CHAPTER I

# 3

# ASEAN's New Role in the Asia Pacific Region: Can It Be a Driving Force of the Wider Regional Economic Cooperation?

Jiro Okamoto

## Introduction

Relatively open and liberal economic regimes, namely GATT, the World Bank and the IMF, were created and maintained after World War II with the strong backing of the United States. In the early post-war period, the influence of the United States on strategic and political issues, as well as economic issues in international relations was dominant and hegemonic. With the onset of the Cold War after the end of World War II, the United States set up a network of military/political alliances and promoted liberal economic regimes for the "Western" world. Western countries, especially those in the Asia Pacific region, had a strong interest in liberal economic regimes. Most of them had to rely on international economic transactions for their national development, because of their highly skewed resource endowments.

GATT has functioned as an international trade regime based on the principles of non-discrimination and multilateralism, and with the objective of removing impediments to international trade. Under the GATT regime, economic interdependence among countries in the Asia Pacific region has developed steadily since the 1960s. According to Drysdale (1987), there are several factors behind this development.

First, the impact of Japan's economic growth brought about a huge increase in Japanese demand for minerals and foodstuff from the region. At the same time, Japanese export of manufactured goods, as well as the flow of capital and technology transfer, into countries in the region experienced unprecedented growth. Second, the development of the other economies in the region followed the Japanese lead. Resource-rich countries such as Indonesia, Malaysia and Thailand enjoyed large export earnings while economies like Korea, Taiwan, Hong Kong and Singapore adopted outward-looking, trade-oriented industrial strategies. Third, by the late 1960s, Southeast Asian countries were themselves intent on emulating the success of the newly industrialising countries. Southeast Asian economies developed steadily (but more rapidly than the other developing countries) throughout the 1970s and began to grow rapidly in the latter half of the 1980s. Flows of capital, including foreign direct investment, from Japan, Korea, Taiwan, Hong Kong and Singapore to Southeast Asian countries also increased sharply during this period.

Rapid economic development in Northeast and Southeast Asian economies inevitably saw the relative economic power of the United States decline. The United States lost its hegemonic economic power and willingness to maintain the liberal international economic regime alone. The role of GATT in containing protectionist or potentially protectionist pressures has become problematic. The Multi-fibre Arrangement and Voluntary Export Restraints are good examples of how GATT proved inadequate. When the Uruguay Round (1986–93) stalled in the late 1980s and early 1990s, the United States opted for unilateral retaliation against so-called "unfair" trade partners. The United States also opted for the creation of a free trade agreement (FTA) with Canada, then with Mexico, which culminated in North American Free Trade Agreement (NAFTA) in 1994. In addition, the EC integrated its markets in 1992 and formed the European Union in 1994. Though Article XXIV of GATT encourages regional trade expansion through FTAs, the formation of regional blocs by economic powers has caused negative sentiment among outsiders. It is vital to find out how open, liberal economic regimes can and should be maintained without strong support and leadership from a hegemonic economic power.

The end of the Cold War has made this question more urgent. "The end of the Cold War is reshaping the international environment in East Asian market economies,[1] as decisively as the Cold War itself shaped international economic relations in the 1950s and 1960s" [Garnaut 1994a, p.3]. The US commitment to maintain the open, liberal economic regimes was sustained by the geo-strategic imperatives of the "East-West confrontation." This is the reason why the United States had supported the rapid economic development of Northeast and Southeast Asian economies. The end of the Cold War may further diminish US willingness and ability to maintain the post-war economic regimes. Furthermore, how to accommodate socialist and former socialist economies, which have been opening up their economies since the 1980s, in international economic regimes is a central question in the management of global economic and political relations. In the Asia Pacific region, countries like China, Vietnam and Myanmar are yet to join GATT (or WTO) though their rapid economic development is widely expected.

In this paper, I will focus on ASEAN (Association of Southeast Asian Nations) as an important actor in efforts to avoid the collapse of the post-war economic regimes. The question posed by this paper is: "whether ASEAN can be a driving force of the broader economic cooperation in the region."

First, the paper will analyse how ASEAN members have been responding to the changing world economic environment. Second, how ASEAN, as a regional organisation, has been changing its priorities to reflect adjustments to the international environment made by each member country will be reviewed. It seems that, in its early phase, ASEAN was simply a group of neighbouring countries without coordinated external policy positions. However, it is now becoming a sub-system in international relations and can be taken as a single entity in international forums and negotiations. Third, AFTA (the ASEAN Free Trade Area) will be analysed as a new type of ASEAN cooperation and a step towards broader cooperation in the Asia Pacific region. Lastly, whether ASEAN can and should be a driving force for broader economic cooperation in the Asia Pacific region will be discussed. While ASEAN has had close communication with its dialogue partners since the 1970s, it has not undertaken economic cooperation initiatives which go beyond the "ASEAN-partners" framework. An ASEAN initiative for broader cooperation in the region, namely the Asia Pacific Economic Cooperation (APEC) process, will be a test of unity for ASEAN itself.

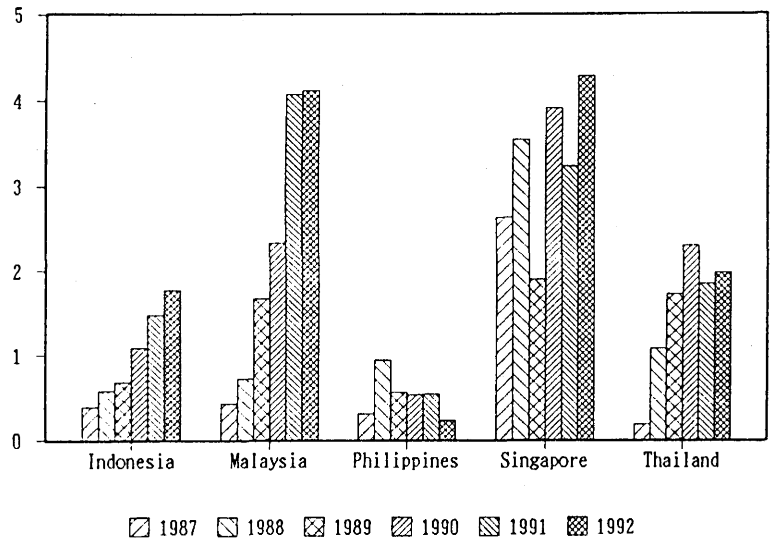
## Influence of Recent Changes in International Environment on the ASEAN Economies

Generally, ASEAN countries experienced relatively high rates of economic growth in the 1960s and the trend continued in most of ASEAN countries during the 1970s.[2] However, economic development policies within ASEAN differed.

All ASEAN countries with the exception of Singapore depended heavily upon the production and export of primary commodities in the first stages of their economic development. These economic structures were more or less maintained until the 1980s, though industrialisation began in the 1950s.[3] Production of commodities like rice, rubber, palm oil, sugar cane, tin and petroleum was the engine of the ASEAN economies. To varying degrees, every country attempted to substitute their imports with domestic production in order to speed up the industrialisation process. In the Philippines, protective measures were introduced soon after World War II and the import substitution of non-durable consumption goods was nearly complete by the end of the 1950s. After the first stage of import substitution, the Philippine government tried to attract foreign and domestic capital for export industries. However, because the trade liberalisation measures were rather limited, the lack of efficiency in the manufacturing sector and thus the lack of competitiveness in the world market, continued through the 1970s. [Krongkaew 1990, pp.12–13]. Thailand and Malaysia received policy recommendations for economic development from the UN missions in the latter half of the 1950s and they followed them closely. The main recommendations were to give the private sector the major role of economic development and for governments to remain in providing infrastructure. Both countries shifted towards outward-looking, export-oriented policies by the mid 1970s and introduced foreign capital successfully. The export of manufactured products such as textiles, garments, footwear and electric circuits had already increased through the 1970s [Krongkaew 1990, p.15]. On the other hand, Indonesia's policy was quite contrary to Malaysia and Thailand. The Indonesian government regulated investments and set up public companies in almost all sectors, including agriculture, mining, manufacturing, banking, insurance and hotels (see [Esho 1992, pp.114–17]). In other words, Indonesia opted to promote industrialisation through strong government

Figure 1
ASEAN: Foreign Direct Investment Inflows

(1987–92, US$ billion)




Source: IMF, Balance of Payment Statistics Yearbook Vol.43, Part 1, 1993

intervention. As Indonesia's economy continued to rely on petroleum, when the price fell sharply twice in the 1980s, a slump in its economy was inevitable. It was only in the second half of the 1980s that the Indonesian government started to deregulate its economy and sought to attract private investment, both foreign and domestic, to the manufacturing sector for export. Singapore started its economic development just like other ASEAN countries via import substitution with protective policies for domestic industries. However, after the separation from Malaysia in 1965, it changed its economic policy and attempted to strengthen the competitiveness of domestic manufacturers by exposing them to international competition.

After the worldwide recession in the early 1980s the ASEAN economies recovered strongly, this time with significant structural changes. The realignment of international currencies following the Plaza Accord in September 1985 was one of the main factors that generated these changes. Because of the rapid appreciation of their respective currencies against the US dollar,[4] manufacturers in Japan and Asian NIEs (Hong Kong, Korea, Singapore and Taiwan) shifted their production and export bases of products which lost price competitiveness to the ASEAN countries. Figure 1 shows the large increase of FDI flows into the ASEAN countries, except for the Philippines. The Philippines suffered from political instability over this period and, as a result, foreign manufacturers chose other FDI destinations (see pp.18–19, 22, Tables and Charts of Basic Data, Table 8 and Chart 2). The principal sources of FDI are listed in Table 1. Japan, Singapore and Hong Kong, Korea and Taiwan (the latter three defined as NEANME=North East Asian Newly Maturing

Table 1
Principal Sources of Foreign Direct Investment in ASEAN Economies

(per cent)

| | 1986 | 1988 | 1990 | 1991 |
|---|---|---|---|---|
| Malaysia | | | | |
| Japan | 11.1 | 27.9 | 28.5 | 20.9 |
| United States | 3.3 | 12.6 | 3 | 11.5 |
| NEANME | 6.7 | 26.7 | 42.6 | 40.8 |
| Singapore | 17.2 | 8.6 | 5.2 | 6.6 |
| Thailand | | | | |
| Japan | 57.9 | 48.7 | 33.7 | 35.3 |
| United States | 17.2 | 10.8 | 13.6 | 22.7 |
| NEANME | 13.7 | 22.6 | 26.2 | 19.3 |
| Singapore | 13.9 | 4.4 | 7.4 | 12.5 |
| Indonesia | | | | |
| Japan | 40.6 | 5.8 | 25.6 | 10.6 |
| United States | 16.0 | 16.6 | 1.7 | 3.1 |
| NEANME | -2.6 | 31.3 | 26.7 | 18.6 |
| Singapore | 13.1 | 3.4 | 3 | 3.9 |
| Philippines | | | | |
| Japan | 28.5 | 20.2 | 31.8 | 26.9 |
| United States | 28.7 | 32.3 | 6.2 | 11.1 |
| NEANME | 9.8 | 29.2 | 38.5 | 8.3 |
| Singapore | 0.3 | 0.5 | 1.4 | 0.4 |

Source: EAAU/DFAT (1994), p.69 (Table 4. 8).

Economies) dominate the FDI into ASEAN.

Table 2 shows the structural changes in the ASEAN economies since the end of the 1980s. In Indonesia, Malaysia and Thailand, the traditionally dominant sectors of agriculture/fishery and mining are losing their respective shares in GDP. On the other hand, the manufacturing sector has increased its share from 18.5% in 1988 to 21% in 1992 in Indonesia, from 24.4% to 28.9% in Malaysia and from 25.8% to 29.6% in Thailand in the same period. New operations from FDI that flowed in over this period laid the foundation for the strong increase in manufacturing production. The stability of economic structures of Brunei, the Philippines and Singapore have different causes. The limitation in economic scale, both in population and area, forces the Brunei economy to remain heavily dependent on petroleum mining and exporting, and the lack of investment in the manufacturing sector, especially FDI, has worked against adjustment of the Philippines' economic structure and caused its real GDP to fall. As Singapore has long been an economy open to foreign capital with relatively large manufacturing and finance sectors, its economic structure did not change dramatically even though its real GDP increased sharply since the mid 1980s.

The increase in ASEAN exports and the change in the composition of exports are even more impressive. The annual growth rate of exports of ASEAN as a whole has surpassed the world average since the end of the 1980s. The ASEAN share of world

Table 2
Structure of ASEAN Economies

| Brunei | 1985 | 1988 | 1990 |
|---|---|---|---|
| GDP (US$ million) | 3656.7 | 2762.7 | 3615.9 |
| Agriculture / Fishery (%) | 1.3 | 2.2 | 2.4 |
| Mining (%) | 76.1 | 53.3 | 46.4 |
| Manufacturing (%) | 0.7 | 2.5 | 2.7 |
| Construction (%) | 2.1 | 3.6 | 4.3 |
| Transportation / Communication (%) | 1.8 | 3.2 | 3.3 |
| Finance / Insurance (%) | 2.0 | 4.0 | 4.5 |
| Service (%) | 11.8 | 23.3 | 21.8 |
| GDP / capita (US$) | 16479.2 | 11462.8 | 14306.1 |
| Exports (US$ million) | 3081.6 | 1765.3 | 2398.1 |
| Exports / GDP (%) | 84.3 | 63.9 | 66.3 |

| Indonesia | 1988 | 1990 | 1992 |
|---|---|---|---|
| GDP (US$ million) | 84326.3 | 106141.3 | 126364.8 |
| Agriculture / Fishery (%) | 24.1 | 21.5 | 19.2 |
| Mining (%) | 12.1 | 13.4 | 12.6 |
| Manufacturing (%) | 18.5 | 19.5 | 21.0 |
| Construction (%) | 5.0 | 5.5 | 6.0 |
| Transportation / Communication (%) | 5.7 | 5.6 | 6.5 |
| Finance / Insurance (%) | 3.7 | 4.2 | 4.8 |
| Service (%) | 3.8 | 3.3 | 3.3 |
| GDP / capita (US$) | 480.2 | 592.0 | 661.0 |
| Exports (US$ million) | 19465.0 | 25675.2 | 33966.9 |
| Exports / GDP (%) | 23.1 | 24.2 | 26.9 |

| Malaysia | 1988 | 1990 | 1992 |
|---|---|---|---|
| GDP (US$ million)* | 25306.5 | 29373.4 | 36498.4 |
| Agriculture / Fishery (%) | 21.0 | 18.6 | 16.6 |
| Mining (%) | 10.3 | 9.8 | 8.7 |
| Manufacturing (%) | 24.4 | 26.9 | 28.9 |
| Construction (%) | 3.2 | 3.6 | 3.9 |
| Transportation / Communication (%) | 6.7 | 6.8 | 7.1 |
| Finance / Insurance (%) | 9.2 | 9.8 | 10.3 |
| Service (%) | 2.2 | 2.1 | 2.1 |
| GDP / capita (US$) | 1932.4 | 2305.4 | 2956.5 |
| Exports (US$ million) | 21091.6 | 29444.0 | 40649.8 |
| Exports / GDP (%) | 83.3 | 100.2 | 111.4 |

* 1978 price.

Table 2
(Continued)

| Philippines | 1989 | 1990 | 1992 |
|---|---|---|---|
| GDP (US$ million)* | 33673.2 | 29516.7 | 28046.2 |
| Agriculture / Fishery (%) | 22.9 | 22.4 | 22.8 |
| Mining (%) | 1.6 | 1.5 | 1.6 |
| Manufacturing (%) | 25.5 | 25.6 | 25.1 |
| Construction (%) | 5.9 | 5.9 | 5.1 |
| Transportation / Communication (%) | 5.8 | 5.7 | 5.9 |
| Finance / Insurance (%) | 9.5 | 9.8 | 9.8 |
| Service (%) | 11.6 | 12.0 | 12.1 |
| GDP / capita (US$) | 560.3 | 480.1 | 436.5 |
| Exports (US$ million) | 7821.0 | 8186.0 | 9824.0 |
| Exports / GDP (%) | 23.2 | 27.7 | 35.0 |

* 1985 price.

| Singapore | 1988 | 1990 | 1992 |
|---|---|---|---|
| GDP (US$ million)* | 23991.9 | 31531.9 | 39519.0 |
| Agriculture / Fishery (%) | 0.4 | 0.3 | 0.3 |
| Mining (%) | 0.2 | 0.1 | 0.1 |
| Manufacturing (%) | 28.6 | 29.0 | 27.7 |
| Construction (%) | 5.8 | 5.3 | 6.7 |
| Transportation / Communication (%) | 14.1 | 14.2 | 14.8 |
| Finance / Insurance (%) | 29.0 | 27.7 | 25.8 |
| Service (%) | 10.8 | 10.2 | 10.2 |
| GDP / capita (US$) | 9227.7 | 11635.4 | 14013.8 |
| Exports (US$ million) | 38038.9 | 50754.4 | 61530.7 |
| Exports / GDP (%) | 158.5 | 161.0 | 155.7 |

* 1985 price.

| Thailand | 1988 | 1990 | 1992 |
|---|---|---|---|
| GDP (US$ million)* | 61652.3 | 76304.0 | 89390.8 |
| Agriculture / Fishery (%) | 16.2 | 13.6 | 12.8 |
| Mining (%) | 1.7 | 1.6 | 1.7 |
| Manufacturing (%) | 25.8 | 27.8 | 29.6 |
| Construction (%) | 4.8 | 6.0 | 5.9 |
| Transportation / Communication (%) | 7.5 | 7.5 | 7.5 |
| Finance / Insurance (%) | 4.2 | 5.5 | 6.3 |
| Service (%) | 13.3 | 11.9 | 11.0 |
| GDP / capita (US$) | 1116.8 | 1344.1 | 1522.8 |
| Exports (US$ million) | 15951 | 23040 | 32466 |
| Exports / GDP (%) | 25.9 | 30.2 | 36.3 |

* 1988 price.
Source: Institute of Developing Economies, *Ajia Doko Nenpo* [Asian Current Affairs], *1992, 1993, 1994.*

Table 3
Trade Share of Various Economies

(%)

| | 1975 | 1980 | 1985 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|
| Export | | | | | | | | |
| World | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| ASEAN | 2.7 | 3.8 | 4.0 | 3.9 | 4.2 | 4.2 | 4.7 | 4.6 |
| USA | 13.4 | 11.8 | 11.8 | 11.9 | 12.5 | 11.8 | 12.2 | 12.1 |
| Japan | 6.9 | 7.0 | 9.8 | 9.8 | 9.4 | 8.6 | 9.1 | 9.2 |
| Western Europe* | 35.6 | 34.0 | 32.6 | 35.8 | 35.2 | 36.9 | 35.5 | 35.2 |
| Others | 41.4 | 43.5 | 41.8 | 38.6 | 38.7 | 38.4 | 38.4 | 38.9 |
| Import | | | | | | | | |
| World | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| ASEAN | 2.9 | 3.3 | 3.4 | 3.5 | 3.9 | 4.4 | 4.7 | 4.9 |
| USA | 12.8 | 13.3 | 19.2 | 16.6 | 16.4 | 15.0 | 14.3 | 14.4 |
| Japan | 7.0 | 7.3 | 6.9 | 6.8 | 7.0 | 6.8 | 6.6 | 6.1 |
| Western Europe* | 34.9 | 35.5 | 31.2 | 34.3 | 33.9 | 35.8 | 35.3 | 34.2 |
| Others | 42.4 | 40.6 | 39.3 | 38.8 | 38.7 | 38.0 | 39.1 | 40.5 |

* Belgium, France, Germany, Italy, Netherland and UK.
Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, various issues.

exports (as per cent of the total value in the US dollars) was 4% in 1985 but has risen steadily to 4.6% in 1992, while the US share fluctuated around 12% and Japan's share decreased from 9.8% to 9.2% over the same period (Table 3). In some of the ASEAN countries, the growth rates of exports surpassed their GDP growth rates (in US dollars) in the late 1980s and the early 1990s. The ratio of exports to GDP in Indonesia rose from 23.1% in 1988 to 26.9% in 1992. In Malaysia, it increased from 83.3% to 111.4% in the same period, and in Thailand, from 25.9% to 36.3% (Table 2). Figure 2 indicates the composition of exports of ASEAN countries except Brunei. It is very clear that the shift in each country's production structure, induced mainly by the strong growth of FDI, is reflected in changes in the export compositions. In every country, the share of manufactures has soared while that of the traditional exports (crude materials, fuels, food and live animals) has shrunk considerably. Again, the cases of Indonesia, Malaysia and Thailand are illustrative. Rapid growth of manufactured exports saw the shares of traditional exports decline. Traditional exports comprised about 60% of total exports in Malaysia and Thailand and about 90% in Indonesia in 1985. These shares dropped to less than 40% and 60% respectively in 1992. In Singapore, despite the fact that the share of manufactures in total exports was already relatively high at the beginning of the 1980s, it rose close to 80% by 1992. In the Philippines, compared to other countries, the share of manufactures stagnated over the latter half of the 1980s.

The growth in imports is also significant. Table 3 shows that ASEAN's share in world imports has risen from 3.3% in 1980 to 4.9% in 1992. Most of the increase has

Figure 2
Structural Change of Marchandise Export

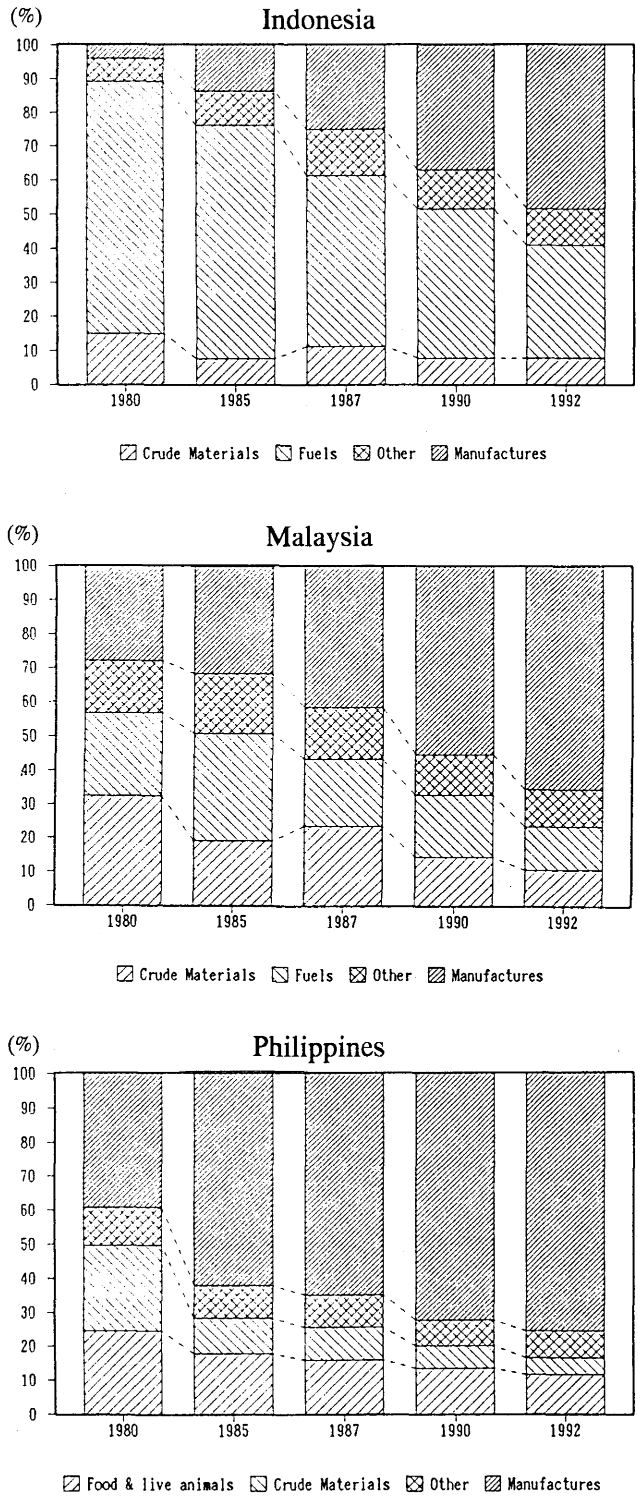


Figure 2
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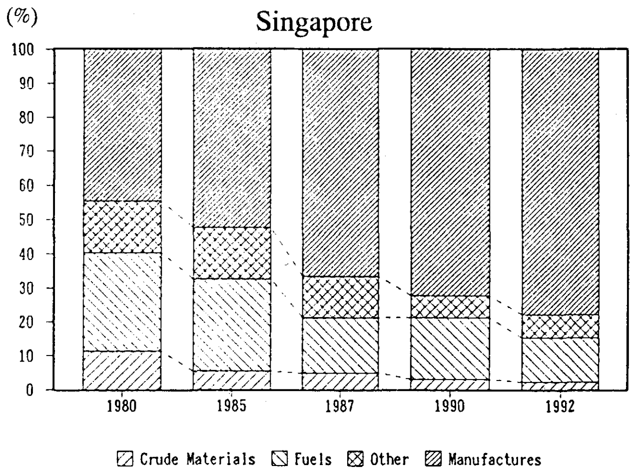
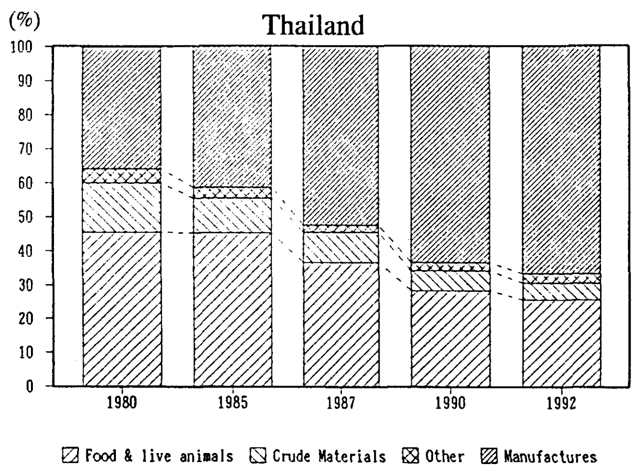



Source: Data used from EAAU /DFAT (1994), P. 61
Manufactures are defined as SITC 5 to 8 inclusive for all economies except the Philippines where they are SITC 5 to 9.

come from intermediate goods and machinery for manufacturing production.[5] It is inevitable that ASEAN countries increase imports of these goods because production structures have shifted towards manufacturing during the 1980s, and there is no capacity to produce those goods domestically. Domestic production of intermediate goods and machinery is the next step for the ASEAN economies' development.

The distinctive feature of the recent development of the ASEAN economies is the shift towards manufactured exports, except for Brunei which remains reliant upon petroleum exports. The economic structures of the ASEAN countries are becoming more and more similar. Though trade issues had been important among the ASEAN economies all through the post-war era, they have become even more salient because of the drastic changes in their production and export structures since the mid 1980s.

A relevant question is what kind of role ASEAN has been playing in the economic development of the member countries during these years. It is often said that ASEAN played a critical, but at the same time passive, role in the national development of members. What does this mean? In the next section, the development of ASEAN as a regional organisation and the relation between ASEAN's regional cooperation and members' national development strategies will be analysed.

## The Establishment of ASEAN and Its Development as a Regional Organisation

### *Political and Strategic Aspects*

ASEAN was established in 1967. The main reason for its establishment was to achieve regional security (peaceful relations among the member countries as well as the security of the region as a whole) that was thought necessary to encourage each country's national development. The emphasis was not so much on development as a region.

The complex political situation in Southeast Asia in the 1960s explains this emphasis on internal and external security. The process of the establishment of Malaysia caused serious conflict with Indonesia and the Philippines over the possession of Sabah and Sarawak, which eventually led to the "Konfrontasi" and "crush Malaysia" policies of Indonesia's President Sukarno. In the early 1960s, the conflict among these countries destroyed the previous regional cooperation concepts of ASA (Association of Southeast Asia)[6] and MAPHILINDO[7]. However, from the mid 1960s, the situation changed. Under self-imposed isolation from the world,[8] the Sukarno government approached China (PRC) and the influence of the Indonesian communist party (PKI) grew. The Philippine government became cautious toward Indonesian foreign policy and sought normalisation of its relationship with Malaysia after 1964. The Indonesian political scene changed dramatically again in September 1965 when a pro-communist uprising occurred but was suppressed by the military. Major General Soeharto eventually took control of national politics in March 1966, made the PKI illegal and appointed a new cabinet. From that month, negotiations between Indonesia and Malaysia to normalise their relationship gained momentum.

The reconciliation of these three countries was a direct factor in the establishment of ASEAN. Individual member countries had their own reasons for participating in such a regional cooperation organisation.[9] The common understanding of member countries at the time of ASEAN's establishment was that it was important for each country's domestic development that regional stability be maintained, and that to maintain this stability some form of cooperative regional organisation was needed. Thus, in the ASEAN Declaration (Bangkok Declaration) of 1967, the stances of member countries in international politics were set out carefully. Despite the differences between countries, the Declaration also set out some common ground. Members were united in their opposition to external interference, and the Declaration stated that all foreign bases in the region were temporary (though nothing was said about a time limit for withdrawal). This enabled non-aligned countries and Western allies to stay within the same organisation. The Declaration stated that the organisation's aim was "to accelerate the economic growth, social progress and cultural development in the region through joint endeavours." However, it did not mention any specific plans or schedule for such cooperation.

From the start, ASEAN's priority was cooperation on political and security matters and these are the very areas that ASEAN has been successful. Since the establishment of ASEAN, there have been minor conflicts among member countries, especially along their borders, but they have never had major confrontations. It is almost unthinkable by now that member countries could fight major wars against one another. ASEAN has also been functioning as a united organisation in the area of external security. For instance, during the period of the Cambodian conflict, ASEAN consistently condemned Vietnam and the government of the People's Republic of Kampuchea.[10] President Soeharto said at the Bali summit in 1976 that:

> "...it must be clear to us and to the world that we have no intention of establishing a military pact....Cooperation among us in the realm of security is neither designed against any other nor certain parties. ...Our concept of security is inward-looking, namely to establish an orderly, peaceful and stable condition within each individual territory, free from any subversive elements and infiltration, whatever their origins might be."(quoted in [Sukrasep 1989, p.73])

It can be seen that ASEAN has become what Deutsch (1967) called a "security community." It should be noted, however, that ASEAN has never aimed to integrate its members' political institutions.[11] According to Deutsch's use of the term, ASEAN has become a "pluralistic security community."[12] and will remain so. As mentioned earlier, member countries see ASEAN as "a means through which [they] seek to maximise benefits, on a long-range basis, in terms of their national interests"[Duffy and Feld 1980, p.510].

## *Regional Economic Cooperation and Its Results*

Contrary to the political/security cooperation, economic cooperation within ASEAN has not been extensive. Regional economic cooperation depended totally on the extent to which each ASEAN government saw it as a solution to national development and security issues [Suriyamongkol 1988, p.37]. Most, it seems, did not share the notion that regional economic cooperation was necessary for each country's national development, and economic nationalism tended to prevail over regional economic cooperation.

It was not until the mid 1970s, after several international organisations had made recommendations,[13] that moves toward regional economic cooperation began. The decision to go ahead with economic cooperation was finally made at the first ASEAN summit meeting in Bali in 1976, at which the Declaration of ASEAN Concord was agreed upon. Areas of economic cooperation set out in the Concord and stated for the first time in an official document were: basic commodities (especially food and energy); industry; trade; joint approaches to world economic problems and; setting up the machinery for economic cooperation. Although the Concord showed a willingness on the part of leaders to move towards economic cooperation, official agreements followed only slowly. Those were the Preferential Trade Agreement (1977), the Basic Agreement on ASEAN Industrial Project (1980), the Basic Agreement on Industrial Complementation (1981) and the Basic Agreement on ASEAN Industrial Joint Ventures (1983).

Agreements and actual practice diverged. During this period, all member countries, except Singapore, still had a tendency towards developing their industries through import substitution, thus protecting domestic "infant" and "sensitive" industries through prohibitive tariffs, quantitative import restriction, subsidies and other special treatment. While Singapore and the Philippines had become active proponents of trade liberalisation in the region by the mid 1970s, other members remained reluctant. The lack of product variety and limited tariff reduction agreed upon in the Preferential Trade Agreement (PTA) resulted in discord among members. Neither was preferential trading significant in terms of strengthening intra-regional trade.[14] The negative influence of discord delayed industrial cooperation, and the Basic Agreement on Industrial Complementation was not signed until 1981 despite the fact that the private sector (especially the ASEAN Chamber of Commerce and Industry) was very supportive of the idea [Yamakage 1991, p.200].

The implementation of ASEAN Industrial Project (AIP) was also troublesome. In 1977, five projects are proposed for each country: urea/nitrogenous fertiliser (Indonesia, Malaysia); rock salt/soda ash (Thailand); phosphoric fertiliser (the Philippines) and; diesel engines (Singapore). Most of the projects had feasibility problems (including infrastructure and marketing of products) but the most serious problem was that members pursued national interests rather than regional interests.[15] Generally, when one ASEAN country's product produced under an AIP competed with the domestic product of another ASEAN member, the latter was reluctant to give preferential treatment to the AIP product, despite this being essential for the successful implementation of AIPs.

Taking lessons from previous cooperation schemes, the ASEAN Industrial Joint Venture (AIJV) scheme was created in 1983. The features of AIJV are: it can proceed with at least two private sector partners from ASEAN provided that the ASEAN component is more than 51% (later reduced to 40%); it can be approved separately by the relevant ASEAN Economic Ministers; its investors can choose their location of operation in any of the participatory countries; as an investment incentive, participating countries charge 10% of the prevailing tariff (granting a 90% margin of preference) for four years for goods produced by AIJV. During the first decade, 26 products including automotive components and parts, chemicals and food products have been granted AIJV status, but many are yet to commence operations. So far, the AIJV scheme has had a negligible impact on intra-ASEAN trade and investment. A number of products have already encountered difficulties obtaining the 90% margin of preference from participating countries because some of those countries have requested reciprocal treatment, that is preferential access for one of their products [EAAU/DFAT 1994, p.30].

Many reasons why ASEAN regional economic cooperation has not been successful can be identified. Chee and Suh (1988, pp.60–65) summarised them in terms of an "expectation gap" and an "implementation gap." First, an expectation gap existed between the level of what the regional economic cooperation programs was expected to achieve and what was actually attainable in view of the operation of structural constraints and policy obstacles. Generally, Third World regional organisations tend to consist of members with huge differences in their economies in terms of size, orientation, resource base and the levels of development. In these cases, the less developed countries tend to be more inward-looking in overall regional economic cooperation than the more developed ones because the former cannot rely on regional economic cooperation to solve their domestic problems (such as the improvement of economic structure and unfair income distribution) at least at the initial stage. In the case of ASEAN, all countries except Singapore were reluctant fully to commit themselves to regional economic cooperation which was expected to lead to some regional industrial integration measures and thus severer competition.[16] As for preferential trade, primary commodities made up the majority of the exports from individual ASEAN members until the mid 1980s. From the start, it was rather unlikely that intra-regional trade would be increased by the preferential tariff arrangement. Furthermore, ASEAN has adopted the "consensus approach" in decision making. This approach tended to delay the decision making in regional economic cooperation whenever members' national interests were thought to be at stake.[17] Second, an implementation gap existed between what was achievable and what has actually been achieved. The lack of sufficient preparation caused under-performance of regional economic cooperation. This is clear in the case of the AIPs. Proper technical preparation, including research of optimal location, infrastructure, raw material supply, labour availability and marketing, would have boosted the whole scheme. In addition, government officials from each country who were assigned to implement the scheme were "struggling themselves to balance the minute costs and benefits from the prospective projects and to jealously safeguard their own national interests" [Chee and Suh 1988, p.65]. It can be said that the regional economic cooperation initiated by the heads of government in the latter half of the 1970s and in the 1980s was not successful because their own governments were not ready for it.[18]

On the other hand, ASEAN had shown unity already in the 1970s when it dealt with external economic relations. When one of the members had problems with extra-regional states in economic matters, other members united in negotiations with those states even though the problems did not necessarily affect the whole region.[19] It started formal dialogue with EC (1972), Australia (1974), New Zealand (1975), UNDP (1976), Canada (1977), Japan (1977), and the United States (1977) to facilitate economic cooperation with them. These dialogues culminated in the ASEAN Dialogue Partners System (ADPS) in 1977. In 1989, Korea became another dialogue partner. Areas of cooperation with dialogue partners are very wide, including trade, industry, agriculture, fishery, forestry, communication, air transportation, shipping, stabilisation of commodity prices and so on.[20] ADPS has raised the profile and the status of ASEAN in international context. The annual ASEAN Post Ministerial Conference (ASEAN-PMC) meeting, which brings all the dialogue partners together at the same table, promoted ASEAN's status even more.

### *ASEAN as a Sub-system and a Meaningful Entity in International Relations*

During the 27 years of its history, ASEAN has become a meaningful entity, or an actor, in the Asia Pacific region. Its unity in external affairs, both in strategic/political and economic, has made ASEAN's voice widely heard. Also, it can be said that ASEAN has started to function as a sub-system in world politics.[21] ASEAN has gradually developed its norms and rules of behaviour as well as the bureaucratic machinery to organise itself. First, the norms of ASEAN can be seen in the Bangkok Declaration, and it clearly re-stated in the Zone of Peace, Freedom and Neutrality (ZOPFAN) Declaration of 1971. The Declaration stated, among other things, that: "[ASEAN is] inspired by the worthy aims and objectives of the United Nations, in particular by the principles of respect for the sovereignty and territorial integrity of all states, abstention from threat or use of force, peaceful settlement of international disputes, equal rights and self-determination and non-interference in the affairs of States"; and "[ASEAN recognises] the right of every state, large and small, to lead its national existence free from outside interference in its internal affairs as this interference will adversely affect its freedom, independence and integrity" [ISEAS 1991, p.103]. Though the ultimate aim of the Declaration to bring peace, freedom and neutrality to Southeast Asia has not been realised yet, the core norms of the Declaration mentioned above have been followed by the ASEAN members as the very essence of the organisation's existence. In 1976, the Treaty of Amity and Cooperation in Southeast Asia was signed by the member countries. The norms are stated in Article II of the Treaty as; (a) mutual respect for the independence, sovereignty, equality, territorial integrity and national identity of all nations; (b) the right of every State to lead its national existence free from external interference, subversion or coercion; (c) non-interference in the internal affairs one another; (d) Settlemenet of differences or disputes by peaceful means; (e) renunciation of the threat or use of force; and (f) effective cooperation among themselves. Second, the "consensus approach" has been one of the factors preventing ASEAN from proceeding to substantial economic cooperation. However, this approach has been the rule of ASEAN decision making and behaviour which avoided the collapse of ASEAN as a meaningful regional organisation in crucial times such as the Vietnam War and the Cambodian conflict.[22] Lastly, restructuring of the ASEAN bureaucracy has been made at the Singapore summit meeting in 1992. For instance, the ASEAN Secretariat was established in 1972, but its function was limited to just being a "mail box" of member countries. It can now initiate, recommend and supervise policies and action plans, and is headed by the Secretary of ASEAN, a position which is filled by recruitment instead of the traditional practice of rotation among members [Antolik 1992, pp.144–45].

As discussed earlier, one main thing that ASEAN has not achieved is substantial regional economic cooperation. It was only in the early 1990s that the initiative for regional economic cooperation re-emerged.

The AFTA initiative, first proposed by the Prime Minister of Thailand, Anand Panyarachun in 1991, was agreed by all member countries in January 1992 at the Singapore summit meeting. The initiative represented a clear departure from Preferential Tariff Agreement because not only did it aim for more comprehensive tariff reduction both in degree of reduction and range of products covered, but also it aimed to create an FTA in the region by using the Common Effective Preferential Tariff (CEPT) as the main mechanism. There were three main factors behind the timing of the initiative. First, since the rapid economic development led by export growth started in the latter half of the 1980s, each ASEAN country has opted for liberalisation and deregulation of its economy to facilitate further trade growth. So, by the time of the AFTA initiative, most of the member countries shared similar policy preferences in regional trade liberalisation.[23] Second, the deadlock in the negotiation of the Uruguay Round, the growing regionalist tendencies in North America and Europe and the rapid increase of investment into China at the time made ASEAN countries worry about the unfavourable diversion of trade and the redirection of investment flows away from the ASEAN region. The fear of being excluded from major FTAs forced ASEAN to form its own. Third, it was thought that the end of both the Cold War and the Cambodian conflict would weaken ASEAN unity. The resolution of the Cambodian conflict, in particular, meant that ASEAN needed a new united stance towards China and Vietnam. The collapse of the ASEAN unity was also feared in the economic area. Indonesian Trade Minister, Arifin Siregar, said in December 1991 that:

> "If ASEAN does not rapidly form the AFTA, it is feared that ASEAN countries might join other planned free trade zones outside ASEAN which would only weaken ASEAN unity" (quoted in [Antolik 1992, p.145])

In addition, the admittance of the APEC membership to China, Taiwan and Hong Kong was seen as diminishing the presence of ASEAN in the region.

In the next section, the effect of AFTA, a new form of economic cooperation within ASEAN, will be analysed. Also, the meaning of AFTA will be discussed.

## Analysing AFTA

Before analysing its implications, the mechanism of AFTA needs to be explained briefly.[24]

AFTA aims at becoming an FTA comprising the products that satisfy 40% ASEAN content within the time frame of 15 years starting from 1 January 1993. According to the Singapore Declaration of 1992, AFTA does not intend to be a customs union so that policy autonomy of the member states on tariffs for non-ASEAN products will be maintained.

The CEPT (Common Effective Preferential Tariff) scheme is the main mechanism of the AFTA process. CEPT applies to all manufactured goods (including capital goods), processed agricultural products and those falling outside of the definition of agricultural products. Under CEPT, member countries set out comprehensive timetables for the gradual reduction of the intra-ASEAN tariffs on nominated goods. Goods can be placed on the "fast track" or "normal track" timetables. Fifteen product groups (including cement, chemicals, fertiliser, plastics, rubber products, textile and electronics) have been placed on the fast track timetable and their tariffs must be reduced to 0–5% in 10 years if the tariff rates as of 1 January 1993 exceed 20%, and in 7 years if they are 20% or below. For the normal track products, all tariffs above 20% as of 1 January 1993 must be brought down to at least 20% within 5–8 years and to 0–5% within 15 years. Tariffs of 20% or below are to be reduced to 0–5% within the time frame that two or more member countries will arrange. To make sure that the above tariff reductions will be made by all the members, certain benchmarks have been set: tariffs must be reduced to 15% across-the-board by 2003, to 10% by 2005 and to 5% by 2007. It is important to note that, within this time frame, individual members can decide the pace and degree of the tariff reduction.[25] To make participation easier, member states are permitted to exclude certain products (so-called "sensitive products") from the CEPT scheme temporarily.[26]

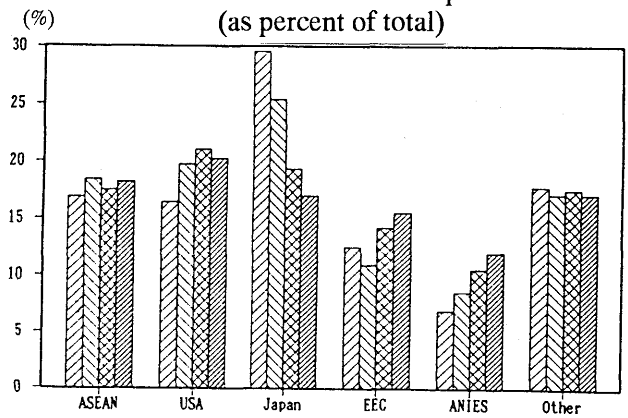
At the introduction of the CEPT scheme, 38,308 items were nominated by members all together for inclusion, representing, on average, 88% of the total tariff lines of the ASEAN countries. Singapore included 98% of its existing tariffs whereas Indonesia included 80%. Temporary exclusions amounted to 3,839 items in all, ranging from zero for Singapore to 1,703 for Indonesia[Ariff 1993]. Since then, the AFTA Council, consisting of the ASEAN Economic Ministers, is trying hard to speed up the schedule and widen the coverage of the products. From 1 January 1994, members added 321 items to their respective inclusion lists and cut 516 items from their temporary exclusion lists [EAAU/DFAT 1994, p.47]. Moreover, in September 1994, ASEAN Economic Ministers (as the members of the AFTA Council) agreed to trim up to 5 years from the original 15 year program of the CEPT scheme.[27] While non-processed agricultural products still remain outside of the scheme officially, several members have unilaterally added some of them to their lists.

To analyse overall the effects of AFTA is not easy, not least because the timetable and the product coverage of the CEPT Scheme are yet to be completely fixed. The expected outcome from the creation of an FTA includes: trade diversion from extra-regional trade to intra-regional trade; intra-regional trade creation through advantageous tariffs and; investment diversion into the area.

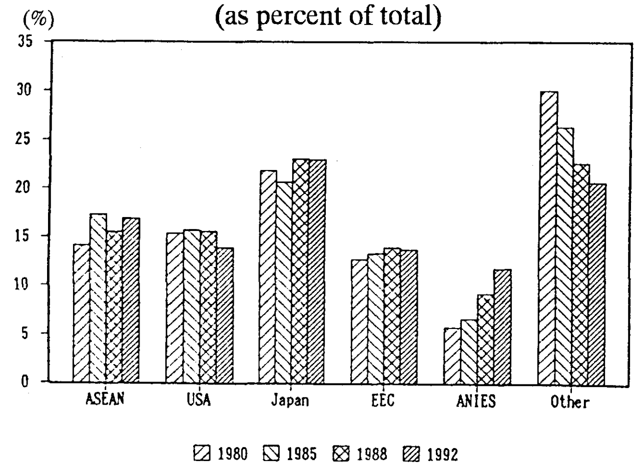
First, in the case of AFTA, the trade diversion effect is thought to be minimal. Figure 3 shows the direction of ASEAN exports and the share of ASEAN imports from 1980 to 1992. In exports, it is noticeable that Japan's share dropped rapidly from 29.6% in 1980 to 17% in 1992. On the other hand, Asian NIEs' (Hong Kong, Korea and Taiwan) steady growth as one of the major destinations of ASEAN exports is impressive. Nevertheless, the United States, Japan, Asian NIEs and the EEC remain as important export destinations and they made up more than 60% of the total exports in 1992. The same can be said in relation to imports, where these economies supplied more than 60% of the total in 1992. The share of exports to destinations other than mentioned above did not change in this period. Their share in ASEAN imports even decreased significantly from 30.1% in 1980 to 20.7% in 1992. These facts show that the trade partners of the ASEAN countries are rather static. The ASEAN countries absorbed 17–18% of their exports during this period, while the import share was around 14–17%. While these ASEAN figures are rather impressive for a grouping of developing countries, when we look at individual members' trade relations with each other (pp.15–16, Tables and Charts of Basic Data, Table 2a), it becomes clear that Singapore, and to a lesser extent Malaysia, dominated the intra-regional trade. Taking 1992 for instance, the Indonesian exports to other ASEAN countries excluding Singapore and Malaysia were only 1.5% of the total while same imports were only 1.4%. For the Philippines and Thailand, the respective figures were 1.5%, 2.8% and 1.5%, 1.5%. The domination of Singapore and Malaysia in intra-regional trade is

Figure 3

ASEAN Direction of Exports
(as percent of total)




ASEAN Share of Imports
(as percent of total)




* ANIEs = Hong Kong, Korea and Taiwan.
Source: IMF, *Direction of Trade Statistics Yearbook, 1993.* Taiwan's data are from Department of Statistics, Ministry of Finance (Taiwan), *Monthly Statistics of Exports and Imports*, various issues.

because these two have been the most open economies in the region. This is the reason why only these two countries could start the CEPT tariff reduction on 1 January 1993 as scheduled. Because of the competitive, rather than complementary, structure of their trade, it is more than likely that ASEAN's main trade partners will continue to be extra-regional, namely the United States, Japan, Asian NIEs and the EU. Singapore and Malaysia will gain most at least in the short term, from AFTA's minimal trade diversion effect.

Second, trade creation within the region and the investment diversion are closely related. A significant part of manufacturing industry in the region is already foreign-owned, and one of the main reasons for starting the AFTA process was to prevent international capital flows, including FDI, from turning away from the region. The bigger market that AFTA will bring when it is completed as planned may be an incentive for multinational enterprises (MNEs) to invest more in the ASEAN region. It may also promote intra-industry and/or intra-firm trade by MNEs. Many economists have already forecast a positive trade creation effect for an FTA within ASEAN, but the conclusions as to how much it will be diverge (see, for instance, [Devan 1987 and Imada et al. 1991]). Some MNEs have already started to consider or to implement regional production and sourcing plans in the region.[28] This trend already existed before the start of the AFTA process. The direct influence of AFTA over the MNEs' plan of regional production and sourcing is yet to be seen. Blomqvist (1993, p.60) argued that it is doubtful that intra-regional trade would flourish because MNEs' operations in the region are more integrated with their home countries' industries and the intra-industry trade within ASEAN is largely bilateral trade between Singapore and each member. In any case, the development of intra-industry and/or intra-firm trade within ASEAN largely depends upon the decision of MNEs which the member countries are unable to control. In addition, just reducing tariffs would not be enough to encourage MNEs to invest in ASEAN and to trade internally. Other impediments such as non-tariff barriers and the regulation of intra-regional investment flows, capital markets and services trade have to be reduced also ("AFTA plus"). The Agreement on the CEPT Scheme of 1992 acknowledges the importance of removing non-tariff barriers and each member country has been doing this especially from the late 1980s. Yet, it seems that the CEPT schedule is rather slow and not quite institutionalised.[29]

The economic effect of AFTA on ASEAN's economic and trade growth could be positive, but it is highly possible that it will not be as significant as hoped. Moreover, the ongoing multilateral and unilateral trade liberalisation in the Asia Pacific region will reduce the ASEAN preference margin. On the other hand, the political meaning of the AFTA process should be taken as substantial.[30] Having initiated an impressive outward-looking industrialisation, the ASEAN countries have vital interests in the maintenance of liberal economic regimes, more so than ever before. For the first time, all the ASEAN members looked in the same direction of comprehensive cooperation in trade liberalisation. The commencement of the AFTA process is often said to be the attempt to counter the regionalist tendencies in North America and Europe. But it is now clear that the creation of an FTA in the ASEAN region alone will not greatly assist member countries if multilateral and non-discriminatory trade principles collapse. It should be more emphasised that, by proceeding with the AFTA process, ASEAN can pursue freer trade, both regionally and extra-regionally, providing that it also decreases trade barriers against outsiders. It can be said that the commencement of AFTA was a timely declaration of ASEAN unity with the politics of implications for the broader regional economic cooperation.

## ASEAN's Approach towards Broader Economic Cooperation

As mentioned in the introduction of this paper, how to maintain liberal economic regimes is an important question today. In other words, there is a search for a framework to maintain the market-driven trade and investment which have been the real driving forces of the development of the world economy in the post-war period.

Keohane (1984) argued that deepened interdependence in the world political economy through extensive international transactions would generate conflicts among countries because many of them would become more and more sensitive and vulnerable to unexpected changes from abroad. One of the ways to avoid severe conflicts is to establish and maintain international regimes.[31]

This was case for the Western world after World War II with the strong backing from the United States. Keohane also argued that the maintenance of regimes would become more difficult without a hegemonic power, because "cooperation requires that the actions of separate individuals or organizations —which are not in pre-existent harmony—be brought into conformity with one another through a process of policy coordination" [Keohane 1984, p.51]. He noted that it was possible if the participants widely share the recognition of the utility of those regimes.[32]

The base for maintaining liberal economic regimes in the 1990s was saved for the time being when the Uruguay Round of trade negotiations was completed at the end of 1993, but the agreement has yet to be ratified by many countries. When we turn our eyes to the Asia Pacific region, there are several obstacles to freer trade and investment. The United States' trade policy towards the Western Pacific is rather problematic (for examples, because of unilateral retaliation, connection of trade issues with human rights protection and social conditions), Japan is yet to deregulate its economy, China is yet to join GATT/WTO and protective measures are still employed by many developing countries.

To achieve freer trade in the Asia Pacific region to complement the Uruguay Round agreement, several suggestions have been made. Among them is the approach of "extending NAFTA west-ward."[33] This approach, however, is illogical and impractical from an Asia Pacific perspective. Garnaut (1994b, p.10) argues:

> "While selective Western Pacific rather than APEC-wide membership of NAFTA would be seductive to some, it would be even more damaging to Asia Pacific Dynamism. Who can imagine Taiwan or Korea trading freely into NAFTA, restricting use of mainland China inputs for reasons of rules of origin? Or Thailand, allowing duty free access for American but not Japanese consumer goods?"

Besides, in the process of extending NAFTA west-ward, the exclusive nature of NAFTA would make outsiders (especially the European countries) suspicious of its objectives. It may well cause serious conflicts. To include as many countries in the region as possible in the process of achieving freer trade and to remain open to outsiders at the same time is the better way. This is the main point "open regionalism," an idea that Australian scholars have been asserting (see [Drysdale 1991; Elek 1992; and Drysdale and Garnaut 1993]). It has become clear that the APEC process is trying to define the way to "open regionalism" in this region, since the recommendations of the first report of the Eminent Persons' Group were broadly approved by the inaugural Leaders' Meeting in Seattle in 1993.

What can and should ASEAN do for the development of open regionalism in the Asia Pacific region? To jump to the conclusion, ASEAN should be a driving force of the APEC process through "open regionalism" approach.

First, ASEAN has long been hesitant about the wider process of economic cooperation which included it as a sub-regional group. Politically, it feared that such cooperation would diminish the importance of ASEAN as a regional organisation. Economically, it suspected that the bigger countries might dominate the cooperation agenda to their own advantage. However, the rapid economic growth and the change of economic and trade structures since the latter half of the 1980s has made ASEAN more confident as well as more reliant upon international (especially inter-regional) trade. To achieve freer trade is in their interests more than ever before. This is the primary reason why ASEAN should be actively involved in the APEC process.

Second, it is true that there still remains the fear of domination of the cooperation process politically and economically by Great Powers in the region, namely the United States, Japan and China. The ASEAN countries do not want any of the Powers, or some coalition of them, to be dominant in the process. Japan and the United States are, and will remain, the main trade partners of the ASEAN countries. Also, the United States' security role remains important for political stability in Northeast and Southeast Asia, and a weakening of economic ties could destabilise important political relations [Garnaut 1994b, p.10]. ASEAN fears China's potential economic power, as well as its political power. To keep Great Powers in the region in a cooperative process and, at the same time, not to let them dominate it, it is appropriate that ASEAN take positive initiatives in close consultation with individual Powers. If it is true that "the wider the availability of economic resources and the higher the degree of institutionalisation of the organisational decision making process, the greater are the effects on the global system" [Feld 1980, p.494], ASEAN has more chance to influence the Asia Pacific region than 10 years ago.

ASEAN is already an organisation which consists of countries of different size, levels of development and ethnicities, so there is a possibility that its initiatives would be accepted regionally if they are able to make compromises within the organisation. But for the purpose of the smoother economic cooperation in the Asia Pacific region, sub-regional consultation with other middle powers, such as Australia, New Zealand and Korea, is desirable.[34] EAEC, first proposed by Malaysian Prime Minister, Dr Mahathir, as a counter force against NAFTA, may be transformed and used for this purpose. The EAEC concept has problems with excluded countries because it seems that its background is too political. However, it is clearer now that its purpose is to promote freer trade and investment in the region, and the ASEAN leaders have agreed that its activities will be within the framework of APEC. If EAEC is transformed in this way, it may become a useful vehicle to promote regional consensus.

## Conclusion

The ASEAN countries' economic development has been impressive since the 1960s. The rapid growth of their GDP and trade were even more impressive. Generally, they responded to changes in the international environment well and shifted their economies towards more outward-looking, export-oriented structures. As a result, they have become more reliant upon the liberal economic regimes which assure the relatively free and non-discriminatory movement of goods, services and capital across the borders.

ASEAN, as a regional organisation, has contributed to member countries' economic development, but the contribution has been made in a rather indirect way until recently. The main contribution of ASEAN was that it brought a pluralistic security community in the region into being. The stability of the region without a fear of political and military intervention by neighbours made possible that member countries concentrate on their national development. Moreover, the political unity of ASEAN led the world opinion during the Cambodian conflict. Regional economic cooperation schemes like PTA, AIP and AIJV have not been successful, but unity shown by the members when ASEAN dealt with external economic relations has promoted ASEAN's international status greatly. ASEAN started to function as an single entity as well as a sub-system in international relations.

The confidence that ASEAN gained from successful economic development and promoted international status, as well as the urgent need to counter the economic regionalist move in North America and Europe, made ASEAN to take a first step towards new regional cooperation. AFTA, though its concept is significant compared to previous cooperation efforts, does not seem to bring substantial gains to member countries alone. Its political meaning should not be undervalued. For the first time, ASEAN countries are looking in the same direction of comprehensive cooperation in trade liberalisation.

It is crucial for ASEAN, as well as for any countries in the Asia Pacific region, to maintain liberal economic regimes to keep the momentum of the market-driven economic development. ASEAN can play a major role in the APEC process, whose objective is to promote freer trade and investment in the region, to avoid exclusive regionalism within the region and the domination of economic cooperation agenda by Great Powers. To be a driving force of the APEC process, it is desirable for ASEAN to form a coalition with middle powers such as Australia, New Zealand and Korea, and pursue "open regionalism." If the coalition can compromise on liberalisation measures (unilateral or multilateral) and maintain its unity, the possibility of successful endorsement of its initiatives will greatly increase.

The political will shown in the AFTA process is important for ASEAN's future economic development if it leads to broader economic cooperation in the Asia Pacific region. The successful implementation of APEC economic cooperation will reduce the diversionary impact of AFTA drastically. In addition, during the process of liberalising these economies, some sectors of individual ASEAN member countries may lose. However, ASEAN should proceed with initiatives in the APEC process for the overall gains they will bring.

## Notes

1 Garnaut's term "East Asian economies" in this case includes both Northeast and Southeast Asian economies.

2 For instance, Indonesia's GDP grew average annual rate of 3.9% during the 1960s and 7.9% during the 1970s. Other countries' respective rates are: Malaysia 6.5%, 7.8%; Singapore 9.6%, 9.6%; the Philippines 4.8%, 6.0% and; Thailand 8.1%, 6.9% [Akrasanee and Chirathivat 1989, p.402].

3 Needless to say, Brunei's economy still relies on petroleum.

4 The Japanese yen appreciated 33% against the US dollar during the period of 1986–90. In the same period, the Korean won appreciated 20%, the Singapore dollar 17% and the Taiwan yuan, 29%.

5 The share of the intermediate goods and machinery in the total import in Malaysia rose from 55.2% in 1980 to 70.9% in 1992. In Thailand, Singapore, Indonesia and the Philippines, it increased from 37.7% to 64.9%, from 43.9% to 60.7%, from 52.5% to 60% and from 36.5% to 43.7% respectively in the same period. See Aoki (1994, p.84).

6 ASA was created in 1961 to promote broad regional cooperation (economy, culture, education, science, etc.) by Malaya, the Philippines and Thailand. Non-aligned countries in the region did not join because it was seen as a pro-Western, anti-Communist organisation. After two years of activity, ASA came to a virtual end when conflict between Malaya and the Philippines intensified. See Yamakage (1991, pp.35–38)

7 In fact, MAPHILINDO itself was a product of the conflict. After Malaya set the establishment date of Malaysia on 31 August 1963, the heads of government of Indonesia, the Philippines and Malaya met in Manila and agreed: (1) to form a federation of Malay nations called MAPHILINDO; and (2) to postpone the establishment of Malaysia and ask for UN intervention to resolve the Sabah, Sarawak problem. When Malaya went on to form Malaysia in September, however, MAPHILINDO broke down without achieving any results. See Yamakage (1991, pp.71–76).

8 The United Nation's investigation mission was sent to Sabah and Sarawak in August 1963 to confirm the will of the residents. The result of the mission was favourable for Malaya, and in September Malaysia was finally inaugurated. Then, the Indonesian government announced in December that it would withdraw from the United Nations.

9 After the change in leadership, Indonesia needed to end its self-imposed isolation if it was to receive development aid from the developed Western countries. Thailand was an ally of the United States and was under heavy pressure to stand against communism. It also needed to ensure that it would receive the support of other Southeast Asian countries when it faced a direct threat from Vietnam, and wanted to establish an equilibrium in the foreign policy pursued at this time. After Marcos was elected as President in 1965, the Philippines discarded the anti-US and pro-Sukarno policy of the previous government. To counterbalance its US commitment, Marcos suspended the Philippines claim for the possession of Sabah and tried to pursue the aims of his predecessors to play a major role in institutionalising regional cooperation. As a small country that had gained independence only in 1965, Singapore desperately needed to make friends in the region. Moreover, Malaysian and Indonesian entrance into ASEAN left it no choice but to join. Singapore could be recognised as an independent and equal partner in the region by participating in ASEAN. It could also avoid being viewed as a third China (the majority of its population is Chinese) and confirm its friendship with its larger neighbour. After having had conflicts with every founding member of ASEAN, Malaysia was also interested in pursuing better relations in the region, especially with Indonesia. Malaysia saw Indonesian participation in ASEAN as the first move towards promoting a policy of the region as a neutral and intervention-free zone. [Yamakage 1991, pp.100–11, Sukrasep 1989, pp.7–11]

10 Immediately after the Vietnamese invasion of Cambodia, the ASEAN Foreign Ministers issued a joint communique to state that people in Cambodia were free to choose their own future without outside interference and asked for the withdrawal of all the foreign troops in Cambodia. After that, ASEAN led opinion in the Western world by proposing the enforcement of Vietnamese troops withdrawal to the UN Security Council, appealing for recognition of the seat of Coalition Government of Democratic Kampuchea and sponsoring a resolution of condemnation at each annual UN General Assembly.

11 Both the practice and theory of 'Regional integration' were abandoned by the mid 1970s.

Neo-functionalism, of which Haas was the founding father, became the main theory of regional integration in the end of 1950s and in the 1960s. Haas's argument was built by analysing the integration attempts in Western Europe and can be briefly explained as follows: To solve and control cross-border problems, international organisations must be set up. The problem solving process by international organisations will inevitably be politicised and bring a higher degree of integration in already integrated areas. This will lead to the widening of integrated areas ("spill over" effect) and some part of the sovereignty of states in policy making will be transferred to international organisations. Ultimately, in this way, political integration of the region will be achieved. However, it became clear by the mid 1970s that actual practices did not follow Haas's theory (e.g. Western Europe, Latin America), and Haas himself declared that Neo-functionalism was obsolete. See Haas (1958, 1961 and 1975).

12 Deutsch argued that, in the security aspect of integration, there were two dimensions which should be paid attention. One was the integration of policies within the region, and the other was the amalgamation of political institutions of each state. A "pluralistic security community" is integrated, but not amalgamated in this sense.

13 The United Nations Study Team, the Asian Development Bank and the Asian Industrial Development Council all conducted research on possible economic cooperation within ASEAN in the early 1970s. Of these, the UN team's report became the basis of future ASEAN cooperation. For more detail, see Suriyamongkol (1988, pp.56–67).

14 The PTA continued to have only a marginal effect on ASEAN trade, covering an estimated 2% of intra-ASEAN trade in 1980 and 5% in 1986. In 1987, only 337 of the 12,783 items offered on the PTA list were granted tariff preferences [Pangestu et al 1992, p.335].

15 A good example was Singapore's AIP. Other ASEAN members, especially Indonesia, opposed the production of low horsepower diesel engines (mainly for agricultural use) under the scheme. Under the protracted negotiations, Singapore decided to withdraw from the project in 1978 and to fund other members' AIP at nominal 1% of equity share. Japan agreed to offer 70% of each AIP's funds as Official Development Assistance. ASEAN was responsible for the remaining 30%. 60% of which to be paid by the host country and 10% by each other member. After Singapore's withdrawal from the project, the allocation of funds for non-host countries changed to 1% for Singapore and 13% for each other member [Suriyamongkol 1988, pp.203–07].

16 "Until recently, the term 'integration' has been consistently avoided in the context of ASEAN by the members of the organisation, and the vaguer but more comprehensive term, 'cooperation,' was preferred" [Blomqvist 1993, p.57].

17 On the other hand, Yamakage (1994) states the advantages of "consensus approach" as: states do not have to worry about infringement of sovereignty from the start; it is almost the same as every member having veto thus easier for states to participate; it reduces the possibility of the official collapse of the organisation (negotiation tables will not disappear); cooperation can begin with the area which could gain consensus and; cooperation which has started would influence other areas of cooperation favourably.

18 Langhammer argued that AIP, AIC and AIJV were more or less inconsistent with each ASEAN country's policy of decentralised private sector-based market economies. Though AIC and AIJV are more flexible and decentralised than AIP, they are still inefficient due to the interventions from each government. It seems that he implied that AIP, AIC and AIJV should not have been launched in the first place as ASEAN regional economic cooperation schemes. See Langhammer (1991, pp.140–42).

19 See Edwards (1978) and Yamakage (1991, pp.170–71, 276–77).

20 For more detail, see ISEAS (1991, pp.63–76).

21 World politics is the interaction between sovereign states directly and indirectly, and the

interaction affects each other's action. To make state's behaviour consistent with common interests of all the states, such as maintaining the sovereignty of individual states, mutual recognition of sovereignty and absence of war among states as the normal condition of their relationship, it is necessary to have rules, whether they are written or not. When rules are set and states follow them, patterns in states behaviour (international system) will emerge. Rules are part of the efficient causation of international order. See Bull (1977).

22 Recently, ASEAN adopted the "6 minus x" approach (e.g. the CEPT/AFTA process), which means that cooperation schemes can proceed if two or more member agreed, to speed up the cooperation process. However, it seems that there is a limit in adopting this approach when the need of showing the ASEAN unity becomes crucial.

23 The change of Indonesia's policy stance was decisive in this sense. Indonesia was traditionally a main obstacle to a FTA in the region, however, weaker petroleum prices during the 1980s forced the Indonesian government to pursue policies to increase the efficiency and competitiveness of its manufacturing industry. This policy shift and relative success of it eased Indonesia's fear of freer trade within ASEAN (EAAU/DFAT 1994, pp.33–34).

24 For details of AFTA and CEPT, see the text of the "Singapore Declaration," the "Framework Agreement on Enhancing ASEAN Economic Cooperation" and the "Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA)," signed in 1992, 1991 and 1992 respectively.

25 The set timetables and benchmarks do not prohibit two or more members to adopt more rapid tariff reduction (6 minus x approach). See Article 4:3 of the Agreement on the CEPT.

26 Apart from the temporary exclusion, members are allowed to exclude certain products permanently if they think that it is necessary for the protection of: national security; public morals; human, animal or plant life and health and; articles of artistic, historic and archaeological value (Article 9, the Agreement of the CEPT).

27 For the normal track products, the ministers agreed: if the starting tariff rates are above 20% these will have to fall to 20% by 1 January 1998 and to 0–5% by 1 January 2003 and; if the starting tariff rates are at or below 20%, the target for achieving 0–5% is 1 January 2000. For the fast track products; tariffs starting above 20% should reach 0–5% by 1 January 2000 and; tariffs starting at or below 20% should reach 0–5% by 1 January 1998 (*Bangkok Post*, 22 September 1994).

28 Regional production and sourcing are conspicuous in automobile, electronics and electric appliances industries by Japanese MNEs. For more detail, see Takayama (1994) and Abe (1994).

29 Article 5 of the Agreement states: "[m]ember states shall eliminate other [than quantitative restrictions] non-tariff barriers on a gradual basis within the period of five years after the enjoyment of concessions applicable to those products [under the CEPT Scheme]."

30 This view was put by Dr Hadi Soesastro during the discussion time of his presentation at the "China and East Asian Trade Policy" symposium, organised by Australia-Japan Research Centre, Australian National University, Canberra, 1–2 September 1994.

31 International regimes set principles and rules of certain international activities of states, and have the ability to penalise states when they do not act according to those principles and rules. A collection of the extensive studies of international regimes is Krasner (1983).

32 Transaction costs, such as communication and monitoring activities of states, remain high without international regimes because sovereign and autonomous states still play a major role in international relations [Keohane 1988, p.386].

33 The United states has already sounded out Korea and Singapore to join NAFTA. This

approach mentioned positively by a Korean scholar in his lecture at the first APEC Next Generations' Program, 10–16 September 1994, Cheju-do, Korea, in which the author participated. At the same Program, an approach of "extending AFTA east-ward" was also mentioned by another scholar. This approach is also invalid for the same reasons. Moreover, it has more possibility of dividing the Asia Pacific region into Western and Eastern rim.

34 The establishment and successful activities of the Cairns Group of Fair Traders are illustrative. The Cairns Group was established in 1986 by the agricultural products exporting countries to place agriculture on the agenda for negotiation in the Uruguay Round. All the ASEAN countries, except Brunei and Singapore, are the members of the Group. Other members include Australia, Argentina, Brazil, Canada, Chili, Hungary and New Zealand.

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