



## CHAPTER 8

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# Southeast Asian Regional Governance: Political Economy, Regulatory Regionalism and ASEAN Integration

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### INTRODUCTION

Among groups of mostly developing countries, Southeast Asia is unique, having not only developed its own regional organisations but in also becoming a “hub” for wider region-building in the Asia-Pacific. The main focus has been the Association of Southeast Asian Nations (ASEAN), founded in 1967 as an anti-communist club, and expanding after the Cold War to include all Southeast Asian countries, except Timor-Leste. In response to demands for larger regional organisations to address post-Cold War security issues, ASEAN founded the ASEAN Regional Forum

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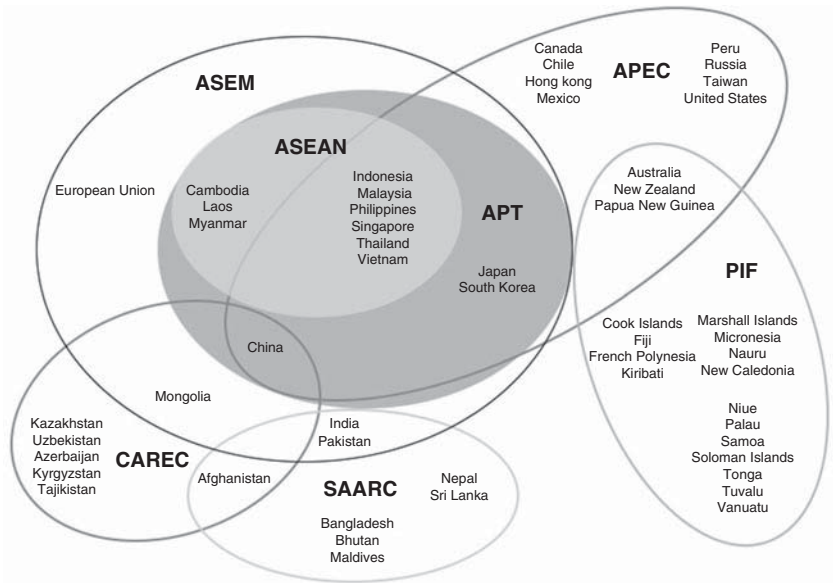
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(ARF) in 1993, which remains the Asia-Pacific’s primary security institution. Following criticisms of the ARF’s inefficacy, ASEAN co-founded the East Asia Summit (EAS) in 2005, a rotating heads-of-government meeting. ASEAN has also promoted economic integration, initiating the ASEAN Free Trade Agreement (AFTA) in 1992, and the ASEAN Economic Community (AEC) in 2007, which became one of three pillars in a wider ASEAN Community. ASEAN has also formed the ASEAN Plus Three (APT) grouping with China, Japan and South Korea, generating dialogue and cooperation on economic and security matters. There are also regional groupings not led by ASEAN, such as the Asia-Pacific Economic Cooperation (APEC) summits. Coupled with plentiful free trade agreements, this makes for a baffling array of acronyms and overlapping regional institutions, often referred to as a “noodle bowl” (see Fig. 8.1).

**Fig. 8.1** Major Asia-Pacific Economic Cooperation Forums



Note: Non-exhaustive. APEC: Asia-Pacific Economic Cooperation, ASEM: Asia-Europe Meeting, CAREC: Central Asia Regional Economic Cooperation, PIF: Pacific Island Forum, SAARC: South Asian Association for Regional Cooperation

Notwithstanding this remarkable profusion of institutions, and the even greater explosion of publications about them, Southeast Asian regionalism is often seen as very boring, even by those who study it. As one scholar laments:

despite the impressive volume of analysis, the discourse on Southeast Asian regionalism has not distinctly progressed. This is not surprising in view of the unchanging nature of the analytical object: ASEAN's lack of institutional evolution, and most member states' reluctance to touch upon the sensitive issue of national sovereignty, make it difficult for students of ASEAN to add any new and original findings to the debate (Dosch 2006: 164).

While this complaint is refreshingly frank, its substance is typical. Mainstream International Relations (IR) scholars may differ over which theoretical lens to use in assessing regional organisations, but they generally agree that, in Southeast Asia, these institutions are weak, because states stubbornly refuse to relinquish their sovereignty to the supranational bodies supposedly required to solve regional problems (cf. Jones 2012).

This perspective ignores evidence that Southeast Asian states have compromised their sovereignty in many important ways, such as through membership of the World Trade Organisation (WTO) or interventions by the international financial institutions (IFIs). More importantly for this chapter, it also overlooks the emergence of new modes of regional governance operating *beyond* sovereignty-usurping supranational bodies. Fundamentally, this is a product of the transformation of statehood (Al-Fadhat, this volume), underpinned by the transnationalisation of economic flows (Carroll, this volume). The fragmentation of state authority, coupled with a need to enhance and regulate transnational flows, has led to the formation of new governance networks. These are often issue-specific, with memberships that cut across established regional organisations, and are often linked to other, non-regional entities like the IFIs, helping to impose their disciplines. They operate not by establishing supranational authorities empowered to manage issues directly, but by defining rules and regulations that should be enacted in domestic governance; participating state agencies are expected to domesticate these regulations, thereby imposing international disciplines on their states and societies. This approach has been dubbed “regulatory regionalism” (Jayasuriya 2008; see also Hameiri and Jayasuriya 2011). In this mode of governance, contestation does not involve battles between proponents

and opponents of “pooling” sovereignty; rather, we see struggles over the formation and (especially) implementation of regional regulations. This is because the rescaling of governance to new regional spaces, and the rules generated from this, may benefit some socio-political forces, but harm others. The resultant struggles between these groups determine how regulatory regionalism turns out in practice.

We illustrate these developments with several prominent Southeast Asian examples: monetary governance, anti-money laundering regulation, and the AEC. We focus on the AEC in considerable detail to demonstrate that regulatory regionalism is at work even in the supposedly sovereignty-bound ASEAN.

### WHAT IS REGULATORY REGIONALISM?

Regulatory regionalism emerged out of the transformation of statehood analysed by Al-Fadhat (this volume), which is associated with the globalising trends discussed by Carroll (this volume). The fragmentation of state power enables functional ministries, regulators and other agencies to network transnationally with their counterparts to address shared problems. These actors then devise agreements at the international level, which specify the institutions, laws and/or regulations that states should develop to address a given issue. Participants are then expected to implement these measures domestically, thereby imposing regional disciplines on their states and societies. Regulatory regionalism often also involves efforts, via peer-review or external auditing, to evaluate and compare states’ implementation of agreements. Hence, this mode of regional governance does not involve establishing supranational organisations that usurp state sovereignty and directly intervene to solve problems. Rather, states remain formally sovereign, but are reconfigured to pursue regionally defined objectives. This approach is not limited to regions; it is actually the dominant way in which global governance occurs today (Hameiri and Jones 2016). However, whatever the scale of governance, such reconfiguration of states is almost always contested, despite the fact that it is often depicted in a neutral, technocratic, problem-solving manner by its advocates among policy actors and scholars. This is because any change in regulations may benefit some socio-political groups, but harm others. Socio-political groups will therefore struggle to influence the framing and domestic implementation of international regulations.

This view of regionalism is underpinned by a view of state-formation and region-making as constantly evolving in response to changing political economy and social conflict dynamics, rather than a cyclical struggle between static, sovereignty-guarding states and regional organisations trying to usurp their prerogatives. Powerful social forces always seek to create modes of governance at various scales that advance their interests and agendas, whether national or regional, and accordingly changes in statehood and regional governance often evolve together (Hameiri 2013). Southeast Asia's earliest forms of regionalism expressed the efforts of embattled post-colonial national elites to consolidate control over their national territories and societies and defeat communist insurgencies. To insulate their enemies from external assistance, they made non-interference in states' internal affairs ASEAN's cornerstone—yet tolerated interference aplenty when it bolstered their position (Jones 2012). As communist insurgencies were defeated and Southeast Asia integrated into the global economy in the 1980s and 1990s, ruling elites selectively relaxed non-interference even further, producing “graduated sovereignty” (Ong 2000). As part of a shift to export-oriented industrialisation, they deregulated parts of their national territories, creating special economic zones to attract foreign investors. However, working-class populations remained subject to extensive, authoritarian regulation, to maintain existing power relations. The regional expression of this shift was the “open regionalism” of projects like AFTA and APEC, which deregulated trade and investment in competitive, export-oriented sectors. However, ruling elites were careful not to grant these institutions supranational enforcement powers, to protect non-competitive sectors, which were often closely tied to incumbent regimes (Nesadurai 2003). Jayasuriya (2003) dubbed this arrangement “embedded mercantilism”. The 1997–98 Asian financial crisis (AFC) dealt this approach a terrible blow. To stabilise their economies and prevent future “contagion” of economic crises, Southeast Asian finance ministers formed the APT framework, through which they agreed to currency swaps and macroeconomic surveillance mechanisms (Rethel 2010). The APT and EAS also reflect the emergence of transnational production networks, and China's rise as a new centre of economic gravity. Thus, the overall trend is towards rescaling economic governance beyond national borders. This happens not merely at regional scales—our focus here—but globally, through participation in the World Trade Organisation, supraregional free trade agreements, and the IFIs, for example.

However, this has occurred not through the empowering of supranational bodies that directly manage economies, but rather through the networking of state apparatuses. The precursor to this development was the transformation of statehood described by Al-Fadhlat (this volume). Thanks to successive reforms accompanying economic globalisation, state power is no longer concentrated in a powerful executive using “command-and-control” methods to secure desired outcomes within a hierarchically organised, Weberian state. Rather, it has been dispersed, albeit unevenly, across a wider range of public, private and hybrid actors, including functional ministries, regulators, central banks, judiciaries, etc., with the executive retreating to a regulatory function, mainly setting guidelines to steer this diverse array of agencies towards desired ends, particularly economic competitiveness (Jayasuriya 2004). Moreover, as a result of the transnationalisation of economic and social life, described by Carroll (this volume), the issues these agencies must manage are often seen to be transboundary, requiring cooperation with foreign counterparts. Accordingly, these newly empowered agencies have increasingly networked with their foreign counterparts to try to develop joint solutions, often drawing in international and non-governmental organisations, or even private sector entities (Hameiri and Jones 2015; Slaughter 2004).

These networks may start as “talk shops”, but some proceed to devise “soft law” approaches to tackle a given problem, such as templates of laws, institutions and/or regulations that states should adopt. The entities involved then seek to implement these at home. In some cases, implementation necessitates substantial transformations in domestic governance arrangements, such as legal changes, new state agencies and powers or reforms to existing ones, or revised procedural arrangements between state apparatuses. Domestic implementation may also be monitored by the network and/or other agencies supporting its efforts.

This process is usually presented as neutral and technical; indeed, it may seem that tackling shared challenges is unobjectionable. But regulatory regionalism is always political. Firstly, it is often a deliberate attempt to bypass politics, which is frequently seen as an obstacle to problem-solving. Yet, the shift to technocratic cooperation does not negate the presence of power and interests; it merely grants power to the technocrats involved, while marginalising other interests and, importantly, circumventing democratic processes. This is a major criticism of the European Union, for example. Furthermore, governance institutions and rules are never neutral; they always affect different socio-political groups differently, with some

gaining and others losing. Accordingly, they are often hotly contested. Because the networks producing regulatory regionalism are typically highly exclusive, groups opposed to the rules being developed may be unable to gain a hearing, unless they can lobby the actors involved, or curb the network's activities. However, regulatory regionalism must be implemented domestically to have any effect, and here there may be a greater opportunity to contest the process. Thus, precisely because regulatory regionalism is not apolitical, politics—struggles for power and resources between domestic interests—ultimately determines the extent to which it actually transforms domestic governance.

### REGULATORY REGIONALISM IN SOUTHEAST ASIA

In Southeast Asia, regulatory regionalism manifests through modes of governance that do not necessarily map onto regional organisations, like ASEAN, and are therefore neglected by mainstream scholars. In many cases, these modes of regional governance are linked to global governance regimes and institutions and thus reflect efforts to reinforce the embedding of their disciplines within Southeast Asian states. We discuss two particularly prominent examples: the Chiang Mai Initiative Multilateralisation (CMIM) and the Asia/Pacific Group on Money Laundering (APG). These are not unique; similar dynamics are observable with reference to many transboundary issues, including pandemic diseases and environmental degradation, for instance (see Hameiri and Jones 2015).

#### *The Chiang Mai Initiative Multilateralisation*

The Chiang Mai Initiative (CMI), was one of several regional projects to emerge following the AFC. A primary reason for the AFC's escalation was the rapid depreciation of the region's national currencies. Since many Southeast Asian banks and firms were borrowing in US dollars, they became unable to service their debts, going bankrupt and turning a financial crisis into a generalised economic downturn. The International Monetary Fund (IMF) was unwilling to provide support without recipients first signing up to domestic structural adjustment programmes, causing widespread resentment. Japan's proposed Asian Monetary Fund was scuttled by the US, but a more modest framework—the CMI—was agreed in 2000 under the APT. This reflected a broader underlying shift towards pan-regional investment, production and trade networks (see Carroll, this

volume), which gave northeast Asian governments a strong interest in helping to stabilise Southeast Asia's economies.

The CMI was a set of bilateral currency swap agreements: governments agreed to establish reserves of US dollars, which fellow participants experiencing a monetary crisis could borrow using their own currencies, later repaying the dollars, plus interest (Grimes 2009: 82). In 2009, APT finance ministers agreed to multilateralise these bilateral arrangements, creating a truly regional liquidity pool, first established at US\$120bn, rising to US\$240bn by 2012, with China and Japan each providing 32% of the reserves. Each participating government can withdraw up to US\$30bn (Pitakdumrongkit 2018).

The CMI and CMIM have both operated through regulatory regionalism by making access to dollars conditional upon adherence to economic "good governance". The risk with currency swaps is that borrowers might not repay. Accordingly, the Chinese and Japanese governments sought guarantees that funds could only be accessed by recipients whose monetary problems did not stem from economic mismanagement. However, because they struggled to agree on regional standards for evaluating countries' domestic governance, they instead adopted IMF standards (Grimes 2009: 81). Hence, despite formal claims that no conditions were attached, in reality, the CMI sought to compel APT countries to follow IMF strictures, and it established a surveillance process to monitor compliance (*ibid.*: 84–87). Although modified in the CMIM, two basic forms of conditionality remain. The first is the "IMF link", whereby governments can only receive 30% of requested funds before agreeing a reform package with the IMF. This "implies that [CMIM] countries need to submit to IMF guidelines, which act as a 'de facto' conditionality" (Siregar and Chabchitrchaidol 2013: 11). It further implies that CMIM acts as a regional complement to a supraregional global governor, the IMF. Second, borrowers must meet other criteria. In the CMI, these were secretive and varied from one bilateral swap agreement to another. In CMIM, preconditions and activation guidelines have been standardised (*ibid.*: 5). Member-states must: undergo a review of their economic and financial situation by a regional surveillance mechanism (described below); not have previously defaulted on loans; and comply with regional covenants, including submitting a periodic surveillance report and participating in the APT Economic Review and Policy Dialogue (AMRO *n.d.*)

CMI and CMIM have also established regional surveillance mechanisms to monitor member-states' domestic economic environment and



compliance with regional undertakings. Under CMI, surveillance was provided by a network of APT finance ministers and central bankers (Grimes 2009: 88). In 2011, however, a dedicated regional body—the APT Macroeconomic Research Office (AMRO)—was established. The independent AMRO is meant to bring greater transparency, credibility and professionalism into the CMIM process. In 2017, its annual budget was US\$18.5m, just below the ASEAN Secretariat’s US\$20m. Aside from ongoing surveillance of member-states, it is tasked with providing capacity-building and assisting with implementation. Like other forms of regulatory regionalism, however, AMRO does not manage the currency swap process directly and has no supranational powers. How far CMIM has actually managed to impose regulatory disciplines on member-states is hard to assess, as it has not yet been used. However, AMRO’s objectives are certainly reinforced by governments’ desire to maintain market lending credibility and attract foreign investment (see Carroll, this volume).

### *Asia/Pacific Group on Money Laundering*

Southeast Asia is often seen to be plagued by non-traditional security (NTS) problems: non-military threats that easily traverse state borders, like environmental degradation, epidemics, terrorism and organised crime. However, most scholars lament the poverty of regional responses, blaming member-states’ refusal to surrender sovereignty to ASEAN. By shifting our focus to regulatory regionalism, we can see that much more is being done than these accounts suggest.

The case of anti-money-laundering (AML) regulation is instructive. Suppressing money laundering is seen as crucial to tackling NTS threats, because it will make it harder for criminal groups to enjoy their ill-gotten gains and for terrorists to gather funds. Scholars generally lament that ASEAN does little to tackle transnational crime, drugs or terrorism—but they are looking in the wrong place. The main body tasked with managing money-laundering and terrorist financing in Southeast Asia is the Asia/Pacific Group on Money Laundering (APG)—an affiliate of the Financial Action Task Force (FATF)—whose membership encompasses 41 states, cutting across multiple regional organisations. The FATF is a small international organisation, founded by economic ministers of members of the Organisation for Economic Cooperation and Development. FATF has no supranational powers and does not manage AML directly. Rather, it has developed a set of regulations, the “40 Recommendations”, for states

to follow. These are highly prescriptive and intrusive, specifying legal changes, the creation of specialised institutions—notably Financial Intelligence Units (FIUs), which are tasked with coordinating AML activities—and new institutional processes. Implementation is monitored by FATF-style regional bodies (FSRBs), like the APG, which network together FIUs, coordinate peer reviews to measure each other's performance, build institutional capacity, and further develop FATF rules to reflect regional peculiarities. The IMF and World Bank also assess compliance as part of their routine surveillance of developing countries.

This regulatory form of governance has achieved remarkably widespread adherence. Despite FATF's lack of supranational powers, only Iran and North Korea decline to adopt its Recommendations. This is not due to fear of a supranational authority but rather because global financial institutions use FSRB reports to help assess investment risk, making bad reports (sometimes called “blacklisting”) potentially very costly (Sharman 2011). All Southeast Asian countries are APG members, and none are currently on FATF's list of “high risk and other monitored jurisdictions”. This is because every Southeast Asian state has undertaken significant domestic transformations to comply with an international regulatory regime, monitored via a regulatory regional network, a development almost entirely missed by those fixated on ASEAN. ASEAN is merely an observer at APG meetings—a marginal player in this important example of regulatory regionalism.

Despite the widespread formal adoption of FATF regulations, practical implementation is strongly contested, and shaped by dominant socio-political forces. Experimental research shows that it is easiest to violate FATF rules in Britain and the US (Findley et al. 2014). These countries' powerful financial sectors—which are major employers, and financially linked to leading political parties—have apparently managed to warp implementation around their established business models (Shaxson 2011). With the notable exception of Singapore, a major global tax haven, Southeast Asian countries lack highly developed financial industries, so struggles over implementation assume different forms in the region. Myanmar, for example, adopted FATF's Recommendations in the early 2000s, under a military regime, ostensibly transforming its domestic governance accordingly. However, close analysis shows that implementation has been moulded around powerful interests here, too. The AML regime is subject to strong political control, with enforcement kept deliberately weak. This allows incumbent elites to shield their clients from scrutiny,

despite the fact that Myanmar's financial system was largely founded with the proceeds of drug trafficking. The only actors targeted are those who fall out with the regime (Hameiri and Jones 2015: ch. 5).

## REGULATORY REGIONALISM AND THE TRANSFORMATION OF ASEAN

Although fixation with ASEAN can obscure such new modes of governance, we also argue that ASEAN itself is moving towards regulatory regionalism. This is overlooked because of scholars' obsession with measuring how much state sovereignty is ceded to ASEAN, with the norm of non-interference seen as a persistent barrier to the emergence of supranational authority. By contrast, this section shows that ASEAN technocrats have increasingly sought to circumvent this obstacle—and bypass political resistance—by pursuing regulatory regionalism, which does not empower ASEAN over member-states, but seeks to transform member-states themselves to serve regionally defined goals.<sup>1</sup> However, as we demonstrate by focusing on the AEC, how far this works in practice remains powerfully shaped by domestic power struggles.

### *ASEAN and Regulatory Regionalism*

Since the end of the Cold War, ASEAN has increasingly sought to position itself at the centre of a dense web of regional governance networks and institutions. A core dimension of this has been the development of regional rules, norms and obligations that attempt to shape member-states' conduct, based on the argument that the region's challenges are often transnational.

The "ASEAN Community", formally launched in 2015, has been pivotal in this regard. The ASEAN Community institutionalises and organises the transnational cooperation that has emerged following the Southeast Asian states' transformation. In ASEAN's first few decades, regional cooperation reflected a traditional governance model, whereby foreign ministries dominated international relations. Annual "ASEAN ministerial meetings" were meetings of foreign ministers, and ASEAN heads of state met only three times during the entire Cold War. The founding ASEAN

<sup>1</sup> As Bickerton (2012) argues, this is essentially how the EU operates. Hence, there is a stronger parallel between ASEAN and the EU than most analysts realise.

Declaration (1967) was barely two pages long, and subsequent keystone documents were no more detailed. Although some functional ministries also began meeting in the late 1970s and early 1980s, cooperation was sporadic and paltry. For example, the ASEAN health ministers first met in 1980, then 1984, but did not meet again until 2000.

From the 1990s, however, with the increasing fragmentation of state power, and the perceived rise of shared transnational issues, functional ministries and agencies in many different fields began networking and developing their own regional cooperation agendas. The ASEAN Community organises these activities into three “pillars” (see Table 8.1).

However, the ASEAN Community was not merely a cosmetic rearrangement of existing dialogues; it represents a step-change in how regional governance is pursued, towards regulatory regionalism. This approach emerged sporadically over the previous decade, in preparation for the launch of the ASEAN Community, but it is now firmly entrenched across every governance domain. The ASEAN heads of government specified the broad goals of the organisation in their “ASEAN 2025” declaration, adopted in 2015 (ASEAN 2015a). Bureaucrats and policy-makers then developed an organisational “blueprint” for each pillar, specifying “strategic measures” in greater depth. These were followed by “action plans”, which detail the measures that each member-state should adopt domestically. For the AEC, a long action plan covers the entire pillar. For the other pillars, issue-specific action plans have been developed, e.g. a Strategic Plan for Culture and Arts, 2016–2025, under the ASEAN Socio-Cultural Community (ASCC), setting out 44 action points. Other sectoral groups have developed regulatory standards covering issues such as forestry and agriculture. In stark contrast to the two-page statement that launched ASEAN, these documents are long, detailed and highly prescriptive (see Table 8.2).

These documents are not treaties and do not grant ASEAN supranational powers; rather, they specify various regional objectives, regulations and standards, which member-states are expected to cascade downwards to national and subnational agencies and regulators. For example, Vietnam has created a national “master plan” to implement the ASCC blueprints. Nine of its 11 national ministries developed macro-level implementation plans, followed by 54 of Vietnam’s 63 cities and provincial governments (VNA 2018). Implementation is monitored at the ASEAN level by assessing member-states’ progress against the blueprints and action plans, with regular reviews and “scorecards” issued to spur further action. For some issues, ASEAN has established regional centres to supervise progress.

**Table 8.1** Bodies of the ASEAN Community

<i>ASEAN grouping</i>	<i>Year of first meeting</i>
<i>ASEAN Political-Security Community (APSC)</i>	
Ministerial Meeting (Foreign Ministers)	1967
Law Ministers Meeting	1986
Ministerial Meeting on Transnational Crime	1997
Defence Ministers Meeting	2006
Intergovernmental Commission on Human Rights	2009
Ministerial Meeting on Drug Matters	2015
<i>ASEAN Economic Community (AEC)</i>	
Economic Ministers Meeting	1975
Ministerial Meeting on Agriculture and Forestry	1979
Ministerial Meeting on Science and Technology	1980
AFTA Council	1992
Transport Ministers Meeting	1996
Mekong Basin Development Cooperation	1996
Finance Ministers Meeting	1997
Investment Area Council	1998
Tourism Ministers Meeting	1998
Ministers on Energy Meeting	2003
Ministerial Meeting on Minerals	2005
Telecommunications Ministers Meeting	2012
Finance Ministers' and Central Bank Governors' Meeting	2015
<i>ASEAN Socio-Cultural Community (ASCC)</i>	
Labour Ministers Meeting	1975
Education Ministers Meeting	1977
Ministerial Meeting on Social Welfare and Development	1979
Health Ministers Meeting	1980
Ministerial Meeting on Environment	1981
Cooperation on Civil Service Matters	1981
Ministers Responsible for Information	1989
Ministerial Meeting on Youth	1992
Ministers Meeting on Rural Development and Poverty Eradication	1998
Ministerial Meeting on Women	2002
Ministers Responsible for Culture and Arts	2003
Ministerial Meeting on Disaster Management	2004
Ministerial Meeting on Sports	2011

The region has also worked with international organisations and donors to attract funds and capacity-building assistance to implement the blueprints (Scoles 2016: 18–21; see also Table 8.3).

A good example of the regulatory regionalism approach is the ASEAN Agreement on Disaster Management and Emergency Response (AADMER);

**Table 8.2** ASEAN Community blueprints and action plans

<i>Pillar</i>	<i>Blueprint</i>		
	<i>Length (pages)</i>	<i>Objectives/headings</i>	<i>Action points</i>
APSC	39	52	274
AEC	43	30	232
ASCC	27	18	110

Source: ASEAN (2015b, 2016a, b)

**Table 8.3** ASEAN Community-building projects, 2009–17

<i>Pillar</i>	<i>Number of projects/programmes</i>	<i>Project/programme value (US\$m)</i>
APSC	135	138.9
AEC	261	527.2
ASCC	519	485.3
Total	975	1227.3

Source: ASEAN (2018a: 43)

see ASEAN 2005). AADMER does not pool sovereignty and disaster response capacities at the regional level. Rather, it primarily establishes tasks for national authorities to pursue to enhance their own resilience. It also requires member-states to identify capacities that could be deployed transnationally in emergencies; however, these would not be deployed by ASEAN, but rather by the affected member-state, using the domestic systems established by implementing AADMER. To supervise implementation, the region has created an ASEAN Coordinating Centre for Humanitarian Assistance, which receives reports from designated national “focal points”. In 2017, ASEAN also asked the International Federation of Red Cross and Red Crescent Societies to evaluate AADMER’s domestic implementation by comparing member-states and assessing their progress against AADMER themes and benchmarks (IFRC 2018).

### *The ASEAN Economic Community*

The AEC is arguably the core of the ASEAN Community: it was initiated in 2007, with the other “pillars” only added later. Reflecting the intensifying regionalisation of investment and production (see Carroll, this volume), the AEC seeks to turn Southeast Asia into a single, inte-

grated production base for transnational capital. One of its explicit goals is to

Achieve competitive, efficient, and seamless movement of goods within the region in order to enhance ASEAN's trade and production networks, better participate in global value chains, as well as to establish a highly integrated and cohesive economy (ASEAN 2018b: 4).

Unsurprisingly, therefore, the various work-plans and action plans developed under this pillar are all designed to create a business-friendly environment by lowering barriers to investment and trade in goods and services. In short, the AEC seeks to impose neoliberal disciplines on Southeast Asia.

However, the AEC does not establish any supranational authority empowered to enact economic laws or make binding legal decisions, like the European Court of Justice, for example. Only a simple dispute settlement mechanism has been created. The AEC's objectives are instead pursued through regulatory regionalism: delineating domestic reforms that member-states must implement. This may involve the domestication of regionally developed standards, but AEC work-plans also incorporate existing international standards, reflecting its orientation towards global investment and trade (Scoles 2016: 5). The AEC thereby promotes the "deep marketisation of development" (Carroll 2012), not through traditional IFI-style conditionality, but by reconfiguring governance in ways that systematically favour international capital. This shift ultimately reflects the growing leverage of international capital and the waning of alternatives to market-led growth (Carroll, this volume).

AEC documents reflect the general pattern of regulatory regionalism, with the broad, pro-market goals of the AEC blueprint being developed into ever-more precise and intrusive regulations through sector-specific negotiations. This approach was already clear in the blueprints covering the period leading up to the AEC's supposed realisation in 2015, but has been intensified in the documents covering 2015–25. The 54-page "2015 Consolidated Strategic Action Plan" (CSAP) collates these and identifies 587 "action lines" (ASEAN 2018b). These directives are elaborated into even greater detail in 23 sector-specific plans (see Table 8.4). For example, ASEAN's Trade Facilitation Strategic Action Plan identifies seven "strategic objectives", drawn from the AEC action plan, generating 23 "action lines", each with specified outputs, outcomes, measurable indicators of

**Table 8.4** AEC sectoral work-plans

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1	AEC 2025 Strategic Action Plan for Trade in Goods
2	ASEAN 2025 Trade Facilitation Strategic Action Plan
3	Broad Direction for Customs Activities 2016–2025
4	ASEAN Standards and Conformance Strategic Plan 2016–2025
5	Strategic Action Plan for Services 2016–2025
6	2016–2025 Investment Work Programme
7	Strategic Action Plans for Financial Integration 2016–2025
8	ASEAN Competition Action Plan 2016–2025
9	ASEAN Strategic Action Plan for Consumer Protection 2016–2025
10	ASEAN Intellectual Property Rights Action Plan 2016–2025
11	ASEAN Transport Strategic Plan 2016–2025
12	ASEAN Information and Communications Technology Masterplan 2020
13	ASEAN Work Programme on Electronic Commerce 2017–2025
14	ASEAN Plan of Action on Energy Cooperation 2016–2025
15	Strategic Plan for ASEAN Cooperation in Food, Agriculture and Forestry 2016–2025
16	ASEAN Tourism Strategic Plan 2016–2025
17	Strategic Action Plan 2016–2025 for ASEAN Taxation Cooperation
18	ASEAN Minerals Cooperation Action Plan 2016–2025
19	ASEAN Plan of Action on Science, Technology and Innovation 2016–2025
20	ASEAN Strategic Action Plan for SME Development 2025
21	ASEAN Community Statistical System Strategic Plan 2016–2025
22	ASEAN Work Plan for Enhancing the Global Value Chain Agenda 2016–2025
23	ASEAN Work Plan on Good Regulatory Practice 2016–2025

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completion, and deadlines. Beyond these sectoral plans, the Initiative for ASEAN Integration Work-plan III spells out actions to be taken to help integrate the newer, poorer ASEAN economies with their more developed neighbours, while the Masterplan on ASEAN Connectivity 2025 identifies the transregional infrastructure projects intended to physically integrate the region's markets. All of these plans promote market liberalisation through the reduction or abolition of remaining tariffs—most have been removed already to comply with competitive pressures, and WTO and AFTA rules—but also, more importantly, through the removal of non-tariff barriers (NTBs), i.e. rules and regulations that make it hard for investors, merchants and skilled workers to operate across ASEAN economies.

Implementation is assessed by the ASEAN Secretariat's Integration Monitoring Directorate, which emerged from the Macroeconomic and Finance Surveillance unit (later renamed the ASEAN Integration Monitoring Office) established by ASEAN finance ministers in 2010. This



unit produced an AEC “scorecard” to measure implementation in the run-up to the AEC’s supposed realisation in 2015. Other issue-specific mechanisms provide additional scrutiny, such as the Investment Peer-Review process, whereby ASEAN states evaluate each other’s policies and regulations. Independent assessments are also provided by research organisations like the Economic Research Institute for ASEAN and East Asia.

The AEC thus sets the agenda across vast swathes of internal economic policy-making, which had previously been the exclusive preserve of domestic political actors. Gone are the days of two-page declarations; the AEC specifies in minute detail what every member-state should be doing in virtually every area of economic life. Indeed, because the ASEAN economic ministers set the overall direction for “sectoral groups” through the AEC, there is virtually no area untouched by its pro-market agenda. For example, element C7 of the CSAP is healthcare. The action lines direct member-states to “continue [the] opening up” of the “healthcare market” to private investment, and to “promote Public Private Partnerships in the provision of universal healthcare”. To facilitate transnational investment, the plan promotes the “further harmonisation of standards” in the training of healthcare professionals, the implementation of international standards and regional directives governing medical products and devices, and greater freedom of movement for medical professionals (ASEAN 2018b: 38–39).

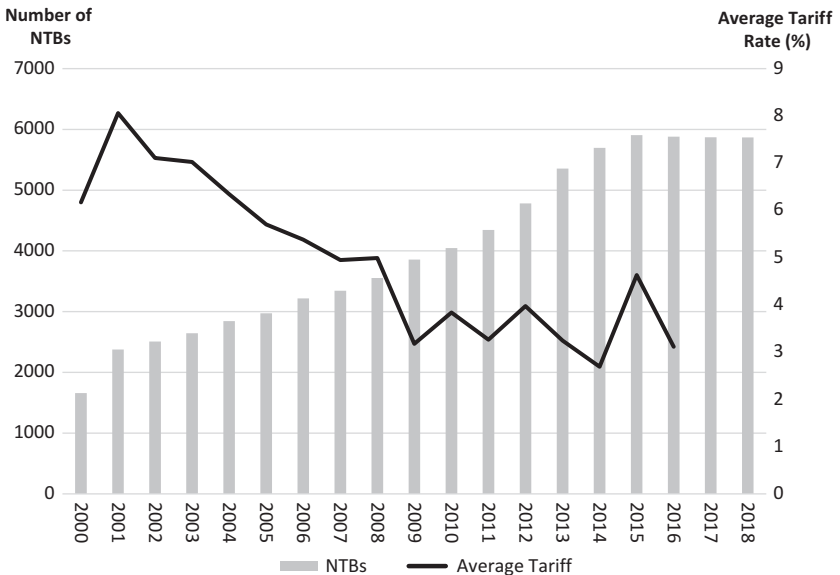
However, this extraordinarily ambitious agenda encounters fierce domestic resistance, which shapes the AEC’s implementation. The AEC agenda is primarily promoted by economic ministers and officials, many of whom are doubtless true believers in the neoliberal agenda. They are supported by international agents of transnational capital, like the Asian Development Bank and management consultancies, which provide policy advice and help draft AEC plans, and internationally competitive fractions of capital, including a few Southeast Asian conglomerates. For example, the Malaysian budget airline AirAsia clearly sees enormous market opportunities in the liberalisation of ASEAN’s aviation markets, and has thus branded itself the “ASEAN carrier”. For similar reasons, Malaysia’s CIMB Bank has enthusiastically supported the AEC, establishing the CIMB ASEAN Research Institute (CARI) in 2011 to help scrutinise the implementation of its agenda.

However, these liberalising elites face a host of forces reluctant to cooperate. As noted by Carroll (this volume), and elsewhere in this volume,

decades of state-led development have created deeply entrenched networks of bureaucratic, military, political and economic actors, often labelled “oligarchies”, whose domination relies on the continuation of *illiberal* modes of governance. Historically, political leaders have balanced the need to attract the investment necessary for continued economic growth with protecting politically linked business interests by only *selectively* liberalising their economies. This has created relatively open, internationally competitive, export-oriented sectors, dependent on foreign investment and trade, alongside sectors dominated by state-owned or state-linked enterprises, which are dependent on continued state protection from international competition. Even some enterprises that have ventured into other Southeast Asian markets rely on these closed, clientelist arrangements to be profitable. For example, the Thai agribusiness conglomerate, Charoen Pokphand, has highly competitive, export-oriented poultry factories in Thailand, but its domestically oriented operations in Indonesia depend on import restrictions to remain profitable (Hameiri and Jones 2015: ch. 4). It is not only big business interests that stand to lose out through “deep marketisation”. Some middle-class professionals fear competition from migrant workers,<sup>2</sup> while in some contexts the poor rely on subsidies (a form of NTB) to supplement their incomes. Front-line bureaucrats may also oppose reforms that reduce rent-seeking opportunities. These forces are generally excluded from the regional spaces where AEC plans are negotiated, but they may be able to contest the implementation of regional regulations when policy-makers and bureaucrats try to roll them out at home (Lele 2018).

This contestation accounts for the patchy implementation of AEC measures. Although the AEC was declared complete in 2015, the AEC Blueprint for 2015–2025 not only promotes even deeper marketisation, it also demands the fulfilment of the commitments made in the original round (ASEAN 2015b: 4). The formation of ASEAN’s Integration Monitoring Office in 2016 reflected recognition that added pressure was needed. The ASEAN Secretariat’s AEC scorecards were made secret after 2012, when widespread non-compliance was still apparent, making the AEC’s realisation by 2015 effectively impossible. Independent observers like CARI (2013a: 8) found “ample evidence... that actual implementa-

<sup>2</sup>The AEC only seeks to liberalise short-term professional labour migration to facilitate trade in services. On the more significant flows of non-professional workers, see Gerard and Bal, this volume.

**Fig. 8.2** Average tariffs and number of non-tariff barriers in ASEAN

Note: These figures derive from national reporting, and hence almost certainly understate the number of NTBs

Source: World Bank 2018a; UNCTAD/ERIA 2018

tion lags significantly behind the timelines of stated objectives”. Likewise, ERIA (2012) noted that NTBs remained significant; trade and investment facilitation was limited; no regional infrastructure projects were on track; and regional regulations were frequently either not being translated into domestic rules or not being properly enforced.

Indeed, rather than simply implementing the AEC’s liberalising agenda, domestic power-holders can resist or even reverse liberalisation. This may be exacerbated by the fragmentation and decentralisation of state apparatuses. For example, in Indonesia, while the national government has tried to cascade AEC planning downwards, local governments have resisted, using their regulatory powers to protect local clients (Lele 2018). Resistance to liberalisation is starkly reflected in the rapid *growth* of NTBs under the AEC—the exact opposite of what was intended (see Fig. 8.2). Essentially, as tariffs have been eliminated, NTBs have replaced them, to

**Table 8.5** World Bank “ease of doing business” rankings

<i>ASEAN member</i>	<i>Ease of doing business rank</i>		<i>Trading across borders rank</i>	
	2007	2019	2007	2019
Brunei	78 <sup>a</sup>	55	36 <sup>a</sup>	149
Cambodia	143	138	114	115
Indonesia	135	73	60	116
Laos	159	154	161	76
Malaysia	25	15	46	48
Myanmar	–	135	–	91
Philippines	126	124	63	104
Singapore	1	2	4	45
Thailand	18	27	103	59
Vietnam	104	69	75	100

Source: World Bank (2018b)

<sup>a</sup>2008

continue protecting key interests in a more targeted manner.<sup>3</sup> World Bank rankings also show mixed results, with some progress but also some backsliding (see Table 8.5).

A few examples can illustrate how domestic power relations and struggles shape the implementation of the AEC agenda in different sectors. First, let us consider how domestic business interests can generate contending national positions that stall ASEAN’s economic integration. The aviation sector demonstrates this well. As noted, there are large-scale aviation firms interested in liberalising this sector, notably low-cost carriers like AirAsia, because they stand to increase their already-massive market share. It is no surprise, then, that Malaysia, home to AirAsia, has strongly backed this aspect of the AEC. However, Indonesia, ASEAN’s largest aviation market, has fiercely resisted this liberalisation, because its domestic airlines, including flag carrier Garuda, cannot compete with foreign rivals, relying on protection to remain profitable (CARI 2013b). Consequently, Indonesia—joined by similarly-positioned member-states—has entered reservations when ratifying ASEAN “open skies” agreements, impeding liberalisation, while foreign competition on solely domestic routes remains

<sup>3</sup>Protectionism does not necessarily account for *all* NTBs. Ing et al. (2016) suggest that some stem from a desirable tightening of consumer protection regulations, with 31.3% of NTBs emerging from health ministries. Nonetheless, even “safety” regulations can easily be manipulated for protectionist purposes: see, e.g., Li and Beghin (2017).

entirely prohibited (Intal 2017: 48–49). Interests differ across sectors, generating different attitudes to AEC implementation. Malaysia is far less keen on financial integration, for example, because its politically linked banking sector—crucial for maintaining the oligarchic networks underpinning the now-defunct United Malay National Organisation regime—could not withstand international competition (Nesadurai 2012: 325). In the automotive sector, the ASEAN countries with competitive, export-oriented sectors have readily internalised international standards under the ASEAN Automotive Product Working Group’s direction. However, those with uncompetitive, domestically oriented sectors, like Vietnam, have not (Scoles 2016: 8).

A second example is the energy sector, which demonstrates how the importance of protectionist measures in maintaining domestic coalitions can override liberalisation projects. The AEC envisages creating a single regional electricity market through regulatory changes and the construction of a physical ASEAN Power Grid, which proponents estimate could save \$20–29bn annually (Wu et al. 2011: 4). Despite a slated completion date of 2015, the power grid project is barely half complete, and what little exists is just a series of bilateral connections. The reason for this slow progress is that integrating energy markets would require governments to terminate their subsidies to consumers, which is politically risky. In 2010, the ASEAN-5 governments alone spent US\$34bn on energy subsidies, 44% of which went on electricity (Chattopadhyay and Jha 2014: 71). Some of this goes to powerful industrial interests close to incumbent regimes, such as Indonesia’s petrochemicals and cement industries, and Malaysia’s petroleum and automotive industries (Wu et al. 2011: 6–7). Some governments also use consumer subsidies to maintain the urban poor’s quiescence. The cuts required to implement the ASEAN power grid are “socially unacceptable” from the perspective of maintaining socio-political stability (*ibid.*: 6–8).

A third and final example—the movement of skilled labour—shows how special interests can capture regulatory regionalism. The AEC promotes the liberalisation of services trade, to make it easier for service companies in one ASEAN state to undertake work in another. To facilitate this, the AEC seeks to reduce barriers to service firms’ key workers—skilled professionals, like physicians, architects and surveyors—to work temporarily in other ASEAN states. This involves changing how member-states regulate these professions. The AEC mandates the development of Mutual Recognition Agreements (MRAs), whereby ASEAN states

recognise each other's professional qualifications as equivalent, allowing someone qualified in one member-state to work freely in another. ASEAN's economic ministers delegated the drafting of MRAs to the national regulators for each profession. However, as Sumano (2013) found, these networks usually did *not* develop liberalising MRAs. National professional regulators are often dominated by the very professionals they seek to regulate, allowing them to promote regulations that benefit themselves. Where professionals had a strong mutual interest in working across ASEAN, they were able to agree on liberalising MRAs: for example, architects created an ASEAN Architect Council, which now licenses professionals to work in any ASEAN economy. However, where professionals feared foreign competition, they defended barriers such as language tests, either producing MRAs that did not actually facilitate professionals' movement, in the case of physicians, or producing no MRA at all, in the case of surveyors. Furthermore, the implementation of MRAs is shaped by local political economy relations: Lele (2018) found that while some Indonesian cities are liberalising labour rules, others are using their control over work permits to exclude ASEAN migrants, protecting their constituents from competition and violating the AEC. Unsurprisingly, the numbers of professionals mobilised under MRAs is pitiful: no physicians or dentists (as of 2017), only 55 nurses, just six engineers, and 284 ASEAN architects (Intal 2017: 51; Te et al. 2018: 962). Intal (2017: 51) concludes that "the MRAs do not contribute much to the intra-regional mobility of skilled professionals".

## CONCLUSION

Sovereignty-jealous Southeast Asian states are widely supposed to resist any transfer of authority to regional organisations, stymieing the emergence of serious regional governance. This perception is based upon a narrow focus on regional organisations and their capacity for supranational action vis-à-vis states. As we have shown, however, regional governance in Southeast Asia increasingly operates via regulatory regionalism—the development of regional standards by networks of quasi-autonomous agencies and their attempted embedding within states. This process is closely associated with the transnationalisation of economic and social relations (Carroll, this volume), and the associated transformation of Southeast Asian states (Al-Fadhat, this volume). If we include regulatory regionalism it is clear that regional governance constitutes a significant

dimension of Southeast Asian politics, but its impacts are uneven and complex, across countries and issue-areas.

The shift towards regulatory regionalism reflects attempts to get around the limitations of national sovereignty that some view as restricting the capacity to address transnational problems. However, even apparently neutral, “problem-solving” regulatory changes tend to reallocate power and resources. And because the international fora in which agreements are formed are often highly exclusive, socio-political forces that stand to lose out struggle to prevent or restrict their implementation by contesting them in domestic settings. Consequently, the contours of regional governance are increasingly shaped, not by struggles over whether sovereignty should be ceded to supranational institutions, but by conflicts within the state over the implementation of regional frameworks. The contours and future development of regional governance in Southeast Asia are thus intrinsically linked to wider struggles over power and wealth in the region.

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