASEAN's export-oriented growth and trade openness are the key contributions to rapid economic growth but the success is not without problems. Inequality in the region receives attention as there is an obvious gap between the richest members of ASEAN (Malaysia, Singapore and Thailand) and those that are still in the early stage of development (Cambodia, Laos, Myanmar and Vietnam).⁵⁹ The inequality gap across countries is narrowing but the concern is more importantly addressed within the states themselves.⁶⁰ It was doubted that ASEAN could play a role in mitigating domestic inequality considering that decisions revolve around the principle of non-interference. Regardless, internal inequality must be addressed at the domestic level but is challenging due to regressing forms of democracy in the region.⁶¹

⁵⁴ ADB Op-Ed, 2017. Income Inequality in Asia.

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Channel News Asia, 2017. Inequality Looms.

⁵⁸ Ibid.

⁵⁹ *The Diplomat*, 2017. Inequality in ASEAN.

⁶⁰ Ibid.

⁶¹ Ibid.

Table 3. GINI coefficient to measure distribution of income of ASEAN members

ASEAN Member States	Year 2006-2010	Year 2011-2016
Brunei	N/A	N/A
Cambodia	36.0	N/A
Indonesia	38.0	39.50
Laos	36.7	36.40
Malaysia	46.2	N/A
Myanmar	30.3	38.10
Philippines	44.8	44.4
Singapore	47.2	45.8
Thailand	40.8	44.5
Vietnam	35.6	34.80

Source: CIA The World Factbook, 2017 and World Data Atlas, 2016

Moreover, the source of inequality varies according to the country. For instance, the poor infrastructure in Indonesia makes it difficult to deliver education and healthcare service equally. Hence, the main challenge is due to geographical factor. Meanwhile, Myanmar has recently opened up its economy but the benefit is not equally distributed. This is due to complex political and social landscape where common policy is absent to serve diverse ethnic groups in the country. For this reason, the changes in the level of democracy is not the cause of income distribution. However, if these concerns are not properly addressed, such internal inequality within countries will be affected by further economic integration. Nevertheless, because the data collected is not complete and because of the minor variation in the income distribution in the period of 2006 to 2016, rapid globalization could be the trigger to growing inequalities. Hence, increasing regional economic integration and income distribution are not sufficient to justify as the determinant of democratization in the region.

Besides, it is more likely that domestic policy affects trade policy instead of the other way around. Depending on the nature of the state, lobby groups have strong influence in shaping the domestic policies. If the lobby groups that support trade liberalization are more influential, trade policies will be in favor of trade liberalization. But it is the responsibility of the government to ensure that wealth is equally distributed in order to protect weaker industries (the less influential lobby groups). Hence, income inequality is an outcome of domestic policy and should not be focused on trade policy alone.⁶² Looking at ASEAN as a whole, the development gap across member states is growing. The economic development of

⁶² Interview with Dr. Chin Kok Fay, 2018.

each member state has not reached a par to sufficiently provide a favorable environment to foster democracy. History and geographical factors are the main causes of widening development gap across countries in Southeast Asia.⁶³ Results obtained from both secondary resources and interviews are not sufficient to confirm this hypothesis. Therefore, the hypothesis *regional economic integration widens the income inequality gap within a country and undermines the state, pushing it away from democratization* is not supported.

▪ **Does state intervention influence democratization?**

All ASEAN member states have acceded to the World Trade Organization (WTO). Most ASEAN member states have acceded to the WTO by 1995. Cambodia, Vietnam and Laos have only acceded to the WTO at a later stage in 2004, 2007 and in 2013 respectively. First and foremost, the basic WTO provision for countries to qualify for accession is any state that possesses full autonomy in the conduct of its trade policies.⁶⁴ Hence, governments play essential roles in implementing trade policies and facilitating international trade. This is one of the major reasons that government role cannot be completely factored out from a nation's economy. Government intervention in economy is still significant in most ASEAN member states. In Malaysia, Singapore, and Thailand, the governments often step into the markets to protect local currencies against political and economic shocks.⁶⁵

Cambodia has been in transition to a market-driven system since the election in 1993 which was overseen by the United Nations.⁶⁶ Since the economic reform, Cambodia has created a more favorable economic environment for foreign investors. Many state-owned enterprises (SOEs) were privatized and private property rights are secured by the country's legal system. Poverty in Cambodia has reduced from 47.8% in 2007 to 13.5% in 2014. However, majority of the poor still lives in the countryside with very poor infrastructure and facilities. There are around 4.5 million people remain vulnerable to falling back into poverty.⁶⁷ As mentioned in previous chapters, economic reform and trade liberalization create winners and losers. The weak and the vulnerable sectors require government support in order

⁶³ Interview with Dr. Ngeow Chow Bing, 2018.

⁶⁴ World Trade Organization. WTO Accessions.

⁶⁵ Nikkei Asian Review. Capital Flight Fears Linger in Asia Despite Forex Cushions. 11 December 2016.

⁶⁶ Sokty Chhair and Luyna Ung. Economic History of Industrialization in Cambodia. WIDER Working Paper 2013.

⁶⁷ The World Bank. The World Bank in Cambodia: Overview.

to keep them competitive. The country's weak human capital and poor education system are the biggest challenges.⁶⁸ To develop the infrastructure to connect urban and rural areas, the government has implemented tax reform to collect revenue from both foreign trade tax and domestic income tax.⁶⁹

The scale of intervention depends on both political and economic institutions. Human Rights Watch reported that Cambodia was observed as constantly drifting towards authoritarianism. The respect for human rights in the country is spiraling downwards. Land conflicts started in year 2000 and escalated in the period of 2008 and 2009. The Cambodian government illegally confiscated farmers' land and forced eviction of the rural poor to more remote areas. These confiscated lands were then sold or awarded to government officials and foreign firms.⁷⁰ Moreover, Cambodia's political system is an oligarchy as the Prime Minister Hun Sen and his family control the country's wealth despite economic reform and integrating in regional and international trade. According to the findings of Global Witness, it reported that Prime Minister Hun Sen and his immediate family hold shares in over 114 private domestic companies in Cambodia by 2015.⁷¹

Laos achieved a GDP growth rate at seven percent in 2016. The country's GDP growth rate was the second highest after Cambodia.⁷² Yet, Laos is still facing challenging macroeconomic situation. Account deficits and foreign debts remain high. The country has very little foreign reserve and the banking sector is performing poorly. Hence, the World Bank reviews that Laos could maintain its macroeconomic stability through improving fiscal deficit, implementing domestic revenue collection, and strengthening public debt management.⁷³ Meanwhile, Vietnam's overall economic development has been positive. Vietnam has adopted Doi Moi policy and successfully transformed its planned economy into a market-oriented economy in 1986. The Doi Moi policy integrates Vietnam into regional and global economy. As Doi Moi policy encourages the role of private sectors in the economy, the government has constantly amended its legal framework to support an effective market

⁶⁸ East Asia Forum. Adjusting Economic Success in Cambodia. 10 October 2017.

⁶⁹ Open Development Cambodia. Taxation. 15 December 2015.

⁷⁰ Human Rights Watch. World Report 2009.

⁷¹ Global Witness. Report 2016. Hostile Takeover: The Corporate Empire of Cambodia's Ruling Family. 7 July 2016.

⁷² Asian Development Bank. Lao PDR Economy.

⁷³ The World Bank. The World Bank in Lao PDR: Overview.

mechanism that attracts foreign investments. Still, the government gives priority in managing the state-owned sector as it is the main sources of the country's revenue.⁷⁴

Nevertheless, most of the biggest enterprises are state-owned in Southeast Asia. Thailand's economy has gone through top-down reforms just like its political reform. Although the country has moved from a low-income country to an upper-income country in past few decades, the economic growth is still depends on the country's political stability.⁷⁵ The income distribution remains a challenge as major parts of the rural areas are less developed. Developing the SOEs has become one of the economic development priorities. Thailand has 55 SOEs by 2016. Private enterprises are allowed to compete in the market but are restricted to certain sectors.⁷⁶

It is evident that to certain extent state that intervenes is able to counter balance the contradiction of free economy and globalization. In addition, the state plays an important role as a market regulator which is essential for developing countries. It is essential for state to implement an effective policy for nation-building to efficiently allocate resources to productive sectors. At the same time, state continues to provide public welfare and minimal protectionism policy or subsidies to less competitive industries. This includes supporting infant industries and SMEs. However, as mentioned in the analytical framework, the amount of authority and intention of policy intervention are not in the range that can be controlled or monitored. For member states that remain politically extractive such as Vietnam, Cambodia, and Laos, the wealth and autonomy fall in the hands of the ruling elites. If allocation of wealth and resources are disproportionate, economic growth will stagnant in the long term.

Whether state intervention impedes democratization, it is determined by the nature of the state itself. For instance, Singapore is a developmental state. The government has political power and control over the nation's economy. The government also plays essential role in market regulation and financial planning.⁷⁷ On the other end, a government that holds autonomous power over wealth allocation but does not invest into human capitals is considered as a predatory state. A predatory state is unstable because the nation's wealth is often accumulated by the ruling elites but is not used to promote economic development.

⁷⁴ Vietnam Ministry of Foreign Affairs. Vietnam's Economy.

⁷⁵ The World Bank. The World Bank in Thailand: Overview.

⁷⁶ State Enterprise Police Office. SOEs.

⁷⁷ Interview with Dr. Chin Kok Fay, 2018.

Hence, whether democracy can emerge in the society, it is determined by the state itself.⁷⁸ Countries that are politically extractive are more likely to demand for democratization if democratic institutions outperform autocratic institutions. However, the paradox of capitalist economy in the era of neoliberal globalization justifies state intervention, with the minimal as a market regulator. But it is more likely for autocratic states to hold onto wealth when the economy is still growing. Hence, when the contradiction of neoliberal globalization demands for democratization, state intervention is likely to have negative influence on democratization. Therefore, the hypothesis *regional economic integration requires more government regulation, which potentially increases state intervention and impedes democratization is supported.*

▪ **Do trade partners and institutional durability influence democratization?**

In the early 2000s, the U.S., the EU and Japan were ASEAN's biggest trading markets.⁷⁹ The People's Republic of China (China) was on top of the list of ASEAN's top ten trade partners in 2015.⁸⁰ The U.S., the EU and Japan are classified as democratic trade partners. The U.S. is classified as "flawed democracy" due to the rise of authoritative regime in Latin America but the overall democracy index remains high. Japan also falls into the category of "flawed democracy" with a high democracy index and is the second most democratic country in Asia.⁸¹ The member states of the EU make up to most of the world's "full democracies".⁸² China remains amongst the countries with lowest democracy index and falls into the category of "authoritarian".⁸³ Hence, China is classified as a less democratic trade partner. According to ASEAN Statistics database, the trade volume with China has grown at a very fast pace since 2016. In this section, trade in services is excluded as the data for trade volumes reported separately by trade partners is not available. Hence, the data gathered is based on trade in goods. Table 4 shows the trade volume (both import and export) between ASEAN and its trade partners which were recorded in year 2006, 2011, and 2016 respectively. The trade volume between ASEAN and China has increased significantly from 2006 to 2016.

⁷⁸ Ibid.

⁷⁹ ASEAN Secretariat.

⁸⁰ ASEAN Statistics. Top Ten ASEAN Trade Partner Countries/Regions, 2015. 10 June 2016.

⁸¹ The Economist Intelligence Unit, Democracy Index 2017 Report.

⁸² Ibid.

⁸³ Ibid.

Table 4. ASEAN Total Trade in Goods with the European Union, the United States, Japan and China.

Year	Trade Volume (in US\$ billions)			
	European Union	United States	Japan	China
2006	161.01	161.19	161.87	140.13
2011	240.11	198.10	256.41	294.98
2016	233.56	211.80	201.89	368.02

Source: ASEAN Stats Database 2017

In addition, the cooperation between ASEAN and China has increased in the period of 2006 to 2016. Their cooperation has expanded into many areas especially after the establishment of ASEAN Community. At the 18th ASEAN-China Summit, the ASEAN leaders expressed their appreciation on China's continued support for ASEAN's central role in the Southeast Asia region and encouraged China to contribute towards the realization of ASEAN's Master Plan 2025.⁸⁴ ASEAN and China also renewed their commitments to forge closer cooperation under the new ASEAN-China Plan of Action (2016-2020).⁸⁵ In addition, Shanghai Cooperation Organization expressed its commitment to work closely with ASEAN in transnational crime and then expand to areas of economy and finance.⁸⁶ According to the Freedom in the World Report, China and Russia are expanding their antidemocratic influence. It stated that China is using various channels to influence the institutions of other countries. These channels include using economic ties and providing diplomatic and material support to repressive governments in Southeast Asia.⁸⁷

There is insufficient evidence to conclude that trading with less democratic partners could be the cause to the democracy crisis in different regions in the world. However, the influence in the Southeast Asian region is noteworthy as the political regimes in the region are distinct from one country to another. Of all ASEAN member states, Myanmar was the only member states that took a big step towards democracy in the period of 2006 to 2016. The reason for political transition is apparent as the U.S. imposed economic sanction on Myanmar since 1989. The socio-economic development was retarded by the U.S. sanction

⁸⁴ Chairman's Statement of the 18th ASEAN-China Summit Kuala Lumpur, 21 November 2015.

⁸⁵ ASEAN Secretariat News. 17th ASEAN-China Joint Cooperation Committee. ASEAN, China Renew Commitment to Forge Closer Cooperation. 11 April 2016.

⁸⁶ ASEAN Secretariat News. Shanghai Cooperation Organization to Strengthen Ties with ASEAN. 3 December 2015.

⁸⁷ Freedom House, Freedom in the World 2018 Report.

and Myanmar was left without options. The democratic transition in Myanmar began when the election was held in 2010. It had ultimately helped create the opportunity for partial ruling by civilian government despite of unfair elections. However, huge challenge remains in Myanmar as the military continues to hold strong influence in the government. Moreover, the Rohingya crisis is also one of the stumbling blocks to the survival of democracy.⁸⁸ Nonetheless, democratization has stalled in the region.

Human rights are one of the biggest issues in Indonesia and the Philippines but these countries are by far the most politically liberalized countries in the region. Meanwhile, Vietnam remains an authoritarian state headed by the Communist Party.⁸⁹ Cambodia and Thailand are the countries with democracy scales slipping backwards. Cambodia's governance is dominated by a one-party system and the current Prime Minister is allegedly accused of abusing power and suppressing political rights.⁹⁰ Thailand has undergone a severe democratic regression as it has been plagued by a repeating cycle of coups. The Thai military government has consolidated its power by rewriting the constitution. The military government also enforced the *lèse-majesté* law that forbids insulting the monarchy which then suppressed the political rights and civil liberties of the people.⁹¹

Cambodia, Laos and Vietnam adopted mixed economies because planned economy lost the momentum for sustainable growth. These countries have benefit greatly in regional economic integration after the economic reform. Although the economic institutions are increasingly inclusive, the political institutions remain extractive where state still control the allocation of resources as well as playing an essential role as a market regulator. In this regard, Acemoglu and Robinson (2012) derive their theory of politics on the basis of economic development because politics determines what institution a nation has. In order to let the institutions function accordingly, a state must determine the root causes of failure of a political regime which depends on the historical factors and the outcome of path-dependencies. Although history matters, the past is not destiny and states can shape their own institutions as long as the development strategy is effective and pragmatic based on the

⁸⁸ Murray Hiebert. Southeast Asia Testimony to Senate Foreign Relations Committee on East Asia. 19 November 2015.

⁸⁹ Ibid.

⁹⁰ Global Witness. Report 2016. Hostile Takeover: The Corporate Empire of Cambodia's Ruling Family. 7 July 2016.

⁹¹ Murray Hiebert. Southeast Asia Testimony to Senate Foreign Relations Committee on East Asia. 19 November 2015.

changes in the modern society. Arguably, countries that adopt inclusive economic institutions but remain politically extractive hinder the emergence of democracy in the region.

Although the democratizing effect of economic openness can be driven by integrating with democratic partner, it does not necessarily lead to democratization or inclusiveness of political institutions. However, if the learning effect through trade and economic openness is sufficient to import new technologies and information to the economic sector, it could in turn reduce the likelihood of political inclusiveness. Countries that adopt extractive institutions do not imply that growth cannot take place. Nonetheless, sustainable growth in the era of globalization could not escape from technological innovation. Apart from allocating resources to more efficient sectors, economic growth requires technological change. Unfortunately, economist Joseph Schumpeter points out the logic that opposes technological change just like the contradictions of market economy or capitalist approach. Economic growth and technological innovation often coincide with what is so called 'creative destruction'.⁹² The fear of creative destruction leads to conflict of institutional change. In the past, technology and information were often imported from the U.S. and Europe as a result of industrial revolution. Due to the fear of military intervention and economic sanction, the Southeast Asian region gradually democratize as it seems to be the only means to benefit from international trade.

However, the power constellation is observed to have shifted from the West to the East. The rise of China in recent years has become a contentious topic in international relations. With its extraordinary economic growth and active diplomacy in the region, China's power and influence are believed to be able to reshape the norms and institutions of international system to better fit its interest as well as to collectively preserve the benefits of other states in the region. Moreover, the successful model of state-led capitalism in China seems to be the trigger that accelerates authoritarianism in the region.⁹³ According to the interview results, China is not imposing the concept of state-led capitalism into the region. It is not a replicable model. However, China does export for instance, East Asian developmental model and State-Owned Enterprises (SOEs) models as growth models guidelines. China is not trying to challenge the world order that is predominantly functioned under the Western liberals. However, China is advertising its good governance to prove that

⁹² Creative destruction in Chapter 5 of *Why Nations Fail?* By Acemoglu and Robinson, 2012.

⁹³ Mentioned in Analytical Framework.

democracy is not the only element to determine if a government can deliver what is needed for nation-building.⁹⁴ Yet, the development model does appeal to socialist countries like Vietnam.

It is not possible for other ASEAN countries to emulate the Chinese model because each country has different political system.⁹⁵ Cambodia, Laos, Myanmar and Vietnam have close trade ties with China compared to other ASEAN member states. The intra-ASEAN investment is lower than the external investments from China. Hence, their foreign and trade policies are inclined to favoring investments from China at the expense of relations with the U.S. and the EU.⁹⁶ If the incentives to democratize is less appealing, authoritarianism would actually endure for a longer period.⁹⁷ The findings provide the rationale that authoritarianism is likely to endure in the Southeast Asia. This reduces institutional change which will gradually undermine democracy in the region. Nonetheless, the regional support from China does not imply that democracy cannot survive but it gives ground for authoritarian regime to endure. Therefore, the hypothesis *trading with less democratic partners enhances the durability of authoritarian rule of a country and this could impede democratization* is supported.

6.2 A closer look into Thailand's role in the region

The Kingdom of Thailand is the only country in the Southeast Asian region that managed to avoid colonial control. The success in avoiding colonization was claimed to be Thailand's strategy in balancing the interests of major powers by making temporary concessions to preserve its sovereignty. The country had to defend its sovereignty as the colonial powers were pursuing expansionist policy through Thailand's neighboring countries. With a strategic location and rich with natural resources, Thailand made use of its advantages in the region and convinced the neighboring countries to unite in order to protect themselves against the major powers. Since the establishment of ASEAN, Thailand's foreign policy has built upon the visions and principles of ASEAN. It was the host of the first ASEAN Regional Forum in

⁹⁴ Interview with Dr. Ngeow Chow Bing, 2018.

⁹⁵ Ibid.

⁹⁶ Interview with Mr. Muhammad Harris bin Zainul, 2018.

⁹⁷ Interview with Dr. Ngeow Chow Bing, 2018.

1994 that brings major powers in the region to discuss political and security issues.⁹⁸ Not only is Thailand a major economic hub in the region, but it is also a key actor in contributing to ASEAN's greater integration.

Despite an outward-looking trade policy, the Thai domestic policy remains an obstacle towards democracy. Unfortunately it could not escape its internal conflict that seems to be permanent within Thai politics. Thailand is a constitutional monarchy and is currently ruled under the military government of the National Council for Peace and Order (NCPO). The NCPO has rewritten the constitutions for multiple times and eventually consolidate its power over the nation.⁹⁹ The NCPO reinforced cultural assimilation across the nation since it first took over the government in 1932. Thai language is the state-mandated language and minority rights are curtailed. This is especially evident in South Thailand where the population are predominantly Muslims but are not given the freedom to practice their own culture. The conflict becomes violent when the Thai Muslims express their dissatisfaction through insurgencies.¹⁰⁰

In addition, there were bloodsheds when political protests turned violent during the civilian government headed by former Prime Minister Thaksin Shinawatra. The protests and riots were the results of deeply rooted social divides of the rich and the poor. Agricultural sector remains undeveloped in the rural areas. Hence, state intervention was necessary to address the inequality gap between the rich and the poor.¹⁰¹ Thaksin's government established development schemes to improve the lives in the rural areas as part of the strategy to win votes. But Thaksin family was accused of corruption, nepotism, and gradually interfering in the operations of independent agencies.¹⁰² Anti-government protests took place in demand for the civilian ruler to step down and wanted a political reform.¹⁰³

The NCPO has taken power and maintained its influence over Thai politics since 2014. The NCPO aims to restore peace and harmony in the country but it did not reverse the country's human rights crisis. It has curtailed the rights to freedom of speech, peaceful assembly, and political participation. To boost economic growth, the NCPO has established trade policy that attracts foreign investments and also owns most of the mega infrastructure

⁹⁸ First ASEAN Regional Forum 25 July 1994, Chairman's Statement.

⁹⁹ Time. Thailand's New Constitution. 11 August 2016.

¹⁰⁰ The Diplomat. No End Sight for Thailand's Deadly Southern Insurgency. 18 July 2017.

¹⁰¹ Interview with Diplomat A, 2018.

¹⁰² The Nation. Thaksin Corruption Claims Stoke Thai Protest Outrage. 21 January 2014.

¹⁰³ Aljazeera. Protesting against Thailand's Big Brother. 3 December 2013.

projects in Thailand. Whether Thailand was under the rule of civilian government or the current military government, state intervention in the economy is visible. Despite the fast recovery in global trade, there is little tendency that the country will return to democratic rule anytime soon. Provided the empirical evidence, the hypothesis that *regional economic integration requires more government regulation, which potentially increases state intervention and impedes democratization* is confirmed.

The international community raised its concern over the political crisis in Thailand. ASEAN called on for a ‘peaceful resolution’ to the crisis but took no concrete step to pressure the Thai military government. There is limited role that ASEAN could play when comes to domestic affairs due to the principle of non-interference. Although the human rights element is included in the ASEAN Socio-Cultural Community blueprint, ASEAN leaders remain focused on security and economic issues. The matter of human rights will continued to be marginalized until economy will no longer be the main concern of the ASEAN member states. Hence, the hypothesis *the respect of state sovereignty and the principle of non-interference in internal affairs increase the attention given to economic development while successfully excluding political issue of democratization* is confirmed. The U.S. State Department urged the Thai military to refrain from violence and suspended military aid in response to the crisis. But beyond that, the U.S. has been carefully investing in the relations with Thailand. Because Thailand is the second largest economy in Southeast Asia and the linchpin of ASEAN, the U.S. has long invested its interests in Thailand. If the U.S. is to undercut Thailand’s position in the region, it would also undermine ASEAN and the regional stability. It would lower the leverage of the U.S. if it was to intervene in Thai politics and could risk the US-Thai relations in the long term. It would also strain political and economic ties with other member states in the region.

Despite the ongoing political crisis and human rights violations, Thailand is building technical ties with Japan and China over power development plans.¹⁰⁴ It became apparent that Thailand is shifting ground between the U.S. and China. As the trade volume has increased between ASEAN and China, the trade pattern has been similar based on the trade volume breakdown analysis between Thailand and China (see Table 5). The trade volume between Thailand and China has increased despite the ongoing political riots and government takeover by the military. Although the U.S. intends to bolster diplomatic ties with Thailand after the

¹⁰⁴ Nikkei Asian Review. Thailand Ponders Nuclear Power with China. 4 July 2016.

U.S. cut aids, the action to rebalance the US-Thai relations has more nuance to it.¹⁰⁵ China's rise as a major power is perceived by the West as a threat to the international system. However, its influence in the Southeast Asia region did not gain suddenly and could be traced back to decades. Although ASEAN remains comfortable with the current world order that favors the Western liberal system, ASEAN will embrace any new offer from China and let go the old order if necessary.¹⁰⁶ Nevertheless, it gives ground to autocracy to have persist in the region. Whether democracy could survive in Thailand, it depends on the institutional interests and the costs and benefits of the democratic change. Therefore, the empirical evidence shows that the hypothesis *trading with less democratic partners enhances the durability of authoritarian rule of a country and this could impede democratization* is confirmed.

Table 5. Thailand's Total Trade in Goods with the European Union, the United States, Japan and China.

Year	Trade Volume (in US\$ billions)			
	European Union	United States	Japan	China
2006	27.40	26.27	40.77	24.41
2011	43.23	35.17	66.07	56.75
2016	40.24	36.55	51.24	65.82

Source: ASEAN Stats Database 2017

Political change or policy reform as a result of instability would create spillover effect across the region. In the past, most foreign investments were distributed to countries with better geographical locations like Thailand, Malaysia and Singapore because these countries are strategically situated along the coastline. Cambodia, Laos and Myanmar received less investment because these countries lack energy sources. It requires power and electricity to develop infrastructures in these countries. Laos is situated at disadvantage as it is a landlocked country. In fact, Thailand has become the most important power hub in the region as it supplies energy sources to Cambodia, Laos and Myanmar. Thus, the development in these countries are dependent on the power supply from Thailand. Any interruption in supply would not only affect the infrastructure development in other countries but would also impact the entire production and supply chain in the region. Intra-ASEAN investment is intended to

¹⁰⁵ Interview with Diplomat B, 2018.

¹⁰⁶ Interview with Dr. Ngeow Chow Bing, 2018.

boost economic growth and support nation-building in the region. Both political and economic stability is essential to provide ASEAN the basis of security against external threats.¹⁰⁷ If ASEAN member states are unable to defend the shared benefit of regional integration, it would also limit the effort to promote regional democratization. Therefore, the hypothesis *regional economic integration that drives member states to form a common political agenda increases member states' resistance to external pressure to democratize* and the hypothesis *political instability in one country can have negative spillover effect and impede the economic success of regional integration and may hinder sharing of democratic values among member states* are both confirmed. While analyzing ASEAN as a case study, five out of six hypotheses are supported. Provided the empirical evidence, the five hypotheses are systematically applied into a single member state which is Thailand. As a result, the analytical framework that consists of four theories is compatible to the case of Thailand.

¹⁰⁷ Mentioned in Analytical Framework.

7 Conclusion

The aim of this study was to reflect the concepts of regional integration that derived from the European experience onto different regions. The EU experience arguably affects the way which regional integration is theorized and is often fundamental to study other regional cooperation. But these theories have been applied to ASEAN less systematically. The regional integration models could be imitated but would be difficult to be applied in entirety since different regions share different level of economic development. Most importantly, the political systems are less homogenous in the Southeast Asia. The ASEAN member states have benefited greatly from a deeper integration of the ASEAN Free Trade Area (AFTA). But the countries in the region show no sign of progress towards political regime change that favors democracy. Given the fairly high economic integration, it remains questionable that ASEAN is less politically integrated in order to consolidate democracy in Southeast Asia. Thus, this research turned over the conventional wisdom of the causal mechanism that economic integration leads to democracy. The research question was stated as follows:

How does regional economic integration impede democratization in Southeast Asia in the era of neoliberal globalization?

This study assumed that a perverse effect exists between economic integration and democracy after a certain level of integration and development in a changing economic environment. Regional economic integration existed in the context of ASEAN but there is a clear distinction from political integration in the region. The main argument of this research was that concentrating on economic integration while deliberately avoiding political integration impacts the process of democratization as it lessens the political learning and sharing of democratic values among members. The four theories of intergovernmentalism, neoliberalism, collective action, and institutions were chosen because they are able to capture the multidimensionality of regional economic integration especially in the era of neoliberal globalization. The methodology adopted for this research was congruence analysis approach which ASEAN was the case study. A diverse set of observations was gathered using secondary resources and interviews. Some studies emphasize that the increase in economic

integration does not necessary indicate that the countries are moving towards democracy. The process of democratization lies in the interest of nation states and is perhaps affected by other external factors which neglects the importance of political development.

This study borrowed a number of existing research models from different working papers and publications. Hill and Menon (2010) point out the deliberate attempt of ASEAN to avoid creating a supranational regional institution where member states are more likely to exclude political issue of democratization in their agenda. Genna and Hiroi (2015) depict that political instability in one country can generate negative spillover that hinders political and economic integration. This research also emphasized the study of the neoliberalism in the political economy context. This research employed the political economy insights provided by social scientist, David Harvey. Harvey (2005) explains the paradoxes of neoliberal policy to liberalize economy. Last but not least, this research also drew on the theory of institutions. This study determined whether the demand for democracy could impact institutional change. Following the findings of studies outlined above, the following hypotheses were formulated for this research:

Hypothesis 1

Regional economic integration that drives member states to form a common political agenda increases member states' resistance to external pressure to democratize.

Hypothesis 2

The respect of state sovereignty and the principle of non-interference in internal affairs increase the attention given to economic development while successfully excluding political issue of democratization.

Hypothesis 3

Political instability in one country can have negative spillover effect and impede the economic success of regional integration and may hinder sharing of democratic values among member states.

Hypothesis 4

Regional economic integration widens the income inequality gap *within* a country and undermines the state, pushing it away from democratization.

Hypothesis 5

Regional economic integration requires more government regulation, which potentially increases state intervention and impedes democratization.

Hypothesis 6

Trading with less democratic partners enhances the durability of authoritarian rule of a country and this could impede democratization.

This research has provided support for the first, second, third, fifth and sixth hypotheses while it does not confirm the fourth hypothesis. The first, second and third hypotheses derived from theories of intergovernmentalism and collective action are confirmed. These line of thoughts can be equally applied to each member state of ASEAN. The ASEAN principle of non-interference is perceived as the predominant reason that puts ASEAN leaders into a state of political ignorance when comes to human rights issues. As the intensity and speed of integration increase, ASEAN leaders will require strenuous efforts to control the negative spillover effect from affecting the stability in the region. Thus, ASEAN should maximize its role in resolving issues for each members. The fourth hypothesis was analyzed under the theory of neoliberalism in the political economy context. There is visible income inequality gap across ASEAN member states but the income inequality gap within a country is less significant. It cannot be confirmed also partly due to the lack of credible resources. While studying regional economic integration, the development gap is often focused on the gap across countries rather than to emphasize the development gap as a result of domestic policy. Moreover, models of trade is not sufficient to justify the relations between trade, inequality, and democracy.

The fifth and sixth hypotheses were analyzed under the theories of neoliberalism and institutions. The fifth hypothesis was supported in this research but the argument remained weak due to indefinite meaning classified as state intervention. Nevertheless, government regulation and intervention have causal relations with democratization. The sixth hypothesis focused on the characteristics of trade partners and the influence on country's institutional change. Major power politics are most likely the main concerns of ASEAN in recent years. The trade volume with China alone has exceeded the single markets of the U.S. and the EU respectively. Although China is believed to not having any intention in exporting the model of state-led capitalism, the system does appeal to autocracies. Thus, trading with China can

influence the durability of authoritarian rule of a country which could impede democratization.

The fact that five out of six hypotheses are supported does not suggest that the tested theories can be applied in entirety to each individual state of ASEAN nor could it be applied in other regions. In order to gain better understanding of the causal relation between regional economic integration and democratization in individual state or in other contexts, future research should be developed. Vietnam as one of the successful examples of socialist state can provide interesting dividing lines of democracy and economy. Future study is also suggested to explore ASEAN's dilemma in major power politics with the perception that ASEAN would prevent the risk of political and economic marginalization from the major powers in near future. Regardless of the areas of study to be explored, it is essential to gather complete and credible resources that could be used to generate thoughts that are critical and unique.

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Appendices

Transcript of Interview 1

W: WONG Le Ye

D: Diplomat B, Diplomat based in Embassy of Malaysia, Bangkok Thailand

W: As Thailand and Malaysia have a very unique diplomatic bond especially when we are sharing the same border, what are the differences when comes to dealing with the former civilian government and with the current military government?

D: Personally as a diplomat, we came here upon a mission assigned from the government. And the matters we basically handle are diplomatic exchange. So there is definitely some differences in terms of policy and the people in charge of certain task, not to say we have to go through everything in detail, but because there are certain protocols and procedure we have to adhere, the differences are not that significant. The leader is different, but I can say that the protocols are basically the same. We still deal with the same issues, and we still expand our cooperative efforts in the areas that require attention.

W: Based on the democracy index score recorded by international organizations, democracy in Thailand is backsliding. In your opinion how has this affect the daily lives of the Thais and also for diplomatic missions based in Thailand?

D: Yes this is actually visible and it also impact the grassroots level a lot more than those with diplomatic ties. You can see how the junta is extremely strict when it comes to freedom of speech, and the censorship of media. You must be extremely careful of what you speak about. That is also the reason that you won't often hear any conversations criticizing the government. No one can do it publicly, no one dare to. And of course it more or less affect the diplomatic missions here. We have to guarantee the safety of the Malaysians here. And what we can do is to remind them not to participate in any activist programs here for their personal safety.

W: How does the human rights issue (as a measurement of democracy) affect the economic development in Thailand?

D: When the junta took over office, they have to come up with a plan to rejuvenate the economy. During the protests, businesses had to shut down for weeks, including big corporations here and it definitely reduced the investor confidence. But the thing about Thailand's economy, is that it has the advantage in the region. Just like Malaysia, it has the natural resources and manpower. Although the government has changed, but the aim of the government, the policies, they are more or less the same. The welfare of the people comes first. The country needs keep the economy running. So they opened up their economy for foreign investors and let the foreign investors pump money into the economy. The government did so by bidding infrastructure projects because infrastructure is necessary to generate equal development in both urban and rural areas.

W: You mentioned an important point regarding the development of urban and rural areas. Does it mean that there is a big gap between the urban and rural areas? What seems to be the cause of it?

D: Yes I think this is a very common phenomena in developing countries. Even Malaysia, Indonesia and the Philippines. And the same will be visible in the CLMV countries. Because when you receive investments, these investments are used to build the infrastructures. It depends on the government's planning where do they want to first develop? Then they definitely concentrate on the strategic locations, where you can have access to the natural resources, manpower, accessible to ports for shipping and transportation. And the rural areas are still dependent on agriculture, but for countries

like Thailand and Malaysia, we have already shift to manufacturing and heavy industries. If we don't shift to industrial sectors, it is not possible for us to achieve what we are today.

W: When it comes to trade, do you think Thailand is under pressure with the perception that Thailand is in the middle of the struggle between the West and the East?

D: I personally think that when it comes to trade, countries definitely want to prosper, it is not relative to the size of the market, and everyone wants to prosper. Because countries like us, we are not given the choice and so we have to stay competitive. This is also the reason that Thailand has been very active in ASEAN to promote regional production chain. It is to protect the benefits of the weaker states. What if we are no longer competitive in the future, and we instead have to fully rely on technology innovation and when natural resources deplete? But if you are talking about the political intention behind this, it is always about security guarantee. Thailand's trade with Japan and China has increased in the recent years. But this does not indicate that the US is out of the loop. The US influence is not something that could be replaced by any other countries. They have the military weapons, and they are still controlling the fluctuation of oil prices.

Transcript of Interview 2

W: WONG Le Ye

N: Dr. NGEOW Chow Bing, Deputy Vice Chancellor of Institute of China Studies, University of Malaya

W: What is your opinion regarding the perception that ASEAN is an emulation or sort of by-product of integration model from the European experience?

N: I would not say there should be any kind of benchmark given to compare any kind of integration in different region. Especially for ASEAN, it is an organization made up of fragile states under the influence of colonialism. It is important to note that the diversity in the region is already a big challenge and is not something you can completely change to a standardized political regime, definitely not any time because the diversity is already deeply rooted in each country. From political system, language, religion, there is nothing similar when you compare the ASEAN states individually. So ASEAN would not and should not emulate the EU model. Even if it would aim to strive for the success just like the EU model, ASEAN countries should first focus on economic development to an extent that each country has near equal development stage. Because economy is the very basic before it comes to any other important elements like human rights or democracy.

W: Do you agree that the ASEAN principle of non-interference in internal affairs of other members is the predominant reason that puts ASEAN into a state of political ignorance when it comes to human rights issues?

N: This principle actually exists to take care of everyone and their domestic politics. Because ASEAN members are very fragile states due to colonial experience. You have to think what if the principle is removed? What would happen if it does not exist? If countries interfere with another countries' domestic politics, they would have hard time to actually focus on economic development.

W: Do you think that in most complications that are ongoing in ASEAN's development emerge from the principle of non-interference? How likely is this commitment to be permanent or would it evolve along the changing political and economic environment?

N: There is no such thing I would call permanent. It could last for a long time, perhaps another two to three decades. And there might be chance for this commitment to evolve but I am very skeptical. It is important to understand how the ASEAN consensus keeps the countries together because the consensus is adopted to take care of everyone. Without this consensus, the organization won't exist. If you have to exclude any of the members out of the issue, then the organization is no longer needed, like how it develops ASEAN Minus X.

W: Given the ASEAN Community is a stepping stone towards closer integration, how likely would the issues such as human rights (perhaps a measure of democracy) be marginalized and concentrates on areas of security and economy instead?

N: The issues of human rights has always been marginalized. The HR issue is not the reason that the members established ASEAN. Besides, they must first fulfil the basic needs of the people, and also to achieve at a certain level of economic development, then they can start handling the HR issue.

W: How likely would autocracies endure in the region when the Chinese model of state-led capitalism is perceived as a successful model? For instance in countries like Vietnam, Cambodia, and Laos.

N: China's success do appeal to the autocracy regime. This state-led capitalism is not actually a replicable model. SOEs, East Asian development model, these are sort of the state guide models. But the Chinese state-led capitalism is not actually a model imposed by China. China is not imposing this model and make other countries to adopt them. It does appeal to countries like Vietnam to replicate. But China definitely does not export this model in the region. In ASEAN itself it really depends on the incentives to democratize. China is actually advertising its good governance and to prove that democracy is not a factor to determine if government can deliver what is needed by the people. Because democracy itself is not perfect.

W: What are the paradoxes of trade liberalization since economic integration is not just simply breaking down barriers and increasing economic interdependence?

N: I don't think trade liberalization is a choice anymore. Because if you don't integrate with the global economy, it is not possible for third world countries to develop. So developmentalism actually comes along with trade liberalization. And it is all about achieving balance. At the same time you need to boost the economy but also you need to have an effective human development policy so that everyone can benefit from trade liberalization.

W: How does great power politics affect regional cooperation in SEA? Is the durability of the US security guarantees the major concern of ASEAN?

N: Yes security issue has been and always will be the concern of ASEAN. They are definitely between the power politics of the US and China. But I believe that right now ASEAN is still comfortable with the Western order of liberal system. But if in the future there are better offers of in the international system, ASEAN is very likely to embrace the new order and let go of the old order.

W: Other than economic benefits, would the concern of major power politics compel or pressure some states to align themselves more closely with China?

N: China is not trying to challenge the world order or the international system. The country also wants to integrate into the global economy and wants the international community to actually accept that they are different than the Western liberal system. They are not trying to turn the order and in fact they are encouraging the system to be multipolar. Even China refused that the country should be bipolar system. ASEAN would definitely align themselves more closely if the world order is to change.

W: Is this part of the reason that ASEAN is at disadvantage in the SCS dispute? Such that member states would prefer to balance between protecting own interests and preserving relationship with China over resolving sovereignty disputes?

N: Yes ASEAN is definitely at disadvantage in almost all issues, not just in the border dispute but in between power politics. And because of this, China actually takes the advantage of its relations with Cambodia and Vietnam. Only few ASEAN members declared territorial claims but countries like Cambodia and Vietnam, and definitely Laos they do not have any concern over the dispute. Why do they want to sabotage the investment relations with China over claims that they do not benefit.
