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ASEAN'S NEW ROLE IN THE ASIA PACIFIC  
REGION: CAN IT BE A DRIVING FORCE OF  
WIDER REGIONAL ECONOMIC  
COOPERATION?

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JIRO OKAMOTO



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## ABSTRACT

This paper analyses how ASEAN members (Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei) have been responding to the changing world economic environment, and how ASEAN, as a regional organisation, has been changing its priorities to reflect members' adjustments to the international environment. In its early phase, ASEAN was simply a group of neighbouring countries without coordinated external policy positions. However, it is now becoming a subsystem in international relations and able to put a collective point of view. The members of ASEAN have realised that it is more effective to voluntarily coordinate their positions in international forums and negotiations. The ASEAN Free Trade Area (AFTA) agreement is analysed as a new type of ASEAN cooperation and a step towards broader cooperation in the Asia Pacific region. Whether ASEAN can and should be a driving force for broader economic cooperation in the Asia Pacific region is discussed. An ASEAN initiative in this regard, namely the Asia Pacific Economic Cooperation (APEC) process, will be a test of unity for ASEAN itself. Also, the desirability of creating a middle-power coalition, consisting of ASEAN members, Australia, New Zealand and Korea, is considered. Such a coalition would be more beneficial for ASEAN, as well as for other countries in the region, than the proposed framework of the East Asian Economic Caucus (EAEC).

This is a revised version of a paper presented at an international symposium on 'Multi-layered Regional Cooperation in Southeast Asia after the Cold War', organised by the Institute of Developing Economies, 9-10 November 1994, Tokyo, Japan.



CHAPTER I

The first part of the book is devoted to a general survey of the history of the subject. It begins with a discussion of the early attempts to explain the phenomena of life, and then proceeds to a consideration of the more recent theories. The author then discusses the various methods of investigation, and finally concludes with a summary of the present state of the subject.

The second part of the book is devoted to a detailed study of the various phenomena of life. It begins with a discussion of the structure of the cell, and then proceeds to a consideration of the various processes of life, such as nutrition, growth, and reproduction. The author then discusses the various theories of the origin of life, and finally concludes with a summary of the present state of the subject.

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## CONTENTS

<i>List of tables</i>	vi
Introduction	1
Influence of recent international economic changes	2
Establishment of ASEAN and its development as a regional organisation	11
Analysis of ASEAN Free Trade Area initiative	18
ASEAN's approach to broader economic cooperation	24
Conclusion	27
<i>Notes</i>	29
<i>References</i>	33



## TABLES

Table 1	Principal sources of foreign direct investment in ASEAN 4	5
Table 2	Structural changes in ASEAN economies	6
Table 3	World trade share of various economies	10
Table 4	Trade matrix of ASEAN countries	22

## FIGURES

Figure 1	ASEAN 5: Foreign direct investment inflows	5
Figure 2	Structural change in merchandise exports	8
Figure 3	ASEAN trade with major trading partners	20



## Introduction

Relatively open and liberal economic regimes, namely GATT (General Agreement on Tariffs and Trade) and the World Bank/IMF (International Monetary Fund), were created and maintained after World War II with the strong backing of the United States. In the early postwar period, the influence of the United States on strategic and political, 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 these 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 foodstuffs from the region. At the same time, Japanese exports 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. Their 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 promoting free trade and containing protectionist or



potentially protectionist pressures has become problematic. The Multifibre 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. It also opted for the creation of a free trade agreement (FTA) with Canada, and then with Mexico, which culminated in the North American Free Trade Agreement (NAFTA) in 1994. In addition, the EC integrated its markets in 1992 and formed the European Union (EU) 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, as decisively as the Cold War itself shaped international economic relations in the 1950s and 1960s’ (Garnaut 1994a, p. 3).<sup>1</sup> The US commitment to maintaining open, liberal economic regimes was sustained by the geo-strategic imperatives of the ‘East–West confrontation’. This is the reason why the United States supported the rapid development of Northeast and Southeast Asian economies. The end of the Cold War may further diminish US willingness and ability to maintain the postwar economic regimes. Furthermore, how to accommodate socialist and former socialist economies, which have been opening up since the 1980s, within 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 World Trade Organisation), though their rapid economic development is widely expected.

ASEAN (the Association of Southeast Asian Nations) has been an important actor in efforts to avoid the collapse of the postwar economic regimes. The question is: can ASEAN be a driving force of broader economic cooperation in the Asia Pacific region?

### **Influence of recent international economic changes**

Generally, the ASEAN countries experienced relatively high rates of economic growth in the 1960s and the trend continued in most of them during the 1970s.<sup>2</sup> 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. Production of commodities like rice, rubber, palm oil, sugar cane, tin and petroleum was the engine of the ASEAN economies. In varying degrees, each country attempted to replace its 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 UN missions in the latter half of the 1950s and followed them closely. The main recommendations were to give the private sector the major role of economic development and for governments to continue 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 different. 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, it opted to promote industrialisation through strong government 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 seek 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



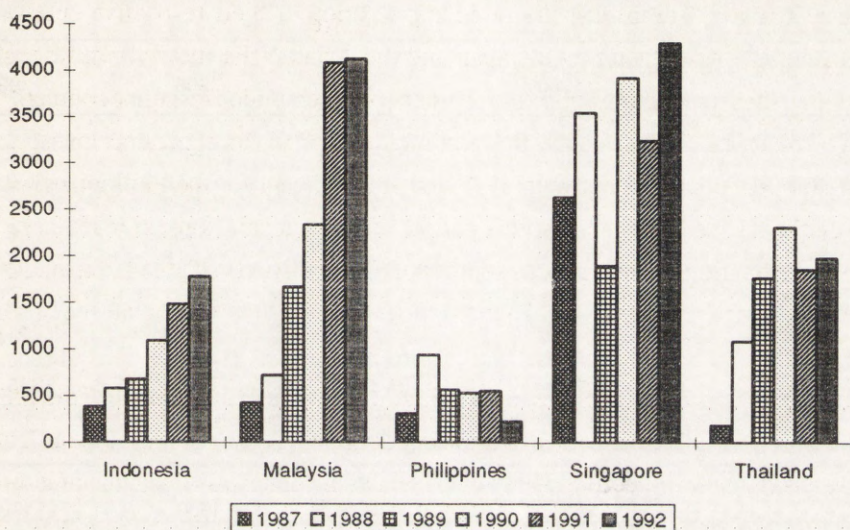
currencies following the Plaza Accord in September 1985 was one of the main factors that generated these changes. Because of the rapid appreciation of their respective currencies against the US dollar,<sup>3</sup> manufacturers in Japan and the Asian NIEs (newly industrialising economies) shifted their production and export bases of products which lost price competitiveness to ASEAN countries. Figure 1 shows the large increase in FDI (foreign direct investment) flows into the ASEAN countries between 1987 and 1992, except for the Philippines which suffered from political instability during this period and, as a result, foreign manufacturers chose other FDI destinations. The principal sources of FDI are listed in Table 1. Japan, Asian NIEs (Hong Kong, Korea, Singapore and Taiwan) and the United States 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 per cent in 1988 to 21 per cent in 1992 in Indonesia, from 24.4 per cent to 28.9 per cent in Malaysia, and from 25.8 per cent to 29.6 per cent 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 in the Philippines and Singapore has different causes. The lack of investment, especially FDI, in the manufacturing sector 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 and with relatively large manufacturing and finance sectors, its economic structure did not change dramatically, even though its real GDP increased sharply from the mid-1980s.

The increase in ASEAN exports and the change in their composition are even more impressive. The annual growth rate of ASEAN exports as a whole has surpassed the world average since the end of the 1980s. The ASEAN share of world exports (as a percentage of the total value in US dollars) was 4 per cent in 1985 but rose steadily to 4.6 per cent by 1992, while the US share fluctuated around 12 per cent and Japan's share decreased from 9.8 per cent to 9.2 per cent 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 early 1990s. The ratio of exports to GDP in Indonesia rose from 23.1 per cent in 1988 to 26.9 per cent in 1992. In Malaysia, it increased from 83.3 per cent to 111.4 per cent in the same period, and in Thailand, from 25.9 per cent to 36.3 per cent (Table 2). Figure 2 indicates the composition of exports from



**Figure 1 ASEAN 5: Foreign direct investment inflows, 1987-92 (US\$ million)**



Source: International Monetary Fund, *Balance of Payment Statistics Yearbook*, Vol. 44, Part 1, 1993.

**Table 1 Principal sources of foreign direct investment<sup>a</sup> in ASEAN 4, 1986-92, by percentage**

	1986	1988	1990	1992
Indonesia				
Japan	39.8	8.7	25.6	14.6
USA	18.6	15.0	1.8	9.0
ANIEs <sup>b</sup>	10.2	34.1	29.7	25.7
Malaysia				
Japan	6.9	25.1	23.9	15.1
USA	3.2	11.0	3.2	18.6
ANIEs	15.1	32.6	45.9	11.9
Philippines				
Japan	28.5	21.0	31.8	25.5
USA	28.6	33.8	6.2	21.6
ANIEs	10.2	30.7	39.9	24.2
Thailand				
Japan	58.2	49.2	33.7	19.6
USA	17.2	10.9	13.6	12.3
ANIEs	19.6	27.2	33.6	9.4

Notes: a Approval basis.

b ANIEs (Asian NIEs) = Hong Kong, Korea, Singapore and Taiwan.

Source: Table 8, Tables and Charts of Basic Data, prepared for IDE international symposium on 'Multi-layered Regional Cooperation in Southeast Asia after the Cold War', 9-10 November 1994, Tokyo.



**Table 2 Structural changes in ASEAN economies, 1980-90**

<b>Brunei</b>	1980	1985	1988	1990
GDP (US\$ million) <sup>a</sup>	4,931.6	3,656.7	2,762.7	3,615.9
Agriculture/Fishery (%)	0.6	1.3	2.2	2.4
Mining (%)	n.a	76.1	53.3	46.4
Manufacturing (%)	n.a	0.7	2.5	2.7
Construction (%)	1.6	2.1	3.6	4.3
Transportation/Communication (%)	0.5	1.8	3.2	3.3
Finance/Insurance (%)	1.5	2.0	4.0	4.5
Service (%)	4.0	11.8	23.3	21.8
GDO/cap. (US\$)	22,416.3	16,479.2	11,462.8	14,306.1
Exports (US\$ million)	4,604.2	3,081.6	1,765.3	2,398.1
Exports/GDP (%)	93.4	84.3	63.9	66.3
<hr/>				
<b>Indonesia</b>	1980	1985	1988	1990
GDP (US\$ million) <sup>a</sup>	72,482.3	84,320.3	106,141.3	126,346.8
Agriculture/Fishery (%)	24.8	24.1	21.5	19.2
Mining (%)	25.7	12.1	13.4	12.6
Manufacturing (%)	11.6	18.5	19.5	21.0
Construction (%)	5.6	5.0	5.5	6.0
Transportation/Communication (%)	4.3	5.7	5.6	6.5
Finance/Insurance (%)	1.7	3.7	4.2	4.8
Service (%)	2.2	3.8	3.3	3.3
GDO/cap. (US\$)	469.4	480.2	592.0	661.0
Exports (US\$ million)	21,680.8	19,465.0	2,5675.2	33,966.9
Exports/GDP (%)	29.9	23.1	24.2	26.9
<hr/>				
<b>Malaysia</b>	1980	1985	1988	1990
GDP (US\$ million) <sup>b</sup>	19,435.7	25,306.5	29,373.4	36,498.4
Agriculture/Fishery (%)	22.8	21.0	18.6	16.6
Mining (%)	10.0	10.3	9.8	8.7
Manufacturing (%)	20.0	24.4	26.9	28.9
Construction (%)	4.6	3.2	3.6	3.9
Transportation/Communication (%)	5.7	6.7	6.8	7.1
Finance/Insurance (%)	8.2	9.2	9.8	10.3
Service (%)	2.3	2.2	2.1	2.1
GDO/cap. (US\$)	1,446.1	1,932.4	2,305.4	2,956.5
Exports (US\$ million)	12,248.7	21,091.6	29,444.0	4,0649.8
Exports/GDP (%)		83.3	100.2	111.4



<b>Philippines</b>	1980	1985	1988	1990
GDP (US\$ million) <sup>c</sup>	12,344.3	33,673.2	29,516.7	28,046.2
Agriculture/Fishery (%)	25.6	22.9	22.4	22.8
Mining (%)	2.4	1.6	1.5	1.6
Manufacturing (%)	25.0	25.5	25.6	25.1
Construction (%)	7.7	5.9	5.9	5.1
Transportation/Communication (%)	5.2	5.8	5.7	5.9
Finance/Insurance (%)	n.a	9.5	9.8	9.8
Service (%)	12.2	11.6	12.0	12.1
GDO/cap. (US\$)	257.7	560.3	481.1	436.5
Exports (US\$ million)	5,787.8	7,821.0	8,186.0	9,824.0
Exports/GDP (%)	46.9	23.2	27.7	35.0
<b>Singapore</b>	1980	1985	1988	1990
GDP (US\$ million) <sup>d</sup>	5,682.5	23,991.9	31,531.9	39,519.0
Agriculture/Fishery (%)	1.3	0.4	0.3	0.3
Mining (%)	0.4	0.2	0.1	0.1
Manufacturing (%)	23.9	28.6	29.0	27.7
Construction (%)	5.0	5.8	5.3	6.7
Transportation/Communication (%)	19.2	14.1	14.2	14.8
Finance/Insurance (%)	17.8	29.0	27.7	25.8
Service (%)	11.0	10.8	10.2	10.2
GDO/cap. (US\$)	2,367.7	9,227.7	1,1635.4	14,013.8
Exports (US\$ million)	23,992.9	38,038.9	5,0754.4	61,530.7
Exports/GDP (%)	422.2	158.5	161.0	155.7
<b>Thailand</b>	1980	1985	1988	1990
GDP (US\$ million) <sup>e</sup>	14,302.2	61,652.3	76,304.0	89,390.8
Agriculture/Fishery (%)	24.9	16.2	13.6	12.8
Mining (%)	16.3	1.7	1.6	1.7
Manufacturing (%)	20.7	25.8	27.8	29.6
Construction (%)	5.7	4.8	6.0	5.9
Transportation/Communication (%)	6.4	7.5	7.5	7.5
Finance/Insurance (%)	5.9	4.2	5.5	6.3
Service (%)	10.6	13.3	11.9	11.0
GDO/cap. (US\$)	304.3	1,116.8	1,344.1	1,522.8
Exports (US\$ million)	6,505.0	15,951.0	23,040.0	32,466.0
Exports/GDP (%)	45.5	25.9	30.2	36.3

- Notes: a nominal price.  
b 1978 price.  
c 1985 price (except for 1980 which is 1972 price).  
d 1985 price (except for 1980 which is 1986 price).  
e 1988 price (except for 1980 which is 1972 price).  
na not available.

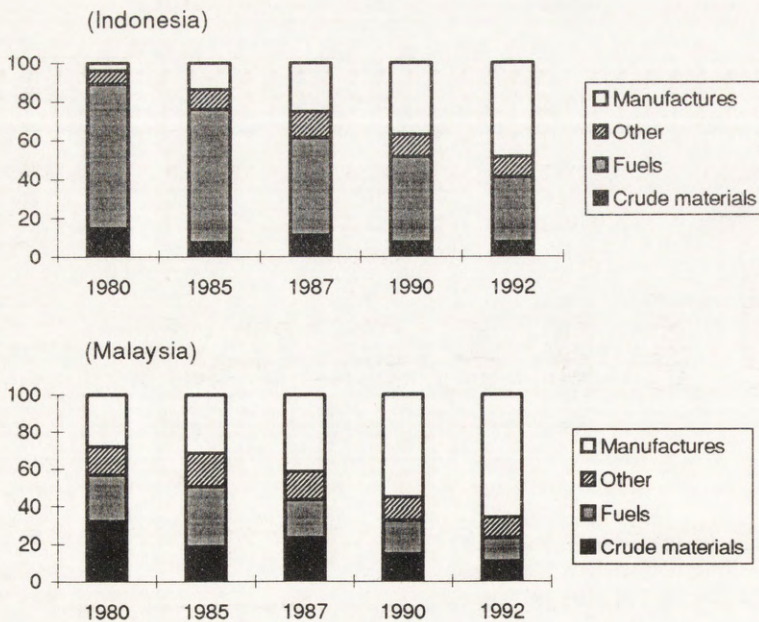
Source: Institute of Developing Economies, *Ajia Doko Nenpo (Asian Affairs)*, various issues.



the ASEAN countries, except Brunei, 1980–92. It is very clear that the shift in each country's production structure, induced mainly by strong FDI growth, is reflected in changes in the composition of exports. 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. Traditional exports comprised about 60 per cent of total exports in Malaysia and Thailand, and about 90 per cent in Indonesia in 1985. These shares had dropped to less than 40 per cent and 60 per cent respectively, by 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 per cent by 1992. In the Philippines, by comparison, the share of manufactures stagnated over the latter half of the 1980s.

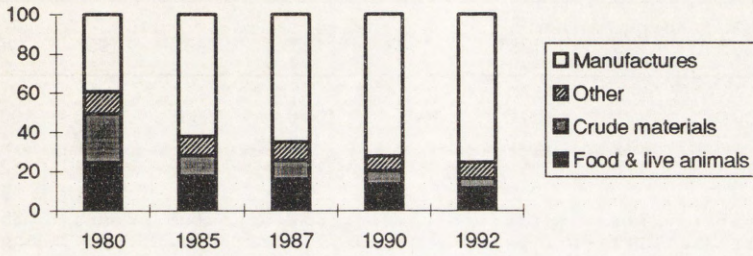
The growth in imports is also significant. Table 3 shows that ASEAN's share in world imports rose from 3.3 per cent in 1980 to 4.9 per cent in 1992. Most of the increase has come from intermediate goods and machinery for manufacturing production.<sup>4</sup> It is inevitable that imports of these goods increased, because ASEAN production structures shifted towards

**Figure 2 Structural change in merchandise exports, 1980–92, by percentage**

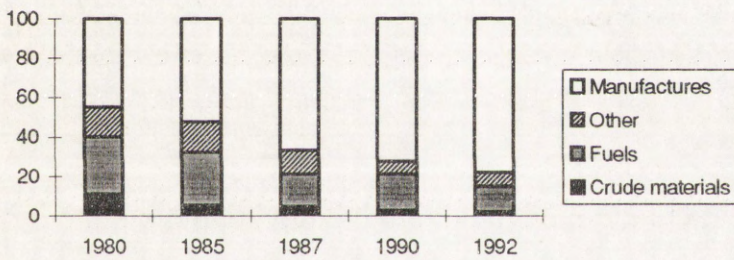




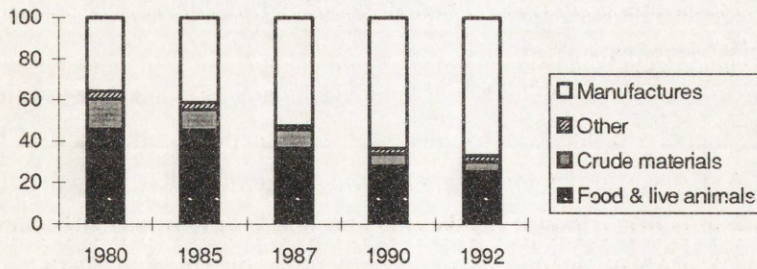
(Philippines)



(Singapore)



(Thailand)



Note: Manufactures are defined as SITC 5 to 8 inclusive for all economies except the Philippines, where they are SITC 5 to 9.

Source: Data from EAAU/DFAT, 1994, p. 61.



**Table 3 World trade share of various economies, 1975-92 (%)**

<b>Exports</b>	1975	1980	1985	1988	1989	1990	1991	1992
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 <sup>a</sup>	35.6	34.0	32.6	35.8	35.2	36.9	35.5	35.2
Others	41.4	43.4	41.8	38.6	38.7	38.5	38.5	38.9

<b>Imports</b>	1975	1980	1985	1988	1989	1990	1991	1992
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	38.8	38.0	39.1	40.4

Note: a Belgium, France, Germany, Italy, Netherlands and UK.

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, various issues.

manufacturing during the 1980s, and there is not yet any significant capacity to produce those goods domestically. Domestic production of intermediate goods and machinery is the next step in the ASEAN economies' development.

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

A relevant question is what kind of role has ASEAN played in the economic development of its members. It is often said that its role has been critical, but passive. What does this mean?



## **Establishment of ASEAN and its development as a regional organisation**

### *Political and strategic aspects*

The Association of Southeast Asian Nations (ASEAN) was established in 1967, mainly for the purpose of regional security (peaceful relations among the member countries as well as the security of the region as a whole), which was thought necessary to 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 short-lived regional cooperation concepts of ASA (Association of Southeast Asia)<sup>5</sup> and MAPHILINDO.<sup>6</sup> However, from the mid-1960s, the situation changed.<sup>7</sup> Under self-imposed isolation from the world, the Sukarno government approached China (PRC) and the influence of the Indonesian communist party (PKI) grew. The Philippine government became cautious towards 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. After the change in leadership, Indonesia needed to end its isolation if it was to receive development aid from 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 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 (Sukrasep 1989, pp. 7–11; Yamakage 1991, pp. 100–11).

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 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 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, the priority was cooperation on political and security matters, and these are the very areas in which ASEAN has been successful. Since its establishment, there have been minor conflicts among member countries, especially along their borders, but they have never had major confrontations. It is almost unthinkable 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, it consistently condemned Vietnam and the government of the People's Republic of Kampuchea.<sup>8</sup> 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 it has never aimed to integrate its members' political institutions.<sup>9</sup> ASEAN is a 'pluralistic security community', and will remain so.<sup>10</sup> Member countries view the organisation 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*

In contrast to the political/security cooperation, economic cooperation within ASEAN has not been extensive. Such cooperation in the region depended totally on the extent to which each member 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 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 recommendations from several international organisations, that any move towards cooperation was made.<sup>11</sup> The decision to go ahead was finally taken 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 such cooperation, official agreements followed only slowly: Preferential Trade Agreement (1977), Basic Agreement on ASEAN Industrial Projects (1980), Basic Agreement on Industrial Complementation (1981), and 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 restrictions, 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 reductions 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.<sup>12</sup> 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 Projects (AIP) was also troublesome. In 1977, five projects were 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), but the most serious problem was that members pursued national interests rather than regional interests.<sup>13</sup> Generally, when one ASEAN country's product, produced under an AIP, competed with the domestic product of another member, the latter was reluctant to give preferential treatment to the AIP product, despite this being essential for the successful implementation of AIPs.

Learning from previous cooperation schemes, the ASEAN Industrial Joint Ventures (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 per cent (later reduced to 40 per cent); it can be approved separately by the relevant ASEAN Economic Ministers; its investors can choose their location of operation in any of the participating countries; as an investment incentive, participating countries charge 10 per cent of the prevailing tariff (granting a 90 per cent 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 per cent margin of preference from some participating countries because of requests for 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. 60–5) summarised them in terms of an 'expectation gap' and an 'implementation gap'. First, an expectation gap existed between the level of what the cooperation programs were expected to achieve and what was actually attainable in view 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 level of development. Less developed countries tend to be more inward-looking than 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 in the initial stages. In the case of ASEAN, all countries except Singapore were reluctant to fully commit themselves to economic cooperation which was expected to lead to some regional industrial integration measures and thus severer competition.<sup>14</sup> 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.

Secondly, an implementation gap existed between what was achievable and what has actually been achieved. The lack of sufficient preparation has caused under-performance in 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.<sup>15</sup>

On the other hand, ASEAN had already shown unity in the 1970s when it dealt with external economic relations. When one member 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.<sup>16</sup> ASEAN started formal dialogues with the 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.<sup>17</sup> ADPS has raised the profile and the status of ASEAN in the international context. The annual ASEAN Post Ministerial Conference (ASEAN-PMC) meeting, which brings all the dialogue partners together at the same table, promotes ASEAN's status even more.

### *ASEAN as a meaningful sub-system in international relations*

During the 27 years of its history, ASEAN has become a meaningful entity, an actor, in the Asia Pacific region. Its unity in external affairs, both strategic/political and economic, has made its voice widely heard. It can be said that ASEAN has started to function as a sub-system in world politics. It has gradually developed 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 clearly restated 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. ... [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, its core norms have been followed by members as the very essence of the organisation's existence. In 1976, the Treaty of Amity and Cooperation in Southeast Asia was signed by ASEAN members. The norms are again 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



of one another; (d) settlement of differences or disputes by peaceful means; (e) renunciation of the threat or use of force; and (f) effective cooperation among themselves.

Secondly, ASEAN has adopted a 'consensus approach' to decision-making from the start. Although this approach has been one of the factors preventing ASEAN from proceeding to substantial economic cooperation because it tended to delay the decision-making process, it has also been the rule of behaviour that has prevented the collapse of ASEAN as a meaningful regional organisation in crucial times, such as during the Vietnam War and the Cambodian conflict. Yamakage (1994) states the advantages of the consensus approach as: countries do not have to worry about infringement of sovereignty from the start; it is almost the same as every member having a veto, thus it is easier for countries to participate; it reduces the possibility of the official collapse of the organisation (negotiation tables will not disappear); cooperation can begin with areas on which there is likely to be consensus; and cooperation already started can favourably influence other areas of cooperation. Recently, ASEAN adopted the '6 minus x' approach (e.g. the Common Effective Preferential Tariff/ASEAN Free Trade Area process), which means that cooperation schemes can proceed if two or more members are agreed. It remains crucial for ASEAN to show its unity through consensus externally, but it can speed up the intra-regional cooperation process by the new approach. Lastly, restructuring of the ASEAN bureaucracy was done at the Singapore summit meeting in 1992. For instance, the secretariat, established in 1972 but limited to just being a 'mail box' for member countries, can now initiate, recommend and supervise policies and action plans, and it 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. 144-5).

However, 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 such cooperation re-emerged. The AFTA (ASEAN Free Trade Area) initiative, first proposed by the Prime Minister of Thailand, Anand Panyarachun, in 1991, was agreed on by all member countries in January 1992 at the Singapore summit meeting. The initiative represented a clear departure from the Preferential Tariff Agreement because not only did it aim for more comprehensive tariff reductions 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.<sup>18</sup> Second, the deadlock in the negotiations of the Uruguay Round, 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 their 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. A collapse 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 China, Taiwan and Hong Kong to APEC (Asia Pacific Economic Cooperation) membership was seen as diminishing the presence of ASEAN in the region.

### **Analysis of ASEAN Free Trade Area initiative**

The AFTA Agreement stipulates a free trade area for products that satisfy 40 per cent ASEAN content within a time frame of 15 years, starting from 1 January 1993. According to the Singapore Declaration of 1992, AFTA is not intended to be a customs union, so the policy autonomy of member states on tariffs for non-ASEAN products will be maintained.

The CEPT scheme is the main mechanism of the AFTA process.<sup>19</sup> It 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 intra-ASEAN tariffs on nominated goods. Goods can be placed on '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 per cent in 10 years if the tariff rates as of 1 January 1993 exceed 20 per cent, and in 7 years if they are 20 per cent or below. For the normal track products, all tariffs above 20 per cent as of 1 January 1993 must be brought down to at least 20 per cent within 5–8 years, and to 0–5 per cent within 15 years. Tariffs of 20 per cent or below are to be reduced to 0–5 per cent within the time frame that two or more member countries arrange. To make sure that these reductions will be made



by all members, certain benchmarks have been set: tariffs must be reduced to 15 per cent across-the-board by 2003, to 10 per cent by 2005 and to 5 per cent by 2007. It is important to note that, within this time frame, individual members can decide the pace and degree of reductions.<sup>20</sup> To make participation easier, member states are permitted to exclude temporarily certain products (so-called 'sensitive products').<sup>21</sup>

At the introduction of the CEPT scheme, the number of items nominated by members represented 88 per cent of their total tariff lines on average (Ariff 1993). The AFTA Council, consisting of the ASEAN Economic Ministers, has tried hard to speed up the reduction process and widen the coverage of products, and, in September 1994, agreed to trim up to 5 years from the original 15-year schedule.<sup>22</sup> While non-processed agricultural products still remain officially outside of the scheme, several members have unilaterally added some of them to their lists.

### *The initial effects of AFTA*

To analyse the overall 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 to intra-regional trade; trade creation through advantageous intra-regional tariffs; and investment diversion into the area.

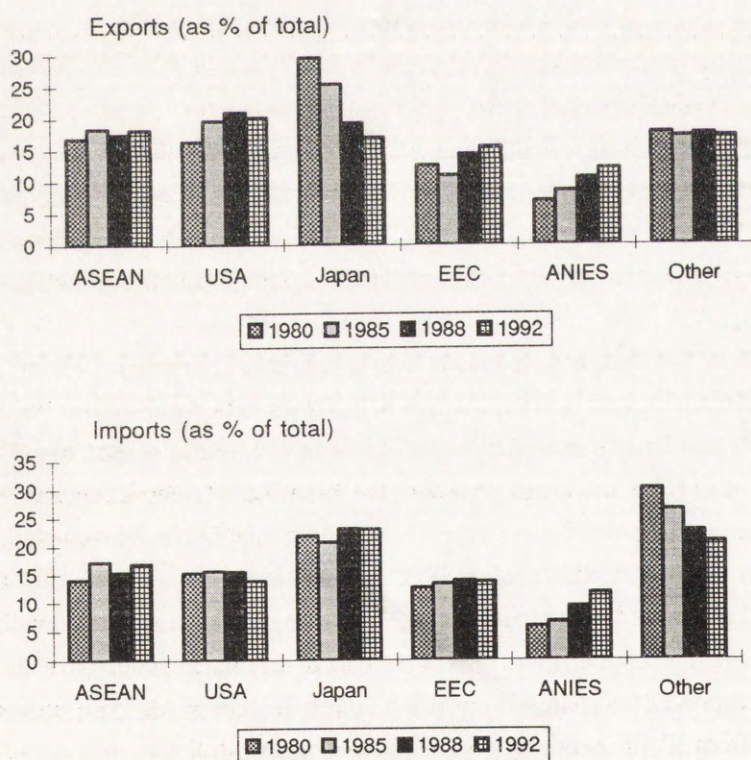
First, in the case of AFTA, the trade diversion effect is thought to be minimal. Figure 3 shows the direction of ASEAN exports, and the share of ASEAN imports, from 1980 to 1992. In exports, it is noticeable that Japan's share dropped rapidly from 29.6 per cent in 1980 to 17 per cent in 1992. On the other hand, the steady growth of the Asian NIEs (Hong Kong, Korea and Taiwan) as one of the major destinations of ASEAN exports is impressive. Nevertheless, the United States, Japan, the Asian NIEs and the EEC all remain important destinations, absorbing more than 60 per cent of total exports in 1992. The same can be said in relation to imports, where these economies supplied more than 60 per cent of the total in 1992. The share of exports to other destinations did not change in this period, but their share in ASEAN imports decreased significantly, from 30.1 per cent in 1980 to 20.7 per cent in 1992.

Intra-ASEAN trade in this period was rather static. Member countries absorbed 17–18 per cent of exports, while the import share was around 14–17 per cent. While these figures are rather impressive for a grouping of developing countries, when we look at individual members'



trade relations with each other (Table 4), it becomes clear that Singapore, and to a lesser extent Malaysia, dominated this intra-regional trade. In 1992, for instance, Indonesian exports to other ASEAN countries, excluding Singapore and Malaysia, were only 1.5 per cent of the total, while imports were only 1.4 per cent. For the Philippines and Thailand, the respective figures were 1.5 per cent, 2.8 per cent and 1.5 per cent, 1.5 per cent. Singapore and Malaysia dominate intra-regional trade because they have the most open economies in the region. This is the reason why only these two countries could start the CEPT tariff reductions on 1 January 1993 as scheduled. Because of the competitive, rather than complementary, structure of ASEAN trade, it is more

Figure 3 ASEAN trade with major trading partners, 1980-92



Note: ANIEs (Asian Newly Industrialising Economies) = Hong Kong, Korea and Taiwan.

Source: International Monetary Fund, *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.



than likely that its main trading partners will continue to be extra-regional, namely the United States, Japan, Asian NIEs and the EEC. 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 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 area. 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 conclusions diverge as to how much it will be (see, for instance, Devan 1987 and Imada et al. 1991). Some MNEs had already started to consider, or to implement, production and sourcing plans in the region.<sup>23</sup> This trend began before the start of the AFTA process, so the direct influence of AFTA is yet to be seen. Blomqvist (1993, p. 60) argues 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 intra-industry trade within ASEAN is largely bilateral trade between Singapore and each member. It seems certain that extra-regional destinations will remain vital for ASEAN products even if regional sourcing and production are significantly realised by AFTA. In any case, the development of intra-industry and/or intrafirm trade within ASEAN largely depends upon MNE decisions, which member countries cannot control.

In addition, simply 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 ('CEPT plus').<sup>24</sup> 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 since the late 1980s. Yet it seems that the CEPT schedule is rather slow and not quite institutionalised.<sup>25</sup>

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.<sup>26</sup> Having initiated an impressive outward-looking industrialisation, the



**Table 4 Trade matrix of ASEAN countries (as % of total)**

Exports		Brunei	Indon.	Malay.	Phils.	Sing.	Thai.	ASEAN	USA	Japan	EEC	NIEs	China
Brunei	1980	..	1.0	1.1	6.5	4.1	12.7	8.6	70.9	..	..	..	..
	1985	0.3	0.6	0.5	8.7	10.6	20.8	7.3	61.2	..	3.6	..	..
	1988	..	1.4	2.0	5.7	8.8	17.9	2.1	65.0	0.1	13.0	0.3	..
	1992	..	0.1	3.9	7.8	8.4	20.2	1.2	52.1	9.3	15.4	0.2	..
Indonesia	1980	..	0.3	0.8	11.3	0.2	12.6	19.6	49.3	6.5	4.5	..	..
	1985	..	0.4	1.1	8.7	0.4	10.7	21.7	46.2	6.2	7.6	0.5	..
	1988	..	0.9	0.4	8.5	0.8	10.6	16.2	41.7	11.1	10.4	2.5	..
	1992	..	1.6	0.5	8.5	1.0	11.6	13.7	34.3	13.8	10.8	4.8	..
Malaysia	1980	0.2	0.3	2.4	19.1	1.5	22.6	16.4	22.8	17.6	7.2	1.7	..
	1985	0.2	0.4	1.5	19.4	3.4	25.9	12.8	24.6	14.4	10.3	1.0	..
	1988	0.3	1.3	1.2	19.3	2.0	24.4	17.4	17.0	14.4	12.7	2.0	..
	1992	0.4	1.2	23.1	3.7	29.6	18.7	13.3	14.9	11.7	1.9	..	..
Philippines	1980	0.1	1.9	1.6	1.9	6.6	27.5	26.6	17.5	8.9	0.8	..	..
	1985	..	0.4	3.8	5.4	1.8	11.4	36.0	19.0	14.0	7.9	1.8	..
	1988	..	0.4	1.7	3.1	1.8	7.0	35.7	20.1	17.7	10.6	0.9	..
	1992	..	0.4	2.0	2.4	1.1	5.9	40.0	19.7	17.9	7.4	1.4	..
Singapore	1980	1.4	na	15.0	1.4	4.4	22.2	12.5	8.1	12.8	10.4	1.6	..
	1985	1.3	na	15.5	1.0	4.2	21.9	21.2	9.4	10.6	8.8	1.5	..
	1988	1.1	na	13.6	1.3	5.5	21.5	23.8	8.6	13.0	10.1	3.0	..
	1992	1.2	na	11.5	1.4	5.4	19.5	21.2	5.7	14.3	16.0	2.3	..
Thailand	1980	0.1	3.6	4.5	0.4	7.7	16.4	12.7	15.1	26.0	7.2	1.9	..
	1985	0.2	0.6	5.0	0.7	7.9	14.5	19.7	13.4	19.0	8.0	3.8	..
	1988	0.1	0.5	3.0	0.4	7.7	11.7	20.1	16.0	20.8	8.2	3.0	..
	1992	0.1	0.9	2.6	0.5	8.7	12.8	22.5	17.5	19.6	8.8	1.2	..

ASEAN countries have a vital interest in the maintenance of liberal economic regimes, more so than ever before. For the first time, all ASEAN members look in the same direction of comprehensive cooperation in trade liberalisation. The commencement of the AFTA process is often said to be an attempt to counter the regionalist tendencies of North America and Europe. But it is 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. The existence of the AFTA process should not diminish member countries' incentive for freer trade in the broader region. It should be more emphasised that, by proceeding with AFTA, ASEAN can



Table 4 (cont.)

Imports		Brunei	Indon.	Malay.	Phils.	Sing.	Thai.	ASEAN	USA	Japan	EEC	NIEs	China
Brunei	1980		0.1	4.1	0.5	19.0	2.5	26.1	20.0	23.7	20.3	1.6	1.8
	1985		..	4.9	..	24.4	3.1	32.4	15.6	19.8	17.9	3.3	2.0
	1988		1.3	7.9	0.1	26.5	4.0	39.8	12.6	15.9	18.7	3.3	2.1
	1992		0.8	7.2	0.1	29.4	1.2	38.7	21.9	7.7	26.5	2.2	0.5
Indonesia	1980	..		0.3	0.8	8.6	2.7	12.5	13.0	31.5	13.6	7.8	1.8
	1985	..		0.5	0.2	8.2	0.1	9.0	16.7	25.7	17.5	5.2	2.4
	1988	..		2.2	0.3	6.6	0.7	9.8	12.9	25.4	19.3	8.9	3.0
	1992	..		2.0	0.3	6.8	1.1	10.2	11.1	22.2	20.1	15.0	1.9
Malaysia	1980	..	0.7		1.0	11.7	3.0	16.4	15.1	22.8	15.8	4.8	2.3
	1985	..	1.1		1.9	15.8	3.5	22.4	15.3	23.0	14.4	5.5	2.0
	1988	..	1.7		0.8	13.2	3.0	18.7	17.7	23.0	13.3	7.6	2.9
	1992	..	1.6		0.6	15.7	2.5	20.4	15.9	26.0	12.5	9.3	2.4
Philippines	1980	0.7	2.3	2.0		1.6	0.3	6.7	23.5	19.9	10.7	6.5	2.7
	1985	0.3	3.5	7.3		2.4	1.0	14.5	25.1	14.0	8.5	12.4	5.4
	1988	0.4	1.9	2.9		4.1	0.6	9.9	21.0	17.4	12.1	15.4	3.1
	1992	0.6	1.1	3.1		3.2	1.1	9.1	18.7	23.7	12.7	14.6	1.5
Singapore	1980	0.8	na	13.8	0.3		2.0	17.0	14.1	18.0	11.2	5.5	2.6
	1985	0.9	na	14.2	0.8		2.1	18.0	15.2	17.1	11.3	6.9	8.6
	1988	0.3	na	14.7	0.6		2.7	18.3	15.6	22.0	12.0	9.5	3.9
	1992	0.3	2.5	13.6	0.4		4.1	20.9	13.9	18.8	11.5	12.5	2.9
Thailand	1980	2.4	0.5	1.8	0.8	6.5		12.0	14.5	21.2	13.4	5.0	4.5
	1985	3.6	0.7	5.9	0.6	7.4		18.2	11.4	26.5	14.8	5.7	2.4
	1988	0.8	0.8	2.1	0.9	7.4		12.0	13.6	27.1	15.5	7.7	3.3
	1992	0.5	0.7	3.9	0.3	7.3		12.7	11.7	29.3	14.4	10.0	3.0

Notes: .. negligible.  
na not available.  
NIEs = Hong Kong, Korea and Taiwan.

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, 1987, 1992 and 1993.

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 implications for broader regional economic cooperation.



## ASEAN's approach to broader economic cooperation

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 postwar 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 conflict is to establish and maintain international regimes such as GATT.<sup>27</sup>

This was the case in the Western world after World War II, with its 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 participants widely shared a recognition of the utility of those regimes.<sup>28</sup>

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 when we turn our eyes to the Asia Pacific region, there remain several obstacles to freer trade and investment: US trade policy towards the Western Pacific is rather problematic (for example, because of unilateral retaliation, the 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. One of them is to 'extend NAFTA west-ward', an illogical and impractical suggestion from an Asia Pacific perspective.<sup>29</sup> Garnaut (1994b, p. 10) argues that,

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 west-ward, the exclusive nature of NAFTA would make outsiders (especially European countries) suspicious of its objectives. It might 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 of 'open regionalism', an idea that Australian scholars have been asserting (see Drysdale 1991; Drysdale and Garnaut 1993; Elek 1992). 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 ASEAN do for the development of freer trade and investment in the Asia Pacific region? In brief, it can and should be a driving force of the APEC process through the 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 its importance as a regional organisation. Economically, it suspected that the bigger countries might dominate the cooperation agenda to their own advantage. However, rapid economic growth and changes in economic and trade structures since the latter half of the 1980s have made ASEAN more confident, as well as more reliant upon international trade. ASEAN's limited intra-regional market, at least for the foreseeable future, is not a sufficient basis for its members' further industrial development. To achieve freer trade in a broader area 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. ASEAN does not want any of the powers, or some coalition of them, to dominate. Japan and the United States are, and will remain, the main trading 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 now of influencing the Asia Pacific region than it did 10 years ago.

ASEAN is already an organisation of countries of different size, levels of development and ethnicities, so there is a possibility that its initiatives would be accepted in the wider region if members are able to make compromises within the organisation. But for the purpose of smoother economic cooperation in the Asia Pacific region, sub-regional consultation with other middle powers, such as Australia, New Zealand and Korea, is desirable.<sup>30</sup>

The East Asian Economic Caucus (EAEC), first proposed by the Malaysian Prime Minister, Dr Mahathir, as a counter force against the EU and NAFTA, could be transformed and used for this purpose. Excluded countries have problems with the EAEC concept, because it seems too Asia-specific. Dr Mahathir's argument for EAEC (Mahathir and Ishihara 1994, pp. 52-4) may be summarised as follows:

- The EU and NAFTA were formed to counter the competition posed by Asian economies, which had become a serious threat to European and American economies.
- The EU and NAFTA insist that they will not be protectionists, but forming trade blocs is itself a protectionist move.
- To counter huge trade blocs like the EU and NAFTA, 'Asia' should find and use an equivalently powerful measure.
- EAEC will offer a united stance and interest for member countries when they face international trade negotiations, without establishing a united political institution or a federation of states.
- If EAEC is realised, European and American powers will have to listen to what it says because Asia is huge and has great economic potential.

However, to achieve ASEAN's goal of freer trade and investment in the Asia Pacific region and to avoid domination of the cooperation agenda by the great powers at the same time, there is no reason to exclude 'non-Asian' middle powers in the region, who share similar foreign economic policy preferences, from a consultation caucus. Also, there is no reason to include one or two of the great powers in that caucus, though close consultations with all powers in the process are still needed. What is needed right now for all participants in the APEC process are constructive



and pragmatic talks to find the way to eventually achieving its objective. If the EAEC concept is transformed into a coalition of middle powers in the region, like ASEAN members, Australia, New Zealand and Korea, and concentrates on how trade and investment liberalisation should be made, it may become a useful vehicle for promoting regional consensus.

Dr Mahathir also argued that EAEC would be a useful counter force to avoid the linkage of social issues (such as democracy, environmental protection, human rights protection and labour conditions) with trade issues, which is posed by 'Western' developed countries (Mahathir and Ishihara 1994, pp. 61-2). Though his opposition to the linkage is worth listening to, to include those arguments in supposed-to-be pragmatic talks among a middle-power coalition may not be productive. It is necessary for such a coalition to concentrate on one particular issue to be united and effective. Problems like the linkage of social and trade issues can and should be discussed within other frameworks, such as the ASEAN-PMC meeting where the representatives of all the major actors in the Asia Pacific region, the EU and an international organisation (UNDP) participate.

## Conclusion

The ASEAN countries' economic development has been impressive since the 1960s. The rapid growth of their GDP and trade since the latter half of the 1980s has been even more impressive. Generally, they responded well to changes in the international environment and shifted their economies towards more outward-looking, trade-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 borders.

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



The confidence that ASEAN gained from successful economic development and increased international status, as well as the urgent need to counter economic regionalist moves in North America and Europe, has led it to take the first step towards new regional cooperation. AFTA, though the concept is significant compared with 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 market-driven economic development. ASEAN can play a major role in the APEC process, whose objectives are to promote freer trade and investment in the region, to avoid exclusive regionalism within the region, and to avoid the domination of economic cooperation agenda by the great powers. To be a driving force of the APEC process, ASEAN needs to form a coalition with middle powers who have similar policy preferences, such as Australia, New Zealand and Korea, and to pursue 'open regionalism'. If the members of the coalition can compromise on liberalisation measures among themselves (unilaterally or multilaterally) and maintain unity, the possibility of successful endorsement of its initiatives will greatly increase. On the other hand, the great powers in the region, especially the United States and Japan, should be ready to accommodate such a coalition and assist in the realisation of its initiatives.

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 drastically reduce the diversionary impact of AFTA. During the process of economic liberalisation, some sectors of individual ASEAN countries may lose out. However, ASEAN should proceed with the APEC initiatives 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 at an average annual rate of 3.9 per cent during the 1960s and 7.9 per cent during the 1970s. Other countries' respective rates were: Malaysia 6.5 per cent, 7.8 per cent; Singapore 9.6 per cent, 9.6 per cent; the Philippines 4.8 per cent, 6.0 per cent; and Thailand 8.1 per cent, 6.9 per cent (Akraanee and Chirathivat 1989, p. 402).
- 3 The Japanese yen appreciated 33 per cent against the US dollar during the period 1986–90. In the same period, the Korean won appreciated 20 per cent, the Singapore dollar 17 per cent and the Taiwan yuan 29 per cent.
- 4 The share of intermediate goods and machinery in the total imports into Malaysia rose from 55.2 per cent in 1980 to 70.9 per cent in 1992. In Thailand, Singapore, Indonesia and the Philippines, it increased from 37.7 per cent to 64.9 per cent, from 43.9 per cent to 60.7 per cent, from 52.5 per cent to 60 per cent, and from 36.5 per cent to 43.7 per cent, respectively, in the same period. See Aoki (1994, p. 84).
- 5 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. 35–8).
- 6 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. 71–6).
- 7 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.
- 8 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 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, appeal-



- ing for recognition of the seat of the Coalition Government of Democratic Kampuchea and sponsoring a resolution of condemnation at each annual UN General Assembly.
- 9 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 on an analysis of 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. Their activities will inevitably be politicised and bring a higher degree of integration in already integrated areas. There will be a widening of integrated areas ('spill over' effect), and some part of the sovereignty of individual states in policy making will be transferred to the international organisations. Ultimately, in this way, the political integration of regions will be achieved. However, it became clear by the mid-1970s that actual practice 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).
  - 10 Deutsch argued that, in the security aspect of integration, there were two important dimensions: one was the integration of policies within the region, and the other was the amalgamation of the political institutions of each state. A 'pluralistic security community' is integrated, but not amalgamated in this sense.
  - 11 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).
  - 12 The PTA continued to have only a marginal effect on ASEAN trade, covering an estimated 2 per cent of intra-ASEAN trade in 1980 and 5 per cent 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).
  - 13 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 a nominal 1 per cent of equity share. Japan agreed to offer 70 per cent of each AIP's funds as official development assistance. ASEAN was responsible for the remaining 30 per cent, 60 per cent of which was to be paid by the host country and 10 per cent by each other member. After Singapore's withdrawal from the project, the allocation of funds for non-host countries changed to 1 per cent for Singapore and 13 per cent for each other member (Suriyamongkol 1988, pp. 203-7).



- 14 '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).
- 15 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. He seems to imply that AIP, AIC and AIJV should not have been launched in the first place as ASEAN economic cooperation schemes. See Langhammer (1991, pp. 140–2).
- 16 See Edwards (1978), and Yamakage (1991, pp. 170–1, 276–7).
- 17 For more detail, see ISEAS (1991, pp. 63–76).
- 18 The change of Indonesia's policy stance was decisive in this sense. Indonesia was traditionally the main obstacle to an 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 its relative success eased Indonesia's fear of freer trade within ASEAN (EAAU/DFAT 1994, pp. 33–4).
- 19 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.
- 20 The set timetables and benchmarks do not prevent two or more members implementing more rapid tariff reduction (6 minus x approach). See Article 4:3 of the Agreement on the CEPT.
- 21 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, Agreement on the CEPT).
- 22 For normal track products, the ministers agreed: starting tariff rates above 20 per cent will have to fall to 20 per cent by 1 January 1998 and to 0–5 per cent by 1 January 2003; and those at or below 20 per cent, to fall to 0–5 per cent by 1 January 2000. For fast track products; tariffs starting above 20 per cent to reach 0–5 per cent by 1 January 2000; and those at or below 20 per cent to reach 0–5 per cent by 1 January 1998 (*Bangkok Post*, 22 September 1994).
- 23 Regional production and sourcing are conspicuous in automobile, electronics and electrical appliance industries by Japanese MNEs. For more detail, see Takayama (1994) and Abe (1994).



- 24 See PIDS/ASEAN Secretariat (1992, pp. 8–10).
- 25 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]'.
- 26 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 the Australia–Japan Research Centre, Australian National University, Canberra, 1–2 September 1994.
- 27 International regimes set principles and rules for certain international activities by states and have the ability to penalise states, directly or indirectly, when they do not act according to those principles and rules. For a collection of extensive studies of international regimes, see Krasner (1983).
- 28 Transaction costs, such as communication and monitoring activities, remain high without international regimes, because sovereign and autonomous states still play a major role in international relations (Keohane 1988, p. 386).
- 29 The United States has already sounded out Korea and Singapore on joining NAFTA. This approach was 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, the idea of 'extending AFTA east-ward' was also mentioned by another scholar. This approach is also invalid for the same reasons. Moreover, it would be more likely to divide the Asia Pacific region into Western and Eastern rims.
- 30 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 members of the group. Other members include Australia, Argentina, Brazil, Canada, Chile, Hungary and New Zealand.



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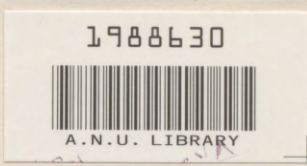
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