

THE POLITICAL RISKS OF REGIONAL
INTEGRATION: THE CASE OF ASEAN

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**THE POLITICAL RISKS OF REGIONAL
INTEGRATION: THE CASE OF ASEAN**

by

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LIST OF ABBREVIATIONS

AFTA	ASEAN Free Trade Area
ARF	ASEAN Regional Forum
ASG	Abu Sayyaf Group
ASEAN	Association of Southeast Asian Nations
CLMV	Cambodia, Laos, Myanmar and Vietnam
CDR	Council for Democratic Reform (Thailand)
EU	European Union
EIU	Economic Intelligence Unit
IQs	Investigative Questions
IPR	Intra-Regional Political Risk (factors)
JI	Jemaah Islamiah
KNLA	Karen National Liberation Army
KNU	Karen National Union
MILF	Moro Islamic Liberation Front
MNLF	Moro National Liberation Front
NAFTA	North America Free Trade Area
NPR	National Political Risk (factors)
PAD	The People's Alliance for Democracy
PDI	Indonesia Democratic Party
PPP	The People's Power Party
PERC	Political and Economic Risk Consultancy
PRS Group	Political Risk Services Group
RQ	Research Question
UN	United Nations
UNHCR	The UN Refugee Agency
US	United States of America
UWSA	United Wa State Army

RISIKO POLITIK INTEGRASI SERANTAU: SEBUAH KES ASEAN

ABSTRAK

Penyelidikan ini bermula dengan fahaman bahawa persekitaran perniagaan antarabangsa kini bercirikan keterbukaan ekonomi nasional dan peningkatan interaksi di antara sistem ekonomi dan sosio-politik yang pelbagai. Bagi kebanyakan negara membangun usahasama sebegini telah diterjemahkan kepada peningkatan usaha penyatuan wilayah yang melibatkan kerjasama pelbagai negara dalam kawasan geografi yang sama. Di Asia Tenggara, kerajaan bagi negara-negara di wilayah ini telah menubuhkan Pertubuhan Negara-negara Asia Tenggara (ASEAN) demi meningkatkan kerjasama ekonomi, sosial dan keselamatan bagi menggalakkan perpaduan dan keamanan di antara mereka. Walaupun banyak kajian telah dijalankan untuk membuktikan manfaat integrasi serantau, namun kurang penekanan telah diberikan bagi mengkaji kesannya ke atas keadaan risiko politik negara-negara terbabit. Maka disertasi ini telah mengambil pendekatan kualitatif untuk menganalisa perubahan yang berlaku ke atas faktor-faktor risiko politik di rantau ini yang disebabkan oleh integrasi ASEAN. Melalui pendekatan kajian kes berkumpulan, penyelidikan ini telah mengenalpasti dan menganalisis sumber risiko politik untuk menjawab empat soalan selidik khusus yang menganalisa kesan integrasi ASEAN terhadap risiko politik. Kajian telah mendapati bahawa tempoh keahlian dalam integrasi serantau tidak memberi kesan terhadap pengurangan keadaan risiko politik dalam dan di antara negara-negara ahli. Faktor-faktor ini juga didapati mampu memberi kesan terhadap kestabilan pasaran serantau, namun ianya tidak dipengaruhi oleh aktiviti integrasi serantau kerana kejadian yang menyebabkan risiko

politik berlaku pada peringkat kebangsaan. Maka kajian ini didapati sangat relevan kepada firma antarabangsa kerana sesebuah perniagaan perlu awas akan keadaan sekelilingnya, supaya ia dapat mengkaji semua peluang dan risiko yang terdapat di pasaran baru terbabit.

Kata kunci: ASEAN, Risiko Politik, Integrasi Serantau

**THE POLITICAL RISKS OF REGIONAL INTEGRATION:
THE CASE OF ASEAN**

ABSTRACT

This research began with the understanding that today's international business environment is characterized by the growing openness of national economies and increased interaction among diverse economic and socio-political systems. For most countries this has translated into greater regional integration initiatives that involved the cooperation of diverse countries within a geographical proximity. In Southeast Asia, the governments of the ten countries that make up the region established the Association of Southeast Asian Nations (ASEAN) to push for greater economic, social, and security cooperation aimed at promoting peace and regional solidarity. Although much study has been done to prove the economic benefits of regional integration, lesser emphasis has been given on studying its effects on political risk conditions among them. Hence, this dissertation took a qualitative approach to analyze the changes that ASEAN integration has had on the factors of political risks that exist in the region. Through the use of a collective case study approach, the occurrences and sources of political risks were identified and analyzed in order to answer four specific investigative questions to study the effects of integration on political risks. It was found that the number of years of being a part of an integrated regional group did not influence the reduction of political risk conditions within and among its member states. These factors were also found to have the ability to affect regional market stability and are unaffected by the efforts of regional integration because the conditions or events occur on a national level. This

research is particularly relevant for international firms, as businesses need to be aware of changes occurring both nationally and internationally that can affect their operations in order to fully assess the opportunities and risks of a new market.

Keywords: ASEAN, Political Risk, Regional Integration

CHAPTER 1 – INTRODUCTION

1.1 Introduction

The focus of this research is to explore the effects of regional integration on the factors of political risks. An integrated regional market usually involves the cooperation of diverse countries within a geographical proximity for a common goal or interest. Hence questions arise in terms of how the integration of highly diverse countries affects the political risk factors that exist within and among those countries involved. The Association of Southeast Asian Nations (ASEAN) represents an integration of the highly diverse countries of Southeast Asia; and its environment, when assessed as a single entity, would reflect the benefits and risks of each of its member countries.

This chapter begins with introducing the concept of regional integration in today's economic and political environment. This creates a basis to understanding the aspects of regional integration and its intended effects, which has led to the construction of the research problem. The research question, significance and flow are also discussed in this chapter.

1.2 Background

The growing economic and political interdependencies of countries around the world characterize the complexity of globalization in the 21st century. Generally, globalization can be defined as “the intensification of the process of interaction involving trade, migration and dissemination of knowledge” that leads to the growing interdependencies

of countries worldwide (Piasecki & Wolnicki, 2004, p.308). Consequently, the growth of the world economy through globalization has also deepened interdependence between both government and non-government players, both in terms of cooperation and competition. This increased interdependence among firms and governments around the world creates a complex relationship among markets, while at the same time providing greater market diversity.

This market diversity also creates an unpredictable and dynamic nature of international business because its actors, comprising of governments and businesses, and their actions and reactions are basically free from control (Milburn, 2005; Dunning, 2002). Alongside market diversity, the pace and direction of technological, political and institutional changes have also added to the complexity and uncertainty of the international business environment. These changes have allowed for greater interconnectedness of today's global market environment. For example, diminishing economic and political barriers have allowed for increased international transactions and inter-state relations through bilateral and multilateral initiatives among both organizations and countries. Developments such as these have also contributed to the changing role of governments. As such, changes in the economic and political world order have affected conditions within countries as well as relations among them.

This complex linkage between world economy and power politics characterizes today's 'globalized' environment which presents new challenges and risks for businesses, that can arise from the complexity of a multifaceted system of international transactions

(Dunning, 2002; Suh & Khan, 2003). Each new market is characterized by its political, social and economic environments that can offer a new set of opportunities and threats for international firms. The opening of new markets and their interdependence of global economic and political developments also adds to the unpredictability of the international business environment.

It has been contended that firms operating internationally face risks that are uniquely international, such as foreign-exchange risks, country risks, and the risk of non-governance of the international trade rules (Herring, 1983). Although it can be argued that all businesses are involved in some form of international transactions and thus are all exposed to some form of international risk. Therefore, it is crucial for businesses to understand the environment in which they operate in order to effectively measure and manage international risks to survive in the long run.

1.2.1 Uncertainty and Risk

Due to the unpredictable nature of international markets, uncertainty is a constant issue facing international business. The terms *risk* and *uncertainty* have been widely used and have been associated with different definitions, even within the same field of study; and some authors have toggled between the two terms, signifying its similar meaning.

Among the earliest studies to refer to the link and the predictive relationship between *uncertainty* and *risk* were purported by Haendel, West, & Meadow (1975), Rummel & Heenan (1978), and Kobrin (1979) – (as reviewed by Fitzpatrick, 1983, p.251). Other

examples would include Miller (1992), who stated that factors or conditions of *uncertainty* can cause *risk*; and by Olsson (2002), who used *uncertainty* to define *risk* by saying that “risk is the uncertainty of future outcome(s)” (p.4); as well as by Tchankova (2002) who referred to *risk* as the “uncertainty of the environment where business and public organizations work” (p.290).

It should also be noted that not all scholars would agree on the parallel usage of the terms *risk* and *uncertainty*. For example, from an economist’s point of view, the difference between risk and uncertainty can be distinguished; as *risk* suggests measurable probability, and *uncertainty* is when the likelihood of future events is incalculable.

Although different fields of study have different perspectives on what determines risks and how it is measured, it is undeniable that the complexity of today’s international market environment is full of uncertainty; and the inability of firms in addressing diverse market environments and the changes affecting its surroundings can prove to be a risk to business. Hence, an understanding of the landscape and workings of foreign markets is crucial for business.

Country risks can be defined in a number of ways as it can be viewed from different perspectives. This study looks at country risks from the socio-political perspective because a major aspect that influences a country’s business environment is the condition of its social and political environment, such as the government that creates and

implements its laws and policies. The study of political risk is a component of country risk studies that is related to the analyzing the actions of a country's government and its peoples that would affect its economic, social and political development (e.g. Shubik, 1983; Desta, 1985; Ghose, 1988; Miller, 1992; Hadjikhani, 1998; Alon & Martin, 1998).

1.2.2 Regional Integration in Southeast Asia

The changing landscape of international business, especially after the end of bipolarity caused by the Cold War, has fueled the rise of regionalism or the collaborative grouping of states through integration of markets. Reasoning behind this collaborative effort of sovereign states may range from purely economic interests or to develop a fully integrated single-market entity. Nonetheless, each sovereign nation has unique characteristics that may present both opportunities and risks to the regional grouping it joins.

Regionalism occurs when governments establish mechanisms of cooperation and make multilateral arrangements to push for regional economic and social integration and security cooperation. One form of regionalism that can be found in Southeast Asia is the integration of ten countries – Thailand, Singapore, Philippines, Malaysia, Indonesia, Brunei, Cambodia, Vietnam, Laos, and Myanmar – on the basis of voluntary cooperation to promote regional peace and security, which are collectively known as members of the Association of Southeast Asian Nations (ASEAN).

The majority of the members of the ASEAN are ‘young’ developing economies that have only gained independence from foreign occupation in the 20th century. The original members of ASEAN – Malaysia, Indonesia, Singapore, Thailand and the Philippines – created the association in 1967 to address security issues in the region. By 1999, the association increased in size to include Brunei Darussalam, Vietnam, Lao PDR and Myanmar, and Cambodia.

Due to the diverse social make up and tumultuous path towards independence of most of these countries, the emerging markets of the region have been known to have a high-risk environment for business. As a whole, the integration of these diverse markets equals to a regional market with varying degrees of economic, social, political and historical conditions.

1.3 Research Problem

The focus of this research was to explore the effects of regional integration on political risk in Southeast Asia. The researcher’s interest to study the effects of regional integration on the region’s political risk conditions arose during a time when interesting socio-political developments were occurring throughout the region that seemed to test the state of regional relations.

Particularly, the idea for this study developed during a time when ASEAN solidarity was tested by Thailand’s ongoing internal political conflicts and growing violence in its southern provinces. Although the terrorist and insurgency based violence that occurred

in southern Thailand during most of the early 2000s were domestic incidents, it did cause diplomatic conflict with some of the country's immediate neighbors. For a brief period, it would seem that Thailand's internal political events caused a rift in regional relations and stalled regional cooperation. This led the researcher to question certain aspects related to national conflicts and regional integration, such as how would internal conflicts affect other members in an integrated region; and whether or not being a part of an integrated region would actually have any bearing in curtailing the effects of such conflicts on peace and stability.

Although there have been many studies conducted to analyze the effects of regionalism, most scholarly works have focused on the economic benefits or financial consequences of regional integration and very minimal was related to studying its socio-political effects. The economic effects of interdependence have been explored extensively in the literature and it has been shown that changes in one market can affect another, particularly in ASEAN. An example of this phenomenon was evident during the 'Asian financial crisis' of 1997, where it was found that problems of currency devaluation that began in Thailand had a staggering effect that led to major economic recessions in almost all Southeast Asia and Asia-Pacific countries. From this example, it can be argued that sudden changes and disruptions to a country's market can cause uncertainty and increase the risk of doing business in that particular country.

Since regional integration has been demonstrated to cause contagion effects – both positive and negative – in relation to its members' economic and financial environment,

the question arises if the same would also hold true for its socio-political environment. Therefore it stands to reason that firms conducting a country's risk analysis, particularly political risk analysis, should not be confined to only analyzing the political events and effects within the said country alone but rather it should also take into account the conditions of countries that surround it.

The history of relations among these countries have also been described as highly volatile as there exists varying degrees of internal and regional conflicts that have produced high political risk conditions for businesses throughout the years. The likelihood of increased problems accompanying increased integration seems to be high in the case of ASEAN based on the fact that it is made up of states with diverse levels of economic, political, and social development and beliefs; as well the region having a very complex and violent history in which animosities towards one another still persists and influences relations today. Therefore, more questions arose in relation to the condition of intra-regional relationships among highly diverse countries with a complex geopolitical history and how it has evolved over four decades of regionalism.

The period and level of integration could also render member countries susceptible to any major changes occurring in one another's environment. Hence, this researcher saw the need to investigate if increased market integration through regionalism has the equal potential to intensify existing problems or create new conflicts among troubled nations just as it has the ability to bring about greater economic cooperation.

Bearing these questions in mind, preliminary literature review indicated that there is limited discussion focusing on the effects of regional integration on the political risk conditions of member countries and/or on the integrated group as a whole. Nonetheless, this research argues that just as cooperation among nations tended to bring about greater benefits, it also has the potential to intensify existing problems among troubled nations or create new ones because of increased interaction. As such, the researcher proposes to study the impact of ASEAN regionalism on political risk, which will ultimately show whether or not regionalism can help increase or reduce levels of political risk for the region as a whole.

1.4 Research Question

This research is therefore focused on addressing the singular question of integration in ASEAN and its relationship to political risk, namely:

RQ: Does increased regional integration through ASEAN decrease political risks in the region? Why or why not?

This overall question will be addressed through the use of ‘investigative questions’ (*IQ_s*) (to be introduced in the upcoming chapters) intended to study sub-issues such as:

- the effects of regional integration efforts on country risk ratings;
- the ability of ASEAN initiatives to reduce political risk conditions in the Southeast Asian region; and,
- the existence of any specific political risk factors associated with regional integration.

1.5 Research Objectives

The main purpose of this research is to analyze the changes that regional integration has had on the factors of political risks that exist in the region – both from within the country as well as among the countries of Southeast Asia. National peace and stability precedes regional stability. Therefore, by studying the socio-political conditions of these countries and the condition of their intra-regional relationships, we would be able to assess the effects of regional integration after decades of integration through ASEAN.

The objectives of this research are:

- 1.5.1* To investigate how regional integration efforts affect political risk – particularly the negative effects of regional integration on member countries and on the conditions of intra-regional relations
- 1.5.2* To assess whether or not ASEAN initiatives has helped reduce political risk conditions in the Southeast Asian region
- 1.5.3* To ascertain if there are any specific political risk factors associated with regional integration

1.6 Significance of the Study

It is a common belief that if a firm operating in international business hopes to be successful, it must properly identify and assess the relative risks of the environment in which it operates. This would include an assessment of a country's internal and external environment (Hill, 2005). The age of new regionalism creates greater interdependence of international markets. Therefore, it is even more vital for firms to understand the importance of identifying sources of risk. Regardless if these firms are operating in

their own country or within the host country, the mere fact that they exist in a social system that has a political environment exposes them to political risk. As a result, country risk and/or political risk analysis become an inherent part of all organizational activities, because it calls for a continuous monitoring of changes in the external environment.

Researchers in the field of risk analysis have broken down the phases of risk analysis into three, namely risk identification, risk assessment, and risk management. Risk identification, being the first stage of risk management, develops the basis for the analysis and control of risk. Therefore, the effectiveness of risk management is highly dependent on the efficiency (and accuracy) of identifying sources of risk and resources that are exposed to these risks (Tchankova, 2002; Emblömsväg & Kjolstäd, 2005).

The necessity of identifying factors of risk, relates to the ability to anticipate and possibly manage these risks, and adversely, non-identified risks will become non-manageable (Tchankova, 2002; Mobey & Parker, 2002). This point is best summed up by Milburn (2005), who stated:

Historical lessons for the modern corporation are, first, that the strategic plan does not always work. Second, discontinuities arising from international and national politics will be hard to determine. Third, and most importantly, knowledge of the external environment is critical (p. 26).

For this reason, this research presents a way to expand the process of risk analysis to include the external factors related to regionalism – in order to understand how regional integration can affect political risk - that could affect a country's and region's market stability. This research would contribute to the study of country risk through our identification of the possible sources or symptoms of risk of regional integration; allowing firms that are planning to operate or invest in a highly integrated market a more comprehensive risk analysis process.

This study would also contribute to regionalism and regional integration studies, which also shows a gap in terms of research related to the negative effects of regionalism to member countries. Stuart A. Scheingold, in 1970, wrote “we have a very limited understanding of the costs and benefits of integration”, and even though this opinion was given almost 40 years ago, it still applies today, especially in the unique case of ASEAN.

Overall, the main significance of this research is that it combines the fields of political risk and regionalism. There is still limited research focused on political risk analysis associated with regionalism. Thus far, past studies on political risk have been mainly one-dimensional, either looking at single country or single industry. Due to the nature of country risk assessment and political risk assessment being focused on the environment of the particular country, it falls short of analyzing the international political changes and developments that may directly or indirectly affect the said country's environment. With increased political and economic regional integration

activities the world over, especially in the post-Cold War period, this study would be able to add to literature on the effects of regional integration and political risk.

Admittedly, it is not possible to collect complete information about all internal and external factors of uncertainty that are present in ASEAN, but it is necessary to begin taking steps in understanding the intricacies and risks involved in these types of regional cooperation. In this way, we can begin developing strategies of risk identification techniques of a regional market as opposed to only a single country risk analysis. Therefore, it is hoped that this research will lead to an understanding of how regionalism can affect risks – i.e. its causes and evolution from being country risk to regional risk factors.

Distinctively, this research will study factors of risks associated with ASEAN as a single entity because there may be certain factors or conditions that is unique to an integrated regional grouping, as opposed to a single country/market. If this research is able to identify factors of risk that are only existent when sovereign nations cooperate in an integrated region, then it would be significant for both government and non-government bodies, in terms of policy creation, strategic management, and such. For example, businesses and investors that treat regional blocs as a single-market could use this information in their strategic analysis.

Although there are many private organizations (consultants) that provide ‘industry risk analysis’ and/ or ‘country risk assessments/ratings’, this research is significant because it

differs in two ways. Firstly, this study is looking at the process of change, i.e. what happens to individual country-risk when countries integrate their activities as part of a regional grouping/bloc. Secondly, this study will analyze the members of ASEAN as a single regional unit and the risks associated with it, as opposed to just a general cross-market or multi-country analysis.

If this study is able to identify factors of ‘regional risk’ – risks factors that only arise due to regional integration – then it would help steer future studies into new areas of research. This would be highly beneficial for assessing the future of ASEAN, especially in its expansion and integration efforts. Consequently, the information gathered from this research could also help policy-makers to highlight future challenges within ASEAN, especially to ensure its success in achieving ASEAN Vision 2020. Ultimately, this study aims to contribute to the existing body of literature on risk studies and to explore new aspects / fields of regionalism.

1.7 Summary

It is important for any business venture to fully assess the opportunities and risks of a new market. This is even more so when investing in emerging markets. A country’s market condition is influenced by both internal and external factors. Part of what makes up the external factor of country risks in the current post-Cold War era is the emergence of regionalism. An integrated regional market usually involves the cooperation of diverse countries within a geographical proximity for a common goal or interest. Hence, firms must understand the importance of identifying sources of risk, especially in

the age of regionalism, because they face political risk, regardless if they are operating in their own country or within the host country, by the mere fact that they exist in a social system that has a political environment. One such environment is the increased integration of the markets (countries) or Southeast Asia through the efforts of ASEAN.

This research will look at the changes to the political risk factors of ASEAN member countries after the establishment of ASEAN-10. Therefore, the main purpose of this research is to assess risks that exist in an integrated regional grouping.

ASEAN is made up of various sovereign nation-states with their own unique identity, which includes differing political and economic systems, level of technological achievements, and social norms. Diversity also exists in terms of individual national difficulties or problems of political, economic, and social nature. Therefore, although country risk assessments (and political risk assessments) have been established and provided by many specialized institutions, they are still mainly focused on developments in the specific country of study and not on regional studies.

This has its own drawbacks, especially in today's interdependent market systems, where isolating factors of risk within a country, and isolating a country from its surroundings, may yield doubtful risk analysis results. Due to the integrated relationship of sovereign states in ASEAN, any general environmental changes within its members, or rather within the region, would have the potential to affect all parts of the institution. Hence, in order to fully understand the effects of regionalism on risk, we must have a strong

foundation for understanding what ASEAN represents and the underlying purpose of its many initiatives. To achieve this, we shall continue the next chapter with the review of literature on regionalism studies, particularly ASEAN studies. We will also review literature on the study of political risks to build a foundation to understanding the factors of political risks that will be studied.

CHAPTER 2 – LITERATURE REVIEW

2.1 Introduction

This research attempts to assess the political risk of regionalism in Southeast Asia. The researcher argues that political risks exist within ASEAN and that it will increase as activities towards regional integration are increased. The assumption is that increased interdependence increases the likelihood of spillover effects of national problems and the likelihood of greater conflict of interest among nations. Should it be demonstrated that there is a volatile and withering political relationship among the members of ASEAN, the researcher further asserts that it would result in a ‘high-political-risk’ environment for businesses in the region. Therefore, in the course of trying to find the answers to the research question, the following chapter shall review the theories that explain political risk, regional integration and ASEAN regionalism.

This review of literature will begin with a discussion of the different meanings, functions, and motivations of regionalism. By understanding the context in which ASEAN was conceived and its intended role in the region, we shall be able to assess the socio-political condition of its members and the state of their bilateral relationship and the extent of the problems that precludes the association’s existence. Forming this basic understanding of what characterizes regional integration will assist our understanding of cooperation within ASEAN. This chapter shall highlight past researches related to the effects of regional integration, the different perspectives of how political risk has been studied, and how the state of international relations can affect political risk.

2.2 The Landscape of Regionalism of the New Millennia

The environment of the world economy in the 21st century is characterized by increased interdependence among national and regional markets. Increased integration of markets can be the result of increased cooperation among nations in a region. Solidum (2003) states that “*regionalism* is the thought that underlies the behavior of states to group themselves together... for some common good” (p.11). Basically, *regionalism* is the attempt to deliberately steer the process of *regionalization* politically.

Regionalism occur when governments make multilateral arrangements and establish multilateral mechanisms of economic and security cooperation to push for regional economic, social, and security cooperation. The concept of regionalism therefore can be viewed from many different perspectives and can cover a wide area of regional integration activities of both an economic and political nature. For most states, the commitment to these integration activities stems from some form of commonality. As such, most scholars of regionalism agree that common interest usually acts as a platform for regional integration.

These common interests may range from purely an economic factor or a security factor, to a combination of factors. When the members of the region develop a form of organizational bond (such as a free trade area) that involves multilateral cooperation, it may be due to a shared heritage or shared concerns of historical influences (e.g. Indorf, 1984; Antolik, 1990; Alagappa, 1993; Ganesan, 1999; Acharya, 2001; Solidum, 2003).

For some regional groupings, this may be a common culture, religion, and/or language (e.g. Stevens, 1997; Simone, 2001; Funston, 2004). Reasons for cooperation could also stem from purely geographical factors and the need to capitalize on shared natural resources in the region (e.g. Ohmae, 1993; Drysdale & Elek, 1996; Jayasuria, 2003; Suh & Khan, 2003).

Moreover, with increased interdependence, countries quickly realized that their neighbors have also faced similar economic and/or socio-political development problems, since many have had a similar geopolitical history and economies to their own. Therefore, regional cooperation on various levels became one way of attempting to understand and work together to find plausible answers to their common problems (Dent, 1998; Yeung, Perdikis, Kerr, & Elgar, 1999; Stubbs & Reed, 2006). All in all, it can be said that states opt to join and work together in order to achieve a common goal, be it economical (such as to maximize trade) or political (such as ensuring regional peace and security).

Regional integration initiatives also constitute actions by both government and non-government actors in establishing some form of economic, social, and/or political multilateral relationship. For example, states may begin cooperation with just bilateral or multilateral trade, but later enhance their relationship to include other sectors of development, such as infrastructure or even societal programs (D'Anieri, 2012; Goldstein & Pevehouse, 2012).

Although cooperation among states can also occur at different levels, the majority of literature usually refers to the economic and trade aspects of regional integration. Economic regionalism, in general, involves integration of market-driven and policy-driven initiatives that leads to deeper trade and financial interdependence and harmonization of policies among the region's economies (Hettne, 1996; Dent, 2005). Regional integration that focused more on economic cooperation among nations can range from 'trade areas' to an 'economic union'. Whereas for political regionalism, it generally involves initiatives towards harmonizing policy networks and coordination efforts that can help manage shared political and security interest amongst governments in the region (Dent & Huang, 2002). But as the political affairs of the state can never be fully separated from economic affairs, there is an overlap between these forms of regionalism.

In the study of political economy, it is understood that mutual relations exist between international politics and international economics. This would mean that international economic events, such as economic trade policies between integrated markets, would often affect a state's socio-political environment and international political systems. Therefore, this would also mean that a significant part of a state's social well-being and political stability also depend on the domestic environment conditions of its fellow integrated states, as well as with other non-state actors (Milner, 1999; D'Anieri, 2012).

Cooperation between state and non-state actors usually involves transnational actors that create avenues for integration by bridging national borders. According to liberal

theories, particularly liberal institutionalism, states have the ability to forgo short-term interests and follow mutually advantageous rules developed and monitored by international institutions in order to pursue common (group) long-term interests (Goldstein & Pavese, 2012). Poon (2001), in reviewing the effects of regionalism, also states that supporters of institutionalism “see the establishment of regional institutions as a positive force for greater international stability through increased economic interdependencies and coordination of area policies” (p. 252).

This trend of increased cooperation among states involves joint-policy measures for regional development, often institutionalized in some form, and has fueled the growth of regionalism worldwide (Antolik 1990; Hettne, 1996; Fernandez & Portes, 1998; Cohn, 2005). Currently, the European Union is the only form of regionalism that fully integrates its market and where all its members’ activities are managed by a supranational entity.

What is apparent in the literature concerning regionalism studies is the dichotomy of regionalism of the 1950s and 60s, to that of the 1990s onwards; the latter aptly termed ‘new regionalism’. Some literature also labels this divide as ‘closed regionalism’ versus ‘open regionalism’.

After the Second World War, sentiments were high among the newly independent states to break free from any form of colonialism. During the Cold War period, when the world was divided by ideology, many regional groupings or institutions were practicing

a 'closed' concept of regionalism which was mostly inward-looking that seeks to protect their development interests and strategic military aims (Hettne, 1996; Ethier, 1998; Yamamoto, 1999; Cohn, 2005). One of the measures these states undertook in order to lessen their dependence on foreign powers in the post-Cold War era was to work together through the creation of some form of regional groupings.

It was during these times, the 1950s and 1960s, that theories and models were vigorously developed to analyze and explain regionalism. Each school of thought had their own explanation of what motivated countries to cooperate, as well as what was to be expected from these efforts. Among the pioneering scholars that shaped the study of regionalism at the time, for example were Karl Deutsch, who introduced the idea of security communities through regional integration, and Ernst Haas', who explained integration through the concept of neo-functionalism. The early development of regionalism study was fueled further by actual political changes in the Western world, marked with the European countries' efforts towards integration of a common market, as a means to rebuild itself after the war (e.g. Palmer, 1991; Ethier, 1998; Mahncke, Kesboonchoo-Mead, Vajrasthira, & Hubek, 1999; Cohn, 2005).

As the various integration efforts developed around the globe, many scholars had predicted that regionalism would even supersede nation-states. But as time passed, neither did nationalism die nor greater political cohesion occurred among the existing regional groupings; and the study of regionalism waned. It was only later in the late

1980s that the study of regionalism gained new momentum, responding to changes in the world's economic and political climate.

The late 1980s and early 1990s saw the countries of the Asia-Pacific rise in economic importance, marked by their sustained economic growth through foreign investments and regional political stability. Their rise was of particular importance to scholars of regionalism because most of these states had achieved their tremendous development by being a part of a larger (multilateral) institution or regional order. It was also a time when the concept of "openness" was introduced in the Union of Soviet Socialist Republics (USSR) which later led to the fall of the Soviet-communist bloc. The end of the Cold War spurred 'former' communist states to seek refuge in numbers, by being a part of some form of regional organization that would shape its role in the new world order.

What is evident from history is that the diversity, intensity, and number of regionally integrated groups, increased in the 1990s with the fall of the USSR and a weakened communism ideology, which also saw the dissolution of the bipolarity of world politics. The fear of developing countries was no longer one of dependence on the global economy but one of being excluded from it (Lairson & Skidmore, 2003; Urata, 2002; Ethier, 1998; Bowles, 1997). Therefore, one of the purposes behind regional integration of the 1990s was seen as a measure to ensure continued participation in the global economy as a way of overcoming marginalization, especially for smaller countries,

because a country practicing a policy of economic isolationism was becoming evidently difficult to sustain (Chu, 2002).

Most scholars agree that one of the main characteristics that differentiate the ‘old’ and ‘new regionalism’ is in its degree of openness and interdependence. For the most part, the concept of regionalism in the 1960s leaned towards protectionism, where countries would band together to set up barriers (trade or military) in efforts to protect their sovereignty. In contrast, for most countries of the post-Cold War era, regional integration was no longer focused on protectionism but rather members of the ‘new regionalism’ wanted to increase and strengthen their involvement in the global economy (Bowles, 2000; Stubbs & Reed, 2006; Wunderlich, 2007).

Another characteristic of the ‘new regionalism’, according to past literature, was the ability of sovereign countries to attach themselves to one or several forms of regional institutions or trade groups in their efforts to participate, as well as benefit from, the globalization of markets (Bowles, 1997 & 2000; Ethier, 1998; Urata, 2002; Liu, 2003; Stubbs & Reed, 2006; Frost, 2008). This made overlapping membership a common feature of any one country’s regional integration activities. For example, sovereign nations may begin with just bilateral or multilateral trade, but later enhance their relationship to include other areas of a more political nature. This resulted in the emergence of many forms of regional integration initiatives especially after the end of the Cold War, as seen by the creation of various multilateral agreements such as trade blocs, security pacts, and even ‘growth triangles’.