

## KEYNOTE ADDRESS

# **Confidence-Building and Multi-Layered Regional Cooperation in Southeast Asia after the Cold War**

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## **Introduction**

Post-Cold War Southeast Asia has seen the rapid formation of the framework of regional politics and security as well as economic cooperation. The formation has been promoted primarily by ASEAN. This framework, further, is spreading beyond Southeast Asia to encompass regional cooperation with East Asia and even the Asia-Pacific as a whole.

A look at the framework of regional cooperation being promoted by ASEAN shows the following two features (see Map 1., attached 'Tables and Charts of Basic Data'). First, the framework is a multi-layered one in the sense of being comprised of four layers of regional cooperation starting from the bottom, that is assumed here to be ASEAN, and expanding upward to include all of Southeast Asia, then East Asia, and eventually the entire Asia-Pacific. Second, the upper the layer of framework is, the less elements of decision making or binding force of decisions will be. The framework is envisioned as being based on open discussion and dialog in nature. In other words the intent is to secure initiative from the bottom.

The dialog in the realm of politics and security forms the basis for confidence-building and the resultant regional security concept. This regional security and the multi-layered regional cooperation are being formed by ASEAN to deal with the political and economic developments in Southeast Asia after the Cold War. Accordingly, in this keynote report, I would like to clarify the relationship between economic cooperation and regional security taking note of the economic interdependence in the region and, at the same time, raise some issues for the following two sessions of the symposium.

## 1. Subregional Cooperation—Building Relationship of Interdependence

The characterizing feature of the economic cooperation in ASEAN in recent years has been the rapid speed by which the member countries have shifted emphasis from independence to formation of interdependence with each other and to broader and deeper interdependence with countries outside the region.

The Singapore Declaration, adopted at the fourth ASEAN Summit of 1992, listed as specific measures for ASEAN economic cooperation (1) establishment of an ASEAN Free Trade Area (AFTA) mainly by the means of a Common Effective Preferential Tariff (CEPT) system for bringing down tariffs in the region to a final level of 0 to 5 percent within 15 years from January 1, 1993, (2) establishment of subregional agreements among member countries or between member countries and non-ASEAN countries, and (3) strengthening of cooperation with other countries and with regional or multilateral economic organizations other than the Asia Pacific Economic Cooperation Conference (APEC) and the East Asian Economic Caucus (EAEC).

The following five activities have been proposed for subregional cooperation and some of them are already underway:

- (1) The “Growth Triangle” comprised of Singapore, Johore of Malaysia, and Batam Island, Bintan Island and other parts of the Riau Province of Indonesia (SIJORI), implemented from 1990.
- (2) The “Indochina Economic Area” as espoused by Thailand with the call for transformation of “battle fields into market.”
- (3) The “Indonesia, Malaysia, and Thai Growth Triangle” (IMTGT) comprised of two states in the north of Sumatra of Indonesia, five states in southern Thailand, and four states in the northwest of the Malay peninsula, for which agreement was reached among the governments concerned in 1993.
- (4) The “East ASEAN Growth Area” (EAGA) proposed by the Philippines and one of the cooperative programs at the Meeting of ASEAN Economic Ministers in October 1993.
- (5) Further, the “Golden Quadrangle” (Northern Thailand, Yunnan province of China, West Laos, and East Burma) proposed by Thailand in 1993 in place of the Indochina Economic Area, which finally failed to materialize.

The basic structure of all of these calls for the governments of several neighboring countries to designate certain parts of their territories adjoining each other across borders for lifting or easing restrictions relating to movement of factors of production and for establishment of an industrial infrastructure. Further, it calls for leaving the combination of the factors of production and the selection of the industries to be promoted to the private sector in building a subregional growth center.

This structure can be seen clearly in the establishment of the Batam industrial estate. Based on a bilateral agreement, Singapore constructed an industrial estate on Batam Island, took charge of soliciting foreign companies, and extended its own superior telecommunications and transportation services to the island. On the other

hand, Indonesia provided the land and water, allowed mitigated taxes for the investing companies, greatly eased ownership regulations, and guaranteed a supply of inexpensive, good quality labor. From Singapore's point of view, this enabled highly labor intensive industries which could no longer be enticed into Singapore and could not longer even be sustained there due to high land and labor costs to be attracted to or moved to Batam. Further, Singapore was able to attract high added value industries commensurate with the relative prices of factors of production. In addition, the establishment of companies in Batam gave rise to business chances for the financial, telecommunications, and transportation sectors of Singapore. In the same way, Indonesia was able to acquire opportunities for increased employment and technical transfers along with the foreign direct investment. Further, opportunities were created for investment in the fields of real estate, tourism, and distribution for the local interests of the two countries.

By way of parenthesis that Batam Island began development as an oil export base in 1973. In 1978, the entire island was designated as a bonded processing zone, but almost none of the export-processing investment by foreign companies which had been expected materialized. As of the middle of 1993, however, 137 foreign companies had established operations there. The island's exports climbed from the US\$53 million of 1989 to US\$565 million in 1992.<sup>1</sup>

Underlying this process has been the striking increases in direct investment by Japan and the Asian NIEs, which spread over the entire East Asian region after the Plaza Accord of 1985. It is a reflection of the sustained change in the international division of labor created by direct investment. Accordingly, subregional economic cooperation means economic development through participation by several countries in an international division of labor and entry into a relation of interdependence.

## **2. AFTA and Interdependence**

Next, let us study the AFTA from the viewpoint of interdependence. The share of the intra-regional markets in the exports of the ASEAN countries since the 1970s has been a bit less than 20 percent when including Singapore, which has a particularly high ratio of re-exports. If excluding Singapore, the figure falls to the range from 7 percent to 4 percent. On the other hand, the share of the Northeast Asian markets has been growing. In particular, exports to China and Vietnam have been rapidly expanding, though still small in share. Also, while exports to North America and Europe have been falling as a general trend, they still account for a 10 to 20 percent share of the region's exports (Table 2-a, 2-b).

A look at the direct investment in ASEAN (approval basis) by country or region of origin shows that Japan and the Asian NIEs (including Singapore) held high shares of 32.6 percent in 1989 and 36.0 percent in 1990, respectively. In particular, the rise in the latter's share has been remarkable. On the other hand, there has been negligible direct investment in the region from ASEAN countries, leaving aside Singapore again. Direct investment from ASEAN to China and Vietnam, however, is known to be rapidly growing, though still small in scale. Further, direct investment

from the U.S. declined in 1992 but has since been recovering (Table 8.).

That is, looking at exports or looking at direct investments, there is a low degree of interdependence among the ASEAN countries, while interdependence between ASEAN and Japan and the Asian NIEs and further with China and Vietnam has been rising and the interdependence with the U.S. continues to be significant.

Let us look a bit more at the low level of interdependence in ASEAN. Research analyzing the exports of ASEAN by intensity of factors shows that the ratio of exports of manufactured goods has been rising in recent years, not only to the rest of the world, but to the region as well and that relatively speaking, Singapore and Malaysia are achieving comparative advantages in technology intensive goods and human resource intensive goods and the Philippines and Indonesia in unskilled labor intensive goods, while Thailand is positioned between the two. That is, it is suggested that there is a possibility of ASEAN constructing a more complementary relationship in the field of industrial products.<sup>2</sup> As a result of this, it can be said that the object of subregional economic cooperation is growth through the formation of a relationship of interdependence.

Considering the formation of the AFTA in the midst of all of this, it is assumed that the long term objective is the formation of interdependence within the region and the short term aim is the broadening and deepening of interdependence with economies outside the region.

Looking at the short term aim, in the early 1990s, when the AFTA was first conceived, there were rising fears that the flow of direct investment from the U.S., Japan, and the Asian NIEs would shift from ASEAN to China with its marketization policy on the one hand and to NAFTA which was in the final stages of formation on the other. In fact, direct investment in China rose 2.4-fold in 1992 compared with the previous year, with investment from the Asian NIEs swelling as much as 2.9-fold. Improvement of the investment climate became an urgent priority for ASEAN. The AFTA scheme was put together in the extremely short time frame of October 1991 to January 1992.<sup>3</sup>

### **3. EAEC and APEC**

The low degree of regional interdependence in ASEAN raises two questions. The first is the question of the organization principles of ASEAN. Are not the principles of maximum priority to the sovereignty of the member countries, decision-making based on consensus-building, and lack of sanctions in the event of violations of decisions closely related to the low degree of regional interdependence? I will not go further into this point, but will leave it to the discussions in the two following reports regarding ASEAN.

The second problem is what range of countries should be included in "outside the region" when broadening and deepening interdependence with economies outside the region. As already pointed out, ASEAN has been rapidly expanding and deepening its interdependence with Japan and the Asian NIEs and, in recent years, with China and Vietnam. Based on this, East Asia would seem the preferable range. However, Japan and the Asian NIEs are developing deeper interdependence not only

with Asia, but also with Europe and the United States, while China and Vietnam are aiming at the same. That is, it is necessary to take note of the fact that the international division of labor in East Asia is not a self-contained one and that the relations of interdependence are not growing deeper just inwardly.

Originally, the export industrialization followed successively in East Asia had been supported by the overwhelming economic and technical superiority and absorption capacity of the U.S. during the Cold War period. In the process, a multilateral economic interdependence was formed around Japan, which built itself up to an economic superpower as the first country to industrialize in the region. In this relationship, however, the United States and Europe even now occupy irreplaceable positions, though not overwhelming ones, as sources of technical innovation and markets for manufactured products. Further, this multilateral interdependence is even today supported by the bilateral relations which radiated out from the U.S. in the Cold War period on in the areas of politics and security.

Viewing this non-self-contained interdependence of East Asia, did the ASEAN countries envision a multi-layered regional cooperation structure in which the EAEC, encompassing the AFTA, would be set up within APEC? Further, did they perhaps hope to keep the EAEC and APEC as merely forums for discussion of common economic issues in the region? Of course, this viewpoint only makes sense if focusing on the single point of the strong desire for the formation of economic interdependence in the ASEAN region. As will be seen later, ASEAN is not that monolithic an entity.

Further, the multi-layered concept of regional economic cooperation of ASEAN is facing difficulties in two respects. First, the EAEC considers the participation of Japan to be an important condition for its success, while Japan is not willing to commit to participation in the EAEC due to its interdependence in both economics and security with the U.S., which is opposed to the EAEC. If Japan were not to participate in the EAEC, there would also be nothing to check China, which is expected to become an economic superpower in the 21st century. Thus the formation of the EAEC would have lost almost all meaning for Southeast Asia, which is strongly wary of China both historically speaking and at the present due in part to the territorial issue over the South China Sea.

The second difficulty is the growing possibility of the weakening of APEC's nature as a forum for consultation as aimed for by ASEAN. This is a result of the attempted incorporation by the U.S. of the economic cooperation at APEC into the process of economic reconstruction of the U.S., its biggest concern since the end of the Cold War. The Clinton administration aims at expanding the country's access to the sustained, high growth East Asian markets through formation of new forums for multilateral economic cooperation in addition to the bilateral relations with East Asian countries dating back to the Cold War days and thereby to restore and boost the competitiveness of the American economy. At the same time, however, in bilateral channels, it has been demanding that markets be opened and that unfair practices be rectified while threatening retaliatory measures or has been taking an ill-considered stance of superimposing demands as to human rights and democratization on trade matters. This has invited distrust from the countries of East Asia.<sup>4</sup>

On the other hand, at the multilateral forums, the Eminent Persons' Group (EPG) of the APEC had recommended formation of a long term plan for trade liberalization in the region at its 1993 meeting, but the recommendation of the EPG of 1994 escalated this to a more specific call for the industrialized countries in the region to remove tariff and nontariff barriers by the year 2010, the NIEs by the year 2015, and the developing countries by the year 2020. The recommendations of the EPG and the desires of the Clinton administration are not directly linked, but the November 1994 APEC Ministerial Conference and Summit Conference will not be able to sidestep discussion of these recommendations. As opposed to this, the AFTA Ministerial Council of October shortened the period of implementation of the AFTA scheme from 15 to 10 years and adopted other measures to ensure the superiority of AFTA as a site for investment. The stance of maintaining the initiative of ASEAN in broadening and deepening the interdependence in East Asia has never faltered.

The attempt by the U.S. to overlap multilateral economic cooperation forums on bilateral relations which have existed since the Cold War will be further examined in the report and discussions on American policy towards Southeast Asia.

#### **4. Problems in Interdependence**

The discussion up to here has been an attempt to explain the features of the stress on dialog and the multi-layered nature of the regional cooperation concept of the ASEAN countries from the weakness of the economic interdependence in the ASEAN region. The formation of such an interdependence, however, means the formation of a division of labor among industries in the region or, in the case of the manufacturing sector, among processes. Normally, such a division of labor, even if horizontal, means a division into asymmetrical processes of differing growth potential and technical sophistication, so there is the problem of differing benefits obtained depending on which portion of the division of labor one assumes.<sup>5</sup>

For example, regarding the growth triangle (SIJORI) among Singapore, Johore, and Riau, the Malaysian federal government has refrained from making any official declarations of support and has not yet recognized the transfer of the powers required for promotion of the SIJORI to the Johore state government. In this regard, Prime Minister Dr. Mahathir stated in May 1992 that under the SIJORI concept, Malaysia, Indonesia, and Singapore would compete in the same fields of tourism and manufacturing and that therefore Singapore, with its stronger competitiveness, would enjoy the greater benefits.<sup>6</sup>

Is this problem insurmountable? A solution was sought in the case of subregional economic cooperation in 1993 when Malaysia also launched its own "Northern Triangle" (IMTGT) scheme. Under the IMTGT, Malaysia is to make use of the advantages offered it by the concentrations of electronic and electrical machinery industries and transportation infrastructure of Penang Island. That is, it aims at finding a combination enabling each of the member countries to make use of its own comparative advantages when forming a subregional interdependence. This method of solution of the problem, however, has limits in that in the East ASEAN Growth Area concept of the Philippines and the Golden Quadrangle concept of Thailand,

there are no growth centers of manufacturing industry corresponding to Singapore or Penang, so the countries propounding them might have relatively smaller benefits to be gained from interdependence.

In the final analysis, there is the following option: The countries in the region can take note of the fact that the contemporary structure of the international division of labor has changed constantly and thereby work to create new comparative advantages so as to enable them to move to higher added value sectors and find high growth niches in the structure. At the same time, they can hope that the industrialized countries have to make continued adjustments and hand over industries in which they have lost competitiveness.

In this case, however, there would be differing costs of adjustment, both in magnitude and nature, among participants in the division of labor and, in the long term, there would be the problem of differing speeds of development in the countries involved. In this regard, the AFTA scheme allows individual member countries to exclude the sensitive products from the scheme, and the framework agreement of the ASEAN economic co-operation allows a few member countries to move to implement economic arrangements among just themselves. This flexible approach is worthy of note. The relationship between this flexibility and the organizational principles of the ASEAN will be discussed further in the later two sessions as well.

## **5. Economic Interdependence and Confidence-Building**

The broadening and deepening of economic interdependence means that the economic activities and very existence of one country become indispensable for the development of another country. Thus, the broadening and deepening of interdependence in a certain region can be considered to mean the ensurement of peace in the region. As already seen, however, the benefits given rise to by economic interdependence are asymmetrical and, in the long term, create unequal development among the countries concerned and therefore may well turn into confrontational relations and give rise to regional conflicts.

The dangers posed by interdependence in regional security have become greater and more realistic as a result of the end of the Cold War. Along with the breakup of the Warsaw Convention and the COMECON system, which had been supported by the Soviet Union, Southeast Asia saw the withdrawal of the Vietnamese army from Cambodia in 1989 and the signing of the Paris Peace Treaty in 1991 establishing a ceasefire in Cambodia. Along with this, the U.S. switched to a policy of reducing its armed forces in Southeast Asia in 1990 and in 1992 withdrew from both its Subic Bay Naval Base and Clark Air Force Base. In this so called 'vacuum of power' in Southeast Asia, the issue arose of rebuilding relations with Vietnam and China so as to restrain the outbreak of any regional conflicts. This became intertwined with the avoidance of possible regional conflicts caused by broadening and deepening interdependence of economies.

In the midst of all this, at its Singapore Summit of 1992, ASEAN made a clear statement for the first time of regional cooperation in matters of security being an ASEAN issue and decided to use the Post Ministerial Conference (PMC) to



strengthen the dialog on political and security matters with countries outside the region. Further, the 1993 PMC highly praised the role of the United Nations in security and “an Agenda for Peace” of Secretary-General Boutros Gali. In July 1994, the first ASEAN Regional Forum (ARF) was held with the participation of 17 countries and one region, i.e., the six ASEAN countries, the six countries and one region of the PMC (Australia, Canada, Japan, New Zealand, South Korea, the United States, and the EU), the consultative partners (China and Russia), and the three observer countries (Papua New Guinea, Laos, and Vietnam). In the conference, the ARF agreed to serve as a forum for dialog and deliberation each year with the aim of promoting confidence-building measures and preventive diplomacy in the Asia-Pacific. It announced its welcoming of negotiations between the U.S. and North Korea and continuing support for early resumption of the North-South dialog.

The chairman’s declaration after the first ARF Conference stressed the recognition that events in one part of the Asia-Pacific could affect the entire region. This can be said to show that the policy of confidence-building through dialog and preventive diplomacy is integral with the policy of economic cooperation aimed at building interdependence in the region and expanding and deepening interdependence with countries outside the region.

## **Conclusion**

The ensurement of regional security through confidence-building and preventive diplomacy is an idea derived from the “common security” concept of the Conference on Security and Cooperation in Europe (CSCE) established in 1975. This has in recent years been developed into a Conference on Security and Cooperation in Asia (CSCA) propounded by Australian Foreign Minister Gareth Evans in 1990, a Northeast Asian Security Dialog proposed by Canadian Foreign Minister Joe Clark in the same year, and to the collective security concept in the Agenda for Peace espoused by UN Secretary-General Boutros Gali in 1992.<sup>7</sup> The fact that the ASEAN Regional Forum is trying to make use of the technique of preventive diplomacy of Secretary-General Gali has already been pointed out.

The aim of such concepts is to construct a multilateral security system stressing prevention of conflicts by “achieving security with others, not against them.”<sup>8</sup> In these concepts, there is a common recognition that stronger confidence-building measures through regional organization lead to a suppression of regional conflicts. The problem with such concepts is that it is not possible to completely eliminate the possibility of one member country deciding to embark on an armed attack of another member despite the confidence-building measures. Alternatively, the presence of police and military forces for UN peacekeeping missions may not lead to an effective solution such as seen in Somalia and Bosnia-Herzegovina.

Probably it is the concern over this that is fueling the competition over military expansion recently talked much about in East Asia. The current meeting of the ARF, however, agreed to promote the participation of all ARF member countries in the UN system of registration of armaments and to study exchanges of nonconfidential military information. It is hoped that this will have the effect of restraining to a

certain degree the movement toward expansion and modernization of military forces in East Asia.

The fact that the regional security system of the ARF has as an unspoken assumption the presence of strong American forces in the Asian Pacific is extremely important. The United States maintains a powerful military presence even after the withdrawal from Subic Bay Naval Base and Clark Air Force Base in the Philippines, through security agreements with Thailand, an arrangement for access to facilities with Singapore, and an agreement for use of ship repair facilities (private) in Malaysia. What is called the competition for military expansion in the region also assumes the presence of forward deployable American forces and is strongly by nature a modernization of equipment accompanying the transition to an air and sea force based national defense systems. It is highly defensive in character. Further, another aim is to promote the transfer of advanced production and telecommunications technology through the military industries.

This being said, the ARF system also inherits all of the power politics of the Cold War period. The current meeting of the ARF saw China expressing a strong position regarding the territorial dispute of the South China Sea, so this failed to be taken up as an issue for discussion. Regarding this issue, on the one hand, there has been a display of power politics, with the seven related countries/regions of East Asia dispatching and stationing military forces to several points in the seas in question and proceeding with oil exploration and tourist development for the purpose of establishing a record of effective rule and with Vietnam making approaches to ASEAN. On the other hand, Malaysia, Thailand, and Vietnam have shelved the issues of sovereignty on a bilateral basis and established systems of joint development of oil resources. Indonesia has since 1991 been hosting international workshops for study of issues by experts on a nongovernmental basis. In this way, there are also efforts being made to solve problems through confidence-building or to take confidence-building measures themselves.

In this way, the regional cooperation of ASEAN after the end of the Cold War has, with respect to issues caused by deepening interdependence, been founded on the inheritance from the days of the Cold War on the one hand and has begun to develop in the direction of broader multilateral cooperation symbolized by confidence building on the other hand. Allow me to end my keynote report with the hope that the discussions in later sessions will take off from this perspective.

## Notes

- 1 Batam Industrial Development Authority, *Barelang Development Data Up To June 1993*, p. 30, 40.
- 2 Yumiko Okamoto, "Ajia Taiheiyo Chiiki ni Okeru Chiiki Keizai Kyoryoku Koso" [Economic Cooperation Schemes in the Asia-Pacific Region], Koichi Ono ed., *Keizai Togo to Hattentojokoku* [Economic Integration and the Developing Countries], Institute of Developing Economies, 1994, p. 122-23.
- 3 For example, in 15 products groups of fast track, the individual product of copper cathodes ended up included along with the group of products such as vegetable oil and cement. Whatever, implementation of the schedule was decided on without sufficient

persuasion in the member countries themselves. Noordin Azahari, "AFTA: A step towards intensified economic integration?" Wolfgang Moellers and Rohana Nahmood ed., *ASEAN: Future Economic and Political Cooperation*, ISIS Malaysia, 1993, Kuala Lumpur, p. 52.

- 4 *Far Eastern Economic Review*, September 15, 1994, October 6, 1994.
- 5 Yasusuke Murakami, *Hankoten no Seijikeizaigaku Yoko—Raiseiki no Tame no Oboegaki* [Outlines of Anticlassical Politicoeconomics—Memorandum for the Next Century], Chuo Koronsha, 1994, p. 85–86.
- 6 *Jakarta Post*, May 11, 1992.
- 7 For example, see Gareth Evans, *Cooperating for Peace*, Allen and Unwin, Australia, 1993, Kevin P. Clements, "The United Nations' peace-making and peace-keeping roles: Problems and prospects," Rohana Mahmood and Rustam A. Sani ed., *Confidence-Building and Conflict Reduction in the Pacific*, ISIS Malaysia, 1993, etc.
- 8 Gareth Evens and Bruce Grant, *Australia's Foreign Relations in the World of the 1990s*, Melbourne University Press, 1991, Australia, p. 81.