

Chapter 3

Regional Integration and
Sustainable Development:
Experiences from Asia and
Beyond

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Key Messages

- Future development within Asia is threatened by degraded environments and rising inequity, so new developmental paths are necessary.
- Increasing globalisation and intensified economic competition are making it more difficult for economies to break free from conventional inequitable, resource-intensive systems. There is a persistent though not well-founded fear that more sustainable development paths might reduce economic competitiveness.
- Regionally-coordinated policy reforms such as Green Integration can provide the boost needed to break free from conventional business-as-usual modes and formulate alternatives, but such reforms are not being used to their full potential.
- Numerous regional cooperation and integration initiatives exist in this region but the great majority aim mainly at market integration, trade liberalisation and economic growth—a misguided approach since higher trade volumes and economic activity carry significant environmental and social risks.
- A greener approach to regional integration should be centered on promoting sustainable development, which includes two parallel tracks: (i) stronger social and environmental safeguards should be incorporated in all regional agreements, including efforts to further liberalise trade and investment, and (ii) better resourced and coordinated non-binding collaborative efforts are needed to build capacity and facilitate learning on environmental protection and social betterment.

1. The role of regional integration in addressing Asia's challenges

Chapters 1 and 2 highlight how Asia's impressive economic growth has realised material improvements for hundreds of millions of people but also caused severe environmental damage and pressing social challenges. With a dwindling per-capita resource base, rising pollution and growing rich-poor gap, solutions are urgently needed for a more equitable development model that considers both people and the environment. The central focus of this book is both to assert that Asia could better deal with the above problems if its countries worked in unison, and to offer some recommendations as to how to bring this about.

Environmental and social challenges in Asia are profound and complex; Howes and Wyrwoll (2012) characterise the environmental ones as “wicked”—i.e., as dynamic in nature, involving multiple causes and effects, disparate stakeholders and issues—thus they “evade straightforward, lasting solutions”. The same holds for many of the social issues. Such ‘wicked’ problems call for concerted and well-tailored policy responses at multiple levels, and innovative policy and experimentation. Local and national initiatives are in many cases key to managing the challenges of unsustainability, but the scope for action at such levels is conditioned by global and regional factors. This is where initiatives at the regional level can play a significant role—by creating the enabling conditions for action at lower levels.

The first three chapters set the scene for the rest of the book. In this chapter, regional integration is defined in order to analyse Asia at present, via an overview of key integration mechanisms. Integration initiatives currently in the limelight are also explored—the forthcoming ASEAN Community at the end of 2015, ongoing TPP negotiations, RCEP discussions, and the more recently launched China-led free trade initiative announced at the APEC summit in 2014—which mainly focus on economic integration, i.e., facilitation of international trade and foreign private investment. Staying with the theme of regional economic integration, how trade liberalisation and sustainability, especially environmental protection, are linked is then discussed, after which parallels in Europe (EU) and North America (NAFTA) are also explored. Green Integration is then introduced at the end of the chapter and a two-pronged approach for its promotion is suggested for uptake by governments.

‘Regional integration’ is a term commonly used in academic literature, policy circles and increasingly also by mass media. A search on Google generates over 3 million hits, and Google Scholar (for academic publications) reveals around 120,000 individual documents with the term (as of April 2015). Despite its widespread use there is no fixed definition, but it can be broadly understood as “the process by which states within a particular region increase their level of interaction with regard to economic, security, political, and also social and cultural issues” (Van Ginkel and Van Langenhove 2003). This is the definition adopted in this book because its scope encompasses many of the regional initiatives in Asia, it treats integration as a dynamic process that increases interaction between states regardless of current level, and underscores its multi-dimensional, multi-objective nature.

When discussing regional integration it is important to understand the differences between (i) regional *economic* integration (the facilitation of intraregional trade and investments) and other forms of regional integration with different or broader primary objectives, and between (ii) *market-led* integration (spontaneous actions that take place unrelated to governmental action) and *government-led* integration.

As indicated above, this book takes a broad view of regional integration. The studies presented in the following chapters, whilst not limited to regional economic integration per se, together paint a picture revealing that the more high-profile, government-led regional integration initiatives in Asia tend to focus primarily on the economic dimension. This observation leads to the natural conclusion that growing trade and investment in the region need to go hand in hand with increased collaboration and strengthened coordination in other policy domains—the environment, health, labour, and social welfare.

How regional integration has affected sustainability is also discussed, such as how the increased trade in forest products and e-waste negatively effects sustainability (so-called

spontaneous integration), as well as how government-led integration efforts can help realise sustainability objectives at the national level, such as with low-carbon technology transfer and the role of ASEAN in facilitating national implementation of the Sustainable Development Goals. In short, the book aims to show, through examples, how regional integration and sustainability are playing out within the international arena, and how sustainable development can be promoted.

2. Ongoing regional integration processes

This section overviews the Asia Pacific in terms of present efforts in regional integration, and describes how they promote sustainable development and safeguard the environment.

2.1 Regional integration processes in Asia-Pacific – an overview

The first regional integration process launched was the Association of Southeast Asian Nations (ASEAN). Established in 1967 it initially consisted of five countries—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—but now counts 10 in its membership, which is open to any country within SE Asia.¹ In 2007, the ASEAN Charter entered into force, assigning it legal status and an institutional framework. It is generally regarded as one of the most successful regional cooperations in the developing world (Jetly 2003) and has been key to creating an East Asian ‘community’. Further details are provided in section 4.2, which also covers the ASEAN Plus Three (APT) and East Asia Summit (EAS), both designed with the East Asian community in mind.

The counterpart to ASEAN in the Pacific region is the Pacific Islands Forum (PIF). PIF, originally the South Pacific Forum in 1971 upon establishment, was attended by representatives of the Cook Islands, Fiji, Nauru, Tonga, and Western Samoa, as well as Australia and New Zealand as observers, but now comprises 17 members. The change in appellation to ‘PIF’ took place in 1999 to better reflect its geographical reach (Shibuya 2004). It received a secretariat, the South Pacific Bureau for Economic Cooperation, in 1975, which was formally renamed the Forum Secretariat in 1988. PIF has played important roles in regional economic integration, such as in establishing the Forum Fisheries Agency in 1979, signing the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) between Australia, New Zealand and PIF countries in 1981, and establishing the Air Pacific and the Pacific Forum Line (Shibuya 2004). As regards the environment, PIF has rung warning bells over climate change issues since the early 1990s (Shibuya 2004). All PIF member countries have participated in the Secretariat of the Pacific Regional Environment Programme (SPREP), which has promoted regional environmental cooperation within the region. SPREP, based in Samoa, covers four strategic areas of cooperation—climate change, biodiversity and ecosystem management, waste management and pollution control, and environmental monitoring and governance—and also serves as the secretariat for the Waigani convention, which bans the transboundary movement of hazardous and radioactive waste into and between PIF member states.

Regional cooperation processes in other regions of Asia-Pacific started in the 1980s. In 1985, the South Asian Association for Regional Cooperation (SAARC) was formed by seven countries based on a charter. Despite its firm legal status and institutional structure with a permanent secretariat SAARC has often been criticised for its poor progress in implementing cooperation activities (Jetly 2003; Rahman 2004)—with mutual suspicion between India and Pakistan, and India and the smaller member countries cited as the

main cause (Rahman 2004; Yadav 2013). Despite this it has led to the signing of the SAARC Social Charter and the South Asia Free Trade Area (SAFTA) agreement, both in 2004 (Yadav 2013).

The establishment of the Asia Pacific Economic Cooperation (APEC) in 1989 marked the start of a multi-layered regional integration process in the region. APEC was formed by 12 member countries (including some of ASEAN and PIF) as well as major economic players such as USA, Japan and the Republic of Korea, as a political forum to promote economic growth through trade and investment liberalisation (Hu 2013). APEC's membership now consists of 21 countries, including China and the Russian Federation, and decisions made by it are based on the consensus approach, which can hold back progress in trade liberalisation and regional community-building projects (Hu 2013). For example, the Bogor Declaration in 1994 set APEC's goals of free and open trade, and investment and implementation to no later than 2010 for industrialised members and no later than 2020 for all members, but these deadlines have passed (Hu 2013). Similarly, APEC's region-wide FTA, the Free Trade Area of the Asia-Pacific (FTAAP), has also stalled, and has been replaced with the USA's Trans-Pacific Partnership (TPP) (Capling and Ravenhill 2011). Most recently, APEC leaders have approved the Beijing Roadmap for APEC's Contribution to the Realisation of the FTAAP, which took place at the 22nd APEC Economic Leaders' Meeting in Beijing, November 2014.

From the 1990s several regional cooperation initiatives were established with support from international organisations, particularly from the Asian Development Bank (ADB): the Central Asia Regional Economic Cooperation (CAREC) Programme (10 Central Asian countries; established in 1997); the Greater Mekong Subregion (GMS; established in 1992); the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC; established in 1997); and the South Asia Subregional Economic Cooperation Programme (SASEC; established in 2000). ADB provides secretariat functions for all four initiatives. Allied with these are the following mechanisms: SASEC, consisting of four SAARC members (Bangladesh, Bhutan, India, and Nepal), which is a project-based programme focused on transport, trade facilitation, energy, and ICT (ADB 2013); and BIMSTEC, consisting of two ASEAN member countries (Myanmar and Thailand) and five SAARC member countries (Bangladesh, Bhutan, India, Nepal, and Sri Lanka), which aims to provide trade and technological cooperation between its members in tourism, transport and communication, technology, energy and fisheries and other areas (Saxena and Bhadauriya 2013)—all of which are at various stages of implementation.

The major regional integration processes in Asia-Pacific are listed in Table 3.1.

Table 3.1 Major regional integration processes in Asia-Pacific

Name	Founded	Members (year of participation)	Description
ASEAN	1967	Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam (1984), Viet Nam (1995) Lao PDR (1997), Myanmar (1997), Cambodia (1999)	Legal entity with the ASEAN Charter (2007) AFTA (ASEAN Free Trade Area) was agreed on in 1992.
PIF	1971	Australia (1972), Cook Islands, Federated States of Micronesia (1987), Fiji, Kiribati (1979), Nauru, New Zealand (1972), Niue (1976), Palau (1995), Papua New Guinea (1976), Republic of Marshall Islands (1987), Samoa, Solomon Islands (1976), Tonga, Tuvalu (1976), Vanuatu (1981)	The Pacific Plan (a regional strategy for strengthening cooperation and integration between Pacific countries) was prepared in 2005 and regularly updated.
GCC (Gulf Cooperation Council)	1981	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	Legal entity with the Charter (1981).
SAARC	1985	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka	Legal entity with the SAARC Charter (1985). SAFTA (South Asian Free Trade Agreement) was agreed on in 2004.
APEC	1989	Australia, Brunei Darussalam, Canada, Chile (1994), China (1991), Hong Kong, China (1991), Indonesia, Japan, Republic of Korea, Malaysia, Mexico (1993), New Zealand, Papua New Guinea (1993), Peru (1998), Philippines, Russian Federation (1998), Singapore, Taiwan (1991), Thailand, USA, Viet Nam (1998)	Bogor Declaration (1994) set APEC's goal of free and open trade and investment. APEC envisions an eventual single, region-wide FTA known as the Free Trade Area of the Asia-Pacific (FTAAP).
GMS	1992	Cambodia, China (Yunnan Province and Guangxi Zhuang Autonomous Region), Lao PDR, Myanmar, Thailand, Viet Nam	GMS economic cooperation has been supported by ADB, which serves as secretariat.
APT	1997	ASEAN members, China, Japan, Republic of Korea	East Asia Free Trade Area (EAFTA), proposed in 2002.
BIMSTEC	1997	Bangladesh, Bhutan (2003), India, Myanmar (1997), Nepal (2003), Sri Lanka, Thailand	14 priority areas, including environment and disaster management, poverty alleviation, and climate change.
CAREC	1997	Afghanistan, Azerbaijan, China, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, Uzbekistan	Project based programme focusing on transport, trade facilitation, energy, and trade policy. ADB serves as secretariat
SASEC	2000	Bangladesh, Bhutan, India, Nepal	Project based programme focusing on transport, trade facilitation, energy, and ICT. ADB serves as secretariat
EAS	2005	APT members, Australia, New Zealand, India, United States (2011), Russia (2011)	Economic Research Institute for ASEAN and East Asia (ERIA), established in 2007.
TPP	2010	Australia, Brunei Darussalam, Canada (2012), Chile, Japan (2013), Malaysia (2010), Mexico (2012), New Zealand, Peru, Singapore, United States, Viet Nam	United States has led the process as an attempt towards FTAAP.

The following section gives details on several of these integration initiatives, and in particular ASEAN, the oldest and most central to the region, and GMS, arguably the most successful of recent initiatives in terms of project implementation and changes on the ground.

2.2 East Asian regional integration and ASEAN

(1) ASEAN

ASEAN, established with five countries in 1967 and now numbering 10 in its membership, adopted mutual respect of sovereignty and non-intervention in internal affairs as its guiding principles—the so-called “ASEAN way”. Accordingly, dialogue and peaceful conflict resolution are prioritised over formal institutional solutions such as binding rules (Yamamoto 2013), principles that can both catalyse regional cooperation and integration in East Asia but also restrain it from taking more formal and stronger actions (such as establishment of regional institutions) to solve regional problems.

One such problem occurred in July 1997, during the Asian financial crisis, which highlighted the deficiency of regional integration to take action and prompted the members to acknowledge that more formal actions were needed to manage such risks (Matsuoka 2013). In December 1997, ASEAN Vision 2020 was adopted, which called for an ASEAN Community to be established by 2020, for which formalities started in 2003. The Community comprises three pillars: the ASEAN Political-Security Community (APSC), ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community (ASCC). In 2007 the timetabled start for the Community was brought forward to December 2015. In the same year a Charter was adopted to formally establish a legal and institutional framework, and respective ASEAN Community Councils for each of the three pillars were established to realise the objectives of the pillars. In 2009 the Roadmap for an ASEAN Community 2009–2015, consisting of the blueprints for each of the three pillars, was adopted.

The initial focus of ASEAN was political cooperation but in the 1970s shifted to economic cooperation and integration in order to establish industrial projects (Pomfret 2013). In the 1980s it bolstered intra-ASEAN trade through revisions to the Preferential Trading Arrangements, and in January 1992 the member countries formed the ASEAN Free Trade Area (AFTA) to promote regional economic integration and create a regional market by eliminating tariff barriers between the members by 2008. Transboundary infrastructure projects also help promote regional integration, by improving connectivity between the members. One of such is the ASEAN Cooperation Project on Interconnection, designed to link the power systems of the members, initiated in 1982. Since 1997 ASEAN has commenced two large-scale regional energy infrastructure projects: the ASEAN Power Grid System and the Trans-ASEAN Gas Pipeline (Bhattacharyay 2009). For transport infrastructure, the ASEAN Highway Network Project was started in 1999.

Chapter 4 of this book provides more details on ASEAN’s structure and analyses its potential as a regional catalyst for sustainable development.

(2) ASEAN Plus Three (APT)

The ‘97 Asian financial crisis prompted the formation of ASEAN Plus Three (APT), i.e., ASEAN, Japan, China and the Republic of Korea. APT’s roots can be traced back to a proposal by then Malaysian Prime Minister Mahathir in 1990 for an East Asian Economic Group, which was strongly opposed mainly by the U.S. at the time (Yamamoto 2013). It

was the failure of IMF-U.S. measures to counter the '97 crisis that led to actual realisation of APT, and it was Japan that took the initiative to restore stability to the region's currency system (the Miyazawa Initiative). Against this background the first meeting of the leaders of APT countries was held in Malaysia in December 1997 under an initiative of Prime Minister Mahathir, where it was agreed to hold the APT summit annually. In 2000 APT created the Chiang Mai Initiative, a network of bilateral currency swap arrangements for offering emergency liquidity to members in the event of financial crisis, which led to the Chiang Mai Initiative Multilateralisation (CMIM) in 1999, with its own foreign reserve pool (Grimes 2011). In 2011 the APT Macroeconomic Research Office (AMRO) was established to support CMIM.

APT also plays a vital role in forming the East Asian community. In response to a proposal from President Kim Dae-jung of the Republic of Korea, APT established the East Asia Vision Group of eminent intellectuals in 1998 and the East Asia Study Group of senior government officials of APT member countries in 2000. The final report of the latter submitted to the APT Summit in 2004 recommended 17 short-term measures and nine long-term measures, including the evolution of the APT summit to an East Asian summit and the formation of an East Asia Free Trade Area (EAFTA) among APT members, to achieve closer integration and overcome shared problems (East Asia Study Group 2002).

(3) East Asia Summit (EAS)

The first East Asia Summit (EAS) was held in Kuala Lumpur in 2005 and included the APT members as well as Australia, New Zealand and India (ASEAN Plus Six). Rivalry between Japan and China over leadership in the leadup to the East Asian community has meant that China relies on APT for increased hegemony, with Japan introducing a counterbalance by bringing in Australia and New Zealand. The final decision to include not only Australia and New Zealand but also India reflected the preference of ASEAN (Yamamoto 2013). One important contribution of EAS towards regional cooperation and integration was its creation of the Economic Research Institute of ASEAN and East Asia (ERIA) in 2007, which aims to provide policy analyses and recommendations to regional integration processes (mainly ASEAN and EAS) via research under the three pillars of deepening economic integration, narrowing development gaps and sustainable development.

(4) Subregional cooperation programmes

Several subregional cooperation programmes have played a complementary role to country-led regional integration processes (Pomfret and Das 2013), and are formed by multiple participating countries but do not cover entire national territories.

The Greater Mekong Subregion (GMS)

The Greater Mekong Subregion (GMS) involves Cambodia, Lao PDR, Myanmar, Thailand, Viet Nam, and the Yunnan and Guangxi Provinces of China, the geographical scope of which is defined by the Mekong River basin, a key natural resource for agriculture, fishing, power generation and transport. The countries in the region have strong historical, cultural, and economic linkages but the GMS is also very diverse, not least in terms of economic development. The subregion comprises all four ASEAN member states with the lowest development status but also the region's economic power-house, China, and one of the ASEAN frontrunners, Thailand. A number of initiatives aimed at promoting integration, cooperation and development exist in the GMS, two of the most comprehensive being the GMS Economic Cooperation Programme and the Mekong River Commission.

The GMS Economic Cooperation Programme, established in 1992 and supported by ADB, has been identified as one of the most successful examples of regional cooperation in Asia (Dosch 2011). As the programme was established right at the end of a highly turbulent period characterised by war and violence its key objective was stabilisation and to capitalise on the peace dividend. This comprehensive development programme covers nine priority sectors—agriculture, energy, environment, human resource development, investment, telecommunications, tourism, transport and trade facilitation, and transport infrastructure—the last of which receives the most emphasis. The main thrusts of the programme can be summarised as the 3Cs: increased connectivity, improved competitiveness and a greater sense of community.

Initially established as a more informal arrangement, the programme is now governed by a number of intergovernmental meetings, with heads of state summits held every four years as the highest decision-making body. Ministerial level meetings and senior officials meetings are held on a regular basis in the relevant areas. At the working level there are nine working groups, one for each priority sector. National committees assist with coordinating programme implementation in each country. The ADB serves as the secretariat for the programme but also plays a number of other key roles: financier, provider of technical support, and dialogue facilitator. The programme is funded by ADB and various other development partners.

Activities conducted by the programme are chiefly influenced by the ADB as primary financier, and mainly comprise large-scale infrastructure projects and allied activities. A challenge for the GMS Economic Cooperation Programme to forcefully promote sustainable development is the increasing availability of investment capital in the region and the presence of many financiers who attach lax environmental and social conditions to their lending. This is a dilemma for ADB, since prioritising safeguards in infrastructure lending may result in bids being lost to other finance providers with lower social or environmental stipulations, but watering-down its own safeguards to compensate will do little for sustainable development in the region. The way out of this dilemma is for the region as a whole to allot higher priority to environmental protection and social betterment, and recognise the need for strategic investment in these areas.

The Mekong River Commission (MRC) was established in 1995 to succeed the Mekong Interim Committee, formed in 1957. Four countries in the Lower Mekong river basin comprise its members: Cambodia, Lao PDR, Thailand and Viet Nam. China and Myanmar participate as observers. The MRC states its role as follows: "As a regional facilitating and advisory body governed by water and environment ministers of the four countries, the MRC aims to ensure that the Mekong water is developed in the most efficient manner that mutually benefits all Member Countries and minimises harmful effects on people and the environment in the Lower Mekong Basin." (MRC 2014).

The need for environmental protection is thus clearly stated, and the involvement of ministers in charge of the environment in the MRC Council is an indication of the significance placed on environmental concerns. However, the MRC has no authority to implement projects or enforce decisions. It can only act as a technical advisor and provide a platform for discussions and negotiation between member countries.

A notable feature of the MRC is that China, the source of the Mekong River, is only a dialogue partner, not a full member. This is an institutional weakness which hampers the MRC's efficacy; i.e., not having China as a full member of the Commission limits the possibilities for achieving well-coordinated and balanced water resource management across the whole river basin.

The goal of MRC is to achieve rational water use planning at the regional (river basin) level. However, the related countries still mainly undertake water development projects unilaterally, without mutual consultation. The idea that joint planning might have benefits for all might be agreed on in principle but not acted on in practice.

Construction of a number of large dams and irrigation systems on the main stream and tributaries of the Mekong will pose a serious threat to the region's environment (ICEM 2010), and in the next decade whether MRC has any power as a subregional coordination platform, as well as whether countries act in accordance with their political declarations will be seen. For the MRC to survive and continue to play a meaningful role in the Mekong's management it "must be recognised as a knowledgeable and impartial regional agency whose judgement countries of the region respect" (Verbiest 2013). Chapter 8 of this book provides more details on the Mekong River situation and discusses the role of the MRC further.

Other subregional initiatives

In 1990 the leaders of Singapore, Malaysia and Indonesia agreed to validate the Subregional Economic Zone (SREZ) arrangement for the Singapore-Johor-Riau (Sijori) region. This decision resulted from a rise in trade and investment flows in the 1980s in the Sijori region, which experienced inbound labour-intensive industry relocations from Singapore to Johor and Riau due to high land prices and labour wages in the former. The Sijori region is now a growth centre within ASEAN, but the proportion of economic growth in this region that can be attributed to SREZ is unclear due to the lack of official Sijori organisations, and the private sector appears to have a big role (Pomfret and Das 2013).

The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), formed in 1993 by the three countries of the name, now includes 14 provinces in southern Thailand, eight states of Peninsular Malaysia, and the 10 provinces of Sumatra in Indonesia (Pomfret and Das 2013). Institutionally, it comprises public and private sectors with the establishment of the IMT-GT Joint Business Council in 1995 as the official institute to mobilise the private sector. In 2005 the leaders of the three countries requested ADB to assist in revitalising IMT-GT. With the support of ADB, the IMT-GT Roadmap for 2007–2011 was developed in 2006 as a strategic framework, as well as a plan of action to guide subregional cooperation. In 2007, the Centre for IMT-GT Subregional Cooperation (CIMT) was established as IMT-GT's secretariat. IMT-GT has made efforts to improve connectivity in transportation and energy infrastructure mainly through national projects such as toll roads. Of the eight potential priority Projects identified by an IMT-GT Ministerial Meeting in 2009, Melaka-Pekanbaru Power Interconnection is the only one with a cross-border nature (Pomfret and Das 2013). However, although environmental protection is stated as an IMT-GT objective, there is little evidence of this in the work programme. Establishment of a centre for disseminating knowledge on environment-friendly agriculture is the most prominent environmental initiative in the implementation blueprint but it lacks sufficient funding at only 0.1% of the overall budget (IMT-GT nd.).

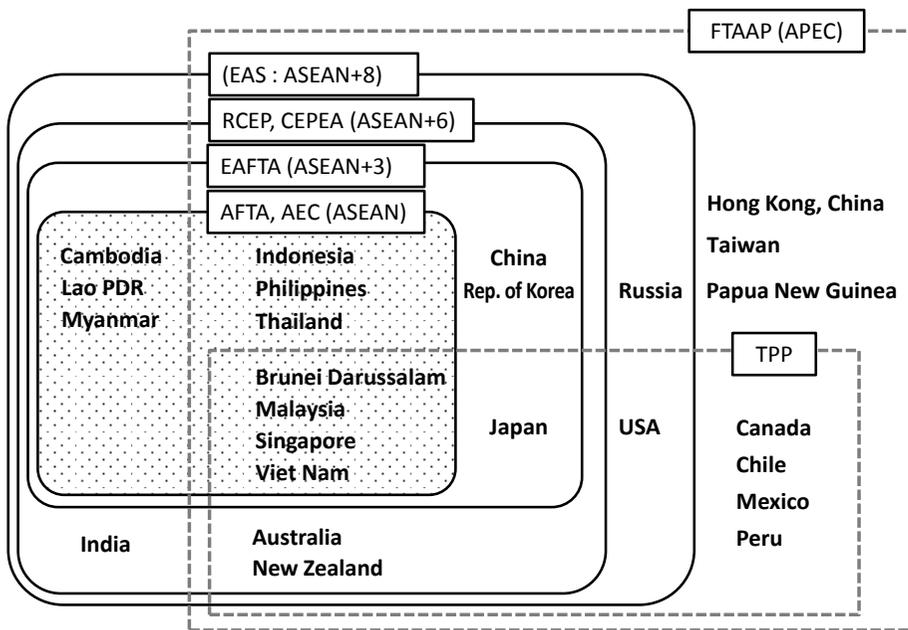
The Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) was established in 1994 as a subregional cooperation programme covering the less developed areas with relatively weak connectivity to the economic centres of these countries. For example, BIMP-EAGA covers the provinces of Kalimantan, Sulawesi, Maluku and West Papua of Indonesia separated from Java by water. The distances within BIMP-EAGA are often shorter than those between these areas and the economic centres of the corresponding countries, and cross-border cooperation through BIMP-EAGA is expected

to address development challenges arising from this weak connectivity (Pomfret and Das 2013). In 1994, the BIMP-EAGA Business Council (BEBC) was launched to involve the private sector, and a secretariat therefor was established in 1996. A number of infrastructure development projects, particularly in transport and energy, have been identified under BIMP-EAGA but the progress so far is disappointing, mainly due to poor institutional setting, according to the Midterm Review of BIMP-EAGA Roadmap 2006–2010 (Pomfret and Das 2013). Environment is one of the four Strategic Pillars of BIMP-EAGA, alongside connectivity, agricultural development and tourism. The current Implementation Blueprint (2012–2016) lists five components of the Environment Pillar, but details are only provided for the one on ecosystem management. Ecosystem management projects under the Coral Triangle Initiative (which involves six countries and a secretariat based in Manado, Indonesia) have been implemented, including alternative livelihoods for fishing communities. ADB is the chief project funder and partner, and has conducted 19 technical assistance projects worth over USD 20 million for BIMP-EAGA (Carpenter et al. 2013).

(5) Regional economic integration processes in East Asia

East Asia is one of the centres of global industry, and regional economic integration was originally market-driven, in which multinational corporations played key roles such as in building regional supply chains (Urata 2013). Since the 1990s government-driven regional economic integration through free trade agreements (FTAs) has deepened,² with the first major FTA in this region being the ASEAN Free Trade Area (AFTA), enacted in 1992. With the exception of AFTA, no other FTAs surfaced in the 1990s, but many (38 as of October 2010) were enacted in the following decade (Urata 2013). These are either bilateral (e.g., Japan-Singapore, Thailand-Australia) or between ASEAN and one of the Plus Six countries (Japan, China, Korea, India, Australia, New Zealand), with the latter kind of agreements labelled as “ASEAN+1” FTAs. This situation, with its many entangled bilateral FTAs and ASEAN+1 FTAs, is hence commonly referred to as the “Asian noodle bowl” (Kawai and Wignaraja 2009).

Each of ASEAN, APT and EAS is making efforts to untangle the ‘noodles’ and to deepen regional economic integration (see Figure 3.1). ASEAN is strengthening economic integration through creation (by 2015) of the Asian Economic Community (AEC), which can be seen as the most advanced achievement of AFTA. APT promoted the idea of EAFTA, the feasibility study for which was conducted by a group of experts chaired by a Chinese expert and the results of which were reported to the APT Economic Minister Meeting in 2006. Similarly, the Comprehensive Economic Partnership for East Asia (CEPEA) was proposed to EAS by Japan in 2006 and study group meetings on CEPEA have been held with Japan as chair (Hiratsuka et al. 2009). All the above processes have proceeded in parallel but have not yet reached the negotiation stage.



Source: Adapted from Umada (2013)

Figure 3.1 East Asian regional economic integration processes and TPP

To break this deadlock, in 2011 ASEAN proposed the Regional Comprehensive Economic Partnership (RCEP) as a compromise between EAFTA and CEPEA (Umada 2013). RCEP is based on open accession and any of the ASEAN Plus Six countries and “other external economic partners” can participate after RCEP negotiations end. RCEP fully considers the diverse developmental status of participating countries and is designed to be flexible, i.e., provide for special and different treatment for the least-developed ASEAN Member States. The first round of RCEP negotiations was held in May 2013 and attended by all ASEAN Plus Six countries, and negotiations are slated for conclusion by the end of 2015.

The rapid pace of RCEP development has been attributed to strategising, on the part of ASEAN, to counter the proposed Trans-Pacific Partnership (TPP), another major regional FTA in Asia-Pacific region and led by the United States (Umada 2013). TPP was originally established by four Asia Pacific countries, Brunei, Chile, New Zealand and Singapore, as a new type of “high quality and comprehensive” trade agreement accompanied by agreements on environmental and labour cooperation as separate documents, which came into force in 2006 (Elms and Lim 2012). TPP is based on open accession, and since the United States, Australia, Peru and Viet Nam joined in March 2010 the TPP negotiation process has been led by the United States. Currently 12 countries, including seven ASEAN Plus Three members (Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, Viet Nam) are in negotiations. TPP potentially divides ASEAN into two groups, namely members and non-members of TPP, and the weight of the United States in the TPP process may threaten ASEAN’s leading role in East Asian economic integration processes. From another perspective, TPP and RCEP could be seen as representing the real economic rivalry between US and China over Asia-Pacific hegemony. On the other hand, it is also possible for TPP and RCEP to work in a complementary way as one process, as both are based on open accession (Umada 2013).

2.3 Environmental cooperation in East Asia

(1) ASEAN environmental cooperation initiatives

ASEAN has played a leading role in promoting environmental cooperation in East Asia. As a decision making body of the ASEAN environmental cooperation, the ASEAN Experts Group on the Environment was established in 1978 and upgraded to the ASEAN Senior Officials on the Environment (ASOEN) in 1989 (Elder and Miyazawa 2015). In 1981, the ASEAN Ministerial Meeting on Environment (AMME) further enhanced ASEAN cooperation and has been held at least once every three years. Current activities to ensure environmental sustainability are specified in the Blueprint for the ASEAN Socio-Cultural Community (ASCC) together with those to ensure human development, social welfare, social rights and ASEAN identity (ASEAN Secretariat 2009). Chapter 4 provides more details on ASEAN and how it could more actively promote member country implementation of sustainable development.

Under these institutional arrangements ASEAN has carried out several environmental cooperation activities. From 1978 to 1992 a series of ASEAN Environmental Programmes (ASEPs) identified priority environmental cooperation activities and implemented demonstration projects, including the development of environmental impact assessment (EIA) guidelines and guidelines on transportation and the collection, treatment and disposal of hazardous substances (Koh 2009). Although ASEPs contributed to capacity development of environmental agencies in the member countries, the efficacy of the programmes was compromised due to insufficient funds, weak institutional capacity and lack of proper follow-up mechanisms (Takahashi 2001a).

In response to the recognition within ASEAN that environmental cooperation required a boost, the ASEAN Strategic Plan of Action on Environment (ASPEN) was launched in 1994, in which six working groups were created under ASOEN to implement ASPEN. To address funding, ASPEN suggested exploring both internal and external sources and some environmental activities and projects specified in ASPEN managed to obtain funds from international organisations such as UNEP, UNDP, ADB and the World Bank as well as from bilateral donors such as Australia, Canada, USA and New Zealand. However, the external funds were mainly provided on a project-by-project basis, which meant that activities or projects were implemented at the discretion of the donors (Takahashi 2001a), and that some projects with external funding assistance failed to achieve initial goals due to the low ratio of funding to the total contribution to the project. In general, insufficient financial resources is an endemic stumbling block for the environmental cooperation activities of ASEAN (Elder and Miyazawa 2015).

Another challenge is the reluctance of ASEAN member countries to enter into legally binding commitments, a problem exemplified by transboundary haze. Haze is mainly caused by peat and forest fires in Indonesia, and severely affects Southeast Asia, especially Malaysia and Singapore (Varkkey 2012). In response, ASEAN organised the first Workshop on Transboundary Pollution and Haze in 1992; in 1995 the ASEAN Cooperation Plan on Transboundary Pollution was adopted and a Haze Technical Taskforce was set up (Varkkey 2012). The year 1997 witnessed a particularly serious outbreak and severely affected many cities (Kuala Lumpur, Singapore, Bangkok, Brunei and Jakarta) for several weeks, and thus served as the tipping point for creation of the ASEAN Ministerial Meeting on Haze in the same year. The result was the Regional Haze Action Plan (RHAP)—in effect an obligation for member countries to develop plans, guidelines and other measures to address the issue on a country-by-country basis (Varkkey 2012, Forsyth 2014). In 2002, the ASEAN Agreement on Transboundary Haze Pollution, which provides legally

binding support for RHAP, was signed by all ASEAN member countries and is the second environmental treaty of ASEAN with legally binding nature, after the Agreement on the Conservation of Nature and Natural Resources in 1985 (Takahashi 2001a). However, neither of them has been fully implemented due to incomplete ratification (Takahashi 2001a; Forsyth 2014), and in the case of the haze agreement, Indonesia's eventual ratification, in 2014, came 12 years after its initial signing.

(2) GMS environmental cooperation initiatives

The 10-year strategic framework 2002–2012 of the GMS Economic Cooperation Programme was based on five 'strategic thrusts', one of which was aimed at 'protecting the environment and promoting the sustainable use of shared natural resources'. One of the 11 flagship programmes, the Core Environment Programme and Biodiversity Conservation Corridors Initiative (CEP-BCI), was tasked with directly addressing environmental issues in the context of poverty eradication and infrastructure development.

The current strategic framework, which covers the 2012–2022 decade, is mainly a continuation and expansion in scope of the earlier framework. It maintains the CEP-BCI and includes the objective of enhancing environmental performance in the subregion as one of its eight priorities. The need for environmental protection is etched into its framework; in addition to being a separate priority area it is also integrated in the objectives of other priority areas, including transport, energy and power, tourism and agriculture. However, it is worth noting that the investments in environmental protection amount to just a fraction of that spent on infrastructure projects: the regional investment framework for 2013–2022 contains projects with an estimated investment topping USD 50 billion (ADB 2014), while CEP-BCI's budget for 2012–2016 is only USD 26.5 million (GMS-EOC n.d.).

The CEP-BCI comprises the following four components in its current phase (2012–2016): (i) sustained development planning systems, methods, and safeguards; (ii) improved management of conservation landscapes for sustainable livelihoods; (iii) enhanced climate resilience and promotion of low-carbon development; and (iv) strengthened institutions and sustainable financing for environmental management. The activities of the initiative are expected to be closely coordinated with other working groups of the GMS programme. CEP-BCI is technically supported by the GMS Environmental Operations Centre (GMS-EOC), co-located with ADB's resident mission in Bangkok.

(3) Other environmental cooperation initiatives

The end of the Cold War and the global adoption of the concept of sustainable development at the Rio Earth Summit in 1992 contributed to the establishment of environmental cooperation mechanisms in NE Asia, such as the Northeast Asian Conference on Environmental Cooperation (NEAC), North-East Asian Sub-regional Programme on Environmental Cooperation (NEASPEC), Northwest Pacific Action Plan (NOWPAP), and Tripartite Environment Ministers Meeting (TEMM), as shown in Table 3.2 (Takahashi 2001b). These mechanisms have promoted environmental cooperation in the region but have been criticised for both lacking comprehensive, strategic environmental action plans for medium and long-term objectives and lacking satisfactory achievements in terms of concrete environmental improvements (Takahashi 2001b).

Table 3.2 Major environmental cooperation mechanisms in East Asia

Name	Founded	Members (year of participation)	Description
AMME	1981	ASEAN member countries	<ul style="list-style-type: none"> ● Official meetings held every three years
NEAC	1992	China, Japan, Republic of Korea, Mongolia, Russia	<ul style="list-style-type: none"> ● Annual meeting for frank dialogue on strategies between environmental ministries, local governments and specialists
NEASPEC	1992	China, DPR Korea, Japan, Mongolia, Republic of Korea, Russia	<ul style="list-style-type: none"> ● Environmental cooperation mechanism via foreign ministries
NOWPAP	1993	China, Japan, Republic of Korea, Russia	<ul style="list-style-type: none"> ● One of 13 Regional Sea Programmes of UNEP ● DPR Korea participates as an observer
TEMM	1999	China, Japan, Republic of Korea	<ul style="list-style-type: none"> ● Annual ministerial meetings to promote exchange of views and strengthened cooperation on environmental issues
Acid Deposition Monitoring Network in East Asia (EANET)	2001	Cambodia, China, Indonesia, Japan, Lao PDR, Malaysia, Mongolia, Myanmar, the Philippines, Russia, Republic of Korea, Thailand, Viet Nam	<ul style="list-style-type: none"> ● Activities including acid rain monitoring and data collection, technical support and training programmes to improve data accuracy
APT Environmental Ministerial Meeting	2002	APT member countries	<ul style="list-style-type: none"> ● Annual ministerial meetings ● Currently focused on biodiversity, climate change, environmental education, water resources management, cleaner production, and waste management
EAS Environmental Ministerial Meeting	2008	EAS member countries	<ul style="list-style-type: none"> ● Held every two years ● In 2012 Australia proposed cooperation activities related to outcomes of Rio +20, urban sustainability, and climate change adaptation

Sources: Takahashi 2001b, Horiuchi et al. 2013.

2.4 Discussion

What is the takaway from such experiences for regional integration?

First, environmental protection and trade are generally considered as separate fields. Many of the abovementioned cooperation and integration schemes contain elements of environmental protection, which are often prominently stated in the overall objectives; however, environmental activities are usually only tenuously linked with promotional efforts aimed at increased trade and investment, and such linkages are generally strengthened only as a result of donor initiatives. There is little interest from each country in linking trade and investment promotion with environmental protection and sustainable resource management. Naturally, such resistance is likely a protective measure stemming from the concern that environmental regulations could impede trade—something that might disadvantage developing countries which lack the capacity to meet strict environmental standards and assure compliance.

Second, initiatives are often poorly coordinated, which leads to reduced efficacy of the outcomes. This is due to the glut of mechanisms initiated by different organisations and development partners, which in turn is influenced by differing geopolitical agenda and even rivalry between donors. Improved coordination would enhance the effectiveness of activities and thus the benefits offered to the region, so must remain as a priority. This also holds for coordination within each country, especially for government institutions and other main actors. The main emphasis of integration initiatives in the region has been on trade liberalisation and infrastructure construction, complemented by for example streamlining of customs procedures and capacity building at national levels. These measures are fairly easy since they involve only a limited number of government agencies and require a minimum of inter-ministerial coordination. For regional integration to deepen there is a need to address more cross-cutting issues that involve a large number of government agencies in each country and also to harmonise legislations, regulations, and standards. This is likely to be more of a challenge than the initiatives implemented so far, which underscores the need for better coordination, both within and between countries.

Third, the integration schemes in the region illustrate the sustainability challenges associated with the development gaps between the countries in the region. In recent years Vietnam's strong economic growth is overtaking Cambodia and Lao PDR in terms of GDP per capita. This developmental divide is already influencing investments and trade patterns; for example, Viet Nam has successfully stopped deforestation and launched major reforestation projects. At the same time it imports large amounts of timber from Lao PDR to meet the increasing demand from its furniture industry. This trade, often involving illegal logging, is a factor contributing to the shrinking forest area in Lao PDR. As argued elsewhere in this book, reducing existing and emerging development gaps, between countries as well as within them, is likely to be a prerequisite for balanced regional integration processes that can contribute to more sustainable developmental outcomes.

3. Promotion of trade and investment: implications for environmental sustainability

3.1 Regional integration: the emphasis on economic integration

The nature of regional integration processes has differed over time and according to region. Its central thrust, however—promoting economic development by eroding barriers to trade—has not. From the 1990s onwards regional integration for much of the world meant a strong emphasis on trade promotion and market liberalisation in support of economic growth, as seen by a number of milestone events such as the birth of the European Union (EU) in 1993, the ASEAN Free Trade Agreement (AFTA) in 1993, the North American Free Trade Agreement (NAFTA) and adoption of the Bogor Goals by the Asia-Pacific Economic Cooperation (APEC) in 1994, and the establishment of the Southern Common Market Treaty (MERCOSUR) in South America in 1995. In the 2000s the slow progress in global trade negotiations under the World Trade Organisation (WTO) helped spur a renewed upsurge in trade liberalisation efforts at regional and bilateral levels—the 2005 Trans-Pacific Strategic Economic Partnership Agreement (TPSEP) (now the broader Trans-Pacific Partnership; TPP) for example, negotiations for which were ongoing at the time of writing (April 2015).

Regional economic integration typically aims to reduce or eliminate import and export barriers, streamline customs procedures, promote investments in trans-border transport

infrastructure and create favourable conditions for investors based in other countries in the region. In some cases it also involves broader market liberalisation measures such as strengthened protection of intellectual property rights, harmonisation of technical standards and government regulations on products and services. Such policy reforms, introduced in a coordinated fashion across a region, can reduce costs and business risks for private enterprises and are therefore believed to stimulate economic growth and create jobs. However, while doing so, economic integration also carries the risk of exacerbating environmental problems and worsened labour conditions and other social issues. This illustrates the complex relationship between trade liberalisation and sustainability.

Critical to trade liberalisation is increased mobility in investment capital, corporate research and development, and industrial production. Past decades show how easy it is to relocate businesses in other countries and establish complex value chains where materials, parts and components are outsourced to different countries, which increasingly compete against each other in offering favourable conditions to investors and corporations. However, offering such lures means governments are hesitant to strengthen environmental and social regulations, due to the perceived fear of reduced competitiveness. Another potential downside is the inability to secure tax revenue from global companies (with tax arrangements often outsourced to tax havens), which can weaken public services (e.g., Zoeteman et al. 2005).

This rest of this section covers how trade liberalisation can affect sustainability, particularly environmental sustainability, in the context of regional economic integration. This overview of the main linkages between trade and environment is intended to help the reader comprehend the scale and complexity of the challenges discussed in the forthcoming sectoral and issue-based chapters.

3.2 Liberalisation of trade and investments – good or bad for the environment?

Assessing the effects of trade and investment liberalisation, including regional economic integration, is difficult; even for purely trade-related issues such as how the introduction of preferential import tariffs has influenced trade patterns in a region, research often disagrees on the role played by formal integration efforts. Assessing the indirect effects of economic integration—how the promotion of foreign investment affects the environment—is even more challenging (e.g., Baumüller 2009). Extrapolations of effects of regional economic integration initiatives from the myriad other factors influencing how a country develops and economically evolves and how pressures on the environment change over time are imprecise even in retrospect and forecasts are plagued with added uncertainty.

The Trade Knowledge Network illustrates the problem. It was launched in 1998 by the International Institute for Sustainable Development (IISD) for this very reason and to inform the policy community. Their synthesis report, published after six years of studies in all major regions of the world, found that the relationship between trade and environment is too complex to allow for sweeping generalisations, and concluded that trade and trade liberalisation “can in some cases be good for the environment, and in other cases bad, or (frequently) both at once” (Cosbey 2004, p1).

It should also be kept in mind that each process of regional economic integration has its own characteristics, meaning that experiences from one region may have limited relevance in other regions where circumstances differ. The small number of world regions that can be researched also lowers the validity of any statistical insights obtained. So while studies of other regions can suggest what to look into—the major areas of concern

and the key causal linkages—the consequences of regional economic integration have to be analysed for individual regions based on specific contexts. The following section explains the main linkages starting with the positive side, how trade and investment liberalisation can benefit the environment, and proceeds to explain the environmental risks involved.

(1) How liberalisation of trade and investment can help protect the environment

Increased trade can assist in environmental protection (e.g., Frankel 2009), and involves three direct mechanisms: (i) easier and cheaper transfer of technologies with high environmental performance (green technologies), together with improved market access for products and services with high environmental performance (environmental goods and services); (ii) infusion of local businesses with know-how and management practices, via foreign investment, to help raise the bar for better environmental management; and (iii) stimulated growth for more sustainably produced goods, via improved access to foreign markets. The following paragraphs explain these linkages further.

(i) Liberalisation of trade and investment can facilitate the diffusion of green technologies, products and services; however, it may not happen spontaneously. For liberalisation to play such a role there needs to be specific mechanisms in place to preferentially promote the transfer of more sustainable products and technologies. While trade liberalisation efforts, such as regional economic integration, can be used to facilitate green technology transfer, they rarely are. Chapter 9 discusses green technology transfer in the context of regional integration in more detail, focusing on energy efficient and low-carbon technologies.

(ii) Enterprises based in technologically more advanced countries can bring environmental technologies, know-how and management practices with them when establishing production in less advanced countries. These companies usually comply with strict environmental and labour safety regulations in their home markets and therefore have the capacity to meet such high standards. The establishment of production facilities with high environmental and safety performance can be directly beneficial since they pollute less, expose the workforce to fewer risks and use resources more efficiently, as well as demonstrate to the domestic private sector, civil society and regulators that high environmental and social performance is technically possible as well as commercially viable—an added bonus. Local suppliers that join enterprise value chains would also benefit since they may be required to meet standards that exceed legal requirements and established domestic practices.

(iii) Trade liberalisation may increase export opportunities for sustainably produced goods, especially for producers in developing countries that target discerning niche markets in the developed world. For such products, trade liberalisation can improve market access and competitiveness of producers in developing countries. However, certification requirements, such as organic food labels, can be costly for small producers. Such schemes therefore tend to favour large players with greater economies of scale. Improved market access for products with high environmental credentials is thus a potential benefit of market integration, but the positive effect is not a given conclusion. Case-by-case analysis is needed to clarify how trade liberalisation might actually affect sustainability outcomes. Targeted support for small-scale producers may be needed in order to avoid negative social impacts.

Market integration could also benefit the environment more indirectly, especially in middle-income countries. If integration speeds up modernisation and creation of a

large well-educated urban middle class this could entail stronger demands for a clean environment, and such needs could influence government priorities and the allocation of resources to environmental protection. However, the significance of such indirect and longer-term effects is far from clear and is mainly determined by country-specific factors. The effects may also be stronger for local pollutants than for global environmental problems, such as greenhouse gas emissions.

(2) How trade and investment liberalisation can create environmental risk

Concerns abound over environmental risks associated with increased trade and international investments (e.g., Esty 2001; IISD and UNEP 2005), particularly in that: (i) increased overall production and consumption can increase stress on the environment; (ii) international competition to attract investment capital and job opportunities can lead to inadequate regulations and/or lax enforcement; (iii) foreign investors can be tempted to engage in illegal or unethical practices when operating in countries with weak governance; (iv) growing trade volumes and simplified customs procedures can increase the risks of illegal trade; and (v) increasing geographical and cultural distance between production and final consumption can weaken the drivers for more sustainable practices. There are also a number of issues associated with specific aspects of trade agreements. The rest of this section elaborates on the concerns over market liberalisation.

(i) One of the main aims of trade liberalisation is economic growth, but increased production and consumption puts higher pressures on the environment unless economic and technological advances can compensate for the increased output. In order to reduce or eliminate the negative consequences, growth in less resource-intensive and polluting sectors needs encouraging, as does deployment of improved technologies and practices.

(ii) Trade liberalisation tends to sharpen competition among countries, both to attract foreign investments and to grow exports, which could dampen governmental aspirations to strengthen regulations or introduce additional taxes and fees, but can also lead to a cleaner, better-protected environment, which can act as a competitive advantage to attract foreign investors. Further, strong environmental policies, as part of a predictable regulatory framework, can spur innovation and create competitive advantages, especially in environmental or green product segments. Such counter-balancing aspects interact in complex ways and usually depend on economic structure, stage of economic development and other factors. However, the fear that market liberalisation will ride roughshod over environmental regulations is ever prevalent.

(iii) Growing investments, especially in vulnerable sectors such as extraction, can increase environmental impacts, particularly in countries and regions with low public awareness, weak government regulations and implementation and enforcement, malfunctioning legal systems, and rife corruption. Poor governance tends to increase the risk of environmental harm but such risks can be multiplied upon increased inbound foreign capital due to governments at all levels turning a blind eye to transgressions by foreign investors—as witnessed by the issues of palm oil plantations and air pollution/haze (Chapter 1).

(iv) Rising overall trade volumes can increase the risk for illegal trade and smuggling (of drugs, weapons, humans, endangered species, etc.), and simplified customs procedures can compound such challenges. Similarly, construction of new transport infrastructure in previously remote areas to facilitate trade between countries can be especially damaging if pristine forests are opened up to loggers, poachers and hunters.

(v) Growing international trade increases the separation of production and consumption, which can leave consumers in the dark as to how goods are produced, as well as increased ambivalence to environmentally harmful and socially inequitable production if impacts take place far away. Consumers and private companies can also apply different ethical standards to production in other cultures.

In addition to these general concerns are other issues, mainly related to specific aspects of trade agreements, which may be relevant to regional integration, as follows.

Some trade agreements (TPP) include rules on public procurement, which can mute governmental environmental criteria in the procurement of goods and services undertaken. Trade agreements thus require careful crafting so that clauses on public procurement do not obstruct green procurement.

Strengthened protection of Intellectual Property Rights (IPR) (as in TPP) can negatively affect sustainability, as longer patents can bar access, for developing countries, to new technologies (green/resource efficient/low-carbon) and their deployment. Agreements must not hinder the uptake of technologies that assist society in sustainability objectives, and should instead speed up their deployment.

Some agreements, such as TPP, include mechanisms for Investor State Dispute Settlement (ISDS), designed to increase investor confidence and reduce the risks associated with making investments in foreign markets. ISDS actually enables private companies to sue governments, via a form of extrajudicial legal mechanism, for loss of expected profits. Such mechanisms can have a chilling effect on policymaking aimed at bolstered regulations. Governments that incorporate ISDS in agreements thus need to ensure their authority to regulate for the public good is not compromised.

(3) Complexity

It is clear that liberalised trade and investment creates both opportunities and challenges for environmental protection, but the significance of each of the mechanisms described cannot be simply judged on. Understanding how further market integration in East Asia could affect sustainable development in terms of the positive and negative effects, how initiatives or agreements would be designed and what complementary measures are needed are all determined by individual country contexts, and require more detailed analysis. What is clear, however, is that regional integration and sustainable development are multifaced and linked in complex ways. It is the intention of this book to elucidate some of these links, as well as emphasise the need for further study.

Currently, integration in Asia is being pursued with a very limited understanding of how it might affect sustainability; some countries and regions conduct Environmental Assessments or the broader-scoped Sustainability Impact Assessments (SIA), when negotiating new trade agreements. The EU is the most advanced in this regard since it conducts SIAs for all new agreements, assessing impacts in its own territory as well as in partner countries. SIAs are designed to anticipate likely impacts of trade liberalisation in areas such as income, employment, capital investment, equity and poverty, health and education, gender inequality, environmental quality of air, water and land, biological diversity and other natural resource stocks. The assessments involve quantitative analysis and comprehensive consultations with numerous stakeholders in order to reflect their knowledge and concerns in the process (EC 2014), and can help identify areas of caution for governments and other actors as regards implementation, monitoring and needs identification for capacity building.

4. Regional integration in North America and Europe – experiences and lessons for Asia

Experiences from other regions can help in discussing the potential implications for sustainable development in Asia. This section summarises regional integration in North America (NAFTA) and the EU, especially with regards to how sustainability can be promoted in the context of liberalisation of trade and investment. In brief, these experiences highlight the importance of capable regional institutions for safeguarding the environment. The formation of the EU shows how regional integration processes have been informed by historic circumstances and provides a reminder that even under favourable conditions deep regional integration requires much time and effort. The NAFTA case highlights some of the risks.

(1) The North American Free Trade Agreement – NAFTA

In 1994, the North American Free Trade Agreement (NAFTA) entered into force. Involving Canada, Mexico and the USA it aimed at facilitating trade and cross-border investment but included a number of measures aimed at protecting the interests of foreign investors, such as IPR protection and dispute resolution between foreign investors and governments. The agreement had broad, ambitious objectives; its preamble states that it is designed to promote sustainable development and boost the development and enforcement of environmental laws and regulations.

NAFTA is an important case to draw lessons from; it was the first major regional trade and investment agreement involving both developed and a developing country, and which included environmental protection and sustainable development in its objectives. NAFTA has served as a model for a number of US bilateral trade agreements and is a source of inspiration for the currently ongoing negotiations on TPP. It has also been in force for two decades, thus can be analysed in terms of effects and outcomes.

In parallel with NAFTA the three countries also negotiated a separate agreement on environmental cooperation—the North American Agreement on Environmental Cooperation (NAAEC)—which entered into force concurrently with the trade agreement. NAAEC established the Commission for Environmental Cooperation (CEC) as a regional facility to support monitoring and implementation. The NAFTA negotiations also led to the establishment of two other US-Mexico bilateral institutions associated with environmental issues: the North American Development Bank and the Border Environmental Cooperation Commission, which chiefly fund projects on water and sanitation in the region along the US-Mexico border.

NAFTA has been controversial since its very concept. Reviews of its overall consequences disagree on many fundamental points, even on how the agreement has influenced trade flows among the three countries. The general opinion, however, is that NAFTA has fallen short of its initial objectives, not only in terms of environmental protection and sustainable development but also employment and economic equality.

A 2008 report by the CEC concluded that NAFTA is neither very bad nor very good for the environment in general, but noted that the impacts “vary considerably from one sector to the next and from one region to another” (CEC 2008), and that the envisioned environmental effects of trade liberalisation, such as technology transfer and spread of good practices, generally did not materialise. The most notable positive effect was that demand in Canada and the US for goods with lower environmental impact in some cases had contributed to improved environmental performance in Mexico.

A task force convened by Boston University in 2009 found that Mexico's environment had generally worsened since NAFTA (Gallagher 2009) and attributed this to the low prioritisation of environmental protection by the Mexican government. Citing a UN study (Schatan and Carillo 2006) they noted that Mexico's spending on environmental protection and the level of inspections had declined in the post-NAFTA period, contrary to the mechanisms outlined in NAFTA.

The authors also concluded that "NAFTA's environmental side agreement and related institutions lack the authority to deal with these and other problems. In addition, they have been underfunded, relegating them to the role of interesting pilot projects rather than comprehensive tri-national mechanisms to address environmental issues." (Gallagher 2009, p.62). This assessment is in line with the findings of the CEC study mentioned above (CEC 2008), which concluded that this tri-lateral institution had been effective in providing information to a limited group of experts but had not managed to reach out more broadly and therefore had had little influence on each country's policymaking.

A recent study by the US environmental organisation Sierra Club and four other NGOs came to similar conclusions concerning the limited efficacy of the environmental safeguards established in conjunction with NAFTA (Karpilow et al. 2014). The Sierra Club study further found that environmental stressors have increased in a number of sectors, including agriculture, natural resource extraction (mining in Mexico and tar sands exploitation in Canada), and manufacturing, where regulations have fallen behind increases in production volumes. The report argues that these detrimental effects are to a significant extent due to NAFTA, which "has reduced the ability of governments to respond to environmental issues" (Karpilow et al. 2014, p.1).

(2) The European Union – EU

The European Union (EU) offers another case to study and draw lessons from. It is undisputedly the most advanced example of regional integration to date and environmental protection is one of the policy areas being harmonised across the Union.

The EU's roots go back to the European Coal and Steel Community (ECSC) in 1951, which comprised Belgium, France, West Germany, Italy, Luxembourg and the Netherlands. Its scope then increased to include more member countries and deepened integration, via delegation of national authority to the EU (Dinan 1999). Milestones include establishment of the European Economic Community (EEC) with the signing of the Treaty of Rome in 1957, establishment of the EU with the Maastricht Treaty in 1992, and launch of a common monetary policy and a single currency (Euro) in 1999 (Dinan 1999). Currently the EU consists of 28 member countries and operates through five main institutions: the European Commission, representing the interests of the EU as a whole; the European Parliament, representing the EU population; the EU Court of Justice; the Council of the European Union, representing the governments of the individual member countries; and the Court of Auditors (Wallace et al. 2010). The former three supranational institutions represent the executive, legislative and judicial powers of the EU, respectively (Tsebelis and Garrett 2001).

Supranationalism is a unique feature of the EU political system in terms of its treaties and the laws, which have primacy over their equivalents in the member countries (McCormick 2001) and come in three main forms: regulations, directives and decisions. The *regulations* are binding rules directly applicable to all member countries without needing to be turned into national law; the *directives* are binding on member countries regarding goals or objectives but not the means to achieving them, i.e., their implementation requires

changes in national law; and *decisions* are also binding but can target selective member countries, institutions or even individuals with usually very specific scope. The EU treaties, laws and obligations established are collectively known as the “*acquis communautaire*”, and acceptance thereof is a precondition for joining the EU for the country concerned (Jorgensen 1999).

The EU is relatively advanced in mainstreaming environmental protection and sustainable development. McCormick (2001) identified 14 principles related to environmental policies in the EU treaties (in particular the Single European Act in 1986, the Maastricht Treaty in 1992 and the Treaty of Amsterdam in 1997), which include the polluter pays principle, the principle of sustainable development, the precautionary principle, the principle of a high level of protection, the safeguard principle, the international principle and the integration principle. The principle of a high level of protection requires upward harmonisation of member country standards for protecting internal health, safety, and the environment. The safeguard principle allows member countries to maintain any standards that are stricter than those outlined in EU law. The international principle sets one of the objectives of the EU as the promotion of measures at the international level to address regional and global environmental issues, and stipulates that environmental protection requirements must be integrated into the definition and implementation of other EU policies (McCormick 2001).

In terms of policymaking, the Single European Act introduced qualified majority voting in the Council of Ministers for environmental proposals, which greatly improved environmental policymaking efficacy (McCormick 2001), as did the 1993 establishment of the European Environment Agency (EEA), which enabled collection of reliable, objective information via data collection and analysis via the European environment information and observation network (Eionet; established as a partnership network of EEA and its member countries). Further, the EU actively involves multi-stakeholders such as nongovernmental organisations (NGOs) in the environmental policymaking process, and in 1993 an informal General Consultative Forum on the Environment was set up by the European Commission in order to reflect opinions of various interest groups such as business sectors, consumer groups, local authorities and academic experts (McCormick 2001).

Equipped with these institutional mechanisms the EU introduced advanced regional environmental policies such as the EU directive on waste electrical and electronic equipment (WEEE directive), the EU directive on the restricted use of certain hazardous substances in electrical and electronic equipment (RoHS directive) in 2002, and the 2020 climate and energy package to achieve the 20-20-20 target (20% reduction in EU greenhouse gas emissions from 1990 levels, raised share of EU energy consumption produced from renewable resources to 20%, and 20% improvement in EU energy efficiency) by 2020. This posits the EU as having been the global leader in international environmental politics since the early 1990s (Kelemen 2010). Kelemen (2010) also points out that the EU principle of a high level of protection, as well as exposure of European firms to international competition, urges the EU to promote international agreements that pressure other countries to adopt similarly high standards. Another attribute of the EU is in its efforts to ‘green’ international trade institutions such as the WTO, designed to prevent EU environmental standards being dismissed as illegal non-tariff barriers to international trade (Kelemen 2010).

(3) Implications for regional integration in Asia

The cases of NAFTA and the EU illustrate how government priorities can influence sustainability outcomes in the context of trade liberalisation. For NAFTA, although sustainability was stated as an objective, the mandates of the institutions established therefor were too weak and capacity was lacking. Governmental follow-up actions have also been insufficient. Conversely, in the EU at least some of the economically stronger member countries display ambition with regards to environmental protection and sustainability and have raised the bar for the EU as a whole. For countries in Asia currently engaged in regional integration processes, one of the crucial questions is whether governments recognise the need for a shift to more sustainable development patterns or not.

Human resource capacity is one of the key factors influencing what regional institutions can actually do. The European Commission—the heart of the EU administration—employs over 23,000 people in total; the two Directorates for Environment and Climate have staffs of 454 and 137, respectively; the European Environment Agency, which deals mainly with monitoring and information brokerage, employs around 200, and a number of environmental research centres are part of the EU administration, adding further expertise and capacity. Whilst a comparison of EU and ASEAN secretariat capacity is perhaps unfair given that they have different mandates, it is notable in that ASEAN's secretariat employs just over 300 and the department dealing with environmental issues has less than 10. As a further comparison, the secretariat of the Council for Environmental Cooperation (the organisation set up as part of the NAFTA agreement to facilitate coordination of environmental protection in the three countries) employs less than 50.

The EU case is also a reminder that regional integration processes, especially towards deeper integration in which policy authority is partly relinquished by national governments to regional institutions, tend to proceed very slowly. The EU was also formed under different historical circumstances than those in Asia at the time the ASEAN was established in 1967—the origins of the EU date back to the late 1940s, a period of post-war rebuilding, reconciliation and peacebuilding. As the EU actually took over four decades to reach its current form, and given the differences between Europe and Asia, including history and diversity, regional integration in Asia could be forgiven for progressing more slowly. It is expected to gradually gain traction though, as countries gradually grow more economically dependent on each other.

The experiences of NAFTA are highly pertinent for the countries in Asia contemplating, or already in negotiations regarding TPP, particularly in light of the increasing environmental pressure in Mexico. Government representatives state that TPP will greatly differ from NAFTA and include better environmental and social safeguards (e.g., USDS 2015), but since TPP is an opaque, closed-door mechanism it is far from clear whether such proclamations can be substantiated. Further, even if safeguards are included, such as provisions for financial penalties on governments that fail to enforce their environmental policies, there are no guarantees they will actually be used. This is the reason why major environmental NGOs in the US oppose the TPP, i.e., because it would harm the environment.

5. Regional integration and sustainable development – lessons learnt and opportunities for synergies

5.1 Experiences of regional integration in Asia

As this chapter shows, countries in the Asia-Pacific are slowly but surely taking steps towards more coordinated regional cooperation, which is a looser form of regional integration. Many initiatives exist, often overlapping and sometimes competing, but the upcoming launch of the ASEAN Economic Community currently holds centre-stage on both political and media agenda. It is also mainly through economic agreements that countries have shown willingness to establish binding rules; non-economic initiatives, such as environmental protection, are mostly of a non-binding nature, focusing on dialogues, exchange of information on good practices, political declarations, studies, and limited implementation projects.

The review of existing integration efforts in Asia presented in this chapter shows that regional economic integration and sustainability are mostly dealt with as separate items—only limited efforts relate to substantial environmental protection programmes in regional economic integration initiatives. More effort is needed to tie-in environmental agendas with economic ones, as existing initiatives mainly stem from international organisations or trading partners outside of the region.

It is also evident that large differences in economic development in the region raise challenges for reconciling regional economic integration and sustainable development—low-income countries are typically weak in governance and preventing the negative effects of investments and trade, and middle-income countries may also face similar challenges. Further regional economic integration involving such countries should therefore tread lightly, to strengthen domestic governance capacity and monitoring mechanisms. In the long run, however, the aim should be to reduce the region's developmental gaps.

5.2 Prospects for Green Integration

Countries in the Asia Pacific are jeopardising their future development potential due to degraded environments and rising inequity, and would benefit from adopting new developmental paths that encourage healthy ecosystems, well-managed natural resources and a clean environment for human wellbeing and economic prosperity. While awareness of such is slowly growing, countries that merely compete against one another in an increasingly globalised economy will find it hard to break free from the conventional resource-intensive development model. Solutions to this dilemma need to be found on the international stage, but the process is too slow.

Against this background this book introduces the concept of Green Integration (Chapter 1), and proposes adopting such as a marriage between regional integration and sustainable development, to guide trade promotion and market liberalisation toward environmental and social objectives. It argues that joint actions at the regional level have the potential to empower countries to break away from the conventional business-as-usual pathway and formulate alternatives, and that uncoordinated unilateral action may not suffice in combatting unfavourable trends. A key obstacle to better policy is the fear over competition, and overcoming this can only be accomplished if policy reforms are effected via region-wide coordination.

The book identifies two parallel tracks for governments to promote Green Integration: (i) by establishing sustainability objectives, safeguards and promotion mechanisms in mainstream regional economic integration processes, such as trade agreements and economic partnerships; and (ii) by creating and strengthening cooperation initiatives on environment and sustainability, separate from regional economic integration. Separate cooperation initiatives can be advanced more easily in the short term, especially if they rely mainly on non-legally binding measures, but how much actual progress can be made with this approach is unknown. Mainstreaming sustainability into regional economic integration is presumably more politically challenging but offers potentially greater sustainability benefits. Experiences from outside of the region, for example NAFTA and the EU, need to be borne in mind and incorporated in the region's efforts to further liberalise trade and investment. The two tracks to Green Integration are complementary and would likely be most effective if pursued in parallel. Based on such a two-pronged strategy, the following seven chapters provide ideas on how Green Integration could be pursued in specific sectors and policy areas.

Notes

1. Timor Leste applied to join ASEAN in 2011 and is likely to become the 11th member.
2. In this chapter, FTAs include economic partnership agreements (EPAs) which are generally more advanced forms of FTAs that cover not only trade liberalisation but also rule-making, etc.

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