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A Two-level-games Analysis of AFTA Agreements: What Caused ASEAN States to Move towards Economic Integration?

Yi-hung Chiou

Abstract: The goal of this article is to investigate the conditions under which ASEAN states are more likely to pursue regional economic integration, namely, a series of ASEAN Free Trade Area (AFTA) agreements/protocols. Adopting Putnam's two-level-games model, this article examines the influences of domestic politics, political elites' preferences, economic performance, and external impacts. Through the construction of a set of hypotheses, this article investigates five AFTA agreements/protocols and the conditions of ASEAN states during the 1992–2003 period. The findings indicate that political leaders' preferences have played a pivotal role in the development of the AFTA. Economic performance and domestic support in individual states has also affected the AFTA. The close link between AFTA agreements and external impacts reveals that the AFTA's inherent nature is defensive.

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Keywords: Southeast Asia, AFTA agreements, two-level-games model, political leaders' preferences

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1 Introduction

In the early 1990s waves of economic regionalism started to spread around the world. With the formation of the North American Free Trade Area (NAFTA) and the progress in the European Union (EU), the Association of Southeast Asian Nations (ASEAN) also reached an agreement on establishing the ASEAN Free Trade Area (AFTA) in January 1992.¹ AFTA symbolizes an important watershed in the history of ASEAN, moving this organization from the maintenance of regional security to the strengthening regional economic integration.

The formation of the AFTA was significant for the following reasons. First, it represented a collective response on the part of developing countries to the new challenge of the global economy in the 1990s. Second, it embodied the effort of an existing regional organization to adjust in the post-Cold War international environment. Third, it indicated that ASEAN states were able to overcome their economic differences, despite huge gaps in their economic development levels. Fourth, the ASEAN experience, significantly different from the development of the EU, provided a potential alternative for regional cooperation in the developing world. Hence, the factors that motivated ASEAN states to work towards tighter economic integration deserve to be systematically investigated.

In this regard, one of the most puzzling questions is what enabled ASEAN to reach the agreement on the AFTA, and to continue to make progress in the 1990s, after its mediocre performance in facilitating regional economic cooperation in the 1970s and 1980s (Denoon and Colbert 1998: 119; Ravenhill 1995). Interestingly, ASEAN's lack of success in economic cooperation did not hold back the continuing progress of AFTA. In 1992 ASEAN states signed the AFTA agreement, which stipulated that they would gradually reduce intraregional tariffs and remove non-tariff barriers (NTBs) over a 15-year period commencing on 1 January 1993. AFTA utilized the Common Effective Preferential Tariff (CEPT) Scheme to decrease tariffs on all manufactured products and processed agricultural products to a range of 0–5 per cent by 2008. In 1994 the time frame was shortened to 2003. In 1999 it was again shortened to 2002 (Pangestu 2005).

In fact, this was not the first time that ASEAN states initiated market-sharing cooperation. As early as 1977 the ASEAN Preferential Trading Arrangement (PTA) was signed by ASEAN states to promote intra-ASEAN trade, but it was not successful in terms of regional trade promotion (Tong-

1 ASEAN was established in 1967; the founding nations include Indonesia, Malaysia, Singapore, Thailand and the Philippines. Brunei joined in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999.

zon 2002).² This failure was attributed to the substantial resistance of the ASEAN governments to open their domestic markets (Pangestu 2005).³

Regarding the question of why ASEAN was able to reach the AFTA agreements, different scholars have provided different answers. The first explanation emphasizes that external impacts played a critical role. The formation of the EU and NAFTA and the stalling of the Uruguay Round negotiations compelled ASEAN states to take immediate action in response to the rise of protectionism in developed countries (Pangestu 2005; Tongzon 2002).⁴ The second explanation claims that after the economic liberalization of most ASEAN states in the early 1980s, the economic structure of ASEAN had become more complementary, thereby creating common ground for ASEAN states to implement tariff reductions (ASEAN Secretariat 1995).⁵ The third explanation argues that political leaders played a significant role in facilitating the realization of the AFTA (Stubbs 2004). The fourth explanation contends that due to the end of the Cold War and the settlement of the Cambodian issue, it was time for ASEAN to shift its focus from politics to economic issues in order to maintain its cohesion (Pangestu 2005; ASEAN Secretariat 1995).

Although the above analyses offer some sound explanations for the progress of AFTA in the 1990s, none of them has been systematically examined. Moreover, the credibility of the preceding explanations is challenged by the following conflicting arguments. First, since the Uruguay Round negotiations reached agreements in the mid-1990s, if external impact was the main factor triggering the AFTA, the latter should have stalled after progress was made in the Uruguay Round negotiations. Second, intra-

2 In 1977 intra-ASEAN trade as a proportion of total ASEAN trade was 15 per cent. It increased to approximately 20 per cent in 1984, but dropped to 18 per cent in 1992.

3 For instance, under the ASEAN PTA, Indonesia provided a 10 per cent cut in tariffs for snow ploughs and Malaysia granted preferential tariffs on a list of rubber products of which it was the only large ASEAN producer. In other words, each country only symbolically reduced tariffs on insignificant products and was not willing to open its market to the others (*The Economist* 1992).

4 According to the WTO report (1995), 109 regional trading arrangements were submitted to GATT between 1947 and 1994. There were 33 registered pacts between 1990 and 1994 (Tongzon 2002). In reference to the rising trend of regional trading blocs, a senior ASEAN diplomat said, "If we don't hand together economically, we will all hang separately" (*The Economist* 1992).

5 The former deputy secretary general of ASEAN, Chng Meng-Kng, claimed that industrialization in the 1970s and 1980s had increased the scope for complementary trade among ASEAN member countries. The external factor is the end of the Cold War, which brought about many competitors to ASEAN, for instance, Latin America, Eastern Europe, China and Vietnam (ASEAN Secretariat 1995).

ASEAN trade has been too insignificant to change the fact that ASEAN states were competing with one another for export markets and foreign direct investment (FDI) (Lim 1991). Furthermore, ASEAN states remained heavily protected in many sectors (*The Economist* 1992). Thus, the argument regarding ASEAN's economic complementarity is far from indisputable. Third, regarding political leaders' influence on the AFTA, the fact is that not all ASEAN states were able to enjoy stable and uninterrupted political leadership.⁶ Given the fact that consistent support of the AFTA from political elites may not have remained constant, it seems problematic to assume that every political leader from the various ASEAN states always endorsed the development of the AFTA. Fourth, since ASEAN has been an institutionally weak organization (Narine 2002), there is no sufficient evidence to suggest that ASEAN, *per se*, provided a fundamental reason for its member states to forsake their self-interests in favour of the collective interests of ASEAN. In joining the AFTA, ASEAN states were required to sacrifice their sovereign rights on tariff issues.

In short, taken individually, the preceding explanations of AFTA only offer partial answers to the question of what caused ASEAN to pursue the AFTA. This article argues that a more convincing explanation of the AFTA's formation and progress can be generated using a comprehensive analytical framework. To achieve this goal, the article adopts the two-level-games model proposed by Putnam (1988) in order to investigate the development of the AFTA from 1992 to 2003. By taking both internal and external factors into account, this model helps generate systematic answers to the preceding puzzle.

The article⁷ is organized as follows. The literature review analyses why existing theoretical approaches fail to explain the AFTA. The analytical framework illustrates the model and hypotheses. The operationalization section articulates the time frame, selected cases, variables, methods, and data sources. The case analysis investigates five AFTA cases. The concluding section summarizes the findings and indicates directions for future research.

6 For example, during the 1990s and the first decade of this century, Thailand and the Philippines changed political leaders several times. The Suharto regime in Indonesia collapsed in 1998 and experienced a dramatic political transition to electoral democracy while losing the province of East Timor.

7 A previous version of this article was presented at the 2008 annual meeting of the International Studies Association, March 26-30, 2008, San Francisco, CA. I thank Dr. Harvey Starr, Dr. Dirk Nabers, Mae Kilker, anonymous reviewers, and the JCSAA editorial staff for their helpful comments and assistance.

2 Literature Review

This section is composed of four parts: a clarification of the term *economic integration*, a discussion of integration theories and of their weaknesses in explaining the AFTA case, possible explanations of the AFTA, and a modification of the two-level-games model.

2.1 Economic Integration

In theory, regional economic integration refers to a gradual development starting with the formation of a free trade agreement among member states and resulting either in the stage of an economic union or in the final stage of a political union (Cohn 2005). While ASEAN and NAFTA are in the first stage, the EU has arrived at the final stage and is an economic, monetary and political union. Some may argue that regional cooperation, instead of regional integration, may be a more appropriate term in the AFTA case because its non-compulsory nature is closer to the practices of ASEAN.⁸ Nevertheless, this article contends that the term *economic integration* is better than economic cooperation for two reasons: (1) to differentiate the AFTA from ASEAN's previous economic cooperation projects, (2) to highlight ASEAN's deliberate efforts towards the goal of economic integration.

2.2 Integration Theories and Their Applicability in the Case of AFTA

In the regional integration literature, communitarianism, functionalism, and institutionalism assess the evolution of regional integration differently. First, communitarianism argues that the creation of the conditions and attitudes is required to build inclusive communities. Ernst Haas (1968) defines integration as a "process whereby political actors in several distinct national settings are persuaded to shift their loyalties [...] toward a new center" (Haas 1968: 18). He claims that some functional sectors need cooperation among states. For example, trade policy is beyond a single state's capacity to achieve a satisfactory result. Instead of focusing on *high politics*, Haas emphasizes that the issues of *low politics* offer mutual gains for cooperative behaviour among states.

Functionalism contends that some technical issues which can only be resolved by cooperation among nations provide the rationale for states'

8 Cooperation is defined as "a set of relationships that are not based on coercion or [compulsion] and that are legitimized by the mutual consent of members" (Groom 1990).

collaboration. Highly trained specialists rather than politicians are more likely to collaborate because of their similar professional background. Successful cooperation in one functional setting increases the prospects of positive collaboration in other areas. International regimes or institutions can be reinforced by stressing cooperative efforts to seek solutions to the specific function. In addition, neo-functionalists emphasize that elite groups from a regional setting are more likely to achieve integration. Expert managers from national bureaucracies become the most effective carriers of integration. In other words, elites and specialists are the major protagonists in promoting regional integration. The earlier success of the collaborative function will *spill over* to other, new functional areas, necessitating further transnational bureaucratic contacts and consultations.

Institutionalism argues that “institutions can provide information, reduce transaction costs, make commitments more credible, establish focal points for coordination, and in general facilitate the operation of reciprocity” (Keohane and Martin 1995: 42). Institutionalism emphasizes the concept of the *international regime*, which is generally defined as “a set of mutual expectations, rules, regulations, plans, organizational energies and financial commitments” (Ruggie 1975: 570). By claiming that interstate cooperation is based on the self-interest of individual states rather than on altruism, Keohane (1984) contends that international regimes not only reduce transaction costs and uncertainty but also provide *collective goods* (for example, larger economies of scale and credible commitments), which enhance states’ willingness to cooperate. Therefore, even without the support of a hegemon, international regimes, once established, can maintain cooperation between states (Keohane 1984).

Nevertheless, the preceding theories do not provide convincing explanations of the AFTA case. For instance, both communitarianism and functionalism claim that regional integration begins at the low-politics level and then spills over to other levels of cooperation (that is, high politics). The development of ASEAN, however, has been moving in the opposite direction. ASEAN started as an anti-communist political coalition and expanded to economic cooperation (Broinowski 1990). Additionally, few ASEAN economic cooperation projects from the organization’s first two decades can be claimed to have been successful (Chia 1997; Weatherbee 2005). Hence, the applicability of functionalism to AFTA is relatively weak. Whether elite groups, as neo-functionalism argues, play a crucial role in ASEAN is questionable, since no evidence suggests the existence of these groups. Also, it seems absurd to compare the ASEAN bureaucrats to their EU counterparts because ASEAN has had very limited power and few staff (Broinowski

1990). Table 1 summarizes the key concepts of the above integration theories and compares them with the development of ASEAN.

Table 1: Integration Theories and ASEAN’s Experience

Integration Theories \ Features	Communi-tarianism	Functionalism	Institutionalism
	Key Concepts	Shift of loyalty to a new centre Functional sectors Cooperative direction from low politics to high politics	Technical issues Elite groups The effect of “spill-over”
Actors	Political elites	Elite groups/ specialist / cross-national bureaucrats	International bureaucrats
ASEAN Experience	No loyalty shift Limited economic issues A reverse cooperative direction from high politics to low politics	Limited technical cooperation No observable emergence of “elite groups” Spillover happens but in different direction	ASEAN counts as a regime No dominant hegemon The collective interests of ASEAN cooperation do not exceed individual state’s interests.

Source: Author’s own compilation.

From an institutionalist perspective, ASEAN qualifies as a regional regime. Nevertheless, unlike the EU, ASEAN is seen as a *weak* and loosely defined regional organization. Not only does its decision-making stick strongly to the principles of consensus and consultation, but it also insists on the principle of non-interference (Chia 1997; Haacke 2003; Narine 2002).⁹ Although the above characteristics, or so-called *ASEAN Way*, effectively maintain harmony among ASEAN states, these features also significantly undermine the actual achievements of ASEAN’s economic cooperation (Narine 1997).

9 Haacke summarizes six norms of ASEAN: sovereign equality, the lack of recourse to the use of force and the peaceful settlement of conflict, non-interference, the non-involvement of ASEAN to address unresolved bilateral conflict between members, quiet diplomacy, and mutual respect and tolerance (Haacke 2003: 1-2).

2.3 Possible Explanations for the AFTA

Beyond the preceding theoretical explanations, Tongzon (2002) points out five reasons why the AFTA became possible: (1) The ASEAN economies became more diversified in their production structures and more complementary to each other. (2) As of the 1980s the ASEAN economies undertook unilateral policy reforms to liberalize trade and deregulate foreign investment, generating some outward-oriented industrial sectors. (3) The rise of regional protectionism, such as the EU and NAFTA, and the emergence of non-tariff barriers stimulated the demand to reinforce intra-ASEAN economic integration as a counterstrategy in order to retain ASEAN's bargaining power. (4) The newly emerging markets, such as China, Vietnam and India, competed with ASEAN states for FDI and export markets.¹⁰ (5) The private sectors in ASEAN states, frustrated with the slow progress of trade liberalization, placed more pressure on governments to accelerate the pace of ASEAN integration (Tongzon 2002).

Despite the soundness of Tongzon's analyses, his arguments do not indicate which factor(s) most likely motivated ASEAN states to pursue the collective interests of ASEAN over their own national interests. For instance, some states that rely heavily on tariff revenue may be more reluctant to sacrifice this form of financial income (Henderson 1998). States with a large domestic market, like Indonesia, may feel that such agreements are unfair considering the relatively few benefits they themselves may gain from other small members. Likewise, in terms of industrial competitiveness, some countries are more vulnerable in certain industries, so they may be unwilling to reduce tariffs on these sensitive products. These factors increased the difficulty of reaching AFTA agreements (Lim and Suh 1988).¹¹

Moreover, whether the intra-ASEAN economic structure has been transformed from competition to complementarity is debatable, since the ratio of intra-ASEAN trade to the overall ASEAN trade has fluctuated around 20 per cent. Yeo (2006) points out that the lack of complementarities among the ASEAN economies is the major reason for the low levels of intra-ASEAN trade. It is also questionable whether the economic liberalization of ASEAN states in the 1980s paved the way for the AFTA given that the goal of those liberalizing policies was to promote export-oriented indus-

10 It said that ASEAN lost to India and China. Between 1989 and 1994 ASEAN's share of FDI into emerging Asian countries fell from 44 per cent to 28 per cent while the share for China and India combined increased from 23 per cent to 59 per cent (Soh 1997).

11 For instance, Malaysia was reluctant to open its automobile market because it feared that Thailand's auto-components industry posed a threat to its own industry.

tries and to attract extra-regional FDI. These policies did not reduce protectionism among ASEAN states (Hew and Soesastro 2003).

The challenges posed by the international economy may be a more critical factor than the others. Evidence suggests that many new challenges in the global economy in the early 1990s generated considerable pressures on ASEAN leaders to reinforce ASEAN economic integration (Stubbs 2002; Than and Gates 2001). Additionally, political leadership may be a critical factor. For instance, the pivotal role of Thai prime minister Anand Panyarachun in establishing the AFTA in 1992 has been widely recognized (*Financial Times* 1992e; Stubbs 2004). Nevertheless, more evidence may be needed before it can be suggested that external impact and political leadership are two major factors which have consistently moved the AFTA forward.

2.4 Two-level-games Analysis

Essentially, the signing of an AFTA agreement is a political decision made by each ASEAN state leader. The aforementioned theories, though they cross national borders, rarely traverse the boundary between domestic and intraregional politics. Furthermore, they do not address the dynamics between political actors and structural constraints.

According to Friedman and Starr (1997), the relationship between agent and structure is a crucial nexus in explaining social behaviours. Bueno de Mesquita and his colleagues (2003) argue that for political leaders, the primary goal is political survival. Rarely do political leaders risk their political careers by proposing an unpopular policy. To stay in office, political leaders need to obtain sufficient political support, a so-called *winning coalition*, to back up their political decisions. The concept of the *selectorate* proposed by Bueno de Mesquita et al. (2003) is close to the concept of the *win-set* suggested in Putnam's (1988) *two-level-games* analysis of the G7 Summit. In his article Putnam (1988) identifies two levels of the bargaining process. Level I is the bargaining between negotiators; Level II is the separate discussions within each group of constituents concerning whether to ratify the agreement (Putnam 1988: 436). Based on these two levels, he defines "the 'win-set' for a given Level II constituency as the set of all possible Level I agreements that would 'win'—that is, gain the necessary majority among the constituents" (Putnam 1988: 437). He argues that three sets of factors are vital to influence the size of the win-set, including Level II preferences and coalitions, Level II institutions, and Level I negotiators' strategies (Putnam 1988: 441, 442).

In the case of AFTA agreements, Putnam's two-level-games model provides a promising framework for capturing the dynamic process of how ASEAN states reached the AFTA; it is promising for the following reasons.

First, the progress of AFTA agreements is based on a series of negotiations between ASEAN states, which constitute the bargaining process of Level I. Second, endorsing AFTA agreements is a political decision with domestic consequences. Political leaders need to have a sufficient win-set internally to support their decisions. This domestic coalition-forming constitutes the Level II bargaining process.

Before we apply the two-level-games model to AFTA, two points should be addressed. First, regarding AFTA agreements, ASEAN states do not have to go through the *ratification* procedure. All AFTA agreements and protocols are the final decisions made by the head of state or relevant ministers. Second, the role of the chief negotiator in ASEAN states may not be as important as what Putnam describes in the case of the G7 Summit, since most ASEAN states are not fully democratic and retain a centralized decision-making process. Give the fact that the chief negotiators in the AFTA case are usually the foreign or economic ministers, those officials are likely to represent the intentions of their head of the state rather than their own individual opinions.

Hence, what should be focused on is not the chief negotiator, but the intentions of the top political leaders in each state. Furthermore, despite the absence of a ratification process in ASEAN states for AFTA agreements, political leaders still need to consolidate domestic support to shore up their decisions.¹² The decision to join the AFTA also has significant repercussions for the domestic economy. Leaders need to take economic factors into account, since many ASEAN economies depend on state-led policies to stimulate economic growth.¹³ Additionally, since the goal of the AFTA is to promote regional trade and FDI inflows by eliminating tariffs among ASEAN states, political leaders have to take relevant macroeconomic factors (for

12 The domestic reaction to AFTA agreements in Thailand highlights the importance of the win-set in maintaining a state's commitment to the AFTA. After the general election in September 1992, Mr. Chuan Leekpai of the Democrat Party became the new prime minister. In November 1992, a House of Representatives committee questioned why the AFTA agreements had been signed without parliamentary ratification. After obtaining approval from the parliament regarding the policy statement, the deputy prime minister, Mr. Supachai Panitchapakdi, was able to assure other ASEAN nations that Thailand was willing to commit to the AFTA. Thailand's case shows that a commitment to the AFTA still requires domestic support, even when there is no formal ratification requirement (*Financial Times* 1992e).

13 The prominent examples are Singapore, Malaysia and Indonesia. Thailand and the Philippines are less obvious in this regard.

example, FDI and export growth) into consideration when making decisions on the AFTA issues.¹⁴

3 Analytical Framework

Based on the previous discussion, the following factors are more likely to have affected the formation and progress of the AFTA: political leaders' preferences, a sufficient win-set, macroeconomic performance, and external economic impacts. The following hypotheses address plausible relationships between these factors and the AFTA:

- H1: If the direction of AFTA can satisfy ASEAN political leaders' interests, they are more likely to sign up to AFTA agreements.
- H2: If political leaders who favour the AFTA can obtain a sufficient win-set/winning coalition (the ruling majority), those leaders are more likely to sign AFTA agreements.
- H3: The better the economic performance (for example, increased GDP growth) of a state, the more likely that this ASEAN state is willing to sign AFTA agreements.
- H4: The decrease (or stagnation) in exports growth leads ASEAN states to sign AFTA agreements
- H5: The decrease (or stagnation) in FDI inflows leads ASEAN states to sign AFTA agreements.
- H6: Externally adverse economic impacts on ASEAN states motivate these states to sign AFTA agreements.

Hypothesis One (H1) specifies the influence of political leaders' intentions on the direction of the AFTA issue. The important criterion for testing the preceding hypothesis is whether the AFTA's content can meet the demands of different ASEAN leaders. *Hypothesis Two* (H2) indicates the domestic constraints that political leaders face when making a decision on AFTA issues. The combination of these two hypotheses represents the relationship between agents (political leaders) and structures (domestic constraints). *Hypothesis Three* (H3) assumes that strong economic performance provides political leaders with more political capital on AFTA issues. Since the consequences of AFTA decisions could be some negative impacts domestically (for example, loss of tariff revenue), political leaders are likely to make these

14 In a 1993 interview Singapore's minister for trade and industry, Dhanabalan, stressed that the promotion of foreign direct investment by improving the overall environment of ASEAN nations would be one of the AFTA's contributions (*Business Times* 1993e).

difficult decisions when their economy is in a good shape. *Hypothesis Four (H4)* and *Hypothesis Five (H5)* suggest that since the goal of the AFTA is to attract FDI inflows and stimulate export-led economic growth by aggregating ASEAN states into one larger economic market,¹⁵ the decrease in export growth and in FDI inflows is likely to motivate ASEAN states to expedite the pace of AFTA integration. Finally, *Hypothesis Six (H6)* addresses the possibility that externally adverse economic impacts on ASEAN states may drive ASEAN states to sign AFTA agreements as a response.

The progress of AFTA agreements is the dependent variable. The aforementioned factors generally have two possible effects on AFTA development. The *positive effect* leads to the advancement of AFTA, that is, the acceleration and extended coverage of AFTA agreements. The *negative effect* results in delays in AFTA agreement implementation or leads to more flexibility for states to carry out AFTA agreements. Since the preceding factors may cause two conflicting outcomes, it is crucial to examine the content of relevant agreements in order to identify the role played by each factor in the case of each AFTA agreement.

4 Operationalization and Case Selection

4.1 Time Frame and Selected Countries

The article views the formation of the AFTA as a continuing process of economic integration, not just as a one-shot event that occurred in 1992. By covering relevant agreements/ protocols from 1992 to 2003, the author investigates the plausible pattern behind this series of AFTA agreements. Five cases, each from a different year, are examined in this process, as these agreements/ protocols represent significant and substantial changes in AFTA agreements. Table 2 indicates these agreements/ protocols.

Except for the 1992 Framework Agreement on Enhancing ASEAN Economic Cooperation and the 1995 Protocol to Amend the Framework Agreement on Enhancing ASEAN Economic Cooperation, which were signed by the heads of the ASEAN states, the agreements and protocols were signed by the relevant ministers. These agreements and protocols are multilateral, representing collective decisions among the signatory states.

Vietnam, Laos, Myanmar and Cambodia are not included in this study since they were not ASEAN members at the time of the 1992 AFTA agreements and they were applied to different treatments of AFTA tariff reduc-

15 Gilpin (2000) argues that “one important motive for regional arrangements is to enable groupings of states to attract investment by MNCs” (Gilpin 2000: 109). This argument can be appropriately applied to the case of the AFTA.

tions.¹⁶ Another country, Brunei, is not covered either, due to lack of information. Hence, only the five original signatory countries are included: Indonesia, Malaysia, Singapore, the Philippines and Thailand (ASEAN-5).

Table 2: ASEAN Free Trade Area Agreements

Date	Agreements/ Protocols
(1) Jan. 1992	a. Framework Agreement on Enhancing ASEAN Economic Cooperation b. Agreement on the Common Effective Preferential Tariff Scheme (CEPT) for the ASEAN Free Trade Area (AFTA)
(2) Dec. 1995	a. Protocol to Amend the Framework Agreements on Enhancing ASEAN Economic Cooperation b. Protocol to Amend the Agreement on ASEAN Preferential Trading Arrangement
(3) Sept. 1999	Protocol on the Special Arrangement for Sensitive and Highly Sensitive Products
(4) Nov. 2000	Protocol Regarding the Implementation of the CEPT Scheme Temporary Exclusion List
(5) Jan. 2003	Protocol to Amend the Agreement on the CEPT Scheme for the AFTA for the Elimination of Import Duties

Source: ASEAN Secretariat website: online: <<http://www.aseansec.org>>.

4.2 Research Design

This article adopts the most-different-systems design (MDS) (Landman 2000) to examine the factors that may consistently affect the AFTA’s progress. The rationale for using this design is that the dependent variable, the signed agreements/ protocols, does not vary (always reaches an agreement). Nevertheless, each agreement/ protocol may represent a positive, negative, or mixed AFTA development. In addition to examining the dependent variable, this article pays close attention to the independent variables in order to investigate how they impact each AFTA agreement. The study adopts a qualitative approach, supplemented with quantitative data to estimate the effect of each variable.

16 Vietnam formally became an ASEAN member in 1995; Myanmar and Lao in 1996; Cambodia in 1999. Since these countries were late comers, they enjoyed longer tariff reduction period and more tolerant treatments within AFTA.

4.3 Definition of Variables

With respect to the definition of variables, this article first utilizes relevant statements made by political leaders as major sources in order to examine the linkages between political leaders' preferences and the AFTA. Political leaders are defined as the heads of state and (foreign or economic) ministers. As Stubbs (2000) points out, in terms of trade policy, the decisions in ASEAN states are made by a very small group, including technocrats, presidents or prime ministers, and the respective ministers. On the AFTA issues, ministers usually are the chief negotiators, signing agreements and protocols. Therefore, the statements or policy behaviours of these actors are regarded as indicators of the political leaders' intentions on the AFTA issues. As noted earlier, due to the centralized decision-making approach in effect in most ASEAN states, the role of chief negotiators in AFTA agreements is not as critical as in Putnam's model, so this article does not separate the chief negotiators from the aforementioned political actors. Additionally, since *Hypothesis One* assumes that the direction of AFTA agreements is likely to meet ASEAN leaders' demands, the *concurrence* between leaders' explicit statements or policies on the AFTA and the orientation of AFTA agreements is the criterion for deciding on the political leaders' preferences variable. If political leaders' explicit comments and policy behaviours are in accord with the direction of AFTA agreements, the value is one; otherwise, it is zero.¹⁷

Second, the concept of the win-set/ winning coalition can be translated into two critical factors, which can appropriately represent the Level II factors in Putnam's model: political institutions and the ruling majority. Since AFTA agreements do not need to be approved by the parliament of each ASEAN state, instead of looking at the institutional ratification requirements, this article argues that the differences between parliamentary and presidential systems could give political leaders different extents of autonomy. During the period under investigation (1992–2003) in the ASEAN-5 nations, Thailand and Indonesia experienced some constitutional changes but their political systems remained intact. Therefore, political institutions can be viewed as a constant variable. On the other hand, whether political leaders can obtain a ruling majority is a crucial indicator in assessing whether they are able to obtain enough political support to back up their decisions. In this article, the ruling majority is measured according to whether political

17 For instance, if a general trend of AFTA agreements is to accelerate implementation, State A expressing its support is coded as one. If State B has reservations on this issue, it is coded as zero.

leaders can obtain support from the majority party in the parliament. If political leaders have the majority, the value is one; otherwise, it is zero.

The measurement of such macroeconomic variables as annual GDP growth rate (per cent), annual growth in goods and services exports (per cent) and the ratio of FDI net inflow to total GDP (per cent) largely stems from the World Bank's World Development Indicators (WDI).¹⁸ This article uses the mean value of each ASEAN state's annual GDP growth rate during the period from 1990 to 2003 as a criterion to assess each state's economic performance.¹⁹ If the value of a certain year surpasses the mean value, the value is one; otherwise, it is zero. One exception is 1998, because of the impact of the 1997/98 Asian financial crisis. If the annual GDP growth rate in 1999 positively increases over 1998, its value is one; otherwise, it is zero. In terms of export growth and FDI inflows, the increase, decrease, or stagnation of these indicators is evaluated according to performance during a two-year period (performance in the year of a signed agreement/protocol minus that in the previous year). A decrease or stagnation of these indicators is counted as one; otherwise, it is counted as zero.

The indicator of external impact is coded as a dummy variable. The assessment of this indicator is based on public statements or remarks by relevant political leaders (for example, president/prime minister or ministers) which explicitly state that due to external factors such as other economic regionalisms, economic crisis, international competition, etc., ASEAN states need to accelerate or slow down the pace of the AFTA. Each case is analysed separately and the results of the five cases are combined in the final analysis of the hypotheses.

4.4 Data Sources

The data sources are major newspapers in ASEAN states on the AFTA issues. LexisNexis is a key source of relevant statements and information on policies developed by ASEAN political leaders and ministers during the 1991–2003 period. The economic statistics data come from the WDI. The

18 The WDI does not provide Singapore's export-growth data. Hence, these data come from the Singapore Official Statistics website at: <<http://www.singstat.gov.sg/stats/themes/economy/hist/trade1.html>>.

19 The calculation of each state's mean annual GDP growth rate does not include figures for 1998 due to the impacts of the Asian financial crisis. The mean annual GDP growth rate for each state is as follows: Indonesia, 6.15 per cent; Malaysia, 7.53 per cent; Singapore, 7.07 per cent; Thailand, 6.30 per cent; and the Philippines, 3.38 per cent.

AFTA agreements/ protocols are available on the ASEAN Secretariat website.

5 Analysis of Cases

In this section, the primary focus is the five cases of AFTA agreements/ protocols and their corresponding conditions. The preferences of political leaders with respect to AFTA and their domestic support are two focal points to be illustrated.

1 *a. Framework Agreement on Enhancing ASEAN Economic Cooperation*

b. Agreement on the Common Effective Preferential Tariff Scheme (CEPT) for the ASEAN Free Trade Area (AFTA)

In January 1992 two important agreements were signed at the Fourth ASEAN Summit in Singapore. The first agreement, which was signed by the heads of the ASEAN states, indicated that in order to enhance ASEAN economic cooperation, “all member states agree to establish and participate in the ASEAN Free Trade Area (AFTA) within 15 years” (Article 2). In addition to trade cooperation, this agreement also prescribed cooperation in industry, finance and other areas. More importantly, its “general exceptions” allowed member states to take protective measures when they considered them necessary (Article 12). As a result, it provided member states with flexibility when implementing the AFTA.

The second agreement, signed by the ministers of member states, was related to the substance of the AFTA. This agreement utilized the Common Effective Preferential Tariff (CEPT) Scheme as a major instrument. It stated that “all manufactured products” and “processed agricultural products” were covered under the CEPT Scheme (Article 2). Moreover, the range of tariff reduction was specified as well: the reduction from existing tariff rates to 20 per cent was to be carried out within five to eight years, starting on 1 January 1993 (Article 4). Furthermore, the agreement prescribed that member states were to remove all quantitative restrictions and non-tariff barriers (Article 5). Similar to the first agreement, emergency measures allowed member states to suspend tariff reduction in order to prevent serious injury to their sectors (Article 6). The agreement emphasized that “member states shall accord adequate opportunity for consultations”. If differences could not be settled bilaterally, they were to “be submitted to the Council”, and “if necessary, to the AEM” (that is, the ASEAN Economic Ministers) (Article 8) (ASEAN Secretariat 1993).

With respect to the AFTA's institutional design, the first agreement indicated the following: "a ministerial-level Council will be set up to supervise, coordinate and review the implementation of the AFTA." The second agreement specified that the ASEAN Economic Ministers (AEM) would establish this ministerial-level council (for example, the AFTA Council), which was to comprise one nominee from each member state and the secretary general of the ASEAN Secretariat. The AFTA Council was also to be supported by the Senior Economic Officials' Meeting (SEOM) (Article 6). In sum, these two AFTA agreements stipulated concrete measures, the institutional mechanisms, and the time frame for the implementation of AFTA.²⁰ Overall, these agreements were regarded as a significant milestone in ASEAN's economic integration and can be viewed as a positive development.

Table 3 provides the results of the 1992 AFTA Agreements according to the preceding hypothetical conditions. The first column from the right is the total number of occurrences for each condition. The bottom row is the total number of occurrences for each country.

First, it is clear that political leaders' strong willingness to implement the AFTA played a major role. At the 1991 ASEAN Foreign Ministers' Meeting, Thai prime minister Anand proposed establishing the AFTA before the end of the twentieth century,²¹ an idea which Malaysian prime minister Mahathir supported.²² Later, at the 1991 AEM Meeting, ASEAN states reached consensus on building the AFTA within 15 years; this was an important step prior to the AFTA agreements at the 1992 ASEAN Summit (Chen 1997).²³ The prime minister of Singapore, Goh Chok Tong, also

20 Nevertheless, these two agreements are no more than a dozen pages. Compared with the more than hundreds of pages of NAFTA documents, the AFTA agreements are relatively rough and loose (Cooke et al. 1993).

21 It reported that Thai prime minister Anand was "a committed free-trader and an active member of the ASEAN Chambers of Commerce and Industry." In addition, since Thai tariffs were the highest among the six ASEAN nations, Mr. Anand's promise that from 1 January 1993 a ceiling of 30 per cent would be imposed on tariffs for all goods imported from other ASEAN members, which also induced other members to consent Thai's proposal. Hence, Anand was viewed as a pivotal role in establishing AFTA (*Financial Times* 1992e).

22 Mahathir had actively promoted the idea of the free trade area in the form of an East Asian Economic Group (EAEG) in order to compete with the EU and NAFTA (*Financial Times* 1992d).

23 At the 1991 AEM Meeting, Thailand proposed an FTA, Indonesia proposed the common tariff, Singapore offered the growth triangle, the Philippines provided the treaty of economic cooperation, and Malaysia raised the East Asia Economic Group (EAEG). Eventually, these states reached consensus on forming a free trade area (Chen 1997: 119).

firmly supported this plan.²⁴ It is noteworthy that although Anand did not have a strong win-set domestically, he was still able to strongly promote his AFTA idea to other ASEAN leaders (Heenan and Lamontagne 2001).

Table 3: Conditions of the January 1992 AFTA Agreements (Case No. 1)

Factors \ States	Indonesia	Malaysia	Philippines
Political Leaders	*Suharto (Mar. 1967–May 1998) (Golkar)	*Mahathir (Jul. 1981–Oct. 2003) (UMNO)	*Corazon Aquino (Feb. 1986–June 92) (LAKAS)
Win-set (the ruling majority)	*Golkar won 73% of votes in the 1987 election; upcoming election in 1992	*UMNO won 70.6% of seats in the 1990 general election	Suffered several coup attempts; stepped down in May 1992
Political System	Presidential system	Parliamentary system	Presidential system
Economic Indicators			
a. GDP growth (annual in %)	*a. 9% (1991) 7% (1992)	*a. 10% (1991) 9% (1992)	a. -1% (1991) 0% (1992)
b. Exports of goods and services (annual growth in %)	*b. 19% (1991) 14% (1992)	*b. 16% (1991) 13% (1992)	*b. 6% (1991) 4% (1992)
c. FDI net inflows (% of GDP)	*c. 1% (1991) 1% (1992)	c. 8% (1991) 9% (1992)	*c. 1% (1991) 0% (1992)
External Economic Impacts	*The impacts of the EU and NAFTA; the delaying of the Uruguay Round negotiations; and the competition with China, Vietnam and Eastern Europe (1)		
Total	6/6	5/6	4/6

24 Goh Chok Tong emphasized that the formation of the AFTA would make the region more attractive for trade and investment in the face of competition from the EU and NAFTA (*Financial Times* 1992b).

Factors \ States	Singapore	Thailand	Total
Political Leaders	*Goh Chok Tong (Nov. 1990–Aug. 2004) (Papayouanou and Kastner)	*Anand Panyarachun (Mar. 1991–April 1992); back in power June 1992–Sept. 92.	5/5
Win-set (the ruling majority)	*PAP won 95% of seats in the 1991 general election; opposition party won 4 seats	Appointed by the military after coup in Feb. 1991; election in March 1992	3/5
Political System	Parliamentary system	Parliamentary system	
Economic Indicators			
a. GDP growth (annual in %)	a. 7% (1991) 6% (1992)	*a. 9% (1991) 8% (1992)	3/5
b. Exports of goods and services (annual growth in %)	*b. 11% (1991) 0.6% (1992)	*b. 15% (1991) 14% (1992)	5/5
c. FDI net inflows (% of GDP)	*c. 11% (1991) 4% (1992)	*c. 2% (1991) 2% (1992)	4/5
External Economic Impacts	*The impacts of the EU and NAFTA; the delaying of the Uruguay Round negotiations; and the competition with China, Vietnam and Eastern Europe (1)		1
Total	4/6	5/6	

Notes: The cells marked with an asterisk (*) indicate that the variable in a given cell matches the corresponding hypothesis. Golkar was the ruling party controlled by Suharto. UMNO (United Malays Nationalist Organization) was the ruling party in Malaysia. PAP (People Action Party) was the ruling party of Singapore. LAKAS was formed by Corazon Aquino to contest the 1987 national and local election.

Source: Funston (2001); Park (1995); Heenan and Lamontagne (2001); LexisNexis: *Financial Times* 1991a; 1991b; 1992a; 1992b; 1992c; 1992d.

As for the macroeconomic indicators, except for the Philippines and Singapore, the other states' annual GDP growth showed a positive increase in 1991 and 1992. Nevertheless, all ASEAN-5 countries experienced a decline in their annual export growth. With regard to FDI inflows, those of two of the five states also declined and those of two states remained constant. Only one country saw a slight increase. These deteriorating economic indicators provided evidence for ASEAN's concerns regarding competition with China,

Vietnam and other regions. Finally, external impacts played a crucial role in facilitating the establishment of the AFTA. Many ASEAN leaders raised concerns regarding the increasing protectionism in developed countries. They hoped that the formation of the AFTA could boost the importance of ASEAN in the global economy.

2 *a. Protocol to Amend the Framework Agreement on Enhancing ASEAN Economic Cooperation*

b. Protocol to Amend the Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (December 1995)

These two protocols explicitly indicated ASEAN's determination to expedite the implementation of the CEPT. The first protocol, signed by the heads of member states at the Fifth ASEAN Summit in Bangkok, shortened the number of years for implementation from 15 to 10 (Article 2). The second protocol reiterated the decision to bump up the end date for the CEPT Scheme from 2008 to 2003. However, it also prescribed that certain products, which are sensitive to member states, could be excluded from the CEPT Scheme. These temporarily excluded products were to be gradually included into the CEPT by 1 January 2000. Moreover, the protocol expanded product coverage from "processed agricultural products" to "agricultural products" (Article 2). Overall, these two agreements revealed that ASEAN states were determined to move more quickly to implement the AFTA. Therefore, this case can be seen as a positive development, although these protocols also gave ASEAN states the discretion to selectively apply the CEPT to their industries.

In this period (1992–95), the initial plan to implement the AFTA in January 1993 was postponed to January 1994 due to pressure from the private sectors in the various countries and the difficulty of economic adjustment in some member states (Chen 1997).²⁵ Among the ASEAN-5 countries, the Philippines, Indonesia and Thailand faced tremendous pressure from their domestic industries. Nevertheless, in 1994 the AFTA Council decided to shorten the time frame for implementing the AFTA from 15 to 10 years.²⁶ The AFTA was to be realized by 1 January 2003, which would

25 It was the decision made by the fourth AFTA Council meeting in October 1993 (*Business Times* 1993g; 1993i; 1993j).

26 It reported that Singapore, Malaysia and Thailand had been pushing actively for a shortening of the AFTA time frame. In 1994 Thai deputy prime minister Dr. Supachai Panitchpakdi suggested implementing the AFTA by 2003 (*The Straits Times* 1994a).

mean that it would be ahead of similar initiatives by the General Agreement on Tariffs and Trade (GATT) and the Asia-Pacific Economic Cooperation (APEC) (*The Straits Times* 1994b).

During this period, new political leaders came to power in Thailand and the Philippines. In the Philippines, the newly elected president, Fidel Ramos, proclaimed his determination to reduce protectionism and his support for the AFTA, despite of his lack of a ruling majority.²⁷ In Thailand, Prime Minister Chuan Leekpai took office in September 1992 and stepped down in July 1995. His administration consistently supported the early implementation of the AFTA (*Business Times* 1993d; 1993h).²⁸ In 1995, Banharn Silpaarcha succeeded Leekpai as Thai prime minister, with his party grabbing the largest number of parliamentary seats in the general election. While making his debut at the 1995 ASEAN Summit, Banharn repeated Thailand's support for speeding up the AFTA implementation (*New Straits Times* 1995d).

At the July 1995 ASEAN Ministerial Meeting, Brunei Sultan suggested that it was urgent for ASEAN to accelerate the implementation of the AFTA in 2000 since the Common Market of the South (the MERCOSUR, formed by Argentina, Brazil, Paraguay and Uruguay in 1991) planned to become a customs union in 1995 (*New Straits Times* 1995a). Although most ministers expressed support in principle,²⁹ later, at the 1995 AFTA Council meeting, the ministers decided to reduce the tariff for all export products from 0–5 per cent to 0 per cent (Chen 1997); however, they decided to move the end date for the implementation of the CEPT Scheme only from 2008 to 2003.³⁰ Therefore, Brunei's proposal was not accepted. On balance,

27 Regarding the AFTA, the divergence between the Ramos administration and the Philippines' industrial sector seems to have been great. An interview with the executive director of the Federation of Philippine Industries, Wilson Wy Tiu, revealed that the Philippine private sector was not ready for the AFTA but that the Philippine government's response to its private sector's opposition was "lukewarm to abject disregard" (*Business Times* 1993f).

28 In October 1993 Thai deputy prime minister Dr. Supachai Panitchapkdki said that Thailand would push for a shorter time frame for realizing the AFTA. This was critical to other ASEAN states because they were concerned about the Thai government's commitment to the AFTA after the strong support for it under the previous Anand administration (*Business Times* 1993c; 1993i).

29 Several foreign ministers, including Malaysia, Indonesia, Singapore and Thailand, all expressed their support. Only the Philippine foreign minister expressed concern about his country's preparedness (1995a). However, at the September 1995 ASEAN senior economic officials meeting, Indonesia expressed reservation about the Brunei initiative (*The Straits Times* 1995c).

30 In addition to the impact of the MERCOSUR, at the final Uruguay Round negotiation in Morocco in December 1993, all parties of the General Agreement on Tariffs and Trade (GATT) agreed to slash tariff rates within 10 years. Moreover, the Asia-

the political leaders in this case showed a generally supportive attitude to speeding up the implementation of the AFTA, in accordance with the direction of these two protocols.

With respect to the macroeconomic indicators, all countries showed robust GDP growth during this period (1994-95). Nevertheless, four-fifths and three-fifths of countries experienced a decline in export growth and FDI inflows, respectively. The sluggish performance in these areas might have compelled ASEAN states to speed up the pace of AFTA implementation. Table 4 provides a summary of the conditions of the 1995 AFTA protocols.

3 *Protocol on the Special Arrangement for Sensitive and Highly Sensitive Products (September 1999)*

This protocol included several important modifications and new amendments. First, it planned to implement the decision made at the twenty-sixth AEM Meeting in 1994 to phase unprocessed agricultural products into the CEPT Scheme. Second, it specified that the deadline for member states to phase sensitive products into the CEPT Scheme would be no later than 1 January 2003, and would be completed by 1 January 2010. Third, it prescribed that “member states shall have flexibility” in determining the end tariff rate for highly sensitive products. This protocol also indicated that the elimination of non-tariff barriers (NTBs) and quantitative restrictions was to be completed by 1 January 2010.

Overall, this protocol sent a mixed signal. The positive development was that it clearly articulated the deadline for sensitive products and the elimination of NTBs as well as quantitative restrictions. Nonetheless, the downside was that it gave states more flexibility in implementing the AFTA, which undermined its effectiveness.

In this period (1995–99), three countries experienced enormous changes in terms of political leadership. First, the longest-serving president of Indonesia, Suharto, lost power in 1998. His successor Habibie, an interim president, did not explicitly express his stance on the AFTA issue at the ASEAN Summit (*The Jakarta Post* 1998b). In the Philippines, Estrada won the 1998 presidential election. His administration vowed to commit to the

Pacific Economic Cooperation (APEC) forum in 1994 also agreed to quicken the pace of liberalizing regional trade by 2020. The above developments pushed some ASEAN nations, including Singapore, Malaysia and Thailand, to shorten the AFTA time frame (*The Straits Times* 1994a).

AFTA tariff reductions (*Business World* 1998c; 1999e).³¹ In Thailand, Chuan once again became prime minister in 1997. His support for the implementation of the AFTA continued (*The Nation* 1997b; Funston 2001).³²

Table 4: Conditions of the December 1995 AFTA Protocols (Case No. 2)

Factors \ States	Indonesia	Malaysia	Philippines
Political Leaders	*Suharto (Mar. 1967–May 1998) (Golkar)	*Mahathir (Jul. 1981–Oct. 2003) (UMNO)	*Ramos (June 1992–June 98) (PPP). 1992 presidential election: 23.6 ⁰ % (vote), lowest in the country’s history
Win-set (the ruling majority)	*Golkar won 68% of votes in the 1992 election.	*UMNO won 84% of seats in the 1995 general election.	Unstable multi-party majority
Economic Indicators			
a. GDP growth (annual in %)	*a. 8% (1994) 8% (1995)	*a. 9% (1994) 10% (1995)	*a. 4% (1994) 5% (1995)
b. Exports of goods and services (annual growth in percent)	*b. 10% (1994) 8% (1995)	*b. 22 % (1994) 19 % (1995)	*b. 20% (1994) 12% (1995)
c. FDI net inflows (% of GDP)	c. 1% (1994) 2% (1995)	*c. 6% (1994) 5% (1995)	*c. 2% (1994) 2% (1995)
External Economic Impacts	*The impact of MERCOSUR		
Total	5/6	6/6	5/6

31 Estrada said accelerating the integration of Southeast Asian markets would be the best way to combat the effects of the regional currency turmoil (*Business World* 1998c).

32 The Singapore’s prime minister Goh Chok Tong claimed that implementing the AFTA earlier would help restore confidence in the ASEAN economies that had been hit by the financial crisis (*The Straits Times* 1998e).

Factors \ States	Singapore	Thailand	Total
Political Leaders	*Goh Chok Tong (Nov. 1990–Aug. 2004) (Papayouanou and Kastner)	*Bahharn Silpa-archa (Jul. 1995–Dec. 96) (Chart Thai Party)	5/5
Win-set (the ruling majority)	*PAP; no election since 1991	*Chart Thai Party won the largest number of parliamentary seats in 1995	4/5
Economic Indicators			
a. GDP growth (annual in %)	*a. 12% (1994) 8% (1995)	*a. 9% (1994) 9% (1995)	5/5
b. Exports of goods and services (annual growth in per cent)	*b. 21% (1994) 11% (1995)	b. 14%(1994) 15% (1995)	4/5
c. FDI net inflows (% of GDP)	c. 12% (1994) 14% (1995)	*c. 1% (1994) 1% (1995)	3/5
External Economic Impacts	*The impact of MERCOSUR		1
Total	5/6	5/6	

Notes: PPP is the People Power Party (Partido Lakas ng Tao) formed by Ramos in 1992. Chart Thai Party was the party supporting Bahharn Silpa-archa.

Source: Funston (2001); Heenan and Lamontagne (2001); LexisNexis: *Business Times* 1993a; 1993c; 1993f; 1993g; 1993h; 1993i; 1993j; *The Straits Times* 1993b; 1994a; 1994b; 1995b.

Although many ASEAN leaders did not have a strong win-set domestically, the impact of the Asian financial crisis provided them with the *raison d'être* to accelerate the implementation of the AFTA: to restore investor confidence and revitalize the region's competitiveness.³³ Evidence suggested that the shock of the financial crisis, on the one hand, impelled ASEAN leaders to agree on shortening the AFTA implementation time frame from 2003 to

33 In December 1997, ASEAN leaders agreed to accelerate the implementation of the AFTA and called for greater intra-ASEAN trade and investment. However, it reported that Singapore proposed that the time frame for early realization should be fixed for 2000 to show ASEAN's commitment to open trade. This idea was opposed by Indonesia. The delegates then decided to drop the time frame and called only for the accelerated implementation of the AFTA. ASEAN also adopted two measures, including improvements to the ASEAN Investment Area (AIA) and ASEAN Industrial Cooperation (Aico) schemes, to boost investors' confidence (*The Nation* 1997a; *The Straits Times* 1997d; *New Straits Times* 1999a).

2002 as a signal to the world regarding their commitment to free trade (*The Straits Times* 1998d); on the other hand, the consequences of the financial crisis also led the ministers from Indonesia, Malaysia and the Philippines to withdraw their support for AFTA tariff reductions in certain sectors.³⁴

The compromised outcome of the 1999 protocols reflected two conflicting forces among ASEAN states regarding the pace and the scope of the AFTA's implementation. Those states which chose to exempt their sensitive industries from the CEPT Scheme count as one for the political leader variable (for example, Malaysia, Indonesia and the Philippines) since their demands for more flexibility were realized in the protocol.

Regarding the macroeconomic indicators, in 1999 most countries showed signs of recovery in GDP growth. Indonesia was the only country where export growth continued to decline. Other countries had improved in this regard. Nevertheless, three of the five countries experienced a decline in FDI inflows. In short, the 1999 AFTA protocol can be viewed as a collective effort on the part of ASEAN states to boost foreign investors' confidence by renewing their AFTA commitments while giving member states more discretion to deal with their domestic economic turmoil (*New Straits Times* 1999a; Pangestu 2005). Table 5 provides a summary of the conditions of the 1999 AFTA protocol.

4 *Protocol Regarding the Implementation of the CEPT Scheme Temporary Exclusion List (2000)*

Unlike the previous protocols, which aimed to expedite the implementation of the AFTA, this protocol revealed a slowing down of the process. First, in recalling the decision made by the AEM Meeting to allow limited flexibility in the implementation of the CEPT Scheme Temporary Exclusion List (TEL), this protocol provided more flexibility to member states. For instance, it prescribed that a member state was allowed to "temporarily delay the transfer of a product from its TEL into the Inclusion List (IL), or to temporarily suspend its concession on a product already transferred into the IL" (Article 1). This modification indicated a significant deviation from the 1999 protocol.

Second, this protocol specified that the AFTA Council was the unit responsible for dealing with member states' submissions. Meanwhile, the AFTA Council was to review the delay or suspension annually. Moreover,

34 For example, Malaysia and Indonesia asked to withdraw automobile products from the AFTA tariff-cutting scheme. The Philippines also said it would opt out of the petrochemical and automobile sectors (*The Straits Times* 1999b; 1999c; 1999d; 1999f; *The Nation* 1999g).

this protocol indicated that “the Protocol on Dispute Settlement Mechanism for ASEAN shall apply in relation to any dispute arising from, or any difference between member states concerning the interpretation or application of the protocol” (Article 10). In other words, the protocol foresaw possible disputes among ASEAN states. Overall, it represented a significant departure from the previous AFTA agreements. The effectiveness of the AFTA was severely undermined, since this protocol gave each member state more discretion in honouring the agreement.

Table 5: Conditions of the September 1999 AFTA Protocol (Case No. 3)

Factors \ States	Indonesia	Malaysia	Philippines
Political Leaders	*Habibie (May 1998–Oct. 1999). He stepped down in Oct. 1999.	*Mahathir (Jul. 1981–Oct. 2003)	*Joseph Estrada (June 1998–Jan. 2001). He won 40% of votes in the 1998 presidential election (LAMMP)
Win-set (the ruling majority)	Political chaos in 1998. In June 1999 election PDI-P won 30.6% of seats; Golkar obtained 24% of seats; PKB won 10% of seats.	*UMNO won 77% of seats in the 1999 general election.	*Multiparty majority, but Estrada had high level of popularity.
Economic Indicator			
a. GDP growth (annual in %)	*a -13% (1998) 1% (1999)	*a -7% (1998) 6% (1999)	*a -1% (1998) 3% (1999)
b. Exports of goods and services (annual growth in %)	*b. 11% (1998) -32% (1999)	b. 0 % (1998) 13 % (1999)	b. -21% (1998) 4 % (1999)
c. FDI net inflows (% of GDP)	*c. 0% (1998) -1% (1999)	c. 3% (1998) 5% (1999)	*c. 4% (1998) 2% (1999)
External Economic Impacts	*Asian Financial Crisis (1997–1998)		
Total	5/6	4/6	5/6

Factors \ States	Singapore	Thailand	Total
Political Leaders	Goh Chok Tong (Nov. 1990–Aug. 2004)	Chuan Leekpai (Nov. 1997–Feb. 2001) He succeeded, Chavalit, who was forced to resign due to the financial crisis	3/5
Win-set (the ruling majority)	*PAP obtained 97.5% of seats in the 1997 general election. The opposition party obtained 2 seats.	Unstable multiparty coalition to handle economic crisis management.	3/5
Economic Indicator			
a. GDP growth (annual in %)	*a. -1% (1998) 7% (1999)	*a -11% (1998) 4% (1999)	5/5
b. Exports of goods and services (annual growth in %)	b. 1.5% (1998) 2.2% (1999)	b. 8% (1998) 9% (1999)	1/5
c. FDI net inflows (% of GDP)	c. 9% (1998) 20% (1999)	*c. 7% (1998) 5% (1999)	3/5
External Economic Impacts	*Asian Financial Crisis (1997–1998)		1
Total	3/6	3/6	

Notes: LAMMP (Laban ng Makabayang Masang Philipino) was the party supporting Estrada.

Source: Funston (2001); Heenan and Lamontagne (2001); Than (2001); LexisNexis: *Business World* 1998c; 1999e; *New Straits Times* 1999a; *The Jakarta Post* 1998b; *The Straits Times* 1997c; 1998a; 1998d; 1998e; 1999b; 1999c; 1999d; 1999f; 2000m; *The Nation* 1997a.

Regarding political leadership, most ASEAN states, except Malaysia and Singapore, experienced power transition and social instability. In Indonesia, Wahid became president in 1999 as a result of coalition building, thereby defeating Magawati, who had obtained the most votes in the presidential election. However, his party only obtained 10 per cent of seats in the House of Representatives (DPR) (Smith 2001). In 2000 Wahid was involved in two corruption scandals and his popularity had declined significantly by the end

of the year.³⁵ Due to the political turmoil, Wahid did not express an explicit stance on the AFTA issue.

In the Philippines, although Estrada was impeached by his congressmen for corruption, the Philippine government was able to continue to commit to the tariff reduction programme (*Business World* 2000j). In Thailand, despite his meagre domestic support, Chuan remained enthusiastic on the AFTA issue and made a proposal to propel the AFTA into a customs union (*The Nation* 2000h; 2000i). Malaysia, in contrast, was granted a two-year reprieve from tariff reduction for its automobile industry at the 2000 ASEAN informal summit meeting in Singapore. Malaysia's retreat from the AFTA not only opened the door for other members to follow suit and to delay tariff reductions for their sensitive industries, but also induced Thailand's protest and threats to retaliate (*The Associated Press* 2000; *Antara* 2000). As mentioned earlier, in addition to Malaysia, Indonesia and the Philippines had asked for exemption from tariff reductions for certain of their industries. Hence, the backwards development of the 2000 protocol actually reflected the demands of those states that required more flexibility to protect their domestic industries. Thus, Indonesia, Malaysia and the Philippines are coded as one in the category of political leaders; other countries are coded as zero.

With respect to the macroeconomic indicators, three countries showed positive improvements in annual GDP growth. All ASEAN-5 countries saw increases in their export growth, but four-fifths experienced a decline in FDI inflows. In this period, China's entry into the World Trade Organization (WTO) emerged as a significant challenge to ASEAN. Not only did the ASEAN Secretariat begin to study the consequences of China's WTO entry for individual ASEAN countries, but many officials in different ASEAN states also publicly warned about the challenges posed by China.³⁶ Table 6 provides a summary of the conditions of the 2000 AFTA protocol.

35 In November 2000, hundreds of DPR members called for Wahid's impeachment.

36 For example, Singapore Trade and Industry Minister George Yeo and Thai Deputy Premier and Commerce Minister Supachai Panitchpakdi expressed their concerns about more intense competition from China after its entry in the WTO (*The Straits Times* 2000e).

Table 6: Conditions of the November 2000 AFTA Protocol (Case No. 4)

Factors \ States	Indonesia	Malaysia	Philippines
Political Leaders	*Wahid (Oct. 1999–Jul.2001) (PKB)	*Mahathir (Jul. 1981–Oct. 2003)	*Joseph Estrada (June 1998–Jan. 2001)
Win-set (the ruling majority)	In June 1999 election PDI-P won 30.6% of seats; Golkar obtained 24% of seats; PKB won 10% of seats.	*UMNO won 77% of seats in the 1999 general election.	Estrada was impeached by for corruption. A political alliance sought Estrada’s resignation.
Economic Indicators			
a. GDP growth (annual in %)	a. 1% (1999) 5% (2000)	*a. 6% (1999) 9% (2000)	*a. 3% (1999) 6% (2000)
b. Exports of goods and services (annual growth in %)	b. -32% (1999) 26% (2000)	b. 13%(1999) 16% (2000)	b. 4% (1999) 17% (2000)
c. FDI net inflows (% of GDP)	*c. -1% (1999) -3% (2000)	*c. 5% (1999) 4% (2000)	c. 2% (1999) 2% (2000)
External Economic Impacts	*China’s entry into the WTO		
Total	3/6	5/6	3/6

Factors \ States	Singapore	Thailand	Total
Political Leaders	Goh Chok Tong (Nov. 1990–Aug. 2004)	Chuan Leekpai (Nov. 1997–Feb. 2001)	3/5
Win-set (the ruling majority)	*PAP obtained 97.5% of seats in the 1997 general election. The opposition party obtained 2 seats.	Unstable multiparty coalition to handle economic crisis management.	2/5
Economic Indicators			
a. GDP growth (annual in %)	*a. 7% (1999) 10% (2000)	a. 4% (1999) 5% (2000)	3/5
b. Exports of goods and services (annual growth in %)	b. 2.2% (1999) 11% (2000)	b. 9% (1999) 17% (2000)	0/5
c. FDI net inflows (% of GDP)	*c. 20% (1999) 18% (2000)	*c. 5% (1999) 3% (2000)	4/5
External Economic Impacts	*China's entry into the WTO		1
Total	4/6	2/6	

Source: Funston (2001); Heenan and Lamontagne (2001); Than (2001); LexisNexis: *The Nation* 2000c; 2000d; 2000h; 2000i; 2000k; *The Straits Times* 2000a; 2000e; 2000f; 2000g; 2000l; 2000m.

5 Protocol to Amend the Agreement on the CEPT Scheme for the AFTA for the Elimination of Import Duties (January 2003)

First, this protocol resulted from the decisions made at the Thirteenth AFTA Council Meeting in Singapore in September 1999 and at the Third ASEAN Informal Summit in Manila in November 1999, which asked for the elimination of import duties on all products by 2015 and the movement this deadline to 2010, respectively. As a result, this protocol prescribed that import duties on products in the Inclusion List (IL) were to be eliminated not later than 1 January 2010 but did not include the sensitive and highly sensitive products (Article 1). The coverage of these products was at the discretion of member states.

Overall, this protocol was a mixed signal. On the one hand, it shortened the time frame for the elimination of import duties. On the other hand, this shortened time frame deliberately excluded the sensitive and highly sensitive products. As a result, ASEAN states could still use this loophole to exclude some products from tariff reduction.

During this period (2000–2003) the implementation of the AFTA took place, in January 2002. Many ASEAN countries encountered rising domestic opposition to the AFTA.³⁷ As for political leadership in the various countries, two new presidents and one new prime minister appeared in Indonesia, the Philippines and Thailand, respectively. In Indonesia, President Megawati came to power in 2001 after Wahid’s resignation. As the leader of a nationalist party (Indonesian Democratic Party-Struggle, PDI-D), Megawati was not very enthusiastic about the AFTA (Kipp 2004).³⁸ However, she still called on Indonesian businesses to prepare for it, insisting on Indonesia’s participation (*Antara* 2001; *The Jakarta Post* 2001d).³⁹ However, at the 2002 ASEAN meeting, Megawati publicly called for the creation of an “escape clause” in the implementation of the AFTA (*The Jakarta Post* 2002i).

In the Philippines, a US-trained economist, Gloria Arroyo, became president after the ouster of Estrada. Although her party won the 2001 parliamentary election, the rumours regarding military coup were prevalent in Manila (*Business World* 2001e). Although Arroyo pledged to honour Philippine commitments to the AFTA, due to severe domestic pressures and sluggish economic performance, she asked for the exemption of the petrochemical industry from tariff cuts scheduled for 2003 and for the protection of sensitive agricultural projects (*Business World* 2001b; 2001f; 2001h).⁴⁰ In

37 These states include Malaysia, Thailand, the Philippines and Indonesia.

38 Megawati did not mention the AFTA in her 2002 New Year’s speech (*The Jakarta Post* 2002a; *The Jakarta Post* 2002k). The Indonesia Chamber of Commerce and Industry (KADIN) had expressed opposition to the early implementation of the AFTA (*The Jakarta Post* 2002i). The Indonesian Farmers’ Association (HKTI) also asked for a delay in the implementation of the AFTA (*The Jakarta Post* 2002l).

39 In 2001 the Indonesian Chamber of Commerce and Industry (Kadin) called for the postponement of Indonesia’s participation in the AFTA; the call received support from Indonesia’s House of Representatives (DPR) (*The Jakarta Post* 2001c).

40 For instance, the Philippine sugar industry obtained the approval of other ASEAN member countries in delaying tariff reduction so that it could enjoy tariff protection beyond 2003 (*Business World* 2001g). Arroyo pledged to transfer sugar from the temporary exclusion list to the sensitive products list under the AFTA. Additionally, some business leaders, such as the head of the ASEAN Chambers of Commerce and Industry (ASEAN-CCI), Jose Concepcion, Jr., called for government to look closely at domestic industries before complying with the AFTA commitments in 2003 (*Business World* 2002d). In 2002 the Arroyo administration also sought the exclusion of at least 16 sensitive products from the list of products that were subject

early 2003 Arroyo even pledged to adopt a policy “to slow the programme pace only to the AFTA and WTO minimums, and to take full advantage of all exception windows allowed” (*Business World* 2003a).

Prime Minister Thaksin of Thailand was the only new political leader who had stable majority support. He called on the ASEAN secretary general to speed up the AFTA process. Thaksin also stated that he would like to take the lead in this matter (*Bangkok Post* 2002c; 2002e). Furthermore, dissatisfied with the AFTA’s slow progress, Thailand and Singapore ratified a bilateral free trade agreement in 2002 (*The Nation* 2002b; 2002f). In contrast to Thailand, Malaysian prime minister Mahathir decided to further delay the AFTA tariff cuts to Malaysia’s automobile sector until 2005, rather than 2003 (*Bangkok Post* 2002j). Thus, the 2003 protocol’s mixed signal reflected divergent views among ASEAN states regarding the AFTA’s implementation. Since this compromised protocol satisfied those countries which desired more discretion regarding their sensitive sectors and others who were eager to expedite the pace of the AFTA, all states have been coded with a value of one for the political leader variable.

In macroeconomic terms, all countries were, at the time of this agreement, continuing to recover from the previous financial crisis. Nevertheless, their GDP growth rates did not recover to the pre-crisis levels. Although most countries performed better in export growth, they did not see much improvement in FDI inflows. Finally, no significant external impacts affected ASEAN during this period, although the challenge of China’s entry into the WTO was a lingering concern noted by many ASEAN leaders (*Business World* 2001f). Table 7 provides a summary of the conditions of the 2003 AFTA protocol.

to AFTA tariff cuts (*Business World* 2002h). Furthermore, the Philippines’ decision to exempt the petrochemical industry from the AFTA tariff reduction scheme pushed Singapore and Thailand to ask it for compensation (*Business World* 2003b).

Table 7: Conditions of the January 2003 AFTA Protocol (Case No. 5)

Factors \ States	Indonesia	Malaysia	Philippines
Political Leaders	*Megawati (Jul. 2001– Oct.2004) (PDI-P)	*Mahathir (Jul. 1981– Oct. 2003) (UMNO)	*Gloria Arroyo (Jan. 2001– present). Succeeded to the presidency after ousting Estrada (PPC).
Win-set (the ruling majority)	In June 1999 election PDI-P won 30.6% of seats; Golkar obtained 24% of seats; PKB won 10% of seats.	*UMNO won 77% of seats in the 1999 general election.	PPC won the parliamentary election in May 2001; rumours of military coup attempt.
Economic Indicators			
a. GDP growth (annual in %)	a. 4% (2002) 5% (2003)	a. 4% (2002) 5% (2003)	*a. 4% (2002) 5% (2003)
b. Exports of goods and services (annual growth in %)	b. -1% (2002) 8% (2003)	b. 4% (2002) 6% (2003)	b. 4% (2002) 4% (2003)
c. FDI net inflows (% of GDP)	*c. 0% (2002) -0% (2003)	*c. 3% (2002) 2% (2003)	*c. 2% (2002) 0% (2003)
External Economic Impacts	N/A		
Total	2/6	3/6	3/6

Factors \ States	Singapore	Thailand	Total
Political Leaders	*Goh Chok Tong (Nov. 1990–Aug. 2004)	*Thaksin Shinawatra (Feb. 2001–May 2006)	5/5
Win-set (the ruling majority)	*PAP won 97.6% of seats in the 2001 general election.	*In January 2001 Thais Love Thais Party won a majority (50% of seats).	3/5
Economic Indicators			
a. GDP growth (annual in %)	a. 4% (2002) 3% (2003)	*a. 5% (2002) 7% (2003)	2/5
b. Exports of goods and services (annual growth in %)	b. 7.2% (2002) N/A (2003)	*b. 12% (2002) 7% (2003)	1/4
c. FDI net inflows (% of GDP)	c. 6% (2002) 10% (2003)	c. 1% (2002) % (2003)	3/5
External Economic Impacts	N/A		0
Total	2/5	4/6	

Notes: PDI-P was the party supporting Magawati. PPC (People Power Coalition) was the party supporting Arroyo. PnM (Strength of the Masses/ Puwersa ng Masa) was the party supporting Estrada.

Source: Kipp (2004); LexisNexis: *Antara* 2001; *Bangkok Post* 2002c; 2002e; *Business World* 2001e; 2001f; 2001g; 2001h; 2002d; 2002g; 2002h; *The Jakarta Post* 2001d; 2002a; 2002i; 2002k; *The Nation* 2002b.

6 Examination of Hypotheses

This section examines the proposed hypotheses by applying the quantitative measurements derived from the preceding case analysis. First, *Hypothesis One* (H1) assumes that the preferences of political leaders may have a significant effect on AFTA agreements. The result (84 per cent) shows a strong correlation between the two and provides support for *Hypothesis One*, suggesting that political leaders’ preferences are a necessary condition for achieving AFTA agreements.

Second, regarding the win-set category, the results indicate that AFTA agreements were signed under the condition that 60 per cent of political leaders had strong win-sets that supported their approval of AFTA agreements. The result for the win-set condition provides moderate support for

Hypothesis Two (H2). Nevertheless, if we take the direction of the AFTA agreements into account, it becomes clear that the positive development of the AFTA (70 per cent) requires political leaders to have more domestic support than the mixed (40 per cent) or negative AFTA development (60 per cent) does.⁴¹ Since the positive development of the AFTA is more likely to trigger more domestic opposition than the mixed or negative development of the AFTA, the preceding results provide further support for *Hypothesis Two* and suggest that political leaders are more likely to make a difficult decision when they have sufficient domestic support.

With respect to the macroeconomic factors, first, the result for GDP growth (72 per cent) strongly supports *Hypothesis Three* (H3), which states that most states are willing to sign AFTA agreements when their economies are in a good shape. However, there is only a moderate correlation between export performance and AFTA agreements (46 per cent). Similarly, the indicator for FDI inflows also shows only a moderate correlation with the AFTA (56 per cent). These results do not invalidate *Hypotheses Four* and *Five*, because if we take the direction of the AFTA agreements into account, the decline in export growth is more likely to impel ASEAN states to move in a positive direction (90 per cent) than to move in a mixed (22.5 per cent) or a negative direction (0 per cent). This result provides some evidence to support *Hypothesis Four*. However, the decline of FDI inflows does not provide a stimulus similar to that of export growth. Decreased FDI inflows may be not sufficient to compel ASEAN states to move in a positive direction with respect to the AFTA (40 per cent), but they may at least force these states to make some progress on the AFTA (60 per cent in the cases of mixed development).

Finally, regarding external economic impacts, four out of five cases are affected by external economic influences. A strong correlation between external economic impacts and AFTA agreements (80 per cent) offers convincing evidence to support *Hypothesis Six*. This result reveals two important features of the AFTA. First, its progress is extremely sensitive to changes in the extraregional environment. Second, the AFTA's inherent nature tends to be defensive, since its development is more likely to stem from passive reactions to external economic influences than from the close following of its scheduled blueprint. Table 8 provides the overall results of the hypothesis examination.

41 In calculating the win-set for the positive cases of 1992 and 1995, we obtain 70 per cent. The occurrence of the win-set in the mixed cases of 1999 and 2003 is 60 per cent. And the win-set in the negative case of 2000 is 40 per cent.

Table 8: Accumulated Results of Hypothesis Examination

Conditions	Fre- quency	Per- centage	Case (92)	(95)	(99)	(00)	(03)
H1. Political leaders' preference	21/25	84%	5/5	5/5	3/5	3/5	5/5
H2. Win-set (the ruling majority)	15/25	60%	3/5	4/5	3/5	2/5	3/5
H3. GDP growth	18/25	72%	3/5	5/5	5/5	3/5	2/5
H4. Export growth	11/24	46%	5/5	4/5	1/5	0/5	1/5
H5. FDI net inflows	14/25	56%	3/5	1/5	3/5	4/5	3/5
H6. External Impacts	4/5	80%	1	1	1	1	0
Positive, mixed, or negative development of AFTA			Pos.	Pos.	Mix.	Neg.	Mix.

Source: Author's own compilation.

Table 9 shows the connections between political leaders, the win-set and the political system. First, condition a shows that 62 per cent of AFTA agreements were signed under the condition that political leaders agreed with the direction of the AFTA with a stable win-set. The result of condition b indicates that 38 per cent of AFTA agreements were signed under the condition that political leaders agreed with the direction of the AFTA without a stable win-set. These results back up *Hypothesis Two*, that is, that political leaders are likely to sign AFTA agreements when they have a stable win-set.

If we take the difference between a parliamentary and a presidential system into account and observe the influence of different institutional designs on the autonomy of political leaders on the AFTA issues, the findings for conditions c and d show that political leaders in a presidential system (100 per cent) are more likely to agree with the direction of the AFTA agreements than those in a parliamentary system (73 per cent). If we take political leaders, a stable win-set and political systems into account simultaneously, as conditions e and f indicate, the results suggest that a parliamentary system (67 per cent) is more likely to support the AFTA agreements than a presidential system (30 per cent) when the two systems both possess supportive political leaders and a stable win-set. These assessments of condi-

tions g and h suggest that a stable win-set occurs more frequently in a parliamentary system (80 per cent) than in a presidential system (30 per cent).

Table 9: Connections between Political Leaders, Win-set and Political System

Conditions	Frequency	Percentage
a. Political leaders agree with the direction of the AFTA with a stable win-set	13/21	62%
b. Political leaders agree with the direction of the AFTA without a stable win-set	8/21	38%
Different Performance according to Political System		
c. Political leaders agree with the direction of the AFTA in a presidential system	10/10	100%
d. Political leaders agree with the direction of the AFTA in a parliamentary system	11/15	73%
e. Political leaders agree with the direction of the AFTA with a stable win-set in a presidential system	3/10	30%
f. Political leaders agree with the direction of the AFTA with a stable win-set in a parliamentary system	10/15	67%
g. A stable win-set occurred in a presidential system	3/10	30%
h. A stable win-set occurred in a parliamentary system	12/15	80%

Source: Author’s own compilation.

Overall, the above findings suggest the following: (1) a stable win-set helps political leaders realize their objectives in AFTA agreements; (2) political leaders in a presidential system may enjoy more autonomy than their counterparts in a parliamentary system on the AFTA issue; (3) a parliamentary system is more likely to generate a stable win-set and political leaders who support AFTA agreements than a presidential system.

Conclusion

The goal of this article has been to investigate which factor(s) have induced ASEAN states to reach AFTA agreements and to continue progressing in the past two decades. Utilizing Putnam’s two-level-games model, this article has identified the possible influence of political leaders’ preferences, domestic support (a stable win-set), macroeconomic factors, and external eco-

conomic impacts on the achievement of AFTA agreements. Through a systematic and quasi-quantitative examination of five cases of AFTA agreements during the 1992–2003 period, this article has sought to discover a potential pattern behind the development of AFTA agreements.

The findings suggest that political leaders' preferences have played a pivotal role in determining the formation and direction of the AFTA. Second, the achievement of AFTA agreements also depends on whether political leaders enjoy a stable win-set domestically. Third, the achievement of AFTA agreements is more likely to occur when ASEAN states are performing well economically. The decline of export growth has tended to stimulate ASEAN states to reinforce the implementation of the AFTA, but the influence of decreased FDI inflows on the development of the AFTA may not always be as positive. Finally, external economic impacts have had a significant influence on the formation and progress of the AFTA, something which reveals the defensive nature of AFTA agreements.

In addition, the preceding findings may assist in the development of theories regarding ASEAN cooperation in the future. As argued earlier, the existing three integration theories fail to provide a sound explanation for the AFTA experience. The findings provide support for this statement. Despite the gradual institutionalization of AFTA, its progress hinges largely on whether the preferences of political leaders in each state can be satisfied by the direction of AFTA agreements. Furthermore, political leaders' attitudes towards the AFTA may be influenced by their domestic support and economic performance. In other words, the AFTA mechanism, like the AFTA Council, as a developing institutional instrument, has not had any conspicuous effect in compelling ASEAN states to abide by AFTA agreements. More importantly, the AFTA Council's decision to grant member states more flexibility in tariff reduction actually undermines the implementation and effectiveness of the AFTA. As a consequence, the development of the AFTA becomes more sensitive to the needs of individual states and more penetrable by the domestic opposition forces in each state. Therefore, the efficacy of the AFTA as an economic *regime* to promote intraregional economic integration is questionable, as is the application of institutionalism to explain the AFTA – not to mention the other two theories, functionalism and communitarianism.

To conclude, the examination of the AFTA's development indicates that it may be unrealistic to expect that the AFTA's practice and institutional design can serve as a useful model for other developing countries. The AFTA, like ASEAN's many programmes, is prone to projecting an ambitious end without having the collective determination of its members to carry out its proposed plan. As this article indicates, domestic dissenting

groups do have a voice in the AFTA's development, something which has been largely ignored in the existing literature. In this regard, this article has made a preliminary effort to identify the plausible links between domestic opposition groups and political leaders' calculations on the AFTA issues. An advanced in-depth study of cross-national comparative cases may be needed in the future in order to further explore the nexus between the domestic politics of individual ASEAN states and the implementation of the AFTA.

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