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## **Development and challenges of ASEAN**

### **Introduction**

The aim of this essay is to give an overview of the development of ASEAN and identify and present main challenges that the ASEAN is facing. To achieve this goal, this essay is divided in three parts. Part 1 presents the reasons for establishing the Association of Southeast Asian Nations or ASEAN and overview of its early developments and shift of focus from military and security issues to economic and trade related issues. First chapter also introduces the concept of ASEAN Regional Forum or ARF. Part 2 presents introduces the contemporary ASEAN to the reader. During chapter 2, ASEAN integration and diversity between its member nations is described. Chapter also introduces the concept of ASEAN Economic Community or AEC. Chapter also discusses about common internal problems of ASEAN. Part 3 presents external pressures that ASEAN member nations are currently facing due to the unique location of the region. Many of the political issues that ASEAN members are facing is due to its geographic location.

This essay was written by a multi-cultural study group that consisted of two Asian and two European participants. We feel that the diversity gave us unique view on the issues discussed in this essay. The topic was highly interesting due to the fact that in recent years the region has been often in a centre of attention. All of us have followed these developments mainly through news stories, but we feel that through studying causes and backgrounds of these events for our essay have given us better understanding of this diverse and fascinating region.

### **1. The creation of ASEAN**

ASEAN is a regional intergovernmental organization originally developed for promoting peace, stability and political and economic cooperation and integra-

tion in the region.<sup>1</sup>It is important to understand that although ASEAN is geographically small area, it forms a culturally complex region with different nations, religious beliefs, laws, trading standards, political systems and conflicts. ASEAN was created on 8<sup>th</sup> of August 1967, when the foreign ministers of Indonesia, Malaysia, The Philippines, Singapore, and Thailand, signed the ASEAN Declaration, more commonly known as the Bangkok Declaration.<sup>2</sup>Original members were later joined by Brunei, Cambodia, Laos, Myanmar, and Vietnam.

The creation of ASEAN was motivated by a fear of spreading communism in the region. All the founding members, except Thailand, had also shared experience of the Japanese occupation during the Second World War. ASEAN member states hoped to balance the influence China, the U.S. and Japan in the region. Similarly to the establishment European Coal and Steel Community over decade earlier, reason for establishing ASEAN can be seen not only from an economical viewpoint, but as a way to avoid conflicts and add stability in the region.<sup>3</sup>ASEAN member states managed to prevent major conflict during the following decades.

During the early 1990s ASEAN's motives were mainly political and military. The region experienced dramatic geopolitical transformations during end of 1980s and early 1990s that resulted from end of the Cold War and the end of Cambodian conflict. Changes made ASEAN nations growingly concerned about the possible decline of U.S. military presence in the region, rising power of China and possible remilitarization of Japan. During this time ASEAN created a region-wide security framework that was institutionalized in the ASEAN Regional Forum or ARF. ARF was established in 1994 as a first region-wide forum for security dialogue that involves ASEAN member countries and 17 other countries, including all the major regional and global powers.<sup>4</sup>

## 2. ASEAN focuses on economy and trade

In the 1990s due to rising regionalism and economic competition, ASEAN's focus changed from military and regional security issues to economy and trade. ASEAN began to develop common market by forming ASEAN Free Trade Area, or AFTA, a regional trade agreement signed by all the member states of ASEAN in 28<sup>th</sup> of January 1992 in Singapore. Over the following decade ASEAN member

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<sup>1</sup> K. Cai, *The Politics of Economic Regionalism: Explaining Regional Economic Integration in East Asia*, Palgrave MacMillan, Hampshire 2010, p. 120.

<sup>2</sup> *The Asean Declaration (Bangkok Declaration) Bangkok, 8 Augustus 1967*, Association of Southeast Asian nations, January 27 2016, <http://asean.org/the-asean-declaration-bangkok-declaration-bangkok-8-august-1967/> [access: 17 November, 2016].

<sup>3</sup> M. Bonikowska, P. Rabiej, A. Turkowski, R. Tomański, *ASEAN is building a common market*, Centre for International Relations, Warsaw January 2016, p. 2–3.

<sup>4</sup> K. Cai, *The Politics of Economi...*, p. 121.

started to eliminating most tariff barriers on manufactured goods, non-tariff barriers, and procedures and development of common product certification standards between member countries.<sup>5</sup>

Current aim of ASEAN member's is to gradually reduce tariffs on goods imported from other ASEAN member states to zero, which is required under the ASEAN Trade in Goods Agreement (ATIGA). In the early 1990s ASEAN began developing close economic ties with countries of Asian-Pacific region and regional organizations such as European Union.<sup>6</sup>Regional cooperation was promoted with the creation of the ASEAN Plus Three forum in 1997, which included China, South Korea and Japan and the East Asia Summit in 2005, that expanded to include India, Australia, New Zealand, Russia and the United States.<sup>7</sup>

## 2.1. Seventh-largest economy in the world

Today ASEAN promotes intergovernmental collaboration and co-operation between its member states, and develops economic and trade growth in the region. Together ASEAN forms the seventh-largest economy in the world. It is estimated that ASEAN will grow to be the fourth-largest economic zone by 2050. With its population of 600 million people, ASEAN has the third-largest labour force in the world, behind China and India. Almost 60 per cent of its total growth since 1990 has come from sectors such as manufacturing, retail, telecommunications, and transportation.<sup>8</sup>

Collectively ASEAN is the fourth-largest exporting region in the world and it accounts for 7 per cent of global exports. The exports of its member states have diversified and while Vietnam specializes in textiles and apparel, Singapore and Malaysia export electronics. Thailand on the other hand is specializing in exporting vehicle parts and other member nations are exporting mainly natural resources such as palm oil, coal, cocoa and tin. Myanmar have large reserves of oil, gas, and minerals.

About 25 percent of region's export go to other ASEAN nations, and less than half of intraregional trade is going to NAFTA countries, while exports to European Union are rising rapidly. China is becoming increasingly important export

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<sup>5</sup> Ibidem, p. 70, 121.

<sup>6</sup> M. Bonikowska, P. Rabiej, A. Turkowski, R. Tomański, *ASEAN is building...*, p. 3.

<sup>7</sup> *Association of Southeast Asian Nations (ASEAN)*, The Nuclear Threat Initiative, May 9 2016, <http://www.nti.org/learn/treaties-and-regimes/association-southeast-asian-nations-asean/> [access: 17 November, 2016].

<sup>8</sup> H.V. Vinayak, F. Thompson, O. Tonby, *Understanding ASEAN: Seven things you need to know*, McKinsey&Company, May 2014, <http://www.mckinsey.com/industries/public-sector/our-insights/understanding-asean-seven-things-you-need-to-know> [access: 17 November, 2016].

market for many ASEAN countries. ASEAN has free-trade agreements with Australia, China, India, Japan, New Zealand, and South Korea<sup>9</sup>.

## 2.2. Diverse group

The ASEAN nations are a diverse group, when measuring level of development, culture and political systems between its member nations. This has contributed divide between the member nations, mainly between more developed founding members and Brunei and less developed member nations such as Myanmar, Cambodia, Laos and Vietnam. There are also territorial claims between member nations, for instance between Thailand and Cambodia<sup>10</sup>.

Inequality among region becomes evident when comparing GDP per capita of different member nations. For example in Singapore GDP per capita is more than 40 times higher than in Myanmar. Huge differences also manifest themselves in doing business. In the 2016 Doing Business ranking leaders like Singapore or Malaysia occupy the 1st (Singapore), and the 18th position (Malaysia), while the worst in this regard are Cambodia, Laos, and Myanmar, with their 127<sup>th</sup>, 134<sup>th</sup> and 167<sup>th</sup> positions. However despite this, the income growth throughout the region has been relatively strong since 2000 and for example Vietnam has doubled its per capita GDP from \$1,300 to \$2,600. Extreme poverty is rapidly declining and ever increasing percent of households are now part of the consuming class<sup>11</sup>.

## 2.3. ASEAN Integration

Regional integration in ASEAN has progressed gradually. Examples of regional integration are the ASEAN+3 (ASEAN, Japan, China and South Korea), ASEAN+6 (ASEAN+3, India, Australia and New Zealand). As major milestone is the establishment of ASEAN Economic community in 2015<sup>12</sup>.

In 1997, the Asian financial crisis caused the collapse of Asian stock markets, devaluations of domestic currencies, and reduction in asset prices in Asian countries. According to some experts, the Asian financial crisis uncovered many weaknesses in Asian banking sector, such as weak financial infrastructures, lack of transparency and weak governance and regulation. During the aftermath of the

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<sup>9</sup> Ibidem.

<sup>10</sup> M. Bonikowska, P. Rabiej, A. Turkowski, R. Tomański, *ASEAN is building a common market*, Centre for International Relations, Warsaw January 2016, p. 7.

<sup>11</sup> Ibidem; H.V. Vinayak, F. Thompson, O. Tonby, *Understanding ASEAN...*

<sup>12</sup> OECD (2016), *Economic Outlook for Southeast Asia, China and India 2016: Enhancing Regional Ties*, OECD Publishing, Paris, 2016, <http://dx.doi.org/10.1787/saeo-2016-en>, p. 32 [access: 17 November, 2016].

Asian Financial crisis idea of ASEAN Economic Community was introduced as a tool to support economic growth and protect the region from potential future shocks<sup>13</sup>.

At the 9<sup>th</sup> ASEAN Summit in January 2007, the ASEAN member countries affirmed their commitment to accelerate the ASEAN Community by 2015 and signed the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Economic Community by 2015.<sup>14</sup> Related to AEC, ASEAN has concluded and signed several agreements with the end goal of creating a single market and production base. These include the following: ASEAN Trade in Goods Agreement (ATIGA), ASEAN Framework Agreement on Services (AFTAS), ASEAN Comprehensive Investment Agreement (ACIA), ASEAN Agreements on the Movement of Natural Persons (AAMNP), ASEAN Mutual Recognition Arrangement on Services (MRAs).<sup>15</sup> Aim of these agreements is to create an open single market, with free movement of goods, services, investments, skilled workers and liberalized capital market could ensure more balanced development for entire region.

Major challenge for ASEAN member states is lowering tariffs and non-tariff barriers and harmonize custom procedures<sup>16</sup>. If successful, AEC integration might transform the region into more competitive region among the global economy. Still, many business leaders and critics have responded to AEC sluggishly due to large diversity between ten nations and due to the fact that the real effects of AEC will be visible after several years. There are still major challenges in AEC integration. Majority of ASEAN countries are still low and middle income economies. Some critics have argued that the income inequality gap among member nations might wider due to the AEC integration. This kind of development would result in national differences between price levels, purchasing power and investments<sup>17</sup>.

#### 2.4. Consensus-based decision-making

While the individual members of ASEAN have their national interests, they have been able to achieve consensus in many issues. This is due to the fact that each member nation understands that by acting as a unified body, ASEAN commands far greater influence than its members could be able to achieve individually<sup>18</sup>.

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<sup>13</sup> A. Pooittiwong, B. Ramirez, *ASEAN Economic Integration: Opportunities and Challenges that lie Ahead*, International Policy Digest, January 6 2016, <https://intpolicydigest.org/2016/01/06/asean-economic-integration-opportunities-and-challenges-that-lie-ahead/> [access: 17 November, 2016].

<sup>14</sup> *ASEAN Economic Community*, Association of Southeast Asian Nations, <http://asean.org/asean-economic-community/> [access: 17 November, 2016].

<sup>15</sup> Ibidem.

<sup>16</sup> M. Bonikowska, P. Rabiej, A. Turkowski, R. Tomasiński, *ASEAN is building...*, p. 4.

<sup>17</sup> A. Pooittiwong, B. Ramirez, *ASEAN Economic Integration...*

<sup>18</sup> K. Cai, *The Politics of Economic Regionalism: Explaining Regional Economic Integration in East Asia*, Palgrave MacMillan, Hampshire 2010, p. 120.

ASEAN links its member nations to developed Asian nations like Taiwan, South Korea and Japan and world powers such as China, Russia, United States and India. Integration brings relatively small nations influence that they could not individually achieve. Integration also makes it harder for superpowers such as China, India or the USA to isolate individual members of ASEAN.

Key difference of ASEAN to EU is its basic principles of mutual respect for sovereignty of its member nations, non-interference in the internal affairs and consensus-based decision-making. These principles might pose severe problems between further cooperation and management of ASEAN, since its members don't necessarily always share common political values and national interests<sup>19</sup>. These constraints question the very principles of ASEAN; its ability to promote integration, regional development, consensus-based decision-making and effective implementation of policies. Moreover, ASEAN nations have all adopted similar export-oriented industrialization strategies with competitive economic structure, and in many cases single ASEAN member nations have more complimentary economic ties with many other countries outside ASEAN, for example China, India, Japan, EU and the U.S.<sup>20</sup>.

During 2012 ASEAN summit in Phnom Penh, ASEAN member nations could not agree how to deal with China. Several ASEAN member countries: the Philippines, Vietnam, Malaysia, Brunei and Indonesia had territorial disputes with China due to the South China Sea. However Cambodia, blocked any suggestions of an international court against China<sup>21</sup>. ASEAN has been criticized that its aim for regional stability and principle of non-interference strengthen the rule of authoritarian governments, although human rights and democratic ideals has been raised during the ceremonial speeches. Despite this, common standards have helped trade grow and lift people out of poverty and improved the competitiveness of the ASEAN member nations. The reason why ASEAN common market is not successfully implemented so far is due to the fact that lesser developed member nations might get exploited by more developed countries if ASEAN would be considered as a single market.

### 3. Strait of Malacca

Why is the region so important to global economy? ASEAN member nations are located in a strategically important area; large shares of global trade pass through ASEAN member nations territorial waters each year. The Strait of Malac-

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<sup>19</sup> Ibidem.

<sup>20</sup> Ibidem, p. 123.

<sup>21</sup> *Asean nations fail to reach agreement on South China Sea*, BBC News, July 13 2012, <http://www.bbc.com/news/world-asia-18825148> [access: 17 November, 2016].

ca is one of the busiest shipping lanes in the world. Narrow, 850 km stretch of water between the Malay Peninsula and the Indonesian island of Sumatra separates Malaysia and Indonesia and links Europe and Middle East with the Asia-Pacific. According to estimates, around 40 per cent of the world's trade is passing through the Strait of Malacca<sup>22</sup>.

The Strait of Malacca is also one of the eight oil transit chokepoints that are critical to the world's oil supply. Oil is primarily coming from Middle East and heading towards Indonesia, China, South Korea and Japan. According to estimates, 15.2 million barrels of oil passes through the Strait of Malacca per day. The narrowest point in the strait is only 1.7 miles wide, which creates a natural bottleneck for shipping and makes it vulnerable to piracy or terrorist attacks<sup>23</sup>.

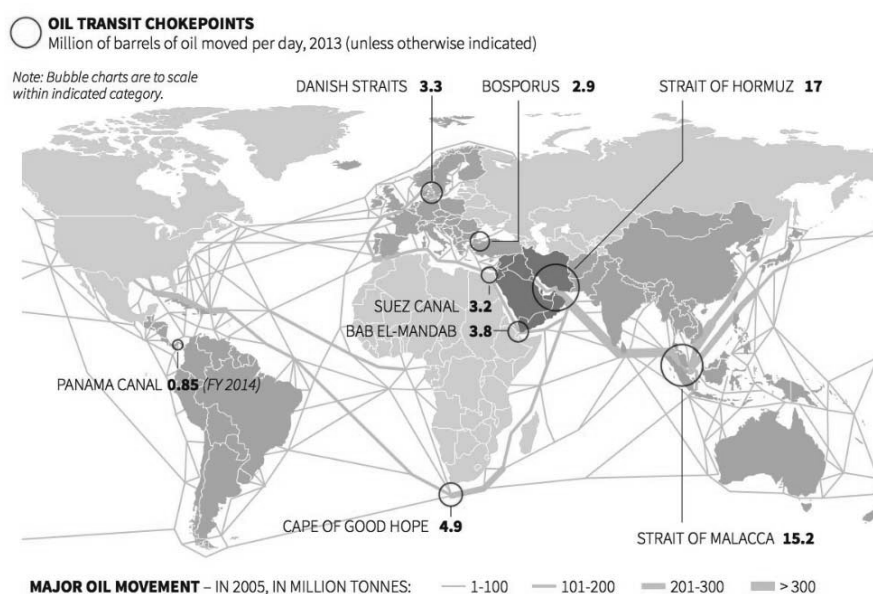


Figure 1. World's major oil transit chokepoints

Source: J. Bender, *These 8 narrow chokepoints are critical to the world's oil trade*, Business Insider, April 12 2015, <http://www.businessinsider.com/worlds-eight-oil-chokepoints-2015-4?IR=T> [access: 17 November, 2016].

<sup>22</sup> *Strait of Malacca*, Encyclopaedia Britannica, December 3 2014, <https://www.britannica.com/place/Strait-of-Malacca> [access: 17 November, 2016].

<sup>23</sup> J. Bender, *These 8 narrow chokepoints are critical to the world's oil trade*, Business Insider, April 1 2015, <http://www.businessinsider.com/worlds-eight-oil-chokepoints-2015-4?IR=T> [access: 17 November, 2016].

## Conclusion

Thanks to its increasing labour force, ASEAN is rapidly becoming a major manufacturing, export hub and consumer market, since China's growth is evolving from exports to internal consumption based economy. Goal of ASEAN nations is to take over the role of the largest factory in the world from China. ASEAN member nations have to overcome several internal and external challenges before this goal can be properly implemented. ASEAN must seek for cooperation, economic growth and political stability within its member nations, trading partners and balancing its position between major nations operating inside and vicinity of its region.

U.S. has been one of the most important foreign investors and trading partners of ASEAN. A lot like China, U.S. has diverse and complex bilateral relations and economic ties with ASEAN member nations. In recent years, however, U.S. share of trade in the region has declined. To regain its competitive edge in the region, U.S. started negotiations towards Trans-Pacific Partnership, TPP, a trade agreement between twelve Pacific Rim countries during Obama administration. Under Obama administration U.S. also started to reinforce its military presence in the area. Barack Obama has expressed a desire that his successor continues both of these efforts. However recently elected president Donald Trump has resisted the TPP and declared that the U.S. will withdraw from the TPP agreement. The ASEAN currently has free trade agreements with six partners: China (ACFTA), South Korea (AKFTA), Japan (AJCEP), India (AIFTA) and Australia and New Zealand (AANZFTA). In August 2012, negotiations for the Regional Comprehensive Economic Partnership (RCEP) were launched by ASEAN member countries Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam, and partner countries that ASEAN has FTAs China, India, Japan, South Korea, Australia and New Zealand.

It is still good to remember, that due to its expansive politics, China has had border issues with many ASEAN member nations. This has raised hatred and protest against Chinese in the ASEAN countries. However at the same time, China is one of the most important trading partners with ASEAN and each ASEAN member nation has diverse and complex bilateral relations and economic ties with China. In the future Chinese Asian Infrastructure Investment Bank, AIIB, is expected to finance big infrastructure projects in ASEAN countries. Chinese funded projects in ASEAN countries are part of China's global plan of Maritime Silk Road. China aims not only to revive old silk road trading route from China's western provinces through Central Asia to Middle East and Europe, but also create a new sea route that would include a network of ports and naval bases built and operated with Chinese participation from Shanghai to Europe. Purpose of undertaking have raised some concern especially in U.S. and India. Currently



EU and Japan are the biggest foreign investors in ASEAN countries and the biggest trading partners in the region. Both have strong economic ties in the region. Japan's involvement has escalated tensions between Japan and China. India, who has been concerned about the freedom of navigation in the South China Sea, has deepened its relations with ASEAN nations.

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## Summary

The aim of this essay is to give an overview of the development of ASEAN and identify and present main challenges that the ASEAN is facing. ASEAN is a regional intergovernmental organization originally developed for promoting peace, stability and political and economic cooperation and integration in the region.<sup>24</sup>It is important to understand that although ASEAN is geographically small are, it forms a culturally complex region

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<sup>24</sup> K. Cai, *The Politics of Economic...*, p. 120.

with different nations, religious beliefs, laws, trading standards, political systems and conflicts. Collectively ASEAN is the fourth-largest exporting region in the world and it accounts for 7 per cent of global exports. The exports of its member states have diversified and while Vietnam specializes in textiles and apparel, Singapore and Malaysia export electronics. Thailand on the other hand is specializing in exporting vehicle parts and other member nations are exporting mainly natural resources such as palm oil, coal, cocoa and tin. Myanmar have large reserves of oil, gas, and minerals.

About 25 percent of region's export go to other ASEAN nations, and less than half of intraregional trade is going to NAFTA countries, while exports to European Union are rising rapidly. China is becoming increasingly important export market for many ASEAN countries. ASEAN has free-trade agreements with Australia, China, India, Japan, New Zealand, and South Korea<sup>25</sup>.

Major challenge for ASEAN member states is lowering tariffs and non-tariff barriers and harmonize custom procedures<sup>26</sup>. If successful, AEC integration might transform the region into more competitive region among the global economy.

**Keywords:** ASEAN, AEC, trade, military, economy, Strait of Malacca

## ROZWÓJ I WYZWANIA STOJĄCE PRZEZ ASEAN

### Streszczenie

Celem niniejszego artykułu jest przedstawienie rozwoju ASEAN oraz określenie i przedstawienie głównych wyzwań stojących przed tym stowarzyszeniem. ASEAN jest regionalną organizacją międzyrządową pierwotnie założoną w celu promowania stabilności i współpracy politycznej i gospodarczej oraz integracji w regionie. ASEAN to region skomplikowany kulturowo z różnymi narodami, przekonaniem religijnym, prawami, standardami handlowymi, systemami politycznymi i konfliktami. Obszar ASEAN jest czwartym pod względem wielkości eksportu regionem na świecie (7 procent globalnego eksportu). Eksport państw członkowskich jest zróżnicowany. Wietnam specjalizuje się w przemyśle tekstylnym i odzieżowym, Singapur i w Malezja w elektronicznym, Tajlandia specjalizuje się w eksporcie części pojazdów. Inne państwa członkowskie eksportują głównie surowce naturalne takie jak olej palmowy, węgiel, kakao i cyna. Myanmar posiada duże zasoby ropy, gazu i minerałów.

Okolo 25 procent eksportu skierowana jest do innych państw ASEAN, a mniej niż połowa handlu trafia do krajów NAFTA. Eksport do Unii Europejskiej szybko wzrasta. Również Chiny stają się coraz ważniejszym rynkiem eksportowym dla wielu państw ASEAN. ASEAN ma umowy o wolnym handlu z Australią, Chinami, Indiami, Japonią, Nową Zelandią i Koreą Południową.

Głównym wyzwaniem dla państw członkowskich ASEAN jest obniżenie taryf i barier pozataryfowych oraz harmonizacja procedur niestandardowych. Jeśli uda się to zrealizować, region może stać się jeszcze bardziej konkurencyjny.

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<sup>25</sup> HV. Vinayak, F. Thompson, O. Tonby, *Understanding ASEAN...*

<sup>26</sup> M. Bonikowska, P. Rabiej, A. Turkowski, R. Tomański, op. cit., p. 4.