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Explaining the failure of the ASEAN economic community: the primacy of domestic political economy

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Abstract All reliable indicators suggest that ASEAN's (Association of Southeast Asian Nations) Economic Community (AEC) will not be successfully established by its 2015 deadline. Why? Against technocratic, realist and constructivist accounts, this article offers an explanation rooted in the political economy of ASEAN's member-states. Economic liberalisation agreements promote the rescaling of economic governance, involving regulatory changes that may radically redistribute power and resources. Consequently, they are heavily contested between coalitions of social and political forces, without outcomes reflecting the outcome of these struggles. The argument is demonstrated by exploring the uneven sectoral liberalisation achieved under the AEC, the constrained integration of ASEAN's energy markets, and the limited deregulation of skilled labour migration.

Keywords: ASEAN Economic Community; regional integration; regionalism; political economy; Murdoch School.

Introduction

In 2007, the Association of Southeast Asian Nations (ASEAN) launched the ASEAN Economic Community (AEC) Blueprint, the most ambitious regional economic integration initiative in the world outside of Europe. Building on the earlier ASEAN Free Trade Area (AFTA), the AEC seeks to turn Southeast Asia into a fully integrated production base for transnational capital by eliminating intraregional barriers to trade and investment and creating transboundary infrastructure to connect national markets. The touted benefits are considerable. Economists project an increase in

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regional gross domestic product of 5.3 per cent, or double this if the AEC were to be combined with extra-regional trade pacts (Petri et al. 2012).

However, all indications suggest that the AEC will not be completed by its putative 2015 deadline. The ASEAN Secretariat's latest 'AEC Scorecard' reported that the four packages of integration measures – creating a single market and production base, a competitive economic region, equitable economic development, and integrating into the global economy – were only 66, 68, 68 and 86 per cent complete, respectively (ASEAN Secretariat 2012). Moreover, because these 'scorecards' are based entirely on member-states' self-reporting, academic and business observers are highly sceptical of even this limited progress report. The CIMB ASEAN Research Institute, a pro-AEC think tank, found 'ample evidence… that actual implementation lags significantly behind the timelines of stated objectives', noting a fundamental 'mismatch between political ambitions and the capacities, capabilities and… [the] political will of several member states to walk the talk' (CARI 2013: 8). Likewise, the independent Economic Research Institute for ASEAN and East Asia (ERIA) found that, while trade tariffs had fallen and ASEAN economies were largely open to foreign investment, the AEC was still far from completion. Non-tariff barriers (NTBs) to trade and investment remained significant; trade and investment facilitation was limited; not one regional infrastructure project was on track; and regional regulations were frequently either not being translated into domestic rules or not properly enforced (ERIA 2012). The Secretariat has subsequently discontinued its scorecards, relying instead on secret ERIA reports, suggesting that these criticisms are accurate.

How do we explain this? The dominant response, reflecting the institutionalist, economistic orientation of much of the policy and scholarly literature, is technocratic. The problem is attributed to insufficient 'capacity' to make and enforce regulations, deficiencies in 'institutional design', and/or inadequate 'political will'; the solution is that leaders 'must' redouble their efforts (e.g. ERIA 2012; CARI 2013; Das 2012). This approach completely fails to explain *why* political will is lacking, *why* certain state capacities have not emerged or *why* the AEC has been designed in a way that cannot secure compliance. After all, the AEC Blueprint was launched, to much fanfare, by regional heads of government as part of a European Union-style 'ASEAN Community', adding political-security and socio-cultural 'pillars' to the economic one. Given such ostensibly high-level political commitment, the project's lacklustre implementation appears puzzling.

Part of the answer could be that the AEC, like many other Asia-Pacific trade agreements, is driven largely by political, not economic, imperatives. As Ravenhill (2010) has long argued, the choice of partners and the limited liberalisation envisaged in such agreements are not economically rational (in an orthodox sense), suggesting that they are instead being used to pursue diplomatic and security goals, like strengthening alliances or asserting regional leadership, or merely reflect pressure not to be 'left behind'. Thus, from a realist perspective, the AEC could be understood simply as an extension of ASEAN's 'imitation community': an attractive façade of public pronouncements masking a deliberate lack of real substance, since elites are engaged pursuing quite different games to those they announce publicly (Jones and Smith 2002). Arguably, AFTA and the AEC reflect Ravenhill's broad argument. Rather than economic imperatives, the immediate spur for both projects was regional elites' concern that, after the Cold War, and later the Asian financial crisis (AFC), ASEAN would be marginalised by investors and the major powers, and even potentially disintegrate, unless it took decisive action (Jones 2012: 95–126). However, this still does not fully explain why such allegedly powerful imperatives for action generated only limited substantive change. Moreover, if the AEC is merely a political charade, why has any regional integration, however constrained, occurred at all? Manger's (2014) quantitative analysis shows that, while many sectors remain protected, Asian preferential trade agreements do liberalise intra-industry trade, suggesting an underlying 'economic logic', not merely diplomatic drivers.

An alternative explanation could emerge from constructivist accounts of regional integration. Constructivists argue that Southeast Asian regionalism involves efforts to craft a shared identity and norms that stabilise regional order: the so-called 'ASEAN Way' traditions of informality, consultation, consensus-seeking and non-interference in member-states' internal affairs (Acharya 2014). Some scholars argue that these norms have hobbled initiatives like the AEC and AFTA by retarding the emergence of supranational institutions capable of enforcing compliance with ASEAN agreements (Hund 2002; Aggarwal and Chow 2010). However, in reality, ASEAN states' behaviour has not been consistently norm compliant. As Nesadurai (2008: 227) notes, governments *have* 'deviate[d] from ASEAN's sovereignty-centric norms... when they recognise that failure to cooperate could undermine... economic growth', including *vis-à-vis* AFTA and the AEC. Similarly, Kahler (2000) argues that ASEAN's aversion to legalism has been trumped by the demands of economic integration. Indeed, the AEC is arguably a form of 'regulatory regionalism' (Hameiri and Jayasuriya 2011), focused less on establishing supranational authority than on coordinating deep, harmonised changes in domestic regulation – not 'non-interference'. This departure from the 'ASEAN way', and the selective application of these norms, suggests they cannot reliably explain the AEC's formation or shortcomings. Instead, we should explore the deeper forces governing when ASEAN norms are respected or violated (Jones 2012).

Accordingly, this article offers a deeper explanation of the gap between AEC rhetoric and reality, rooted in the domestic political economy and social conflict of ASEAN states. Following the perspective of the 'Murdoch school' of critical political economy, it argues that institutional outcomes are driven by socio-political coalitions' struggles for power and resources (Rodan et al. 2006b). Agreements like AFTA and the AEC propose to rescale economic governance to the regional level, promoting domestic regulatory changes that would significantly redistribute power and resources; accordingly, they evoke struggles to promote and constrain their effects. The domestic socio-political coalitions underpinning state power in Southeast Asia generate political imperatives for *some* economic openness, yet also constrain the full neoliberalisation of regional economies. Liberalisation is supported by a coalition of economic technocrats, often in sections of ministries of finance and trade, and some internationally oriented large-scale business interests. Their goals – to attract foreign investment and generate export-led economic growth – are also essential for generating welfare gains more broadly. Therefore, the AEC is not simply a deliberate sham lacking any real substance. Nonetheless, this agenda frequently collides with protectionist impulses arising from alliances between political and business elites that undergird Southeast Asian political regimes, and the broader imperatives of avoiding socio-political unrest that could accompany the structural adjustments required by the AEC. What emerges in practice is the contingent outcome of struggles between these coalitions: a constrained, partial and uneven liberalisation.

The article proceeds in two subsequent sections. The first, drawing on critical political economy and political geography, presents a 'Murdoch School' analysis of ASEAN's economic integration, arguing that its extent reflects the outcome of coalitional struggles over the scale of economic governance. The second applies this framework to three elements of the AEC: the uneven liberalisation of different sectors; the constrained integration of ASEAN's energy markets; and the limited deregulation of skilled labour migration.

The domestic political economy of regional economic integration

This section explains how regional economic integration projects are shaped by socio-political contestation within regional states. Ultimately, initiatives like AFTA and the AEC are not simply rational responses to 'globalisation' or growing international competition. They are political projects, generated and promoted by specific social and political forces and contested by those threatened by the neoliberal restructuring and adjustment costs that they inevitably involve (Jayasuriya 2003). Their outcome depends on the capacity of the forces promoting and resisting restructuring to impose their will upon individual states, and the degree to which this is replicated across a region. While neoliberal forces may be ascendant in Europe, permitting a remarkable degree of integration, the situation elsewhere differs. In Southeast Asia, state-led development has generated a symbiotic relationship between political and business interests, affording the latter profound influence over public policy (Gomez 2002; Rodan et al. 2006b). While some of these interests favour liberalisation, particularly internationally competitive firms, their less-competitive counterparts frequently desire some form of domestic protection. In the short term, this constrains genuine liberalisation to sectors where business interests support it, or where politico-business collusion is weaker or absent, enabling leaders to impose adjustment costs without fear of serious backlash. In the longer term, grinding struggles and shifting power balances may gradually change outcomes.

This basic argument is guided by the 'Murdoch school' of critical political economy, whose theoretical and empirical insights – coupled with compatible scholarship – are deployed throughout this section. The 'Murdoch school' tradition, which emerged from the Asia Research Centre at Murdoch University, Australia, has generated highly influential studies of Southeast Asia's domestic politics and political economy since the 1980s (e.g. Robison et al. 1987; Hewison et al. 1993b; Rodan et al. 2006b), though it is relatively neglected by International Relations and International Political Economy scholars.[1] Following the Gramscian state theory of Poulantzas (1973) and Jessop (1990, 2008), Murdoch scholars argue that institutional outcomes are fundamentally shaped by struggles for power and resources between rival coalitions of social and political forces, spanning state and civil society (Hewison et al. 1993a). These forces and their interrelations are fundamentally rooted in political economy relations. Particular weight is given to classes and class fractions, and political, bureaucratic and military apparatuses, but relevant ethnic and religious groupings are also considered (Rodan et al. 2006a). These forces always contest institutions because their form and operation is always 'strategically selective', admitting and advancing some interests and agendas over others (Jessop 2008). Thus, apparently 'defective' institutions are not explained as political shams or expressions of dysfunctional norms, but as the contingent outcome of social conflict. Some socio-political groups may genuinely promote institutional projects that advance their interests and ideologies. However, those benefiting from existing institutional arrangements may resist or subvert these projects. What emerges in practice is a conflict-ridden, contingent accommodation between these contending coalitions.

Economic institutions are typically hotly contested. This is often overlooked by orthodox economists, who depict projects like AFTA and the AEC as necessary, welfare-enhancing responses to intensifying global competition (Nesadurai 2003: 21–43). Crucially, however, by shifting the terms and scope of international economic competition, trade liberalisation agreements always redistribute wealth and power within societies. Despite economists' emphasis on potential *aggregate* welfare gains, social groups 'have radically different reactions to economic change and institutional shifts, depending on their specific location in prior socioeconomic exchange networks'. While prospective beneficiaries may support liberalisation, the prospective losers will likely resist; a potentially 'deeply violent and fundamentally political process' may ensue, determining who succeeds

(Chaudhry 1997: 15–16). Importantly, this conflict involves what geographers have called a ‘political economy of scale’ (e.g. Keil and Mahon 2009). Trade and investment agreements involve shifting the economic governance from a national to a regional or global scale: they attempt to ‘constitutionalise’ economic policies at an international level in order to compel changes in domestic regulation that are frequently highly contentious domestically (Gill 1992). Again, this ‘rescaling’ of governance is contested by those whose interests are best served by existing, national-level regulations (Swyngedouw 1997).

Although economistic analyses partially recognise that economic liberalisation is contested, typically, they merely urge national leaders to marginalise ‘rent-seekers’ and ‘spoilers’ and craft pro-market institutions that distribute resources more ‘efficiently’. Such prescriptions neglect to specify from where elites’ power (and will) to attack ‘rent-seekers’ is meant to come. Since ‘rent-seekers’ are often powerful business interests, frequently linked to influential state apparatuses like the military or key ministries, reformist leaders can only defeat them by mobilising a countervailing coalition. From this perspective, the AEC’s implementation is not a question of leaders summoning the ‘political will’ or bureaucratic ‘capacity’ to implement agreed measures; it involves interscalar struggles over how the economy should be organised, and to whose benefit. From a Murdoch school perspective, then, regionalism is ‘contested’, its outcomes fundamentally shaped by socio-political conflict (Carroll and Sovacool 2010; Jones 2012).

Typically, the leading forces promoting regional economic integration are neoliberal technocrats and some internationally oriented business interests. The technocrats are predominantly located in economic and finance ministries and central banks. They are well integrated into transnational regulatory and ideological circuits where they imbibe the neoliberal agenda of deregulation and competition promoted by institutions like the World Bank, the International Monetary Fund (IMF), the World Trade Organization (WTO) and the Asian Development Bank (ADB) (Carroll 2010). They are typically supported by orthodox economists, who often have similar educational and/or occupational backgrounds, and by some internationally competitive business interests that would profit from lower barriers to trade, greater capital mobility and enhanced economies of scale (Manger 2014).

In the European Union (EU), these groups are ideologically and materially dominant. After the capitalist crisis of the 1970s, led by the political forces of the New Right, they fragmented and defeated the post-Second World War, Keynesian, social-democratic alliance between political elites, organised labour and national business leaders, forging a strong domestic and international elite consensus around neoliberal regional economic integration (Bieler and Morton 2001; Van Appeldoorn 2002). Notwithstanding resistance and crises, economic governance has been massively rescaled to the regional level, with EU treaties and regulations ‘locking in’ neoliberal policies, depoliticising economic management and marginalising alternatives (Gill 1992). This explains, to a significant degree, the rapidity and depth of European economic integration, which has only intensified despite the ongoing global financial crisis.

However, attempts to export EU-style economic governance to other regions necessarily confront rather different configurations of socio-political forces. At the most basic level, most developing economies have lacked the opportunity to develop, and accordingly are not dominated by, large-scale, transnationally oriented indigenous firms that would benefit from extensive international deregulation. Despite being one of the most developed parts of the Global South, Southeast Asia is overwhelmingly a region of petty traders, small- and medium-sized enterprises (SMEs), and very large informal sectors, operating alongside relatively small numbers of low-value-added, large-scale conglomerates. Up to 98 per cent of businesses are SMEs, which have 'little interest and opportunity to expand across national borders' (CARI 2013: 3). Moreover, extant large-scale enterprises have overwhelmingly emerged with active state assistance. These range from formally state-owned enterprises (SOEs), to 'government-linked companies', to firms controlled by bureaucratically, politically or militarily linked interests, to 'crony capitalists' benefiting from privileged access to finance, markets or government contracts (Rodan et al. 2006b). While some of these firms have outgrown the cocoon of government patronage, particularly in the more developed ASEAN economies, many still rely on some form of protection from competition to maintain their profit margins, and are consequently hostile to rescaling economic governance to the regional or global level.

Businesses' preferences carry particular sway because, as Murdoch scholars and others have extensively documented, Southeast Asia's development trajectories have created forms of state power peculiarly amenable to their interests. Throughout the Cold War, authoritarian capitalist elites, backed by anti-communist Western governments, donor agencies and the international financial institutions, promoted state-led development that generated extensive state-linked business interests. This process cultivated symbiotic relations between political, bureaucratic and business groups, while opposition groups were coerced and marginalised (Gomez 2002; Rodan et al. 2006b).

The form this took varied considerably. In Indonesia, the Suharto regime protected the ethnic-Chinese business elite in exchange for economic support for regime interests, whilst using government patronage to foster a state-dependent, indigenous 'crony capitalist' elite. These interests eventually outgrew their bureaucratic and military patrons, capturing state power directly and using it for their own purposes (Robison 1986). Following Suharto's demise, Indonesia's surviving oligarchs, joined by ascendant provincial politico-business elites, reorganised themselves to dominate the country's new democratic and decentralised political institutions through money politics and clientelist networks (Robison and Hadiz 2004). Malaysia is somewhat similar: the ruling party, UMNO, has actively cultivated a Malay business elite to rival the ethnic-Chinese, which in turn supports UMNO financially (Gomez and Jomo 1997). In the Philippines, landed oligarchs have long dominated the state, plundering it to finance their expansion into new areas of economic activity, while a generation of crony capitalists was also cultivated under the Marcos regime; these forces now substantially control the country's 'elite democracy' (Hutchison 2006). In Thailand, politico-business elites fostered by successive military regimes took power directly in 1988; subsequently, political parties dominated by factions of big business have competed for office, with tycoon-turned-prime minister Thaksin Shinawatra the most prominent exemplar (Pasuk and Baker 2004). Singapore is somewhat different. Given the weakness of local capital (partly deliberately caused by government policy), the state took a key role in national development, nurturing massive government-linked corporations whose leadership fuses politico-bureaucratic and economic power (Rodan 1989). This was achieved through remarkable openness to foreign capital and multinational corporations (MNCs), but with the state retaining extensive interests as a business operator, employer and partner to some MNCs.

Cultivating political acquiescence beyond these dominant oligarchies has been important to maintain socio-political order, and has often involved promoting rapid economic growth and providing employment and limited consumption subsidies. However, mass incorporation is typically passive or coercive due to the destruction of forms of political representation not dominated by state or oligarchic elements. Thus, despite rapid industrialisation generating substantial working classes, during the Cold War, successive authoritarian regimes co-opted, marginalised or crushed organised labour; it has not yet recovered to any significant degree (Deyo 2006). Similarly, although middle-class opposition emerged in the 1990s, liberal parties had also been destroyed or marginalised during the Cold War. Moreover, along with the capitalist class, the region's middle classes are generally 'contingent democrats' (Bellin 2000), supporting political and economic liberalisation only insofar as it benefits themselves, but siding with authoritarian elites if their privileges are threatened from below (Jones 1998). The situation is exacerbated by widespread media censorship and extensive state and oligarchic media ownership (Atkins 2013). Accordingly, while mass mobilisation occasionally erupts at moments of severe crisis, like the overthrow of Marcos in 1986 or the fall of Suharto in 1998, it lacks the organisational forms needed to sustain popular control of public policy, allowing this to lapse back into the hands of dominant politico-business elites. Therefore, to summarise: 'one of the defining features of the political economy of Southeast Asia, with the exception of Singapore, is the highly instrumental nature of capitalist control of state power' (Rodan et al. 2006a: 25).

Although this has, unsurprisingly, constrained Southeast Asia's international economic integration, this does not mean that no liberalisation has occurred. On the contrary, it has only been possible to protect and nurture politically linked businesses by inserting certain sectors into the global economy. In the immediate post-colonial decades, this largely involved using commodity export revenues to support import-substituting industrialisation. However, as commodity prices collapsed and import-substitution faltered in the 1970s, ASEAN states shifted towards export-oriented industrialisation. They increasingly relied upon attracting foreign direct investment (FDI) to create internationally competitive industries, the export revenues from which were then partly directed towards financing politically important and protected business interests. The Murdoch school's Jayasuriya (2003) dubs this arrangement 'embedded mercantilism', since it coupled economic openness in, and government support to, internationally tradable sectors with protection and patronage for politically connected sectors that were not internationally competitive. This selective openness attracted massive flows of foreign investment, particularly from Japan following the 1985 Plaza Accord, enabling most of capitalist Southeast Asia to escape the 1980s debt crises engulfing many other developing economies. This investment began integrating Southeast Asia into transnational production networks, creating both rapid economic growth and incentives for further selective liberalisation. It also reduced external pressure for rapid structural adjustment, enabling political elites to manage the process to their benefit. Accordingly, privatisation and deregulation initiatives resulted less in free-market disciplines than the transfer of public wealth to, and the creation of lucrative opportunities for, state-linked business interests, perpetuating 'embedded mercantilism' and oligarchic domination (Robison et al. 1987; Milne 1991).

Here, the trajectories of Southeast Asia's capitalist states intersected with those of its so-called 'socialist' regimes: Cambodia, Laos, Myanmar (Burma) and Vietnam (the 'CLMV' states). By the early 1980s, these economies were experiencing severe structural crises which, unlike ASEAN's economies, were not alleviated by FDI. In 1986, the Soviet Union cut its aid to Vietnam, Laos and Cambodia, compelling them to undertake pro-market structural adjustment. However, as in China, ruling elites have managed this authoritatively, privatising state assets into the hands of interests within, or closely linked to, their party-states (Hughes 2003; Gainsborough 2010). Although this has inserted some sectors into the global economy, the degree of liberalisation is shaped by struggles between neoliberal technocrats, reformist party-state apparatchiks and business interests, and conservative elites tied more closely to uncompetitive SOEs (Dixon and Kilgour 2002). In Myanmar, a similar but more constrained process unfolded under the post-1990 military dictatorship. The junta cautiously liberalised the economy, handing state assets over to military companies or favoured 'crony capitalists', while nonetheless maintaining extensive protectionist measures for patronage purposes (Jones 2014).

The structural political economy relations just described are simply not hospitable to EU-style rescaling of economic governance to the ASEAN level. As a result of the way that post-colonial development strategies have inserted ASEAN economies into global capitalism, existing trade and investment patterns simply do not map on the ASEAN scale, making any attempt to regionalise economic governance intrinsically challenging for many powerful interests. Fundamentally, ASEAN economies are competitive, not complementary, depending overwhelmingly on extra-ASEAN FDI and exports to non-ASEAN states. Thus, although 6 out of 10 ASEAN economies have trade-to-GDP ratios exceeding 100 per cent, indicating extensive internationalisation, intra-ASEAN trade has never exceeded 20–25 per cent. Moreover, intra-ASEAN trade is overwhelmingly dominated by firms located in Singapore (34 per cent in 2013), Malaysia (19.6 per cent) and Thailand (17 per cent) (ASEAN Secretariat 2014). Even this superficial reading suggests that few economic interests would benefit from substantial intra-ASEAN economic liberalisation. It would expose them not only to regional but also global competition, given AFTA/AEC's articulation within the broader WTO regime. Singapore's massive share of intra-ASEAN trade reflects its status as a (widely resented) regional entrepôt: for example, it handles 80 per cent of Indonesia's cargo trade (Syafi'i 2008: 8). Because Singapore imposes zero tariffs on trade, fully eliminating intra-ASEAN tariffs would essentially involve accepting total openness to global competition, since all goods could simply be transhipped via Singapore to circumvent tariffs on exports to non-ASEAN economies (Hill and Menon 2010: 15).

Moreover, the extensive economic regionalisation that *has* occurred in East Asia in recent decades also fails to 'map' onto the ASEAN scale. It has primarily been driven by the regionalisation of Japanese and, to a lesser extent, European, North American and (latterly) Chinese capital. Much intra-ASEAN trade is actually intra-firm trade among these multinationals (Lim 2009: 316). However, the resultant transnational production networks are not centred on ASEAN, and can actually create intra-ASEAN frictions. The Japanese-dominated automobiles sector illustrates this. Since the 1970s, Japanese auto-producers have created production facilities in several ASEAN countries, often in joint ventures with local politico-business interests. However, this reflected not an attempt to establish a regional production base, but rather to circumvent import restrictions in individual national markets (Dicken 2005: 15). Accordingly, when intra-ASEAN import tariffs were reduced under AFTA, Japanese firms seized the opportunity to achieve regional economies of scale, consolidating production in Thailand, from where they now export across East Asia (Lim 2009: 314). While Thailand's industry boomed, Indonesia and Malaysia's were severely damaged, developing large trade deficits in automobiles

(Wad 2009: 175–178). As we shall see, this generated severe anti-AFTA resistance among politically connected Malaysian producers. Similarly, Glassman (2010) shows that the Greater Mekong Subregion, rather than generating an integrated subregional economy, has largely been exploited by Thai and Chinese capital to create export platforms serving the wider East Asian region and beyond.

Rather than EU-style regional governance, then, Southeast Asia's political economy has underpinned a quite different approach, typically described as 'open regionalism' (Jayasuriya 2003; Nesadurai 2003). Essentially, 'open regionalism' supported 'embedded mercantilism' by promoting openness to investment and trade in internationally competitive sectors, thereby maintaining the flows of inward FDI and exports required for economic growth, but within an institutional framework that simultaneously permits the continued protection of politically important enterprises. This implies an avoidance of binding targets and legal enforcement of integration objectives in favour of informal commitments, political negotiations and side-payments, which enable 'fudges' that protect important interests whilst permitting liberalisation elsewhere. From this perspective, the weak institutionalisation of ASEAN economic cooperation is not a design flaw, nor does it reflect a normative preference for non-legalistic interaction, as constructivists suggest. Rather, it persists because it is functional for powerful interests. Open regionalism reflects and sustains a broad accommodation between, on the one hand, neoliberal technocrats, economists and reformist business interests who favour greater liberalisation and, on the other, those politico-business elites and other societal groups favouring protection. The specific degree of liberalisation achieved is consequently uneven, depending on the sectors involved, the interests of the actors standing to gain or lose, and their relationship to the elites dominating the state.[2]

The state-business pacts underpinning embedded mercantilism and open regionalism have come under increasing strain since the AFC. Many crony capitalists went bankrupt in 1997–1998, and the region's endemic corruption and collusion was widely condemned, internationally and domestically. However, the AFC's effects were very uneven, leading to considerable variegation in ASEAN states' responses (Jayasuriya and Rosser 2006). To regain investor confidence, restore domestic socio-political stability and retain the support of external powers, the more developed ASEAN states have embarked on political and economic reforms – though these remain heavily constrained by powerful oligarchic forces. Reform is less of an imperative in the newer ASEAN member-states, where opposition forces are considerably weaker (Jones 2012: 107–126). Thus, while embedded mercantilism has been challenged, no other dominant paradigm has yet emerged. Accordingly, while open regionalism remains broadly in place, regional outcomes are more variable, depending on the specific issues and struggles at hand, and intra-ASEAN differences over the region's overall direction have intensified.

These underlying dynamics are clear in AFTA's evolution. As Nesadurai's (2003) seminal study demonstrates, the degree of liberalisation achieved was directly determined by struggles between liberalising reformers, who emphasised the general welfare gains offered by greater international openness, and their opponents, who sought to maintain specific, national-scale protections benefiting themselves and their allies. These struggles clearly produced substantial deregulation: average import tariffs fell from 12.3 per cent in 1993 to 1.5 per cent by 2006 (Hill and Menon 2010: 7–8). However, many politically important sectors remained protected. Over two-thirds of agricultural products were excluded from the common tariff scheme, with a third placed on the 'sensitive list', never to be deregulated (Nesadurai 2003: 62). In other areas, NTBs excluded foreign companies, even as formal tariffs fell. Moreover, when threatened by AFTA, politically linked 'business actors were able to overturn specific policy decisions through their close connections with the ruling elite', sparking intra-ASEAN conflicts (Nesadurai 2003: 122).

For instance, the Malaysian government refused to liberalise its automobile sector under AFTA until as late as 2004. This is because the industry is a key import-substitution project designed to generate a Malay capitalist class. This deeply frustrated Thai auto manufacturers and their political allies, whose export-oriented assembly plants were positioned within transnational production networks directed at regional export markets (Nesadurai 2003: 128–132). However, the AFC and its aftermath created serious economic and political upheaval in Malaysia, compelling the government to adopt a more reformist trajectory, including reducing patronage to regime-linked industries (Case 2005). It was only then that the automotive sector started to be liberalised under AFTA. Although NTBs persisted, this illustrated how long-term struggles by liberalisers can sometimes surmount entrenched resistance, especially under crisis conditions (Wad 2009: 181).[3]

In the petrochemicals sector, meanwhile, national tariffs actually *increased* under AFTA in several ASEAN countries. This example illustrates the complexity of distributional struggles over economic integration and liberalisation, which do not simply pitch 'bad', domestically oriented and state-linked 'cronies' against 'good', internationally oriented 'private' and 'foreign' capital.[4] In reality, as Glassman (2010: 24) observes, 'capital, of whatever stripe, seeks conditions that maximise profitability, not "free markets"'. Thus, petrochemical projects in Thailand, Malaysia, the Philippines and Indonesia involved joint ventures between domestic private, state and foreign capital whose profitability relied upon national-level protectionist measures. Accordingly, investors successfully pressured political leaders to renege on their AFTA commitments, overriding objections from downstream plastics manufacturers, who favoured liberalisation to reduce their input costs (Nesadurai 2003: 118–122).

Clearly, the attitude of specific business interests towards economic integration initiatives is not determined straightforwardly by sector, or even by their orientation towards global markets, but rather by how they extract surplus value as profit. Prospective beneficiaries will embrace liberalisation; prospective losers will resist and the same actor might do both at different times, depending on their interests. Coupled with the generally collusive relations between big business and political elites in the region, this helps explain why there has not been more pressure from internationalised Southeast Asian business interests for fuller regional liberalisation.

Consider, for example, Charoen Pokphand Foods (CPF), a Thai multinational agribusiness conglomerate. CPF's operations in Thailand include vast, vertically integrated poultry farms, oriented towards export markets in Japan and Europe. It also operates overseas subsidiaries in 17 countries, including Indonesia. CPF might therefore appear to be a natural supporter of AFTA and the AEC. However, CPF's Indonesian subsidiary operates very differently to its parent company. In Indonesia, poultry is produced entirely for domestic consumption and is outsourced to thousands of small-scale farms. These purchase agricultural inputs from conglomerates like CPF, raise the chickens, then sell them to the conglomerates to be marketed. CPF's Indonesian subsidiary makes over 90 per cent of its massive profits from steep mark-ups on inputs, which farmers must pay because they cannot obtain credit to purchase them elsewhere. These profits would be obliterated if the Indonesian government dropped import restrictions on farming inputs and chicken meat. Consequently, CPF and the other nine conglomerates dominating this sector have reportedly struck a deal with Indonesia's political elite: the firms maintain the inefficient – but employment generating – outsourcing of production, in exchange for continued trade protection (Hameiri and Jones 2015).

As Dicken (2005: 12–15) argues, even MNCs engaged in transnational production networks have highly contingent attitudes to regional economic integration projects. This is partly because, as mentioned, their networks do not necessarily map onto politically defined 'regions'. Japanese automanufacturers have strongly supported AFTA, since it enabled them to consolidate production in Thailand and export across ASEAN (Manger 2014). However, they are far less interested in, say, integrating ASEAN capital markets or transboundary infrastructure, because their production networks simply do not span ASEAN economies. Where transnational supply chains *have* emerged, their typically non-regional nature makes them more amenable to facilitation through bilateral trade pacts, rather than multilateral liberalisation arrangements whose broader scope inevitably elicits greater contestation (Lim 2009: 310). Accordingly, even internationally and transnationally operating business interests do not necessarily form a strong political constituency for regional integration initiatives.

To summarise regional economic integration is not simply a rational policy response to global competition but rather a political project of rescaling economic governance that redistributes resources and power; accordingly, while promoted by those who stand to gain, it is resisted by those standing to lose, without outcomes reflecting struggle among these groups. Whilst socio-political conflicts have firmly entrenched neoliberal coalitions across the EU, this is not so in Southeast Asia, where state-business compacts involving extensive patronage and protection remain critically important. Consequently, regional governments have sought to combine the benefits of liberalisation with the protection of key interests: embedded mercantilism has underpinned open regionalism. Notwithstanding the destabilisation of this basic pact during the 1997 AFC, producing more variegated outcomes, this pattern will continue to shape Southeast Asia's economic trajectory for the foreseeable future. This does not mean that no liberalisation is possible, but that its extent is contingent on sector-specific struggles over power and resources.

The AEC: struggles over regional integration

Having outlined a critical political economy explanation of the broad contours of regional economic integration, we can now apply this framework to analyse the AEC specifically. We examine three specific elements of the AEC's implementation: the variable liberalisation of different sectors; the stalled integration of ASEAN's energy networks; and the uneven opening of skilled labour markets to regional migration.

Sectoral variegation

Uneven sectoral integration under the AEC suggests a strong continuation of the protectionist pressures that shaped outcomes under AFTA, coupled with post-AFC increased variation in ASEAN states' policies. Micro-level, sector-specific struggles remain the surest guide in explaining the uneven degree of regional integration achieved.

The most detailed existing survey of the AEC's implementation suggests that progress has been real, but very uneven (ERIA 2012). Virtually all trade tariffs will likely be eliminated across ASEAN by 2015. The investment climate is also generally open, and FDI has increased, though the AEC has not directly generated these outcomes. This denotes a continued broad commitment to 'open regionalism'. However, measures to further facilitate trade and investment have made only modest progress, and then only within the more economically developed ASEAN member-states, despite considerable donor 'capacity building' support for the CLMV economies. This reflects the divergent pathways taken since the AFC, with the older member-states groping cautiously towards reform whilst ASEAN's post-'socialist' regimes, constrained by deeply entrenched state-owned and -linked economic interests, move far more cautiously.

Moreover, beyond certain agricultural sectors, virtually no progress has been made in eliminating NTBs. The voluntary 'institutional design' of the process – criticised as ‘inefficient’ by ERIA (2012: 45) – is clearly functional for ruling elites, since it enables them to continue protecting important domestic interests from international competition. Similarly, in investment, ‘large temporary exclusion and sensitive lists’ are used to ‘delay or opt out of implementing measures’, producing highly variable results (Chia 2013: 97). For the AEC to proceed at all, ASEAN has had to adopt an ‘ASEAN-minus-*x*’ formula, which allows regional integration projects to advance without full participation. This is clearly another method of carving out protection for key domestic interests.

The presence of such interests provides a more accurate explanation for AEC outcomes than generalised distinctions between older and newer member-states. Consider, for example, the integration of aviation markets. This has proceeded on an ASEAN-minus-*x* basis, permitting liberalisation of some services across five to nine member-economies (ERIA 2012: 15). However, Indonesia, ASEAN’s biggest aviation market, most consistently opts out, reflecting strong pressure from Garuda and other domestic airlines struggling to compete with new, regional, low-cost carriers (CARI and Centre for International Law 2013). Conversely, most of the newer member-states ratified agreements more readily because their relatively undeveloped aviation industries lack the politico-economic weight needed to secure protection. Meanwhile, Malaysia has strongly backed aviation integration because it is home to AirAsia, a fiercely competitive regional airline striving to become ASEAN’s ‘flag carrier’ (Ballantyne 2013). Simultaneously, though, Kuala Lumpur has resisted financial services integration to protect its internationally uncompetitive domestic banking sector, which is closely linked to UMNO and its patronage of Malay capitalists (Nesadurai 2012: 325). Similarly, notwithstanding tariff reductions, Malaysia’s government continues to protect Malaysia’s automotive industry through NTBs (Wad 2009: 181), and the AEC’s ‘sensitive list’ includes automotive components (Lim 2009: 310–311). Thus, ASEAN governments’ adherence to the AEC Blueprint clearly varies depending on the specific interests at stake.

Energy (non)integration

ASEAN’s ambition to create a ‘single market and production base’ rests in considerable part on building or upgrading the physical, transnational connections between production facilities across the region, notably in information telecommunications technology, road and rail transportation, and energy. As ERIA (2012) reports, none of these infrastructure projects are progressing well. This section focuses on the energy sector, where two integration projects are ostensibly underway: the ASEAN Power Grid (APG) and the Trans-ASEAN Gas Pipeline (TAGP). Despite being on ASEAN’s agenda since 1998 and 1996 respectively, neither will be more than half-complete by 2015, and what little exists is merely a set of bilateral conduits, with no region-wide interconnectedness (ERIA 2012: 42). In both cases, the structural constraints emanating from socio-political power relations explain this disappointing record.

The APG's slow progress frustrates neoliberal advocates of regional integration, who estimate the cost savings of a regional energy market at US$20.9bn to US$29bn (Wu et al. 2011: 4). However, its lacklustre implementation is relatively straightforward to explain. Building cross-border energy infrastructure is intended eventually to integrate national energy markets into a regional whole. However, this would require the dismantling of domestic subsidies to energy consumers, which is challenging for many ruling coalitions (Victor 2009). In 2010, the ASEAN-5 governments alone spent US$34bn on energy subsidies, 44 per cent of which went on electricity (Chattopadhyay and Jha 2014: 71). Energy subsidies are a boon to businesses interests in sectors linked to state power, such as petrochemicals and cement in Indonesia, and petroleum refining and distribution and automotive industries in Malaysia (Wu et al. 2011: 6–7). For example, Robison and Hadiz (2004: 92–94, 102 n.45) document how the Indonesian petrochemicals giant Chandra Asri, a joint venture between Suharto family members and cronies, received an implicit subsidy of US$416m prior to the AFC by using cheap inputs from the state-owned oil company, Pertamina. Energy subsidies to individual consumers have also been widely used to help maintain the broader social quiescence required for oligarchic rule. Enforced cuts – e.g. under post-AFC IMF strictures – have sometimes fomented serious social unrest, contributing, for example, to Suharto's fall in 1998 (Robison and Hadiz 2004: 65, 159, 167–168). Econometric simulations suggest that the subsidy reductions associated with the APG would seriously dent workers' incomes, which elites regard as 'socially unacceptable' (Wu et al. 2011: 6–8). Thus, a powerful combination of resistance from politically connected, energy-consuming industries and the threat of popular unrest deters governments from pursuing the structural adjustments required to realise the APG. Instead, limited bilateral links have been established only when there is a clearly defined business case for firms on both sides, with limited adjustment costs.

The TAGP presents a quite similar story. Essentially, the project seeks to connect the region's gas exporters – Indonesia, Malaysia and Myanmar – to its gas consumers. The project's master plan, announced in1996, sought to realise healthy returns on a recommended US$10–15bn of private investment, meet the region's burgeoning demand for energy, enhance energy security, and improve ASEAN's 'economic resilience and solidarity' (Carroll and Sovacool 2010: 634). Despite these lofty goals, the imperatives of trade interdependence, and strong backing from the ADB and allied national-level technocrats, the TAGP has been constrained by ruling elites' tendency to tightly control their resource sectors to protect the interests of domestic groups with stakes in resource production and consumption. Given the constrained nature of privatisation since the 1980s, SOEs are monopoly or dominant players in Southeast Asia's oil and gas markets, with private and foreign investment typically limited.

Moreover, many governments heavily tax resource exports or reserve portions for domestic use or processing, thereby creating implicit subsidies for consuming industries and individuals (Wilson 2015). Historically, attempts to reduce these subsidies have been successfully resisted by mass opposition or business lobbying (Beaton and Lontoh 2010).

Accordingly, as with the APG, the only segments of the TAGP that have actually been constructed – just seven bilateral pipelines (linking Malaysia–Singapore–Indonesia and Myanmar–Thailand) from a planned network of 16 – are those where an overwhelming combination of demand and supply, plus constellations of political and business interests (particularly the orientation of state capital), produced one-off exceptions to the general policy of 'resource nationalism'. Even then, reflecting the forces moulding these projects, outcomes often diverge from plan and do not meet ASEAN's stated goals. For example, the segment now linking Indonesia's Grisik gas fields to Singapore was actually planned to supply Indonesia's Batam island, where much Singaporean industry is offshored. However, post-AFC, demand collapsed and the pipeline was shelved. It was only revived – and diverted to Singapore – following two significant changes. First, Indonesian political elites sought to increase gas export revenues. Second, Pertamina's stake in the project was partly privatised, allowing a coalition of Malaysian and Singaporean government-linked companies and foreign investors to combine to finance the lucrative deal (Carroll and Sovacool 2010: 635–638). The AFC also disrupted the Thailand–Myanmar pipeline. However, it proceeded due to the Myanmar military junta's desperate need for gas export revenues to stay afloat, coupled with the need of Thailand's government-linked energy companies to supply a power station at Ratchaburi that had been 'privatised' into their hands (Carroll and Sovacool 2010: 638–642). In both cases, local politico-business interests enabled the pipelines to be built – not the AEC's blueprints. Consequently, the extant pipelines 'in no way comprise a network to achieve the goals laid out by ASEAN' (Carroll and Sovacool 2010: 635).

The remaining planned pipelines are supposed to link Indonesia's East Natuna gas fields to peninsular Southeast Asia. However, investment has not yet been forthcoming because of concerns about the fields' commercial viability. More importantly, the increasing power of conservative forces within Indonesia is intensifying resource nationalism: in 2008, Jakarta confiscated ExxonMobil's East Natuna concession, reallocating it to Pertamina, whilst in 2011 it announced that the majority of gas would be reserved for domestic usage (Wilson 2015). This makes it extremely unlikely that the TAGP will ever be completed, let alone by 2015.

Skilled labour market integration

One of the AEC's bolder components is an ostensible commitment to liberalising cross-border trade in services by allowing professional employees of a firm located in one ASEAN country to work temporarily in another. To facilitate this, professional labour regulations in each member-state must be changed to afford the mutual recognition of professional qualifications, allowing the employee to work without re-qualifying in every national jurisdiction. By late 2012, ASEAN had negotiated eight mutual recognition agreements (MRAs) covering various professions. However, despite being approved by virtually identical groups of ASEAN economic ministers, their content varied wildly, from the creation of a region-wide professional certification scheme for 'ASEAN Architects' under the ASEAN Architect Council, to a protectionist arrangement covering medical practitioners and, in relation to surveyors, merely a commitment to negotiate a real MRA sometime in the future. This remarkable variation undermines technocratic explanations of limited progress, reflecting a lack of technical 'capacity', limited 'understanding' of the benefits, universal protectionist policies or 'brain drain' concerns (Iredale et al. 2010; Chia 2012).

The constrained liberalisation of professional labour mobility is better explained by the specific political economy relations of each sector.[5] The influence of domestic interests was heightened by the ASEAN economic ministers' decision to delegate the negotiation of MRAs to the national bodies regulating each profession. Given the nature of state power in Southeast Asia, these agencies are not neutral, technocratic, autonomous entities, but are strongly penetrated by the economic interests that they ostensibly seek to regulate. Accordingly, the 'national' bargaining position of each ASEAN government was determined by whether these groups were interested in enhancing professional labour migration. In most cases, the dominance of protectionist interests domestically generated a protectionist outcome at the regional level.

For example, Thailand's Medical Council was dominated by scarce, and consequently well-paid, local doctors, who feared greater competition from immigrants, and by representatives of universities which stood to lose their state-subsidised monopoly in training medics qualified to work in Thailand. Doctors' employers – public and private hospitals – were also represented, and might have been expected to pursue liberalisation to reduce their wage bills. However, public hospitals were badly divided between rural areas – where medics are scarce – and Bangkok – where they are relatively plentiful, rendering them unable to lobby coherently. Meanwhile, private hospitals can easily lure doctors from public institutions with higher salaries. Accordingly, employers were not unified behind a strongly pro-liberalisation stance. Consequently, the Thai Medical Council adopted a protectionist stance in ASEAN negotiations, insisting on maintaining qualifying examinations in Thai – a de facto NTB. This opposition from a major labour-importing member-state scuppered hopes for regional integration, generating an MRA that essentially entrenched existing domestic regulations (Sumano 2013: 151–204).

Conversely, the unusual balance of forces in architectural services permitted an unusually liberal outcome. Crucially, architectural services *already* operated within a supra-regional, even global market, as recognised and entrenched by the APEC Engineer Project in 2000, a pan-regional MRA that enabled architects from participating member-states – including Malaysia, the Philippines, Singapore and Thailand – to practice freely in each other's jurisdictions. Extending this via the AEC involved only modest adjustment costs, and so architects used their regulatory bodies not to squelch further liberalisation but to promote it, in order to further enhance their overseas business prospects. Although universities again feared losing business in training domestic architects, unlike the medical schools they had no state subsidy to lose; instead, they hoped to recruit foreign students. Accordingly, the MRA negotiated was strikingly liberal (Sumano 2013: 106–150).

Summing up, this brief survey of three AEC elements demonstrates that the degree of liberalisation achieved is determined by sector-specific struggles for power and resources within ASEAN societies. Accordingly, AEC outcomes are extremely uneven. In some cases, the agendas of liberalising technocrats and powerful economic and political interests coincide, permitting (apparent) regional integration to progress; but, more commonly, they diverge, permitting only partial or even zero liberalisation.

Conclusions

This article has argued that the gap between ASEAN's rhetorical commitment to regional economic integration and the actual progress made towards this goal cannot be explained by deficiencies in norms or other institutions, or a lack of political will. The deeper question is *why* these institutional deficiencies are allowed to exist, and *why* political will is not mustered to implement ASEAN's endless roadmaps and master plans, despite the political, security and economic 'imperatives' supposedly driving the AEC. The article argued that the fate of regional economic integration is fundamentally shaped by socio-political contestation over the distribution of economic power and resources. Whilst liberalising technocrats and certain internationally competitive fractions of capital may support rescaling economic governance to a regional level, other political, bureaucratic and economic interests resist it. What emerges in practice is contingent upon the historically contingent and evolving power relations between and the strategies pursued by these contending socio-political coalitions. The overall economic strategy pursued by Southeast Asian governments has favoured 'open regionalism', which reconciles a need for FDI and export-led growth with continued protection for politically favoured sectors. While the AFC has destabilised this settlement, producing more variegated outcomes, the entrenched nature of dominant oligarchic interests across most of the region has precluded any embrace of full liberalisation and regional-scale economic governance. The survey of three AEC elements – sectoral liberalisation and opt-outs, energy infrastructure and skilled labour markets – showed that regional integration remains shaped by micro-level conflicts in specific sectors. The AEC's fate does not depend on institutional reforms, normative change or national leaders' 'political will', but rather on struggles over the structural adjustments involved in each sector, and how historically contingent relations between dominant economic interests and ruling coalitions shape what reforms are politically feasible. From this perspective, not only will the AEC remain incomplete in 2015, it will not be completed in the foreseeable future.

This argument has several consequences for the way we think about and discuss the AEC. First, analysts would do well to abandon the methodological nationalism prevalent in much of the discussion. With the possible exception of Singapore, it is impossible to generalise accurately about the 'national' positions of 'core' and 'newer' member-states, or to say firmly what a given ASEAN government's orientation towards the AEC will be. For accurate analysis, we must open up the 'black box' of the state and attend to the socio-political forces shaping how state power is actually used. Second, orthodox economistic analysis that merely emphasises potential aggregate welfare gains, measures the degree of compliance achieved, and meekly recommends that greater effort be applied, is doomed to irrelevance. If analysts fail to engage with the power relations and struggles that actually shape government behaviour, they cannot properly understand why some aspects of regional projects progress whilst other stagnate. If the progress, prosperity or survival of a ruling coalition is seen to turn on satisfying particular protectionist interests, no amount of institutional tinkering or donor 'capacity building' will suffice to overcome resistance to change, nor is 'political will' likely to emerge if it involves political suicide. As the example of Malaysia's automotive industry suggests, entrenched resistance can often only be overcome through very prolonged struggles, and/or when the severe socio-economic dislocation changes the balance of power between social forces. Consequently, and finally, technocratic recommendations are pointless. Whenever one reads that ASEAN governments 'must' or 'should' do something, one ought to ask: 'Why "must" they? What are the real "shoulds" driving ruling elites' behaviour in this region?' More often than not, the answer is not what orthodox economists, and many International Relations theorists, might expect.

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Notes

1. The 'Murdoch school' has spread beyond Murdoch, including to younger generations of scholars. Consequently, it will survive the institutional upheaval following the disgraceful purge of Murdoch's vice-chancellor, Richard Higgott, in October 2014. For a detailed overview of the school's evolution, see Hameiri and Jones (2014).
2. Thus, *contra* Manger (2014), outcomes do not straightforwardly reflect a rational 'economic logic' whereby intra-industry trade is liberalised while inter-industry trade is not; the implementation of even apparently rational trade agreements remains contingent upon ongoing political contestation.
3. The industry also successfully lobbied for phased liberalisation under the 2005 Japan–Malaysia Economic Partnership Agreement, buying time for it to adapt. However, its subsequent failure to become internationally competitive caused its market share to contract sharply (Manger 2014: 165; Wad 2009: 183).
4. Nesadurai unfortunately seems to imply this in drawing an analytical distinction between 'domestic' and 'foreign' capital, suggesting that the latter favoured liberalisation while the former did not.
5. The following draws heavily on Sumano (2013).

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