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The ASEAN Economic Community
Final Stage of the "ASEAN-Way"?

Abstract: In this paper, the level of integration of ASEAN is systematically examined and prospects of further integration are assessed. Focusing on the dimension of international trade, it is shown that the establishment of a fully-fledged customs union in South East Asia is highly unlikely in the foreseeable future. Economic reality poses impenetrable limits to the harmonisation of member state policies, resulting in a significant gap between declared aims and actual integration processes among ASEAN nations. Furthermore, based on these findings and the experiences of the European Union it is argued that – at least from a certain level – economic integration is inevitably linked to political integration as the disparity of national preferences might render sole economic cooperation unstable.

Keywords: ASEAN, Customs Union, Economic Integration, European Union, Heckscher-Ohlin-Model, Linder Hypothesis, Single Market, Supranationalism, Trade

Introduction

National responses to global economic and political pressures are increasingly insufficient for bringing these developments in accordance with the preferences of their constituencies. One increasingly popular result of this phenomenon is the regionalisation of economic policies in particular. Besides the European Union as frontrunner of international integration, the Association of Southeast Asian Nations (ASEAN) continuously reaches new dimensions of multilateral cooperation. However, with this process steadily proceeding, questions arise about the potential depth of further integration and its advantages for the states involved. Whilst some argue that ongoing integration following the role model of the European Union should be considered to be the long-term goal, others highlight that a more differentiated or multi-level integration with strengthened ties to outsiders would be preferable. Thus, it is worth to examine which strategy ASEAN member states are most likely going to advocate for, basing on the experience of their past development and current structural situation. Hereby, the analysis is twofold. First, ASEAN's economic structure will be analysed, focusing on trade relations and its members tariffs, in order to examine whether contemporary economic relations limit prospects for further integration. If the reduction of economic benefits for individual states would be a likely result of certain integration scenarios, it would be justified to assume that ASEAN integration won'treach this state of affairs. Secondly, even if further integration would indeed guarantee benefits for all member states, it does not automatically result from such a prospect that integration would deepen. It might help to consider each state to be a rational actor, for whom integration might be advantageous vis-à-vis the status quo, however, not necessarily the most beneficial of all policies available to them. Thus, it is essential to examine incentives created by a potential process of ongoing integration in the context of national interests in order to identify the most likely national strategies and thus assess probable scenarios concerning the future of ASEAN and the viability of economic integration in South East Asia.

Theories of Market Integration

In order to assess the significance and prospects of ASEAN integration general criteria of economic and political integration processes will be identified in order to structure the discourse on potential scenarios for the development of ASEAN. Even though the development taken by the European Union, especially among the non-academic audience, is often perceived as a role model for further integration of ASEAN, such comparisons are seldom backed up with profound arguments. Indeed, some argue that regional organisations or federations, which result from integration processes, should and can even be expected to become an integral part of multi-level governance approaches (Walzer 2010: 57-8). However, even if regional entities will become an essential part of governance systems, one has to acknowledge that different regions start from different points of absolute development, relative interdependence and also national preferences, thus resulting in different feasible and beneficial levels of integration. While plenty of research has been done on integration and its impact, many terms still lack an unambiguous definition. Frankel (1997: 16-24) provides a classification of different stages, comprising (i) relatively loose *preferential trading arrangements*, (ii) *free trade areas* as arrangement without internal restrictions, (iii) *custom unions* as entities that undertake unified actions towards outsiders and at minimum have common external tariffs, (iv) *common markets* entailing the free flow of factors of production and (v) *economic unions* being subject to harmonized economic policies and thus requiring some extent of political federation. It is noteworthy that the first three stages are practically restricted to economic issues while common markets require political collaboration to some extent and economic unions, furthermore, at least partially the surrender of national sovereignty. In addition, regional integration can take different positions in a continuum with liberalisation and common planning at the extremes (Balassa 1961: 7). Employing a binary approach, Lawrence (2000: 8) distinguishes between *shallow integration*, which solely comprises liberalisation, and *deeper integration*; which can be said to comprise the latter two stages of Frankel's classification. Of course, these conceptualizations only provide imperfect schemes for roughly distinguishing entities as integration processes happen imperfectly and can differ in certain aspects. However, with respect to ASEAN it remains uncertain whether deeper integration will become realistic in the long-term and actually be desirable for ASEAN states.

A Case for Liberalisation?

Since more than half a century the general idea of the advance of economic integration is generally associated with both trade creation and trade diversion, depending on how the process of integration affects trade with outsiders (Vinor 1950). However, the relation and overall effect is less straightforward. For instance, there is evidence for enhanced trade between Canada and the USA following its bilateral free trade agreement without adversely affecting trade to third countries for the very most products (Clausing 2001: 694). On the other hand, Chang and Winters (2001) find that trade liberalisation within MERCOSUR indeed does negatively affect trade with outsiders. Interestingly, in this case the subject at hand is a multilateral entity. While in 2009 it has been examined that market integration in the case of ASEAN so far benefited insiders without harming external trade (Calvo Pardo 2009: 4), it is thoroughly possible that the overall effect of market integration shifts in the course of deepening integration or developments within a trade block. Hence, the underlying incentives for trade – and thus for enhancing trade – have to be considered in order to appropriately examine upcoming prospects of market integration and respective members' cost-benefit calculation.

One fundamental theory of international trade, the Heckscher-Ohlin-Model, predicts that the more heterogeneous economies are, the more incentives they have to trade and the more likely they will engage in trade. The underlying idea concerns the differences in specialization and abundant factors of production among countries:

Professor Ohlin's contention is that the nature and availability of the factors of production determine the localization of the various industries; and that differences in the nature and availability of the factors, by inducing differences in the types of commodity produced, stimulate interregional and international trade, and thus also stimulate further specialization (Angell 1934: 126).

Thus, according to the Heckscher-Ohlin-Model one should generally expect that heterogeneous economies with comparative advantages in different fields and diverging specialisation will more intensively engage in trade in order to reap the benefits of specialised production of products that cannot be provided domestically. However, an essential but often ignored part of the theorem is indicated by the last sub-clause of the quote. Not only does the economic structure impact trade, but also does trade affect specialization and thus potentially *shapes* a country's comparative advantage. Even though this effect could be manifold and increase people's wealth dramatically, enforced salience of different comparative advantages with some countries being *locked in* a certain stage of development is one possible result. For instance, specialised production and a focus on low value-adding industries could be enforced by trade liberalisation.

However, a different theory of trade, questioning the validity of the Heckscher-Ohlin-Model, is provided by Staffan Burenstam Linder (1961: 17):

"We shall claim that a country cannot achieve a comparative advantage in the production of a good which is not demanded on the home market. If this is a necessary (but not a sufficient) condition for securing a comparative advantage, it follows that trade will be most intensive among countries with similar demand structures. To the extent that per capita income determines the demand structure, trade between countries will be more intensive the more equal per capita incomes are."

Even though the idea of intensive trade among relatively similar nations can be observed in, for instance, the high proportion of global trade among OECD members or, as the data in the next section will show, within the EU, Linder's hypothesis makes an important implicit statement. By considering the demand for a certain good necessary to gain a comparative advantage concerning said good, two general consequences of trade between unequal economies could be expected. For instance, it is possible for trade liberalisation to enhance demand for higher-value goods by expense reduction for consumers and thus support the emergence of more sophisticated domestic industries. On the contrary, the result could also be the crowding out of domestic industries that otherwise would potentially and thus lead to a change in the economy's predominant comparative advantage. This would be a possible consequence if already established external producers gain access to said state's domestic market and face it with competitive conditions its emerging domestic industry cannot master.

Hence, there arise conflictual propositions on two levels: First, if trade liberalisation is assumed to benefit liberalising states, it is not certain whether this is true for both economically rather heterogeneous and homogenous states. Secondly and more general, the classic question rises whether trade liberalisation at all can be considered to be universally beneficial for liberalising states, especially if the process takes place in a context of heterogeneous economies at very different stages of development.

Addressing the first issue, the two aforementioned hypotheses provide ostensibly diametrically opposed answers, thus directing different actions and potential trade policies for policy-makers. Confirming empirical evidence can be found for both theoretical expectations. For instance, analysing a small sample of industrialised economies, Leamer (1995) finds that factor endowments are a decent determinant of trade patterns, thus providing evidence that supports the Heckscher-Ohlin-Model. However, employing a more conceptually different research design that assesses the interaction of trade, factor endowments and factor input requirements, there seems to be no solid empirical evidence in favour of the Heckscher-Ohlin-Model (Bowen et al. 1987). In this context it is of particular interest to note that Bowen and his colleagues examine that if factor input requirements are taken into account, factor endowments and their distribution cannot satisfyingly account for trade patterns. Assuming both heterogeneous supply and demand structures among ASEAN economies, this finding would indicate that trade with outsiders might be relatively important. Furthermore, and supporting this remark, the Linder hypothesis is subject to many diverse studies that generally tend to confirm the theory of increased trade among "equals". Balassa and Bauwens (1987) identify income equality, which can be employed as a proxy for general similarity of economic structures, to be one decisive factor for increased trade relations. Even more interesting, even though Balassa and Bauwens highlight that this correlation is less pronounced among developing countries as opposed to trade patterns among developed countries, this finding of increased trade between economies at similar stages of development even seems to hold within the group of developing countries. The analysis of a sample of six African developing countries shows that these are rather engaged in trade with fellow developing countries than in trade with developed, industrialised economies (McPherson et al. 2001). In the same vein, the same patterncan be found in trade among industrialised nations as the vast majority of the share of global trade is restricted to the relations between economies of the triad, namely North America, East Asia and Europe. Hence, from the decent empirical support for Linder's hypothesis follows that, *ceteris paribus,* economically homogenous states are rather predestined for economic integration than heterogeneous ones are. This is because in the latter case nations are more likely to have stronger economic ties to outsiders on a similar stage of development with analogue demand structures.

To address the second issue, a more specific approach seems to be appropriate. Since it is out of this paper's scope to reiterate the often ideologically shaped debate whether trade liberalisation or protectionism favour economic development, it seem worthwhile to shortly focus on the connection between the process of development and trade.It should be clear that free trade and economic integration are not ends in themselves. States seek to increase their wealth and well-being of their citizens through development, which can be expressed in terms of an increase in output in income by the continuous emergence of higher value-adding industries. Hence, it is not as much relevant whether a comparative advantage can be exploited by opening the economy for trade, but much more how comparative advantages shift and can be developed. Examining this question in the context of the theoretical foundations of free trade, it quickly becomes clear that this question didn't find much consideration in the basic theoretical accounts of free trade. Strikingly, in the most basic work on the perks of free trade it was only shortly mentioned and deemed irrelevant. In "The Wealth of Nations" Adam Smith stresses the benefits of free trade and proceeds to conclude that "[w]hether the advantages which one country has over another be natural or acquired, is in this respect of no consequence" (Smith 1838: 186). However, in fact it is not irrelevant how a comparative advantage is acquired. Especially economic integration itself can impact comparative advantages or limit an economy's capacity to develop a more beneficial comparative advantage. As mentioned above, Linder's hypothesis would allow both for conclusions that trade liberalisation can enhance economic development on one hand, and for conclusions according to which it would harm development, on the other hand. For instance, for a less developed economy being a part of a highly globalised and liberalised system, the existence of established and cost-efficient external suppliers can create developmental obstacles as the emergence of domestic producers is neither necessary for the good's availability in the domestic market nor sufficient to decrease production costs, due to the most likely existing knowledge advantage of established producers. In such a case, free trade would not only not be an end in itself but also an inappropriate strategy for achieving development. The idea of opposing free trade in order to enhance the development of domestic productive powers has been put forth by Friedrich List, who in his work accused the contemporary free trade policy as paradigm of the international economic order, which according to him was only adopted after English primacy of was achieved, of impeding that other states follow its path (List 1856: 440). Thus, more developed economies with established internationally acting enterprises could potentially even benefit from halting the developmental process in less advanced ones. However, it should be straightforward that it is not in the interest of any government or society to maintain a comparative advantage in raw materials or, almost per definitionem, in unskilled labour, but to develop their economy, skills and wealth. Hence, reduced openness for trade might indeed potentially be beneficial for domestic economic development, while trade liberalisation might be harmful to it on some occasions. However, it must be highlighted that even if policy-makers falsely assume that they would benefit from such a protectionist policy, for instance in terms of high tariffs, regarding the process of integration it is sufficient that they perceive these means to be necessary for development in order to significantly alter the prospects and level achievable of integration.

The Continuing Integration of ASEAN

On January 1st 2016 ASEAN reached a new dimension of integration among its members with the introduction of the ASEAN Economic Community (AEC). Whilst its predecessor, the ASEAN Free Trade Area (AFTA), that came into force in 1993 covered almost all tariffs (Daquila 2007: 141), the AEC lifts cooperation among ASEAN nations to a new level, concerning both the standard of integration and the scope of issues affected. Noteworthy, ASEAN is considered to follow a problem-oriented approach with its main characteristics being to strive for consensus, the principle of non-interference in national affairs and consequently the absolute respect for its members sovereignty, which has extensively been described as the "ASEAN way" (Goh 2003: 114) and is opposed to the European experience of supranationalism. Indeed, in the course of the emergence and establishment of ASEAN the self-conception as a loose interest-driven and intergovernmental forum that in its first decades lacked any significant institutionalisation has been a major determinant for shaping the organisation's proceeding. For instance, ten years passed between the second ASEAN summit in 1977 and the following one, then again mere whole years until the next one. This was the case even though South East Asia's economies have been subject to significant transformations and external challenges during these decades. Hence, partly as a consequence of the Asian crisis of 1997/98 and the attempt to create an Asia-specific organisation that would serve as a lender of last resort in addition to the IMF, the need for international coordination had become more apparent. In consequence, the frequency of ASEAN summits was augmented, nowadays taking place on a semi-annual basis. Furthermore, apart from the alternation concerning intergovernmental meetings, the general discourse on cooperation has changed, with integration becoming ostensibly more desirable for its member's governments. Whilst the before mentioned ASEAN Free Trade Area has been considered a major accomplishment at the time of its adaptation, in the meantime it merely seems to be a logical step embedded into the process of further integration. In this context the goals proposed by ASEAN seem to signify a change in paradigms if one considers that one goal laid out in ASEAN's vision for 2025 is

*"[…] advancing a **single market** agenda through enhanced commitments in trade in goods, and through an effective resolution of non-tariff barriers; deeper integration in trade in services; and a more seamless movement of investment, skilled labour, business persons, and capital." (ASEAN 2015: 15). [Emphasis added]*

Strikingly, ASEAN actively formulates the aim of approaching the state of a single market, which includes the four freedoms, namely the freedom of (i) goods, (ii) services, (iii) capital and (iv) labour (Fox 1997: 5). The same four freedoms are, for instance, entitled in the Treaty on European Union (European Union 1992: 14). However, the establishment of a single market requires major political reforms and alterations, especially concerning a freer flow of labour. Thus, the vision shows the aspirational character of ASEAN's Economic Community as it includes long-term goals that won't be realized soon even though AEC has already been introduced. Indeed, the "ASEAN way" could actually prove to be harmful for the community's future integration and even terminate the integrational process as political concessions and political institutionalisation become inevitable at a certain level of integration, at latest with the free flow of labour. Interestingly, the Singaporean Ministry of Trade and Industry was already endeavoured to clarify that AEC neither includes a customs union with common external tariffs nor coordinated economic policy (Ministry of Trade and Industry Singapore 2015). While the latter appears to be reasonable, the renouncement of common external tariffs deserves further attention because, as it is elementary to a customs union, which in turn the stage of economic integration prior to the establishment of a common or single market. Employing Frankel's classification, ASEAN would *de facto* still have to be considered a free trade area, although it is labelled as economic community advancing a single market agenda. From these difficulties for deeper integration arises the possibility of looser but more extensive and vastly more powerful free trade areas. Indeed, it seems to be perfectly reasonable that at some point a looser agreement of ASEAN plus three (China, Japan and Republic of Korea) will be more acceptable and preferable for its members than continuing ASEAN integration (Low 2003: 83).

Whilst some studies have been composed to suggest measures for the development of an ASEAN single market (Lloyd 2005: 263), it may be questioned whether the states involved actually do have incentives to support such a development. An attempt to answer this question will be made in the following sections.

ASEAN's Contemporary Economic Structure

In order to assess the prospects of further integration of ASEAN it is indispensable to analyse the starting point, namely its current economic structure, which reveals some very insightful relations. First, as Table 1 indicates, the economies of ASEAN are quite heterogeneous with some still heavily relying on agriculture while others already industrialised and even have developed service-based economies, first of all Singapore. It is important to emphasize that the spread in levels of economic development is very diverse within ASEAN. This, in turn, has essential consequences for trade, investment and integration. As Figure 1 shows, trade does have very different levels of importance for ASEAN economies, with an impressing level of more than three times its GDP for Singapore, while international trade is less salient for the Philippines and Indonesia, thus only playing a subordinated role in those countries economic policies. In fact, an economic primacy of Singapore can be clearly identified within ASEAN. This finding is confirmed by Figure 2, which shows the Foreign Direct Investment (FDI) flows to and from ASEAN nations, finding that the overwhelming majority of foreign capital flows to Singapore. Indeed, if population size in considered, it can be concluded that Singaporeans receive roughly 200 times more FDI per capita than Filipinos do. This immense level of heterogeneity and diverging needs for economic policies is essential for understanding ASEAN integration. This raises questions concerning prospects for further integration. However, as has been shown above, even if the Linder hypothesis could be considered adequate in the context of ASEAN, this would not mean that economic integration among unequal economies cannot be beneficial for those countries. Internal economic liberalisation as well as the facilitation of the movement of factors of production is potentially a promising path for ASEAN. However, when it comes to harmonisation it becomes harder to imagine viable prospects for deeper integration among ASEAN economies. This does not directly follow from economic heterogeneity but from the vastly differing strategic policy interests that result from current economic and trade structures. This claim can be substantiated if Figure 3 is employed. It visualises trade in goods of ASEAN's member states in 2014 based on UN Comtrade data and was compiled using *Circos*. Trade that involves at least one ASEAN nation is characterised by each country's share of the circle and visualised by a certain colour. The three outer circles describe – from the outside towards inside – composition of total trade, composition of imports and composition of exports, marked by the colour of the respective trading partner. The thicknesses of the connecting bars indicate the value of the trade between the respective trading partners. Strikingly, from this visualisation it immediately becomes evident that literally every ASEAN nation is more engaged in trade with outsiders than with fellow ASEAN members. Regarding unweighted averages, only 23% of an ASEAN state's exports are directed towards other ASEAN states and 39% of imports originate from other ASEAN members, with numbers as low as 12% of Vietnamese exports being directed to ASEAN. In particular Singapore is far more oriented towards outsiders than towards ASEAN. Again, the chart shows that Singapore also has a dominant position in inter-ASEAN trade only. In fact, if only trade within ASEAN is considered and Singapore is excluded, the remaining trade volumes remain tiny and the respective trade relations relatively insignificant. Whilst these data do neither generate clear support for the Heckscher-Ohlin-Model nor for Linder's hypothesis, they still indicate a relative high level of independence among ASEAN nations. This structure might not directly be harmful to economic integration, but it certainly reduces the expected relative benefits from deeper integration, especially from harmonization, as those benefits would be higher if insiders rather engaged in mutual trade. However, this underlying structure of relative independence in trade in combination with vast differences in levels of economic development make it appear unlikely that deeper integration will proceed within ASEAN as high costs for individual states would result in rather low benefits.

Does the "ASEAN way" lead to a Customs Union?

Whilst the structure of intra-ASEAN trade does potentially compose limits to further integration, this circumstance becomes even more obvious if the aforementioned systematic conceptualisation of economic integration is employed. If one considers ongoing integration towards a customs union, the next step in Frankel's classification and at least requiring common external tariffs, it seems highly unlikely that this state of affairs would be achievable for ASEAN in the foreseeable future. As identified above, Singapore is the crucial actor within ASEAN, both in terms of intra- and inter-ASEAN trade. However, its economy is traditionally characterized by very low tariffs, especially vis-à-vis other ASEAN members, thus creating major challenges for the harmonisation of external duties or even the adoption of common external tariffs. Hereby, the decisive point of disagreement is likely to be caused by the before mentioned argument for infant industries. Thus, investment goods and products of higher value-adding industries are likely to be the crucial point of argument as less developed countries are likely to aim at protecting their emerging domestic industries against the unequal competition versus established external producers. This becomes clear if one considers the most-favoured-nation ad-valorem duties of ASEAN nations for steel and iron as well as processed articles made out of steel and iron plus electrical machinery and equipment, a total of 1,977 different goods considered over a timespan of three years with coverage starting in 2012 as retrieved from the WTO database on tariffs. With an average of 0.0% and not a single duty on any of those goods in the sample Singapore constitutes an apparent outlier among ASEAN states. Even the country coming closest, Myanmar with an average of 3.2% employs a decisively more protectionist strategy as the average is distorted by tariff peaks with values up to more than 30% and a large number of goods without any tariff obligation. The same is to be mentioned for the tariffs of the Philippines, Lao, Indonesia and Brunei, whose tariff averages of the sample amount to values between 4.5% and 6.5%. All other ASEAN states have average values between 7% and Cambodia's top value of 11.8%. Hence, while the tariffs for these goods do not strongly correlate with economic development of ASEAN states, there seems to be a weak association, especially if it is considered that relatively less developed nations, apart from Myanmar, like Vietnam and Thailand have lower average levels of tariffs concerning the goods under investigation but have far more pronounced tariff peaks than more developed nations, partly amounting to more than 30% of the import`s value.

Recall, as Figure 3 impressively indicates, Singapore is without any doubt the central actor in terms of trade volume and attraction of foreign capital. More specifically, Singapore is even less dependent on intra-ASEAN trade in terms of imports than exports. Only roughly 20% of all its imports origin from its fellow ASEAN members as is indicatedby Singapore's middle-placed bar in Figure 3. However, common tariffs would certainly be higher than Singapore's individual tariffs and thus divert its trade with outsiders, which is an essential pillar of Singapore's economy. Anticipating this effect and taking into account Singapore's massive primacy and dependence on its economic links to non-ASEAN states as well as the subsequent benefits that arise from them, Singapore will certainly not abandon its policy stance and agree to establish common external tariffs that are on similar levels as those of most ASEAN nations and thus significantly higher than Singapore's current tariff policy. As a result harmonisation would most likely require Singapore to reduce its trade openness. Furthermore, if one also considers the political rhetoric of Singaporean politicians and their advocacy for liberalisation, which is also reflected in Singapore's continuing creation of bilateral free trade agreements, it is virtually impossible that Singapore would accept common tariffs that exceed its current ones by far. On the other hand, it could be argued that more protectionist states should lower their tariffs to approach Singapore's tariff levels and enhance their rather underdeveloped involvement in world trade. As shown above, the harmonisation among ASEAN states, which in this case would coincide with liberalisation towards non-ASEAN economies, could potentially harm the prospects of development for those states that abandon their protectionist policies. Thus, by advocating for integration they could *potentially* harm themselves, or to put it in the words of List, overhasty integration and harmonisation could lead to states "kicking away the ladder" themselves whilst they are still on the ground (List 1856: 440). However, as has been discussed above, whether the motivation for those high tariffs is justified or not does not directly matter, as it is sufficient for policy-makers to perceive those motivations and high external tariffs to be legitimate in order to impede a significant renunciation of this policy. In addition, considering the balance of power, high tariffs are the majority position among ASEAN nations. Hence, assuming that ASEAN states are rational actors, two viable options would remain at this point, namely either that the political commitment to further integrate and resulting projected political benefits from this process are sufficiently high to overcome this discrepancy – which is not the case for

ASEAN, and as Singapore's Ministry of Trade and Industry has indicated it is not desired to be - or ideological considerations sincerely change the point of view of high-tariff states towards advocacy for free trade. This, however, is dependent on several domestic and international factors and seems not to change in the foreseeable future. Subsequently, not only an ASEAN customs union seems impossible to achieve soon, but also the internal free flow of means of production.Since a free flow of means of production within the community would enable arbitrage and thus de facto render external tariffs meaningless, ASEAN's rhetoric seems not to match realistic prospects.

The European Community in 1992

Since the European Union is often referred to as a role model for ASEAN, it is worthwhile to examine its structure in 1992 (back then as European Community), the year before its common market was introduced. As Table 1 indicates, EC member states have been quite homogenous with service-sector contributions to GDP of at least 60% and also similar patterns in agriculture and industry. In consequence, the variation between states has been far smaller. In the same way as done before for ASEAN, Figure 4 visualises relations of trade in goods with involvement of at least one EC state in 1992. Instantly, it becomes evident that trade relations to outsiders have been much less salient than in contemporary ASEAN. The outer bars indicate that for no EC state the share of trade with outsiders exceeds 50% of its total trade, being diametric to contemporary intra-ASEAN trade and highlighting the focus of members of theEC on the evolution of economic relations within the framework of the European Community. In total, more than 60% of all imports to EC members or exports leaving EC member states concerned trade within the European Community. Thus, not only did the European states depend less on trade with outsiders, but there was also more to gain by facilitation of trade among EC states. Furthermore, even if only intra-EC trade is considered, relations are significantly more dispersed and manifold. Both average import from and export to fellow EC states account for slightly more than 60% of total trade of EC members, which is qualitatively different to Singapore's role as a trade hub in ASEAN. Hence, this finding in combination with the relative economic homogeneity can also be interpreted as evidence for Linder's hypothesis. Nevertheless, the EU and the determinants of its integration process differ from ASEAN in two fundamental features. First, the basic idea of European integration has been to guarantee peace through the creation of prohibitive costs of war through economic interdependence. Initially, economic considerations and benefits have solely been a secondary aim of the process, which were subordinated to political considerations (Dinan 1999: 2). Hence, integration itself has been highly valued by its members, thus enabling the idea of political bargaining and consensus decision-making that are deeply rooted in the organisation's history and allow for consensus finding, which can even include the imposition of costs on some actors. Secondly, as mentioned, the EC has been much more homogenous than ASEAN, implying a common demand for relatively similar economic policies, thus increasing the benefits and reducing the costs of deeper integration. By now, the EU has achieved the establishment of a single market, including the free flow of factors of production. However, even this achievement in terms of the level of integration can be considered to fall short of creating stable economic integration. European integration turned out to have been imperfect and incomplete, at latest when the European sovereign debt crisis, which has been enhanced by the global financial crisis, revealed that policy-makers lacked appropriate instruments to address the economic challenges triggered by the crisis. Indeed, after Greece had been hit hard with its public finance and economy left in a devastating state, deflationary policy and fiscal austerity has been the foundation of European assistance for Greece, imposing major social costs on the country and leaving the crisis unsolved even after almost a decade. Strikingly, within the Eurozone neither adjustment transfers nor transnational policy that would compensate for failing market mechanisms exist, even though its member states surrendered authority over certain policy instruments by joining the currency union, for instance currency devaluation and interest rate alteration that would also have proved useful in the case of Greece (Scharpf 2011: 34). In the course of the crisis, however, policy-makers eventually recognised this missing element of the currency union and created the temporarily existing European Financial Stability Fund (EFSM), which was later transformed to become a permanent mechanism, the European Stability Mechanism (ESM) (Scharpf 2011: 26). Furthermore, other means of deeper integration have been discussed in order to correct for institutional shortcomings, with the idea of common bonds for the Euro zone being one of the most disputed. These measures, however, require even deeper political integration and further surrender of sovereignty, making political integration indispensable for further economic integration. This, in turn, can result in political backlash and resistance to closer integration. For instance, the successful referendum to leave the EU in the United Kingdom as well as the recent emergence and strengthening of anti-European parties in France, Germany and Greece is partly a response to continuing and imperfect integration. A different kind of expression of this sentiment can be found in the German condition for accepting Greece's bailout. Significant public pressure requires policy-makers in Germany to insist on a repayment of those loans and those renders any attempt to create a pan-European redistributive fiscal policy inviolable. Hence, again, the European Fiscal Compact that came into force in 2013 might prove incomplete as it lacks powerful instruments to stimulate tumbling economies. Thus, the range of effective approaches to solve the crisis is restricted by both political constraints and the organisation's antecedent architecture. Nowadays, again, political considerations might impede a proper solution of the crisis, which was in part caused by prior imperfection of the integration process. Hence, the European experience has impressively indicated that at a certain point economic integration becomes inevitably linked to complementing political integration.

Conclusion

It is worthwhile to note that there is generally no uncontested theory of trade and market integration directing that ASEAN's heterogeneous composition would directly constrain its ability for integration. However, ASEAN's prospect for integration is restricted by two factors that indirectly emerge from its heterogeneity. First, since levels of economic development among ASEAN members are quite heterogeneous, deeper integration of ASEAN could enforce specialization and possibly manifest comparative advantages, thus potentially hinder sectoral changes and the emergence of higher value-adding industries in less developed economies. Furthermore, the structural heterogeneity sets incentives for integration in terms of liberalisation, but discourages states from harmonising their policies. Additionally, intra-ASEAN trade is far less pronounced than intra-EC trade has been, being less salient than trade with outsiders for every single ASEAN member state. Thus, the benefits from deeper integration will generally be limited and possibly not even outweigh the costs of integration as shown in the case of common external tariffs. Secondly, the inherent refraining from political integration will hamper and possibly impede deeper integration at some point. However, as the European experience has shown, from a certain level of integration decent economic harmonisation is infeasible without political integration, which tends to become increasingly indispensable over the course of deepening integration. In the same vein, political backlashes can potentially halt integration processes, as can be currently observed in Europe. In addition, the political rationale of the process of European integration has also shown that the EU is a unique case and shouldn't be employed as benchmark. Thus, even in the long-term it seems reasonable to expect ASEAN to become a benefit-oriented albeit elevated free trade area and not develop to become a customs union or even a common market, despite its rhetoric on deepening integration and the freedom of goods of production. Hence, the way of ASEAN could peak well before *deeper integration* is achieved. This is not to say, however, that the quality of ASEAN integration will be lower or must end at a certain point in the near future. Much more, these paper's findings indicate that further liberalisation can and most likely will continue to deepen international cooperation whereas harmonisation is likely to be limited to a certain extent. The point to be made here is that even though deeper integration is unlikely to be achieved, ASEAN member's interests can be served by continuing selected and *fragmented integration*, which addresses all issues policy-makers consider to be worthy of beneficial cooperation for the states involved. This, again, would be the logical continuation of the ASEAN way, as it was chosen by its members.

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Appendix

	Agriculture	Industry	Services
European Community 1992			
Belgium	2.00 %	29.09 %	68.90 %
Denmark	3.20 %	25.97 %	70.83 %
France	2.87 %	26.20 %	70.93 %
Germany	1.09 %	35.77 %	63.14 %
Greece	9.25 %	23.84 %	66.91 %
Ireland	7.88 %	30.05 %	62.07 %
Italy	3.42 %	29.36%	67.22 %
Luxembourg	1.20 %	25.08%	73.72 %
Netherlands	3.92 %	27.68%	68.40 %
Portugal	6.53 %	27.29%	66.18 %
Spain	4.23 %	32.11%	63.67 %
United Kingdom	1.40 %	30.11%	68.49 %
EC Average	**3.92 %**	**28.54 %**	**67.54 %**
EC Standard Devi.	**2.55**	**3.15**	**3.30**
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ASEAN 2013			
Brunei	0.73 %	68.24 %	21.03 %
Cambodia	33.54 %	25.63 %	40.83 %
Indonesia	14.43 %	45.69 %	39.87 %
Lao PR	24.13 %	34.13 %	41.75 %
Malaysia	9.43 %	40.96 %	49.61 %
Myanmar	33.23 %	29.92 %	36.86 %
Philippines	11.23 %	31.12 %	57.65 %
Singapore	0.03 %	24.49 %	75.48 %

Thailand	9.85 %	34.09 %	56.06 %
Viet Nam	18.38 %	38.31 %	43.31 %
ASEAN Average	**15.50 %**	**37.26 %**	**46.25 %**
ASEAN Standard D.	**11.26**	**12.06**	**13.84**

Table 1: Sectoral contribution to GDP in the European Community (1992) and ASEAN (2013). *DataSource: UNCTADstat*

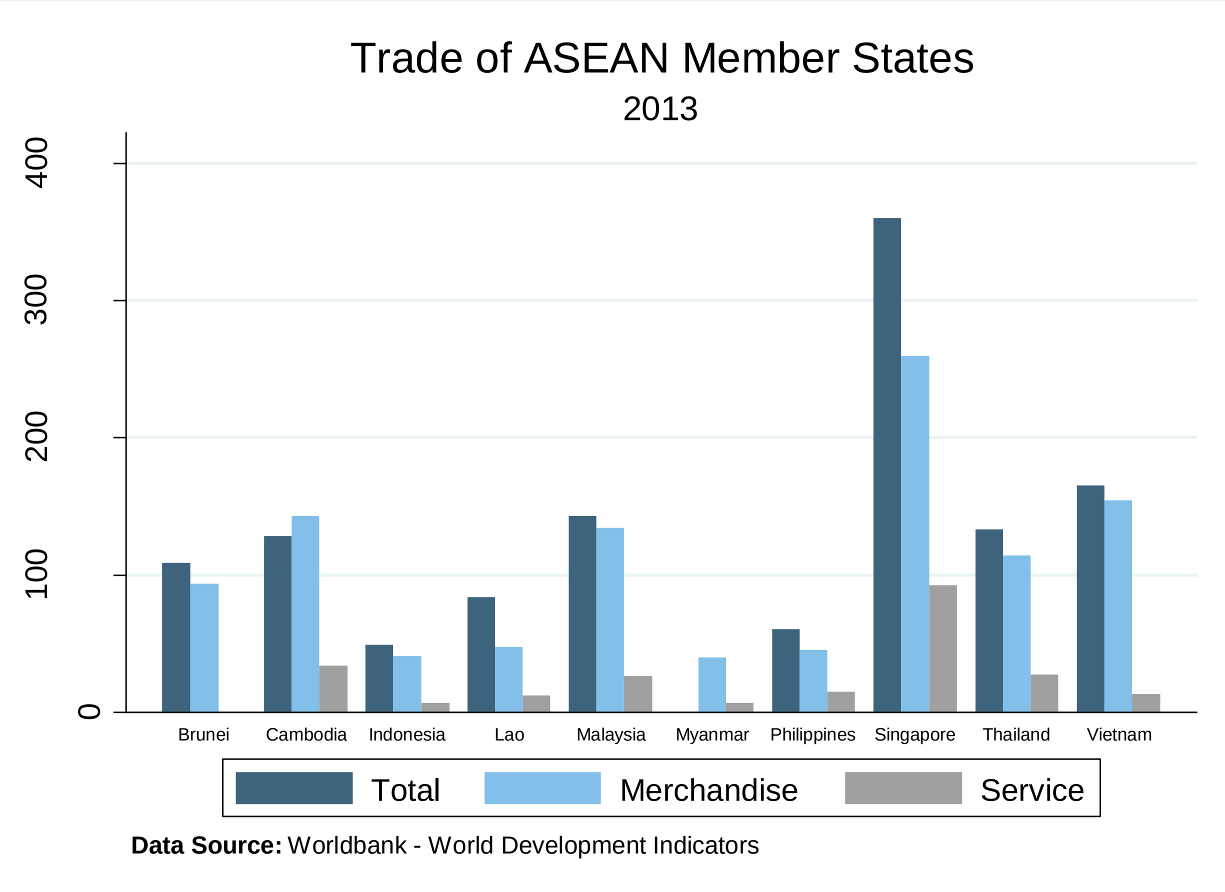

Figure 1: ASEAN member states' trade in terms of GDP. Data for Myanmar are incomplete. Inconsistence in data for Cambodia originates from World Bank's data.

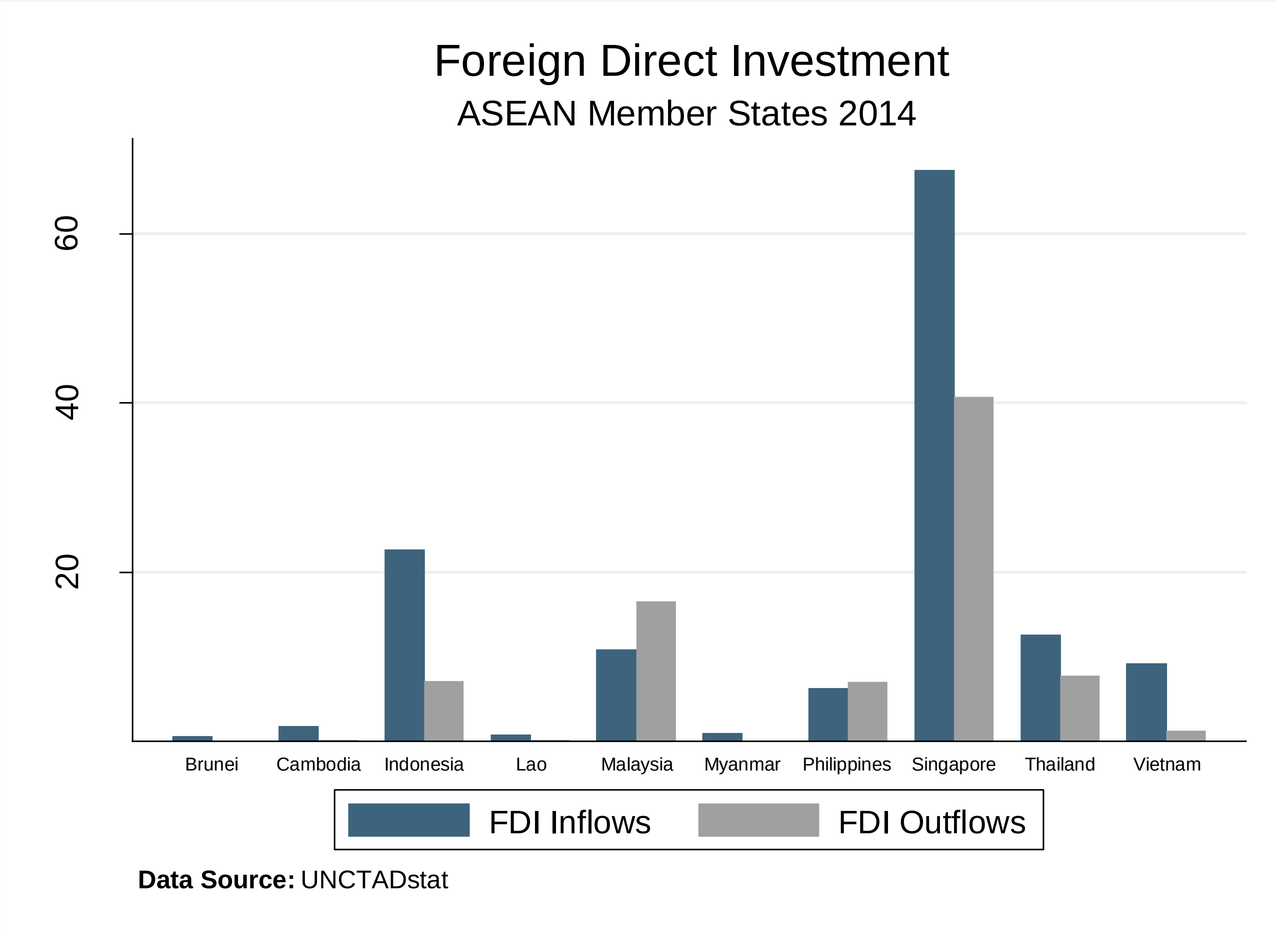

Figure 2: FDI Inflow and Outflows of ASEAN in 2014.

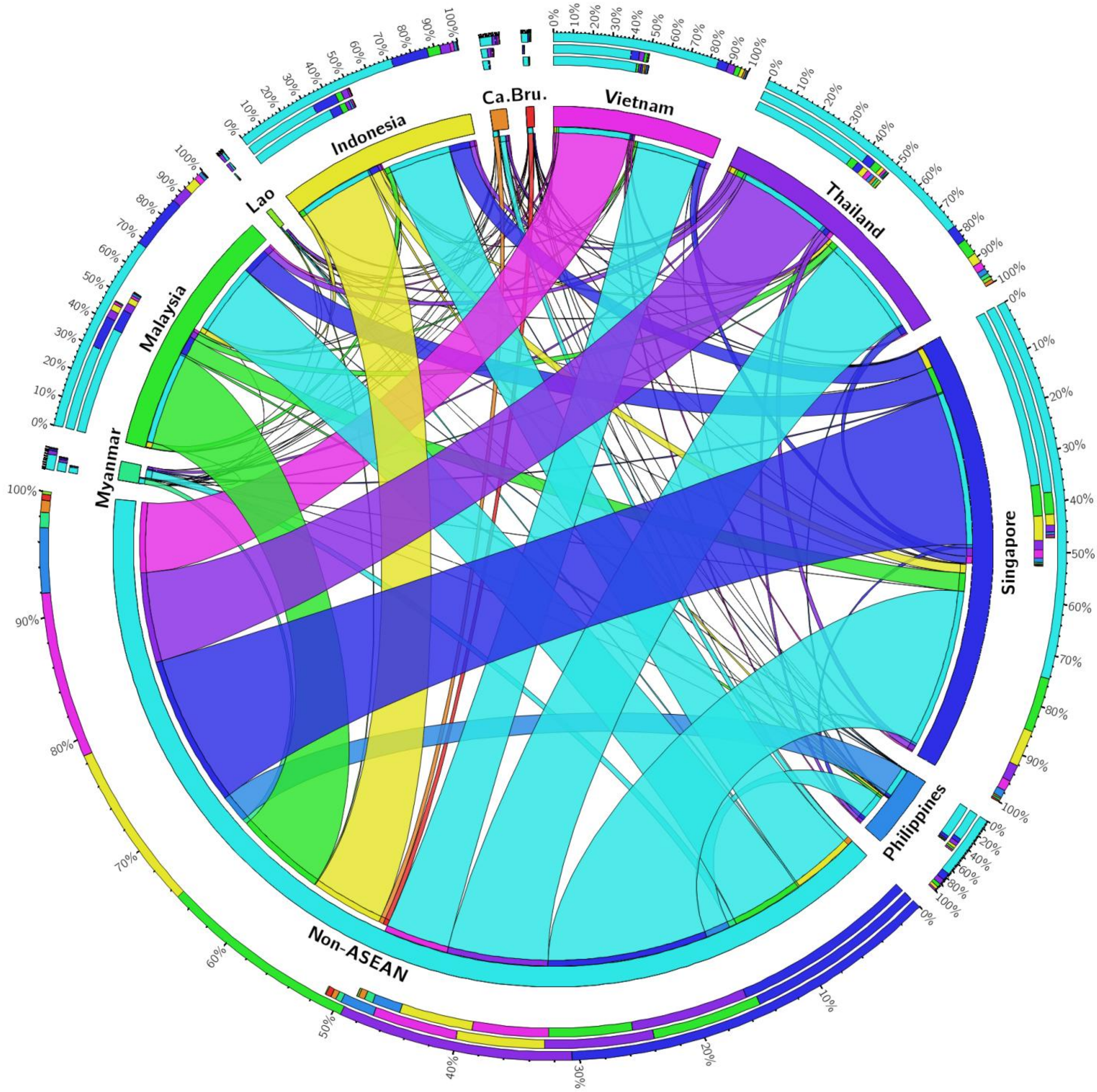

Figure 3: Trade flows in goods 2014 with involvement of at least one ASEAN member state. Thickness of the streams indicates the value of trades in current US. [Data have generally been retrieved from UN Comtrade. However, data for Myanmar and Lao PR origin from UNCTADstat and are estimated as no official data are available.]

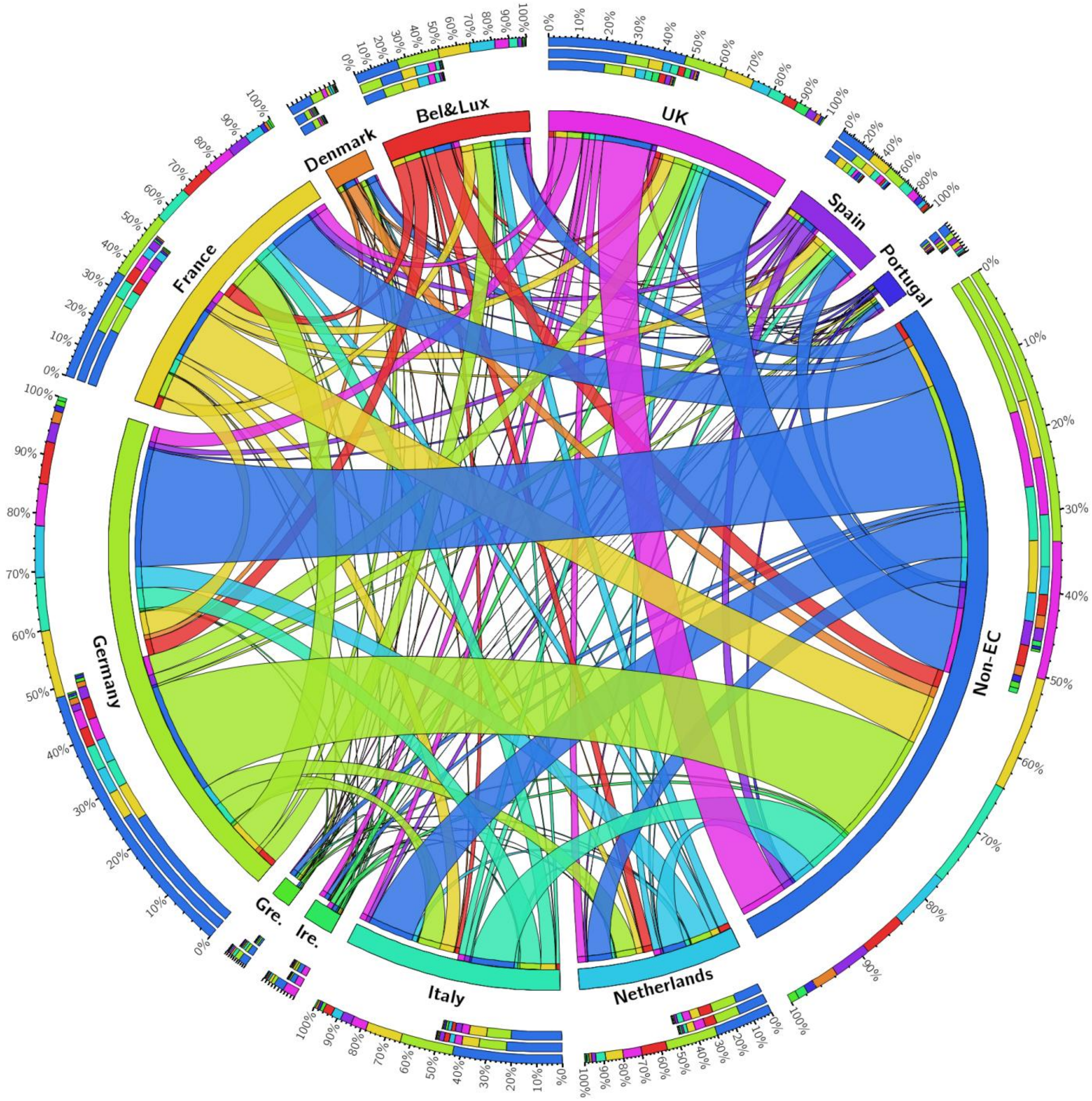

Figure 4: Trade flows in goods 1992 with involvement of at least one European Community member state. Thickness of the streams indicates the value of trades in current US-$. [Data have been retrieved from UN Comtrade.]