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ASEAN: organizing for economic cooperation in Southeast Asia

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Pulis, David Francis, M.A.

San Jose State University, 1991

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ASEAN: ORGANIZING FOR ECONOMIC COOPERATION
IN SOUTHEAST ASIA

A Thesis
Presented to
The Faculty of the Department of Political Science
San Jose State University

In Partial Fulfillment
of the Requirements for the Degree
Master of Arts

By
David Francis Pulis

MAY, 1991

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ABSTRACT

ASEAN: ORGANIZING FOR ECONOMIC COOPERATION IN SOUTHEAST ASIA

by David F. Pulis

This thesis addresses the topic of the Association of Southeast Asian Nations (ASEAN): Organizing for Economic Cooperation in Southeast Asia. ASEAN is a six-nation alliance composed of Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. It was created to stimulate economic growth in the region.

This study of ASEAN begins with an investigation of the alliance's origins, the possibilities for economic integration, and the significance of ASEAN. The second chapter examines ASEAN's organizational structure and how it affects economic cooperation among member nations. This is followed by a brief history of summit meetings and administrative units. The third discusses ASEAN's developmental strategies designed to stimulate growth. The fourth chapter is concerned with factors affecting cooperation. Despite these various trends toward economic cooperation, the research reveals that the separate economic, social, and political concerns of ASEAN countries make it unlikely that ASEAN will attempt economic integration to a level similar to the European Community.

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INTRODUCTION

The notion of a collective alliance is an old concept.¹ An alliance is primarily an arrangement between or among independent states. It may be viewed as a special type of international cooperation, since international cooperation can take many different forms depending on the purposes and capabilities of the countries involved. An alliance may also be seen as a type of international organization.² Its distinguishing feature is that its units retain their own integrity; integration, in contrast, implies a commitment to merge into a single entity, a commitment alliance members may or may not wish to make.

Economic alliances among nations have become increasingly common since the end of World War II. The best known of these is the European Community (EC), which has taken a number of different forms since it was started in 1958. In 1992, after many attempts, the EC intends to initiate a 12-nation common commercial market with standardized customs duties and trade regulations. With this extensive degree of integration, one would think that the EC would serve as a model for other economic alliances in the world.

Such is not the case for the Association of Southeast Asian Nations (ASEAN), which is the subject of this study.

ASEAN is a six-nation alliance composed of Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. It was formed on August 9, 1967, to stimulate economic growth in the region. Today, the economies of its member nations are among the fastest growing in the world. Moreover, ASEAN nations possess a combined economic strength that makes them extremely competitive in many international markets. Although the precise role of ASEAN in these achievements cannot be quantified, observers believe that the organization has both facilitated the growth and enhanced the competitive advantage of its members.

Yet, despite these achievements, ASEAN members have thus far not attempted to extend integration of their markets, functions, or trade regulations any further than they are at present. A more complete affiliation of member nations, in terms of mutual activities and interests such as those of the EC, is not an overriding aim of ASEAN. Although, there is currently a trend within the alliance toward a more encompassing degree of economic cooperation, the separate economic and political concerns of ASEAN countries make it unlikely that ASEAN will attempt to extend economic integration to a level similar to the EC. Moreover, such factors as disparity in per capita income--nearly \$20,000 per annum in oil-rich Brunei as compared to \$650 in Indonesia--make further integration difficult. Methods of trade (e.g.,

Japanese-style free trade in Singapore in contrast to the very protected domestic markets of Indonesia) also complicate efforts at expanded economic integration at ASEAN. One should not expect the alliance to become more unified until these differences can be resolved, which cannot be expected to occur in the near future.

ASEAN remains an active, beneficial, and profitable economic organization, nevertheless. This study of ASEAN begins with an investigation of the alliance's origins; the possibilities for economic integration and the significance of ASEAN both regionally and globally are discussed in relation to its growth. The second chapter examines ASEAN's organizational structure and how it affects economic cooperation among member nations. A history of ASEAN summit meetings, meetings of foreign and economic ministers, the alliance's administrative units, and ASEAN liaisons with other agencies and countries is provided. The third chapter discusses ASEAN's developmental strategies, with attention paid to the Preferential Trading Agreements among member nations and ASEAN Industrial Projects and Industrial Complementations designed to stimulate the growth of regional businesses and industries. The fourth chapter is concerned with the factors affecting cooperation at ASEAN, detailing these from the perspective of each of the member nations. Finally, the conclusion (Chapter 5) completes the study by

asserting that ASEAN, its undeniable success as an economic alliance notwithstanding, cannot be expected to further integrate its activities, efforts, and objectives until substantial differences--social and political as well as economic--can be resolved. When and if this will happen no one can say, yet the success of ASEAN at improving the economic performance of its six members remains a remarkable achievement.

My interest in the economic dynamism of the countries that constitute ASEAN stems primarily from my bachelor's degree in business. In addition, I also take great interest in the political factors associated with their growth. Of the world's ten fastest growing economies, three--Singapore, Thailand, and Malaysia--belong to ASEAN. ASEAN's share of world trade is expected to double over the next five years. Moreover, the ASEAN countries are rich in natural resources, possess talented and hardworking populations, and have averaged annual real growth of more than 5 percent. This is undoubtedly one of the world's economic success stories among developing countries. I believe it will be interesting to witness the future of ASEAN and how it will compare with the European Community.

CHAPTER I
ORIGINS OF ASEAN

Overview

The Association of Southeast Asian Nations (ASEAN) was established in Bangkok, Thailand, in August 1967 to replace a rather ineffective institution, the Association of Southeast Asia (ASA). ASA had been in existence since 1961; its purpose was to promote cordial relations among the countries of the region, although its membership was limited to three states: Malaysia, Thailand, and the Philippines. ASEAN was designed to go beyond the scope of its predecessor. Formed and developed under rather specialized historical conditions affecting Southeast Asia, ASEAN may be described as a ". . . regional organization established in 1967 to accelerate economic growth, social progress, and cultural development in Southeast Asia."³ The organization's original members were Indonesia, Malaysia, the Philippines, Singapore, and Thailand.⁴ "Brunei joined ASEAN in January 1984, shortly after attaining independence . . .,"⁵ thereby expanding membership to six countries.

The formation of ASEAN came at a time when over a century of foreign domination of Southeast Asia was on the

decline. A new regional and domestic order resulted almost out of necessity.⁶ The purpose of ASEAN, as specified by the Bangkok Declaration, perhaps the organization's most fundamental document, is

. . . to accelerate economic growth, social progress, and cultural development in the region through joint endeavor in the spirit of equality and partnership in order to strengthen the foundation of prosperous and peaceful community of Southeast Asian nations; to promote regional peace and stability. . . .

. . . to promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields. . . .

. . . to collaborate more effectively for the greater utilization of their agriculture and industries; the expansion of their trade including the study of problems of international trade, the improvement of their transportation and communication facilities and the raising of the living standards of the peoples.⁷

Thus, from the beginning, ASEAN possessed a broader purpose than merely promoting economic well-being, although obtaining prosperity for all members of the alliance has remained the essential objective. In the almost 24 years since the issuance of the Bangkok Declaration, ASEAN's purpose has been modified to include the elimination of ". . . threats posed by subversion to its stability, thus strengthening national and ASEAN resilience . . . [and] the elimination of poverty, disease, and illiteracy."⁸

Compared with other diplomatic alliances of this type, ASEAN deliberately developed a low-keyed style. It has avoided grand designs, such as the more encompassing merger of activities and interests characterizing the European

Community (EC), for fear of creating unrealistic expectations and of putting too much strain on the political structures of member countries.⁹ Rather than provide for an impressive secretariat that would absorb scarce financial and human resources, the organization assigned its duties to officials within national governments. This style, however, was also initially a reflection of a low level of activity. While a number of ASEAN meetings were held and similar other signs of institutional activity were evident, it is neither inaccurate nor unkind to suggest that little was accomplished during ASEAN's first eight years of existence; indeed, it appeared to resemble its predecessor, the Association of Southeast Asia. What is remarkable is that it continued to exist given the ongoing political tensions among the member countries.¹⁰

Following the Bangkok Declaration in 1967, ASEAN ineffectively attempted to represent its membership. Many of its difficulties reflected differences among member nations. At the time of its creation, ASEAN was an organization of essentially competitive, predominantly agrarian economies and a virtual city-state, Singapore, whose economic outlook can often be at variance with that of its neighbors. The major area of conflict within ASEAN in economic terms is between Singapore and Indonesia, nations whose differences in size, population, and economic priorities result in opposing responses to demands for economic cooperation. The highly pro-

tectionist attitudes of the Indonesian government contrast with those of the free-trading Singaporeans; other ASEAN nations adopt positions situated between these opposing polarities, depending on how particular issues affect them. These conditions, even more pronounced during the alliance's formative years, hampered its efforts at increasing economic cooperation.¹¹

However, ASEAN's ability to continue as a functional entity permitted the establishment of important personal contacts. Moreover, when the need arose, ASEAN was able to play a role in unifying member countries. The need became evident in April 1975, after Saigon (South Vietnam) fell to the North Vietnamese. Meeting the following month, the ASEAN foreign ministers responded to the urging of member-nation Indonesia and decided that the problems confronting the alliance were so vital that a conference of heads of state was a necessity.¹² Preparations for the summit were initiated in September 1975. They continued with a series of bilateral meetings among the member countries in January 1976; relations intensified in February with meetings of economic ministers and several bilateral summits. The first full ASEAN summit, held in Denpasar, Bali, from February 23 to 25, 1976, was a tremendous success and, for many observers, marked the emergence of ASEAN as a functioning institution.¹³ "ASEAN be-

came a forum where discussions such as those concerning the future creation of a Pacific Community are carried on."¹⁴

The Bali Summit marked the beginning of ASEAN's increased cooperation. It produced a number of formal documents, one of which--the Treaty of Amity and Cooperation in Southeast Asia (February 26, 1976)--had been under discussion for some time but needed to be completed by the heads of state.¹⁵ The Treaty, which implicitly replaced the Bangkok Declaration, set forth the principles of mutual respect for the independence and sovereignty of all ASEAN member countries. These included non-interference in the internal affairs of other countries, settlement of disputes by peaceful means, and effective cooperation among members. The Treaty of Amity and Cooperation replaced the Bangkok Declaration as the guide post for ASEAN activities. As such, it set forth the organization's essential principles of cooperation and communication. It also advocated proper security measures to assure ASEAN's stability and the stability of its members.¹⁶

A second document, the Declaration of Concord, provided guidelines for action in economic, social, and cultural relations. These included the maintenance of political stability, the establishment of a "Zone of Peace, Freedom and Neutrality," the promotion of social justice and improvement of living standards, mutual assistance in the events of natural disasters, and cooperation in economic development.

Moreover, the Declaration of Concord attempted to increase ASEAN's economic role. It called for the elevation of economic matters to the same level as political and social ones, as had been envisioned in the Bangkok Declaration, and adopted an economic program that included cooperation on basic commodities such as food and energy, support for industrial projects in each of the ASEAN countries, and promotion of intra-ASEAN trade, in part through preferential trading arrangements. These plans were provided with additional substance in a meeting of economic ministers held the following month, March 1976, and will be dealt with in depth in Chapter 3; the Declaration of Concord will be described in more detail in Chapter 2.¹⁷

Economic Cooperation of ASEAN

Since the Bali Summit, diplomatic and political interaction has sustained ASEAN, but economic benefits will be necessary if the institution is to mature and grow. According to economists, two types of economic gains can be achieved through economic integration among independent countries. Static gains arise from redirecting markets and reorganizing production from existing productive facilities and other factors of production; dynamic gains arise from expanding facilities, improving efficiency, and increasing economic growth.¹⁸

In developing countries, the prospects for dynamic gains are significantly greater than for static gains. Countries are good candidates for integration if their economies are actually competitive but potentially complementary.¹⁹ The particular aspects and measures adopted as part of ASEAN and the circumstances of the alliance's member nations will determine the magnitude of these economic gains, as well as their distribution among the individual members. The factors also determine how nonmember countries will be affected by ASEAN integration. In general, the more dynamic gains dominate static gains in the business/trade activities resulting from integrating member nation economies, the more nonmembers will benefit from ASEAN.²⁰

Dynamic gains stem from a number of economic forces. The growth of international trade among member nations, stimulated by the ASEAN alliance, has resulted in larger markets for the participating businesses of those countries. These firms are then put in a position where they can capture larger economies of scale by investing in new productive capacity. Increased trade also leads to greater specialization among enterprises and thus to a greater division of labor. A spirit of enterprise has been generated in ASEAN nations as a response to these conditions, which has improved the quality of competition, industrial efficiency, and economic growth. Finally, the integrative economic effect represented by ASEAN

has improved the terms of trade of member nations in their trade relations with nonmembers, thereby increasing the real incomes of members. Securing these dynamic gains will require a further rise in the business investment as a share of gross national product (GNP) or an increase in output per unit of input or, preferably, a combination of both.²¹

The amount of gain and distribution among member nations, however, depends on a number of economic variables. Each of these will be considered in turn. Size of the market is the first of these variables. The larger the potential market created through integrating the economies of independent nations acting in economic alliance (as has been the case with ASEAN), the larger the economic gain.²² That is, when the economies of sovereign states are coordinated so that each nation supplies to others those resources and goods required to fulfill economic agendas, all participants stand to gain exponentially. It is almost as if several smaller, fragmented economies combine to create a single larger, more complete economic entity. In the case of ASEAN, the total population of over 325 million represents a considerable potential market. It should be noted that enlarging this market will bring less economic gain to Indonesia, which alone accounts for 58.4 percent of the ASEAN population, than it will to the other five members. Brunei and Singapore, on the other hand, may experience significant economic benefits be-

cause both are extremely small in terms of geographic size and, more importantly, population. With access to a much larger market, Brunei and Singapore have improved their terms of trade through higher export prices and a greatly expanded customer base.²³

A second variable that affects the status of economic cooperation at ASEAN is the pre-integration degree of inefficiency. The more extensive trade barriers and similar obstacles to integration in member countries were prior to an economic alliance, the greater scope there will be for improvement; gains in industrial and trade efficiency will also be more significant. While qualitative comparisons are difficult to make, ASEAN countries did not possess particularly distorting policies by the standards of other developing countries, even though much distortion continues to exist. Of all members of ASEAN, Indonesia has the most to gain by reduction of distortions. It is the most populous of all ASEAN nations; therefore, its population benefits most by an influx of consumer goods whose entry into the country were previously restricted by trade barriers. Similarly, its industries benefit from an influx of previously restricted resources and capital goods. The Philippines, Thailand, Malaysia, and Brunei, in descending order, follow Indonesia in obtaining economic gains by diminishing distortions to integration. Here again, the sizes of their consumer and capi-

tal markets, which are ranked in the same descending order, are the key factors in determining the extent of what each nation gains from the alliance. Few benefits from this source are open to Singapore, which already has achieved relatively free trade.²⁴

Variables one and two complement each other. That is, each member of the ASEAN alliance originally joined for reasons that benefited its own economy as well as the entire region. The fact that variable one benefits the smaller nations in the alliance more than larger nations and that variable two has the opposite effect, benefiting larger nations more than smaller, is an inevitable outcome in situations such as the one presented by the ASEAN alliance. Members sacrifice national advantage for the good of the alliance in the case of some of the economic variables affecting ASEAN's activities, but they gain in others. Thus, something of a balance is achieved in economic relations between member states.

At the same time, it should be noted that the fact that these variables affect each member in a different manner is another reason why further integration of the alliance is not expected in the near future; members realize their national advantage and sometimes act on it in opposition to what might be best for the alliance or specific members of it. The sometimes fraught relations between Indonesia and Singapore,

for instance, have resulted because of the latter's insistence on unrestricted free trade as opposed to the former's call for protectionism.

Previous barriers of trading partners comprise a third variable affecting the amount of economic gain a member country obtains after joining a trading alliance such as ASEAN. Because of their economic structure and geographic location, countries have natural trading partners. The degree to which the natural markets of a country are closed to it by trade barriers that are subsequently removed by economic integration is a variable similar to, but distinct from, the previous variable of pre-integration inefficiency. It is important in determining the distribution of gains among members rather than in calculating the size of the total economic gain.²⁵

Geographical position also enters the variable schemata connected to the amount and distribution of economic gain afforded members of ASEAN by entering into the alliance. Countries that are physically close to one another gain more from integration than those that are not. In addition, when nations share a landmass, they receive more economic gain if they have a common border than if they do not. Although this variable relates primarily to efficiency of transportation of goods and people, it also involves the ease of information transmission that comes from being located in the same time

zone, within range of the same radio broadcast point, and so forth. The ASEAN countries are close to each other and have benefited from their propinquity.²⁶

A fifth variable that needs to be included concerns previous economic conditions and policies. The gains accruing to countries from integration in part reflect the pre-existing state of their economies. The worse the pre-existing mismanagement that is corrected by integration, the greater the potential gains. If, for instance, a country that has discouraged savings and investment by domestic and foreign enterprises changes this policy because it is inconsistent with obligations or expectations under ASEAN, economic gains could be substantial. However, since measurement of this necessitates examining (1) tax structures, (2) government expenditure patterns, (3) monetary policies, (4) regulation, and (5) administrative skills, among other things, it is impossible to do so with precision.²⁷

Finally, integrative policies and firmness of the commitment of member nations to those policies need to be considered. The economic gains achieved by integration also depend on the degree to which laws and practices that differentiate among member countries are removed. In the ideal situation, goods, services, and factors of production would move between member countries as if they were a single coun-

try. The closer the actual situation to the ideal, the more substantial the economic gain. Equally important is the firmness of the commitment to change. It is better for ASEAN to recommend modest policies that are actually adopted and fully accepted by member countries than to insist upon a far-reaching and demanding program that will not be accepted or not survive stress. This is in keeping with the trend within ASEAN toward increased economic cooperation on a moderate, mutually beneficial scale. Such an approach to cooperation does not interfere with the political and economic characteristics of ASEAN's separate members which impeded the organization's cooperative interaction during its formative years. ASEAN's success has come from slow, incremental developments. ASEAN may be not only the best plan of mutual economic organization in Southeast Asia but also the only feasible option for the immediate future.²⁸

The variables important in determining the gains from economic integration are the same ones that help explain why a strategy of export promotion encourages growth much more than a strategy of import substitution.²⁹ Thus, the essence of economic integration may be its ability to push member countries into export promotion and away from import substitution. If so, regional economic integration appears to be a second-best alternative to global free trade, and possibly a more achievable one.³⁰

ASEAN's members have expressed a wide range of concerns about achieving greater economic cooperation, not only among themselves but also with the remainder of the international community. One frequently raised question in this regard is what precisely is meant by the term economic cooperation. International policy coordination does not, for instance, have a good name in ASEAN. It has had only a mixed success in other industrialized nations, such as those represented by the European Community (EC), although the EC is generally recognized as the best operating economic alliance in the world. Recognition of the mixed success of international policy coordination is a major reason why ASEAN has shown no tendency toward expanding its own degree of economic integration to that of the EC. Moreover, international policy coordination has come to be seen as a "cover" for American pressures on dynamic Asian economies to liberalize their trade practices and exchange rate policies so they are more favorable to Western economic priorities. ASEAN's members are generally satisfied with the organization as it currently stands. The members pursue their distinct socioeconomic and political prerogatives while enjoying mutually beneficial trade arrangements. This allows members to comfortably develop their separate and collective economies without undue interference from external agencies or sovereignties.³¹

At this stage of their development, the economies of the ASEAN bloc can be accurately described as "dynamic" in character. Of the world's ten fastest growing economies, three--Singapore, Thailand, and Malaysia--belong to ASEAN. Between 1984-1988, ASEAN countries have increased their share of world trade from 2 percent to 4 percent overall, a figure projected to double again over the next five years. Moreover, the location of alliance nations provides a strategic importance: These countries form a link between North Asia and the South Pacific economies of Australia and New Zealand. Further geographic importance results from proximity to Indochina and the People's Republic of China and as a crossroads of Asia.³²

Significance of ASEAN

Today,

. . . the ASEAN countries are rich in natural resources, possess talented and hardworking populations, and, to a large extent, have pursued market-oriented development policies. Since 1977 these nations have averaged annual real GNP growth of more than 5%, one of the economic success stories among developing countries.³³

The importance of ASEAN continues to grow. By the year 2000, the combined political, military, social, economic, and cultural influences emanating from Asia are expected to become more dominant in determining the course of human events than is similar influence from Western countries.³⁴ Including commercial arrangements with Japan, the Asia-Pacific region is

currently the largest regional trading partner of the United States; continued trade growth for most of the Western world is intimately linked to the success Asian countries have in maintaining the pace of economic development they have exhibited since 1970.³⁵

ASEAN is an economic and political alliance that supports over 325 million people, a total that is greater than the combined population of the United States and Canada. Yet, there are disparities in wealth as distant as the half-dozen religions and hundreds of ethnic heritages that characterize the populations of member countries. The tiny, oil-rich country of Brunei, for instance, boasts an annual per capita income of nearly \$20,000 annually. Even smaller is the island city-state of Singapore, where the average annual wage is close to the developed-world level of \$13,500; it bears little resemblance to Indonesia, with its 3,000 miles of islands and 190 million people earning a yearly average of about \$650.³⁶

Despite these obvious and significant differences in composition of population and living standards, all members have benefited from the organization. Integration of member economies has introduced into each country products and services previously difficult to acquire or nonexistent; the same may be said for foodstuffs and raw materials. Moreover, the economic performance of members has improved; GNPs have

grown, as has the level of trade, while trade balances have stabilized favorably. While economic conditions are far from equal among ASEAN's members, the economic performance of all has developed positively and has exceeded previous standards in all cases.³⁷

As the role of ASEAN countries in world affairs has increased in capacity and scope, the need to ensure the stability of the region has grown proportionally. In recent years, ASEAN's own efforts to assure such stability have taken on greater weight as the member nations have responded to escalating internal sentiments of sovereignty and economic self-sufficiency.³⁸ Increasingly, ASEAN is taking a position where it will be ". . . free from any form or manner of interference from outside powers."³⁹ Rather than assuming a secondary or subservient position in affairs concerning not only Southeast Asia but also the international arena, which has been expected in the past in relations between developing countries and more established industrial nations, ASEAN and its constituents respond to the world with far more vigor than they did at the organization's creation 24 years ago. As the balance of economic and political matters shifts increasingly from Western nations to those of the Far East, ASEAN is evolving into an influential international organization.⁴⁰

Summary

Instituted in August 1967, the Association of Southeast Asian Nations (ASEAN) was designed to promote economic cooperation and a degree of diplomatic solidarity among its members. Originally composed of five members--Indonesia, Malaysia, the Philippines, Singapore, and Thailand--ASEAN expanded to six members when newly liberated Brunei joined the alliance in 1984. In addition to the critical purpose of promoting economic well being within the region, ASEAN also exists to dispel military or similar threats posed to member countries by nations external to the alliance and to eliminate disease, illiteracy, and poverty while maintaining traditional standards of sovereignty and cultural expression. At this point, a more encompassing merger of activities and interests, such as that personified by the European Community (EC), is not the primary objective of ASEAN.

ASEAN's formation was, to a large extent, a result of declining foreign domination of Southeast Asia. Even today, ASEAN retains a deliberately low-keyed approach to diplomatic activities, particularly in comparison to other similar alliances. Vietnamese reunification in 1975 caused ASEAN to upgrade the degree and scope of its activities. The Bali Summit (February 1976) was important because two documents that increased ASEAN activity and power in the region were signed. The first was the Treaty of Amity and Cooperation,

which set forth the principles of mutual respect for the independence and sovereignty of all ASEAN members. The second, the Declaration of Concord, provided guidelines for action in economic, social, and cultural relations. This document increased ASEAN's economic role. Included were terms for promotion of intra-ASEAN trade, support for industrial projects, and cooperation on basic commodities.

Throughout the latter 1970s, ASEAN countries created a philosophy based on a regional Zone of Peace, Freedom and Neutrality. This has helped give the alliance a renewed outlook on their own regional power, particularly in terms of regulating mutual economic affairs. Today, the ASEAN alliance supports in excess of 325 million people. The role of ASEAN and its members in world activities has increased in recent years; the alliance has expanded its efforts to assure stability. ASEAN currently is much more influential in determining its role in regional and international matters than at any time in the past. Yet, despite the trend toward increased economic and other cooperation among ASEAN members, the separate characteristics of each of the organization's member states make it unlikely that ASEAN will move to a more encompassing degree of integration at this time.

CHAPTER II
ASEAN STRUCTURES FOR ECONOMIC COOPERATION

Overview

ASEAN developed a structure that can effectively create, implement, and maintain policies and programs for ongoing economic cooperation. After 1967, ASEAN achieved the key developments of articulating its overriding philosophy-- economic cooperation, respect of members' sovereignty, and cultural/political agendas and priorities--and institutionalizing that philosophy through an alliance. After the Bali Summit, cooperative and integrative activities were implemented to the extent that ASEAN countries have developed an amazing bargaining power vis-a-vis developed countries regarding economic matters. That is, ASEAN acts as it was designed, as an economic cooperative that is mindful of the needs of its constituencies rather than those of external trading partners, regardless of how powerful these external parties might be. To achieve this degree of unity, the evolution of ASEAN has been facilitated by: (1) summit meetings, (2) ASEAN Foreign Ministers' meetings, (3) meetings of ASEAN economic ministers, and (4) other ministerial/policy meetings within the alliance. In addition, ASEAN has created appropriate administrative units to direct its activities,

including liaison with external agencies and organizations. Each of these organizational components will be discussed separately in the pages that follow.

ASEAN Summit Meetings

In their rhetoric during the years immediately preceding the Bali Summit (1976), ASEAN leaders were convinced that joint cooperative endeavors were an obvious way for five like-minded governments to pursue common economic and political goals. The reunification of Vietnam was the impetus that put ASEAN words into action; definition and implementation of previously discussed economic and industrial projects had to begin. ASEAN needed concrete achievements that would substantiate its claim that the alliance was indeed an effective regional organization. Moreover, ASEAN leaders realized that it was necessary to revise its consultative and decision-making machinery in order to accommodate the new and urgent demands of economic cooperation. A new sense of urgency and purpose, unusual within the alliance until that time, pervaded the increased tempo of consultations that led to the Bali Summit.⁴¹

The Bali Summit defined the essential fabric and direction of ASEAN regionalism. Until that moment there had been a serious lack of harmonization of the strictly national preoccupations and perceptions of the member states with the need to develop regional policies that would revitalize the

alliance. At Bali, each participant nation stressed that solutions to regional problems had to be found in the region and not in reliance on outside assistance, which would never be provided to the alliance without the loss of some independence. Although ASEAN was created to protect the sovereignty of its members while assuring regional stability, none of the participants wanted to transform the alliance into an essentially military pact; ASEAN was to remain non-ideological, non-military, and non-antagonistic in character.⁴²

The Treaty of Amity and Cooperation restated the ideals of the alliance. The contracting parties undertook a number of general commitments in order to expand and intensify ASEAN cooperation in the economic, social, political, cultural, technical, scientific, and administrative fields. Political cooperation on international and regional matters was formally ratified as a basic element of cooperative regionalism. The concepts of national and regional resilience were also enshrined in the Treaty, as were procedures for the peaceful settlement of disputes between ASEAN members. This latter initiative established the principle that disagreements between ASEAN countries were to be settled wherever possible within the region and without external interference.⁴³

The Treaty was a prime element of the alliance's gradual movement toward the declaration of the Zone of Peace, Freedom and Neutrality in Southeast Asia. It is interesting

to note, in this context, that creation of the Zone was an important step in expanded ASEAN integration. The Zone provides alliance members with a common ground from which to build together. Article 14 of the Treaty specifies that the Zone shall be open for accession by ASEAN's members as well as other states in Southeast Asia. This indicates the alliance's desire to extend the scope of regional cooperation to a status beyond peaceful coexistence.⁴⁴

Whereas the Treaty represented a formal but broadly stated commitment to regional cooperation, the Declaration of Concord had more immediate, pertinent, and practical implications for ASEAN. It moved from ideals to a plan for action expanded economic, political, social, and cultural cooperation within the alliance. What was perhaps most noteworthy about the Declaration resulting from the Bali Summit was that the heads of government of the five ASEAN nations accepted a program of economic cooperation, proposed by their economic ministers, in its entirety.⁴⁵ It was at this juncture that the decision to enter into preferential tariff arrangements and joint ASEAN industrial products was made. To ensure that momentum was maintained, the ASEAN leaders agreed that the economic ministers should meet regularly and develop the necessary machinery to design and implement suitable proposals of economic cooperation. The Declaration also called for regional cooperation in matters pertaining to social develop-

ment, particularly in the areas of (1) the rural sector, (2) low-income groups, (3) women and youth, (4) population control, and (5) narcotics control. With a view to allaying fears about potential militarism within ASEAN, the Declaration stated that there was to be ". . . a continuum of cooperation on a non-ASEAN basis between member states in security matters in accordance with their mutual needs and interests."⁴⁶ Finally, the Declaration noted the signing by the ASEAN foreign ministers in Bali of the Agreement on the Establishment of the ASEAN Secretariat.⁴⁷ The document also recommended a regular review of ASEAN's organizational structure in order to improve its effectiveness.

As noted earlier, the Bali Summit was a turning point in ASEAN development. It represented the first successful effort to provide the alliance with ongoing direction and purpose. The leaders asserted that the solution to regional problems lay within the region and not reliance on outside aid. They had given substance to aspirations for economic cooperation. Political cooperation was formally sanctioned as an integral component of fruitful regional interaction, recognizing political motivations as fundamental to the organization's creation and continued existence.⁴⁸ For the first time, substantial support was given to the notion that ASEAN needed to work on the principle of consensus as to what was attainable at any given time. The alliance attempted to set

up realistically achievable objectives for intra-ASEAN cooperation while remembering the distinctive features of the individual member economies. The pace of such integrative activities has, in general, been acceptable to ASEAN members; the consensus process tends to draw those wary of particular issues forward while restraining front runners.⁴⁹

Yet, the documents produced at the Bali Summit account for only part of the meeting's significance. The fact that the five heads of government met together for the first time was also important; a fulsome sense of achievement resulted from reaching consensus on matters previously dividing members. A feeling of ASEAN unity and solidarity combined with a sense of revitalization at Bali. ASEAN leaders began to believe that the alliance authentically had the ability to do what it had been saying for years it should do. Immensely complicated issues of trade liberalization and industrial complementations could hardly be solved at one meeting. The sense of progress in Bali, however, was sufficient to expand cooperative efforts.⁵⁰

The Bali Summit was instrumental, therefore, in providing ASEAN with an operating philosophy. It compelled members to define areas of economic cooperation according to political as well as economic criteria. In acknowledgement of the fact that ASEAN is a regional grouping of sovereign states, each with its own cultural, political, and social character-

istics and needs, the alliance has been constructed to ensure that these are respected and sustained. This recognition of the separate identities has been retained among ASEAN nations despite the influence of the Bali Summit and the resulting expanded integration of economic policies. It appears that, through the immediate future, proposals to further expand economic cooperation, such as the adoption of a selective common market, will not be accepted by ASEAN. At this time, such a community's potential for avoiding conflict in sensitive political areas is not strong enough to compensate for the restrictions it might place on the individual sovereignty of participants.⁵¹

The momentum engendered by the Bali Summit has continued, although it is somewhat diminished in character. The heads of ASEAN-member governments met again in 1977 in Kuala Lumpur, Malaysia. However, this second summit meeting was held mainly to define further concrete measures for economic cooperation and to develop the relations of ASEAN with countries outside the alliance. International recognition of the alliance added to ASEAN's self-confidence. The general trends of development initiated at the Bali Summit were continued at Kuala Lumpur.⁵² In this regard, the Kuala Lumpur Declaration stated that each member of ASEAN ". . . resolves to eliminate threats . . . to its stability, thus strengthening national and ASEAN resilience . . . [while simultane-

ously] intensify[ing] cooperation . . . with particular emphasis on the promotion of social justice and . . . improvement of living standards."⁵³

The call for ". . . a new binding formula . . ."⁵⁴ to extend the integrative influence of the alliance was made by Malaysia's Prime Minister Mahatir Mohammed at the third ASEAN Summit held in Manila during December 1987. At the same time, he stressed that it was time to concentrate on the problems of economic development. Unfortunately, issues such as those already discussed continued to prevail in ASEAN negotiations. It is doubtful whether these constitute the "binding formula" desired, demonstrating once again how the propensity for the rhetoric of regional cooperation substitutes for the practical attainment. Little new ground was broken at the ASEAN Summit in Manila; political and cultural differences among ASEAN's members prevented a more complete integration of economic activities.⁵⁵

A fourth, and the most recent, summit was held in Brunei in 1989 at the nation's capital city of Bandar Seri Begawan. This event marked the nation's first opportunity to host other members for an ASEAN event of such importance and was considered to signal Brunei's final and full acceptance by other member states into the alliance. Here, as in 1987, little new ground was broken; rather, the meeting served more to reaffirm ASEAN's philosophy of regional diplomatic cooper-

ation than to solve current cultural and political problems interfering with the alliance's activities and policies.⁵⁶

Meetings of ASEAN Foreign Ministers (AFM)

Ministerial meetings were the first conferences among member countries of ASEAN. Indeed, the creation of ASEAN resulted from the August 1967 meeting of the ministers of foreign affairs of the five original member countries. The Bangkok Declaration (also known as the ASEAN Declaration) resulted from this first meeting. Since then, the foreign ministers have met annually to discuss the progress of ASEAN, to iron out differences in opinion concerning the alliance's purpose and activities, and to make strategic decisions regarding ASEAN's future direction. There have been 24 annual meetings of the foreign ministers that have been supplemented by special meetings of foreign ministers, called when necessary, in emergency situations requiring resolution of difficult diplomatic or economic problems.⁵⁷

The AFM meetings are held in each member country on a rotating basis. Over the years, the ASEAN organization has conceived and implemented a wide variety of activities. As the highest authority in ASEAN, the heads of government may meet whenever necessary. The most important policy-making body of ASEAN in practice, however, remains the AFM.⁵⁸ The annual meetings (and supplemental meetings, when required)

are responsible for the formation of policy guidelines and the coordination of all ASEAN activities.⁵⁹

Prior to the Bali Summit of 1976, ASEAN Foreign Ministers' meetings were the primary method of directing ASEAN affairs. These early meetings, however, were not sufficient to provide the organization with much authority over the economic activities of its members. This is the principal reason why ASEAN's influence on regional or international matters was minimal during its first decade of existence. Nevertheless, efforts made at these pre-Bali AFM meetings were moderately successful in developing simple measures for economic cooperation. For instance, at the sixth AFM meeting held in Pattaya, Thailand, in April 1973, agreement was reached on matters of strengthening cooperation in the fields of food, energy, and other natural resources. At the same meeting, foreign ministers criticized the export of synthetic rubber by Japan. This criticism led Japan to restrict exports. ASEAN countries also began a joint negotiation with the European Community that year. Member nations began to realize the power of collective bargaining; efforts such as this caused members to seek methods of improving economic cooperation and integration.⁶⁰

ASEAN foreign ministers work to assure the stability of the region and the alliance. In January 1979, for instance, ASEAN foreign ministers held an ad hoc meeting to determine a

course of action following the fall of Phnom Penh to the Vietnamese. Faced with the loss of Kampuchea as a buffer state between ASEAN and Vietnam, with the danger that Vietnam as a Soviet proxy represented a serious threat to regional stability, and with the need to handle the mounting refugee problem in a humane manner, ASEAN members reacted quickly. The alliance's intervention at the United Nations not only caused the withdrawal of foreign forces from Kampuchea but also reduced the outflow of refugees to a manageable level.⁶¹

At their regularly scheduled AFM meeting in 1979, ASEAN foreign ministers drew broad political and practical support from their counterparts in Australia, the European Community, Japan, New Zealand, and the United States. This support from these major dialogue partners was reiterated the following year at 1980's AFM meeting. International backing in regional matters was an additional recognition of ASEAN's role as a major and visible political power grouping in Southeast Asia.⁶² In the years since, ASEAN invariably reacted to attempts at dividing its mutual power base by reaffirming its common stand. It appears that, despite internal tensions among members that occasionally arise, a continuing feature of ASEAN will be that external pressure, or attempts to divide it from the outside, invariably produce the opposite effect. The regional imperative is for external pressure to negate internal divisions and to encourage unity.

Meetings of ASEAN Economic Ministers (AEM)

ASEAN economic ministers form the supreme decision-making body in the crucial area of economic cooperation and meet when it is necessary to obtain industrial and energy cooperation. The AEM meetings are held more frequently than are ASEAN Foreign Ministers' meetings; however, their schedule is less predictable because they meet as required rather than on a specific, regulated basis.

AEM began to focus more on crucial economic issues in the mid-1970s. Economic conditions, such as rising oil prices and declining rates of growth, caused the meetings to concentrate on matters of real importance; previous AEM meetings had been hampered by a tendency toward consensus that interfered with the formation of an economic agenda. Rather than find real solutions to sensitive economic issues, such as tariff levels on foreign goods or access to domestic markets, economic ministers have often compromised on policy that does not address issues to the optimum degree. That is, in order to keep potential friction between participants at a minimum, diluted policy measures have been implemented rather than more potent ones. The ongoing battle between Singapore and Indonesia over the free trade/protectionism issue is an example of how the consensus method of policy development has hindered the creation of effective economic policy. The threat of international protectionism spurred by the economic

downturn of this period came to be regarded as a significant obstacle to ASEAN development. Indeed,

The proliferation of non-tariff barriers, quotas and orderly marketing arrangements was particularly troubling to ASEAN countries . . . late starters in the process of export-oriented industrialization . . . [ASEAN] countries have a vital interest in using their collective bargaining power with the developed countries to seek assurances that market access will not be restricted by the growth of additional barriers.⁶³

At the AEM meeting held in Jakarta in November 1975, ASEAN economic ministers endorsed a series of broad proposals, largely adopted from the United Nations report on ASEAN economic cooperation. These proposals stressed enhanced integration of economic efforts to provide basic commodities to the alliance's collective population. Cooperation in industrial projects, international economic issues, and trade was also authorized. The emphasis in any cooperative endeavor was its contribution to national and regional economic development. Economic ministers identified energy and food as the primary areas of concentration and development. It was recognized that, for the alliance to be successful, ASEAN members needed to assist each other during periods of critical shortage and cooperate in the production and distribution of such commodities.⁶⁴

After 1976, AEMs became an ongoing and permanent component of ASEAN's structure. Prior to this time, economic ministers had to report to foreign ministers even on purely economic matters. Here again, the necessity of achieving a

consensus between economic and foreign ministers only retarded the efforts of economic ministers to create and implement meaningful policies and programs for ASEAN. This situation was clearly intolerable if the alliance's first priority was to be given to matters of economic cooperation and integration. Furthermore, it was inappropriate that economic ministers should have to acquire approval of the foreign ministers and often other officials. The economic ministers, therefore, proposed that they be answerable after 1976 to the ASEAN heads of government, which upon acceptance had the effect of institutionalizing AEM. Thus, the apparatus regulating AEM meetings was also formalized, as were their decision-making powers. In keeping with the changing and revitalized philosophy of ASEAN at this time, Wong believes economic ministers were provided with the authority they sought.⁶⁵

ASEAN accord was also forthcoming on the economic ministers' proposal that member states should cooperate in seeking the reduction of trade barriers constructed by other countries against export of ASEAN raw materials and finished products. Earlier success of the ASEAN Rubber Producers' Association paved the way for approaches to developed countries across a wider range of products of concern to ASEAN exporters.⁶⁶ The ASEAN economic ministers, in effect, advocated that the alliance adopt a rather mild tactic of eco-

conomic bloc pressure to improve their market access with other regional economic groupings and major industrialized countries. This has been the essential position taken at AEM meetings in the years since 1976; it helped to strengthen international recognition and respect for ASEAN.

Additional ASEAN Ministerial Meetings

The grant of independence to the ASEAN economic ministers in the Declaration of Concord empowered them to implement economic cooperation directly. AEM meetings may be attended not only by the economic ministers of member nations but also by all ministers involved in economic matters in each of the six countries comprising the alliance. Among these are planning ministers and ministers of trade, industry, finance, agriculture, transportation, communications, and so forth. Ministers of labor are not considered to be economic ministers in ASEAN; they meet separately, as do ministers of agriculture, industry, and energy. However, the decisions of the sectorial ministers have to be ratified by the collegial body, the ASEAN economic ministers' meeting.⁶⁷

ASEAN Administrative Units

Since its inception, ASEAN has been a very decentralized organization. The National Secretariat of ASEAN has been responsible for coordinating the organization's activities and implementing the ministers' decisions at the na-

tional level. Therefore, the ASEAN Secretariat for a particular member nation is composed of persons associated with the Ministry of Foreign Affairs in that nation. Since the creation of the ASEAN Secretariat in 1976, these offices continue their previous functions and work effectively to complement the efforts of that office. The Secretary-General of ASEAN, currently Roderick Young Yin Fatt of Brunei, is appointed for two years and is accountable to the ASEAN foreign ministers as well as the Standing Committee. He coordinates activities of various committees and serves as a channel of communications.⁶⁸

The ASEAN Secretariat is composed of seven international staffs, which meet respectively with (1) foreign ministers, (2) economic ministers, (3) other ministers as necessary, (4) the Standing Committee, (5) other committees and sub-committees as necessary, (6) technical and other professional experts, and (7) representatives of nations outside the alliance. Internal efforts aimed at strengthening the economic capabilities of the Secretariat have been hampered by its members who do not wish to expand into an European Community-type alliance. The Secretariat does not publish the type of authoritative economic data, although it has access to it, that would provide the basics for the creation of binding policy within the ASEAN bloc. Representatives from members serving the Office of the Secretariat similarly have

access to such data, which they transmit to their governments privately. No efforts have been made to make economic information public on any wide-ranging scale; member governments prefer secrecy.⁶⁹ "ASEAN attitudes indicate that these countries might be more comfortable with a consultative (and hence less effective) forum than with a strong international institution backed by an authoritative Secretariat."⁷⁰

Numerous administrative committees and commissions service ministerial activities and conferences; they have other responsibilities as well. Under the ministerial level, there are nine permanent committees, which include:

1. Under the competence of Foreign Ministers
 - a. Committee on Culture and Information (COCI)
 - b. Committee on Social Development (COSD)
 - c. Committee on Science and Technology (COST)
 - d. Committee on Budget and Audit (COBA)
2. Under the competence of Economic Ministers
 - a. Committee on Food, Agriculture and Forestry (COFAF)
 - b. Committee on Transportation and Communications (COTAC)
 - c. Committee on Industry, Minerals and Energy (COIME)
 - d. Committee on Trade and Tourism (COTT)
 - e. Committee on Finance and Banking (COFAB)⁷¹

For instance, in addition to serving economic ministers, the Committee on Trade and Tourism (COTT) is in charge of con-

ducting trade negotiations; the Committee of Industry, Minerals and Energy (COIME) guides the ASEAN Industrial Project (AIP). Most important of all ASEAN committees is the Standing Committee, which is set up annually at the AFM meeting. The Standing Committee consists of the foreign minister of the country where the AFM is to be held the following year (as chairman) and the ambassadors of the other five nations, who serve as members. Together, they are responsible for the work of the organization undertaken between ministerial meetings. The permanent committees operate below this level; they formulate and execute specific projects in each field of ASEAN operation. Special or ad hoc committees may be instituted at this level, if the need for them arises. All committees are serviced by a network of subsidiary technical bodies, comprising sub-committees, expert groups, and working parties.⁷²

These committees are each located in the capitals of the six countries, rotating every three years in order to assure an equitable participation of each country in every activity of the organization. The rotation is made according to the alphabetical order of the capitals of the member countries (i.e., Bandar Seri Begawan [Brunei], Bangkok [Thailand], Jakarta [Indonesia], Kuala Lumpur [Malaysia], Manila [Philippines], and Singapore [Singapore]). Under ministerial meetings and/or permanent committees, sub-committees

may be instituted to deal with specific projects. To support the conduct of relations with other countries and international organizations, ASEAN committees (composed of the heads of diplomatic missions) have been established in the capitals of Australia, Belgium, Canada, France, the Federal Republic of Germany, Japan, New Zealand, Switzerland, the United Kingdom, and the United States. In addition, a number of committees have been set up under the auspices of the ASEAN Agricultural Development Planning Center (AADPC) to implement activities in the agricultural, animal husbandry, and mining sectors of the economy; in this respect, the AADPC worked with the ASEAN Minerals Cooperation Plan (AMCP) in matters governing the mining sector. The ASEAN Committee of Transportation and Communications (COTAC) has thus far initiated over 100 projects in member countries, involving improvement of the infrastructure. Similarly, ASEAN's other major committee groups have been active in instituting programs in education, social development, cultural events, tourism, and the like.⁷³

Liaisons with Other Agencies/Countries

Designed as a cooperative organization for Southeast Asia, ASEAN's record of cooperation with other agencies and countries is less than consistent. In its early years, ASEAN tended to accept more assistance, both consultative and material, from external sources. Today, as ASEAN's productive

capacity increases and interdependence among countries within the alliance intensifies, the role of external agencies may most probably diminish.⁷⁴

ASEAN countries consider the United States a decisive factor in the alliance's ability to counter-balance Soviet and Vietnamese influence on the one hand and Chinese hegemony on the other. This belief has been somewhat reduced by the Soviet concessions to the West, which have all but ended the Cold War. They are, however, prepared for total American withdrawal from Asia, choosing instead their own course of neutralism. This factor supports the contention that ASEAN is not prepared to enter into an EC-type alliance, favoring instead a course of individual neutrality in the international political agenda external to the alliance. The changing international situation has led ASEAN countries to revise their traditional policy concerning the People's Republic of China as well. In the mid-1970s, Malaysia, the Philippines, and Thailand established diplomatic relations with China; the remaining members of the alliance similarly normalized diplomatic relations by 1985. Because the aim of ASEAN diplomacy is the assurance of respect by the major powers for neutrality of Southeast Asia, normalization of relations with China was placed on their schedule. Nevertheless, suspicions about the relations between China and domestic insurgent forces of

communist parties within the alliance present an obstacle to the rapid amelioration of ASEAN relations with China.⁷⁵

China, for its part, supports the organization as well as the neutralist policy of ASEAN. China positively evaluates the neutralist policy of ASEAN as countervailing an increase of Soviet/Vietnamese influence in the region. Yet, the fact that China joined ASEAN in a condemnation of Vietnam for its intervention in democratic Kampuchea has not been sufficient to encourage ASEAN to enter into any more than tentative arrangements with China.⁷⁶

Indochinese countries have been among the most interested in the formation and development of ASEAN. During the 1960s, Vietnam was at war with several ASEAN countries. For Vietnam, ASEAN neutralism seems pro-Western; Laos has expressed similar sentiments. These two countries presented the idea of a "peace, independence and neutrality" zone in opposition to the "Zone of Peace, Freedom and Neutrality" (ZOPFAN) proposed by ASEAN. Relations with Vietnam continue to be particularly hostile.⁷⁷

Ongoing hostilities in Indochina throughout the 1980s have left, especially for Thailand, a post-conflict legacy of tension among the former belligerents. ASEAN's official view that Vietnamese intervention in Kampuchea constitutes a threat to the region has helped define the alliance in a manner in which its limited trade and investment policies have

not. ASEAN retains an anti-Vietnam stance that has hindered the possibility of easing political tensions in the region and similarly interfered with potentially expanded trade relations. One cannot expect ASEAN's pro-Western stance to soften significantly in the years to come; neither can one expect Vietnam to alter its pro-Soviet philosophy--ergo, diplomatic conflict between ASEAN and Vietnam is likely to be the agenda for the foreseeable future.

The ASEAN Zone of Peace, Freedom and Neutrality remains a crucial component of ASEAN activity and philosophy. It was originally conceived to resolve an unstable condition that might arise as a consequence of the entry of China on the Southeast Asian scene. ASEAN leaders feared two things: first, that China and other socialist states would increase direct influence; second, that Chinese influence would directly strengthen indigenous Chinese or Communist forces in the region (as in Vietnam). The Zone of Peace, Freedom and Neutrality (ZOPFAN) was created to warn other nations that ASEAN intended to maintain the freedom of its constituents. Interestingly, the threat from China never materialized to the extent ASEAN leaders thought it might. Rather than overt political threats to the alliance, more subtle threats, posed by economic giants such as the United States and Japan, have arisen in recent years. The ZOPFAN concept has been instrumental in reminding ASEAN members of both their individual

sovereignties and their collective economic power. Finally, the priorities encompassed by ZOPFAN reflect an essential reason why ASEAN has not taken on an EC-type of structure. The free, neutral countries comprising ASEAN do not desire undue pressures on their internal progress from either outside or inside the alliance.⁷⁸

Until recently, the U.S.S.R. supported Vietnam in the latter nation's efforts to extend the reach of socialism in Southeast Asia. It has, at the same time, positively appraised ASEAN's policy of neutrality, represented by the Zone of Peace, Freedom and Neutrality. ASEAN has listened to Soviet overtures of friendship--particularly Thailand, whose prime minister visited the U.S.S.R. in 1979--but has remained noncommittal in the face of Soviet support of Vietnam, despite the fact that representatives of other ASEAN nations have also travelled to the U.S.S.R.⁷⁹

Japan has extensive economic relations with ASEAN countries. It has continued to view ASEAN favorably, at least publicly. Anti-Japanese sentiments began to surface noticeably in ASEAN during the 1970s. This is partly because of Japan's tendency to regard ASEAN inhabitants as economic and social inferiors, an inclination that dates back to Japan's pre-World War era of imperialism. ASEAN countries have to be wary of the Japanese habit of "dumping" products in their markets. It should be noted, at the same time, that, in the

years since 1980, Japan has become more attentive to ASEAN in formulating policies, and ASEAN recognizes the necessity of Japanese economic cooperation to achieve its goals.⁸⁰

Japan has supplied development funding to ASEAN both in and out of the Asian Development Bank. Japanese industrialists are investing in ASEAN nations to benefit from lower labor costs there. In addition, Japanese industrialists recognize ASEAN's large overall consumer market of 325 million. As investors, they are willing to overlook the institutional inefficiencies (cumbersome bureaucracy, contradictory policies) in a way they would not in a smaller-scale market. Japanese investment has been particularly heavy in Indonesia, the Philippines, and Thailand.⁸¹

Yet, while ASEAN has petitioned Japan to open up its domestic market to ASEAN products, Japan, following a globalist policy in the IMF/GATT (International Monetary Fund/General Management Agreement on Tariffs and Trade) framework, has thus far decided not to commit itself entirely to this type of economic regionalism. It has, for instance, continued to hesitate when ASEAN asks its cooperation in establishing a STABEX (export stabilization) scheme. Japan also wants to maintain economic ties with Indochinese countries, a situation that has not helped its relations with ASEAN, considering the organization's enduring difficulties with Indochina. Japan considers ASEAN a useful regional

framework for bringing stability to Southeast Asia; ASEAN regards Japan as a valuable economic and technological partner for achieving modernization. An ongoing economic/political dialogue between the two is carried out today through the ASEAN-Japanese Forum and the biannual ASEAN-Japan Economic Ministers' meetings.⁸²

There has been a recent tendency among some nations of the Pacific Basin, which includes ". . . Japan, the NIC's (newly industrialized countries such as Hong Kong, South Korea, and Taiwan), ASEAN, Australia and New Zealand, mainland China, and the Pacific states of the U.S. . . ,"⁸³ to call for the creation of a cooperative economic organization that encompasses the entire region. For instance, Australian Prime Minister Bob Hawke has been rather vocal in this respect over the past several years.⁸⁴ ASEAN is critical to the success of any large-scale cooperation in the region. Not only are the economies of its members among the fastest growing in the world but also the countries comprising the alliance are strategically located within the region. For this reason, meaningful cooperation within the Pacific Basin cannot be expected to occur without ASEAN participation. Recent discussions with official ASEAN countries, however, seem to indicate that their governments are ambivalent about the concept.⁸⁵

In many official circles within ASEAN, the need for any new cooperative organization is questioned. One view holds that economic development in the Pacific Basin is proceeding apace, particularly among the newly industrialized countries and ASEAN. Such being the case, those opposing creation of newer, larger-scale cooperative organizations ask, why tamper with success? It should be noted that, despite trading agreements and similar ties to the international community, ASEAN remains essentially a regional alliance. As such, it remains wary of those outside the organization.⁸⁶

One situation ASEAN adamantly does not approve is a cooperative forum dominated by either Japan or the United States. The proposed membership of China, Taiwan, and Hong Kong, as well as traditional rivals like Burma, Cambodia, Laos, and Vietnam, is questioned as perhaps being more than ASEAN can adequately deal with at this time; it is a proposal that has met with little enthusiasm. Also, the inclusion of such marginal Pacific Basin players as the Soviet Union and Latin American countries similarly has not been approved. ASEAN considers its relatively strong economic and political position in Southeast Asia as buffer to the socialist imperatives of both China and the Soviet Union. Issues such as these raise disturbing questions about the need and effectiveness of any larger-scale cooperative organization that might emerge in the Pacific Basin.⁸⁷

At the heart of these considerations is the fear that the creation of a larger organization would undermine ASEAN and the relative prosperity it has achieved for its members thus far. Though annual ministerial-level consultations with Canada, the EC, and the United States are ongoing, ASEAN currently provides its members a profile in the world that surpasses whatever benefits bilateral ties with economic powers potentially exist. ASEAN has become a geopolitical force to be reckoned with and, to a large extent, counterbalances both China and Japan in the Pacific Basin. None of its member nations could hope for such an achievement on its own.⁸⁸

Concern is also evident about precisely what role an expanded organization might play in the region's affairs. In some quarters, there has been the impression that the eventual objective is to create a trading alliance based on the EC's integrated market or the Free Trade Agreement binding Canada with the United States. While there has been some enthusiasm in ASEAN regarding these possibilities, it has not been overwhelming. ASEAN members are, in general, uncertain about the precise intention of a larger organization or one modelled on the EC. The possibility that any such organization might, by its very design, interfere with the domestic policies and behavior of ASEAN member countries appears certain to limit expansion beyond its current status.⁸⁹

Elements of a common ASEAN foreign policy have become increasingly evident in the years since 1976. For instance, in their dealings with the communist states of Indochina, the alliance has maintained a substantial unity of purpose. The group has not always been unanimous in deciding what responses should be adopted. However, when these variations in perspective have been portrayed by those outside the alliance as proof that ASEAN was weakening, its members have quickly closed ranks. In this respect, ASEAN has provided a framework within which national differences of approach or belief have been resolved or modified to the satisfaction of the remaining partners.⁹⁰

The ASEAN states have come to value their sovereignty and independence as their economies have grown and prospered. Multilateral economic organizations remind ASEAN's members of such institutions as the International Monetary Fund (IMF) or the World Bank (WB). These, in turn, tend to evoke thoughts of structural and policy adjustments. While some ASEAN economies, such as Singapore's, are highly flexible, others, like that of the Philippines, are not. There remain significant questions about the precise purpose of the affiliation to additional organizations: What will they be pressing ASEAN countries to do? Will they create an opportunity for an independent secretariat and other members to scrutinize and criticize domestic economic policies? Until these ques-

tions can be answered to the satisfaction of ASEAN members, it is doubtful that the alliance will opt to expand its liaisons with the outside world to a larger degree than that of the present.

The potential for disagreement between ASEAN members remains considerable. However, economic and political leaders of the six countries comprising the alliance now have more than two decades' experience of identifying common goals and formulating the strategies to achieve them. That evidence suggests that future challenges to the existence and effectiveness of ASEAN can be skillfully confronted.

CHAPTER III

EXPERIENCE WITH DEVELOPMENTAL STRATEGIES AT ASEAN

Overview

In its efforts to promote cooperation in Southeast Asia, ASEAN has enacted a number of developmental plans designed to stimulate mutually beneficial economic interaction among its members. Three such initiatives--Preferential Trading Agreements (PTA), ASEAN Industrial Projects (AIP), and ASEAN Industrial Complementations (AIC)--have been most utilized by the alliance and will provide the basis for most of the discussion that follows. Before describing these programs, however, a brief historical introduction to the factors that led to their creation is in order.

At the first ASEAN Foreign Ministers' meeting in Jakarta (1975), economic ministers agreed that ASEAN should undertake large-scale industrial projects to meet regional demand for essential products. These projects were to be selected on the basis that they utilized materials available in the region, contributed to food production, saved foreign exchange, or created employment. It was understood that the products of joint industrial projects should be accorded preferential treatment within ASEAN.

The economic ministers also proposed that ASEAN should work toward the establishment of intra-regional Preferential Trading Agreements as a longer-term objective to be negotiated on a commodity-by-commodity basis and subject to the unanimous consent of the members. Although both the Philippines and Singapore pressed for more rapid progress in the area of Preferential Trading Agreements (PTA) and advocated across-the-board percentage tariff reductions, the responses of Indonesia, Malaysia, and Thailand forced the acceptance of more modest goals. In October 1975, only a month before this particular ASEAN Foreign Ministers' meeting, Singapore's Prime Minister Lee Kuan Yew had expressed optimism concerning ASEAN's potential of creating a free trade association, along the lines of the EC or the Latin American Free Trade Association (LAFTA), within a decade's time. After the meeting, however, Lee had to accept the fact that the different levels of economic development in ASEAN countries meant that there was little chance of a common market being developed in the immediate future, or well into the next century.⁹¹ The emphasis on cooperation, therefore, increased markedly at this time, but the expansion of cooperation was to be gradual.

The ASEAN economic ministers also agreed in Jakarta that they should adopt common positions in approaching commodity problems in the context of multilateral trade negotia-

tions and the establishment of a new international economic order, especially with respect to export stabilization and similar schemes designed to increase the export earnings of developing countries. The economic ministers also recognized that their meetings should be regularized and that some organizational mechanism under their control was essential to implement economic cooperation.*2

Preferential Trading Agreements (PTA)

In the Declaration of Concord, ASEAN approved the idea of selective trade liberalization. After the Bali Summit, the economic ministers moved quickly to develop concrete programs from these proposals. Difficulties were immediately encountered. The Philippines and Singapore were keen to promote intra-ASEAN trade by means of substantial tariff reductions, whereas Indonesia and Malaysia were hesitant to agree to measures that might leave their heavily protected developing industries open to competition from other members. Nevertheless, an understanding on Preferential Trading Agreements (PTA) was finalized in 1976 and formally ratified by the economic ministers at their third ASEAN Economic Ministers' meeting in Manila in January 1977; subsequently, it was accepted by the individual member states. Tariff reductions were to be negotiated at quarterly round table discussions on a commodity-by-commodity basis. By late 1980, the economic ministers had approved 5,285 commodities under

Preferential Trading Agreements, and by May 1981, the total had risen to 6,581. By the end of 1987, the number of approved commodities has grown to 11,261. Certain agricultural products (cotton, rice), machinery, petroleum and petroleum goods, and textiles are examples of commodities whose exchange among ASEAN members is governed by PTA. This gradualist approach to intra-regional tariff reduction demonstrates the characteristic ASEAN practice of feeling its way toward greater economic cooperation. The ASEAN PTA continues, however, to represent commitment to the development of intra-ASEAN trade over the long term.⁹³

Thus far there has been no action on a proposal made in 1976 that ASEAN governments declare as a long-term objective their intention to create, by a date sufficiently far ahead to give ample time for adjustment, an ASEAN free trade area. It would involve the removal (by that date) of all tariffs and quantitative restrictions on trade between member countries; 1990 was the suggested date.⁹⁴ But by 1980, progress in creating and implementing Preferential Trading Agreements was hindered by a clash of views within ASEAN over the role of the organization: Should ASEAN assume a limited guiding role or should it provide a framework for an expansion of cooperation? At the insistence of Indonesia, the PTA adopted an item-by-item approach that has, in essence, limited trade liberalization to certain inconsequential areas.⁹⁵

Preferential Trading Agreements (PTA) provide for free trade preferences to be given through (1) long-term quantity contracts, (2) the purchase of finance support at preferential rates of interest, (3) preference in procurement by government entities, (4) the extension of tariff preferences, (5) liberalization of non-tariff measures on a preferential basis, and similar measures. Of these instruments, the most significant are those tariff preferences that ensure member nations a supply of foodstuffs and crude oil during emergencies. When one nation in the alliance lacks essential foodstuffs, PTA permits the passage of those substances from other ASEAN members at minimal tariff rates. Brunei, which produces an abundance of crude oil, can, in cases of emergency, provide that product to ASEAN members in need of it, according to PTA.

Negotiations for the extension of tariff preferences are conducted quarterly in the Trade Preferences Negotiating Group of the ASEAN Committee on Trade and Tourism (COTT). The proposals are then considered by COTT itself, which, in turn, makes the final recommendations to the economic ministers. Recommendations approved by the ministers become effective on dates set by them, approximately 90 days after approval, to enable participating countries to accomplish the appropriate national implementation procedures. Preferences are granted in two ways: through negotiated offers or

through voluntary offers. Negotiated preferences are arrived at, GATT-style, by negotiating teams from two countries, but their agreements apply to all six partners. Voluntary offers are granted unilaterally by the six individual countries and include all trading partners.⁹⁶

Some economists have pointed to the limited extent of percentage tariff reductions actually provided and the sometimes insignificant nature of the items offered as evidence for withholding their judgment on eventual qualitative impact of the Preferential Trading Agreements on intra-ASEAN trade.⁹⁷ However, it must never be forgotten that ASEAN has quite deliberately adopted a gradualist approach to trade liberalization within the region, at a pace acceptable to all members. The trend toward increased economic cooperation among ASEAN members continues but not in a fashion that will cause a move toward economic integration or a common market (i.e., EC) level.

ASEAN Industrial Projects (AIP)

At the 1976 Bali Summit, the ASEAN heads of government adopted United Nations recommendations for what has been termed "package-deal" industrial arrangements. Cooperation in establishing large-scale industrial plants was deemed important. The idea was to construct major production facilities in one of the alliance's nation-states to manufacture the region's requirements for a given product. Designed

specifically to meet ASEAN's needs for essential commodities, goods produced by ASEAN Industrial Projects (AIP) were to be provided with Preferential Trading Agreements. In the design of an AIP, priority was to be given to products utilizing regional materials or those related to food production, increasing foreign exchange earnings or saving foreign exchange, or creating regional employment.⁹⁸

ASEAN Industrial Projects were to be designed to realize economies of scale; the result would be a sort of import substitution plan. As AIP facilities fulfilled the region's requirements for designated commodities, the need to import those goods would diminish. In this respect, it was assumed AIP would lead to eventual ASEAN self-sufficiency for designated products. Among the products targeted by AIP were newsprint, petrochemicals, potash, rubber goods, soda ash, steel, super-phosphates, and urea fertilizer. To ensure acceptance of such a pooling of regional demand, each ASEAN member was to have at least one large industrial project. A feature of the original concept was that each ASEAN member would provide adequate market support to the products of the industrial plants of the other nations through, for instance, guaranteed purchases and tariff preferences.⁹⁹

Although AIP were created in a spirit of mutual ASEAN interaction, they have not always been successfully implemented. Political objections arose in some cases; in others,

practical problems involving resource acquisition or plant construction proved to be insurmountable. These difficulties in the successful execution of all AIP will be considered presently.

As originally conceived, the joint ASEAN Industrial Projects were to be large plants involving investments of \$250-350 million and owned jointly by the ASEAN member nations. The host nation was to be responsible for 60 percent of the project's equity, with the other nations of the alliance subscribing for the remaining 40 percent. Although the formal requirement was only that the government own at least one-third of a nation's subscription, with the private sector (local or foreign) permitted to subscribe to the remainder, in most cases, it has been the government that has obtained all or most of the subscription.¹⁰⁰

The allocation of the first generation of projects was not a political agreement, as has sometimes been alleged, although naturally the pooling of demands and joint ownership called for political will. It was important that each project be viable by world standards. As with the Preferential Trading Agreements, however, progress in implementing ASEAN Industrial Projects fell victim to a clash of views within ASEAN over the alliance's proper role in directing these matters. Of the five industrial projects initially proposed,

only the Aceh Urea Project was actually completed, in January 1984, though other AIP have been launched since 1985.

ASEAN economic ministers decided upon the nature and order of ASEAN Industrial Projects at the third ASEAN Economic Ministers' meeting in Manila, January 1977. These projects were initiated in the period between 1977-1980 under the guidance of the ASEAN Committee on Industry, Minerals and Energy (COIME), which had been assigned the task by the economic ministers and designated to report its progress to them. COIME undertakes feasibility studies to ensure that AIP have a chance of being successful, so that the investment of the alliance members is not wasted. The fate of the AIP rests upon the decision of the economic ministers after COIME has initiated the necessary research and analytical activities. Unfortunately, in attempting to devise a showcase schemata for AIP, insufficient consideration was given by the economic ministers as to whether the selected programs (urea fertilizer for Indonesia and Malaysia, super-phosphates for the Philippines, soda ash for Thailand, and diesel engines for Singapore) might conflict with existing plans or proposed industries in the individual member countries.

The original Philippine project for a phosphate fertilizer program was found to be unviable. Instead a compound fertilizer project was considered. However, the Philippines was faced with time pressures in implementing this project

according to ASEAN schedules and procedures and proposed an integrated pulp and paper project instead. Yet, neither this project nor another (the construction of a copper fabrication plant) subsequently proposed by the Philippine government were regarded feasible by COIME. Feasibility studies concerning these projects cited transportation problems and excessive capital outlays as decisive factors against implementing these projects.¹⁰¹

As for Singapore's diesel engine plant under the ASEAN scheme, the proposal was not accepted for similar reasons. Having no ASEAN consensus concerning the horsepower range of the proposed engines or the degree of market support provided for them in the regional marketplace (Indonesia was particularly stubborn in this respect), Singapore turned the proposal into a national project. It offered ASEAN no substitute proposal for ASEAN Industrial Project consideration and appeared, for a time, ready to withdraw entirely from AIP arrangements. When, however, the Japanese government promised \$1 billion for the financing of the AIP in the late 1970s, it stipulated that projects should be supported by the entire membership of ASEAN. For this reason, Singapore decided to maintain a nominal 1 percent in the capital holding of other AIPs. For instance, in the case of the PT ASEAN Aceh Fertilizer Company, Indonesia (the host country) holds 60 percent of the firm's equity, Malaysia, the Philippines,

and Thailand each hold 13 percent, and Singapore holds 1 percent.¹⁰²

By 1980, three of the five AIP originally accepted by the alliance were getting underway, and consideration was being given to a second generation of projects.¹⁰³

At the end of 1981, the construction of a factory with a capacity of 1,000 tons per day (of fertilizer produced) was undertaken in Indonesia's Aceh region. It was completed in January 1984, several months ahead of schedule, and has produced near or at capacity ever since.¹⁰⁴ While one might think this success might be repeated with the other two accepted AIP, such was not the case. Malaysia's Urea Fertilizer Project, set in Bintulu, Sarawak, has been abandoned, as has Thailand's Rock Salt-Soda Ash Project, located in the Mahtapud district of the northeast. Both projects were significantly funded, for 70 percent of cost, by the Japanese government, which withdrew funding when construction of appropriate facilities fell far behind schedule. It remains to be seen whether either of these projects will be reinstated through ASEAN efforts.¹⁰⁵ The three original projects were (1) the ASEAN Urea Fertilizer Project in Indonesia, (2) the ASEAN Urea Fertilizer Project in Malaysia, and (3) the ASEAN Rock Salt-Soda Ash Project in Thailand.

Progress in the creation and implementation of further AIP has been slow following this first generation of coopera-

tive industrial projects. No AIP proposal passed the discussion stage through 1986. In 1987, however, ASEAN approved two joint industrial projects after positively qualifying their feasibility. Both of these AIP involved Malaysia; they were (1) a cooperative effort between Malaysia and the Philippines in the manufacture of automobile headlights and (2) Malaysia-Thailand cooperation in the production of electrical parts for motorcycles.

ASEAN Industrial Complementations (AIC)

ASEAN Industrial Complementations (AIC) is another important area of cooperation negotiated through COIME. AIC allocates certain products of an industry to participating nations; these products are given tariff preferences. The other participating nations cannot set up new production facilities or expand existing ones for a period of two (for existing products) to four (for new products) years.¹⁰⁶

Whereas the guiding principle of AIP was to develop a means by which an industrial plant in one country could meet ASEAN's requirements for that specific product, AIC's principle has been that each member nation produces specific components of a single ASEAN manufactured item. ASEAN can, in this way, take advantage of the larger regional market for components and products, and so promote intra-ASEAN trade in manufactures and assist the less industrialized members in reaching industrialization. Also, ASEAN Industrial Projects

have been largely implemented by governments, the AIC is largely carried out by the private sector.¹⁰⁷ Hence, ASEAN Chambers of Commerce and Industry (ASEAN-CCI) have been actively involved in the formation of the AIC program. It is, however, the governments themselves that are responsible for efficient and proper execution of AIC as an economic policy.¹⁰⁸

COIME and ASEAN-CCI work together to direct the ASEAN Industrial Complementations (AIC) programs. Initial guidelines for AIC were adopted at the AEM meeting held in May 1978. They included provisions for lowering intra-ASEAN trade barriers and for other forms of government facilitation. After a lengthy process of refinement and discussion, agreement in principle on the first AIC project was reached in 1980. Set in the automotive industry, the project included (1) body panels from the Philippines, (2) 80-135 horsepower diesel engines from Indonesia, (3) spokes and drive chains for motorcycles and timing chains for cars from Malaysia, and (4) heavier body panels for commercial vehicles from Thailand. In ASEAN, unlike in the Andean Pact countries, there is no master plan for making an "ASEAN car" in the near future. The ASEAN Automotive Authority (AAA) realizes the existing automotive manufactures affiliated with multinational automotive interests already produce a wide variety of vehicles. Rather, the thrust is to identify compo-

nents that can be produced without too many costly variations and in sufficient numbers to be economically feasible. Among such possibilities for the future are steering components, rear axles, and shock absorbers. Projects involving manufacture of headlights and electrical parts have already been given AIP approval by COIME.¹⁰⁹

Under the original AAA proposal, Singapore was to have manufactured universal joints for cars and commercial vehicles. Singapore, however, with its small domestic market and its shift to less labor-intensive and higher technology component manufacture for European, Japanese, and American markets, saw no advantage for itself in developing a domestically oriented automobile industry. Moreover, Singapore objected to the idea of applying trade preferences, monopoly rights, or protection to products manufactured under complementation schemes. Singapore's objections were such that Prime Minister Lee Kuan Yew asked the 1980 AEM for a redefinition of "ASEAN consensus" and suggested that a member nation might be permitted to abstain from participation in AIC. This compromise, indicative of the unlikelihood of ASEAN moving toward further economic integration, was accepted.¹¹⁰

As a result, Singapore has remained only nominally involved in ASEAN Industrial Complementations (AIC). It was not only the automotive complementation proposal or

Singapore's free trade stance that prompted the nation to make this suggestion. It had been moving in this direction for several years, having found that in many cases AIP or AIC as proposed had little or nothing to offer Singapore as an entity separate from ASEAN. Therefore, Singapore has not often agreed to AIP or AIC schemes, particularly since its proposed diesel engine project had encountered such problems (see pp. 53-55).¹¹¹

In terms of ASEAN Industrial Complementations implementation, the years since 1980 have been somewhat more successful than those preceding them. Of the numerous other AIC proposed by the ASEAN-CCI to COIME, several have been accepted. Among these have been a paper mill (the Philippines), a magnesium plant (Indonesia), and a mini-tractor factory (Malaysia). It seems likely that additional AIC proposals will be implemented in the future, expanding ASEAN's overall network of industrial complementations. Pending projects include factories to manufacture shock absorbers (Thailand), steering components (Indonesia), and rear axles (Malaysia). Singapore remains more or less disassociated from the AIC at this time, while Brunei is pressing to be actively included. AIC projects have featured, in recent years, the exchange of data on national development plans, the promotion of ASEAN investment, and the coordination of

ASEAN investment laws.¹¹² An evaluation of the effects of AIC is contingent upon its continued, further development.

CHAPTER IV
FACTORS AFFECTING ASEAN COOPERATION

Overview

Since the ASEAN Foreign Ministers' (AFM) meeting in 1985, pressure has arisen within ASEAN to renew negotiations on economic cooperation. Some officials in the Indonesian Foreign Ministry, for instance, have expressed their support for such efforts, arguing that none of the nations in the alliance can enact an obstructionist role in matters of economic cooperation without ultimately undermining ASEAN. At the AFM meeting in 1986, the foreign ministers issued a statement that said, in part, that efforts ". . . must be redoubled . . ." ¹¹³ in the economic arena, and thus reflected the emphasis on the new priority.

The AFM meeting of 1987 concluded with agreements on energy cooperation and petroleum security (ensuring sufficient petroleum supplies to meet current needs). Ratified by the attending foreign ministers of the six members, these agreements represented a renewed commitment to economic integration for the region. The foreign ministers also moved to define the desirable form of economic cooperation that would satisfy the alliance's conflicting political interests.

Considerable attention was focused on the concept of an ASEAN common market as a measure to promote intra-ASEAN commerce.

ASEAN is now in a situation where it needs to delineate the scope of economic cooperation according to political criteria (in addition to economic criteria) that acknowledge the fact that the organization is composed of sovereign states; each of these has its own agenda for development. Thus far, however, the ASEAN experience has been that elaborate proposals for expanded integration rapidly descend into the morass of political practicality. When efforts are finally directed at making the proposals real, the differences between countries that previously had interfered with expanded integration once again become a barrier to achieving that end. Meeting in Jakarta in 1986, ASEAN recognized that proposals for economic cooperation require definition within the narrow confines of conflicting interests. It proposed that ASEAN adopt a selective common market designed to avoid conflict in sensitive areas. This proposal, really little more than an extension of the Preferential Trading Agreement, intended to exclude from the "common market" such competitive commodities as palm oil, rubber, and tin. Although this proposal was made with honorable objectives, including drawing the alliance closer together economically, it has thus far been rejected by Indonesia.¹¹⁴ Since the positions held by the various states reflect the disparate political interests that

have caused this and other proposals to be rejected, each member of the alliance will be considered in turn in terms of its priorities and perspectives regarding ASEAN.

Brunei

Petroleum and gas reserves are the foundation of Brunei's economy. Sales of the resources in the international marketplace have provided the country with a substantial balance of payments surplus. Brunei has one of the highest per capita incomes of all nations in the world, nearly \$20,000 annually, and its inhabitants enjoy the best standard of living in ASEAN.¹¹⁵

To stimulate long-term diversification, Brunei has also sought active participation in ASEAN Industrial Projects and ASEAN Industrial Complementations, which is expected to be forthcoming in the 1990s. Indeed, ASEAN was the primary focus of Bruneian external relations in the late 1980s. As chairman of the twenty-second ASEAN Standing Committee, Brunei hosted the annual AFM in 1989, as well as post-ministerial meetings with the United States, Japan, and other dialogue partners. Brunei has, in addition, sponsored a wide range of ASEAN meetings during 1989. More generally, Brunei has attempted to maintain cordial relations with all members of the alliance.¹¹⁶

Sultan Bolkiah and his ministers have solicited foreign investment from both inside and outside ASEAN. Several mem-

bers of the alliance (particularly Indonesia) have objected to Brunei's seeking aid externally in order to avoid influence by or dependence on foreign powers. These objections were silenced when Brunei's representatives diplomatically pointed out that (1) every member of the alliance currently receives financing/investment from sources outside ASEAN and (2) seeking/obtaining such assistance is permitted by ASEAN as long as it does not interfere with specific ASEAN projects.¹¹⁷ Thus far, however, the inflow of appropriate foreign capital has yet to materialize.

Indonesia

In 1989, Indonesia launched its fifth Five-Year Development Plan in an attempt to stimulate economic growth through the 1990s. A generally strong economic performance in 1989, with a growth rate of nearly 6 percent and progress made in deregulation of industries and export promotion, provides reason for optimism that the nation's development program is basically on track as it enters the new decade. The nation has instituted a series of policy reforms that have promoted greater openness, efficiency, competitiveness, and private sector initiative in what has long been regarded an over-protected, high-cost economy.¹¹⁸

Indonesia's relationship with ASEAN is problematic. An essential member of the alliance, Indonesia has nonetheless experienced ongoing difficulties with Singapore, in particu-

lar. It has opposed a proposal, introduced by the Philippines, to reduce common tariffs by the year 2000 because it believes that gradual trade liberalization without a time deadline is better for its own development. This proposal, which included a provision that internal tariffs be reduced incrementally over the period between 1986-2000 while members maintained a common external tariff or customs union, was designed by the Filipinos in an effort to meet the needs of Indonesia, Singapore, and, more importantly, ASEAN as an active economic entity. Indonesia fears that duty-free Singapore would provide a means for external exporters to penetrate the Indonesian market, but the proposal was intended to lower tariffs among alliance members while maintaining a common, higher-rated tariff to nonmembers. Although the proposal would have, if accepted, stimulated trade not only between Indonesia and Singapore but also within ASEAN, the traditional economic disputes between Indonesia and Singapore prevailed over efforts to solidify the ASEAN union. Singapore, for its part, objects to the idea of a customs union, which it feels will limit its own free trade policies. Indonesia has also turned its attentions toward achieving economic stability independently. As long as these economic disputes between Indonesia and Singapore remain unattended to, any tendency toward greater

economic cooperation among ASEAN's membership will be confronted by a major stumbling block.¹¹⁹

Malaysia

Malaysia's political stability was given a substantial lift in 1989 when the predominantly Chinese Communist Party (CPM) decided to end its armed struggle to overthrow the government. ASEAN played an instrumental part in this development. Growing bilateral cooperation between Malaysia and Thailand on their common border to flush out communist terrorists was strengthened by the network of political and economic regionalism fostered by ASEAN; it boosted political confidence and morale to preserve the democratic way of life. In this regard, the strategic presence of ASEAN, and the security assistance it provides, has been significant in strengthening regional resolve to fight the communist threat. The potency of communal and religious forces in multiracial Malaysia also served to strengthen the government's hand and weaken the Communist Party's strategy to thrive on disgruntled elements in the body politic. The government's socioeconomic policies and development projects have, in addition, improved the standard of living for Malaysians and built confidence in the government's ability to manage a multiracial society.

All economic indicators (e.g., per capita GNP of US\$ 2,200/annum) point to Malaysia achieving NIC (newly industri-

alized country) status by 2000; ASEAN development projects have been instrumental in this respect. The economy is moving away from dependence on commodities (i.e., tin and rubber) to a light manufacturing base. Electronics products have been most impressive in this regard and have become ASEAN's largest export earner. Malaysia's trade surplus has surpassed \$5 billion; real GNP growth has averaged above 5 percent per annum since 1986. The nation's financial condition remains positive because of the government's responsible fiscal policies. Malaysia's active role in promoting ASEAN political and economic cooperation remains steadfast.¹²⁰

The Philippines

Much of the political stability and economic progress engendered in the Philippines since 1986, when President Aquino took office, was shattered in December 1989; at that time, members of the military attempted a violent overthrow of the Aquino government. As a result, rather than beginning the 1990s with a secure government and improving economy, Filipinos are currently confronted with a degree of uncertainty reminiscent of the situation before Aquino came to power in 1986 when the economy was hampered by a closed market and policies that discouraged foreign investment. The Philippines still has one of the slowest growing economies of ASEAN. Presently, the Philippine government is seeking more aid from the United States and Japan. Since 1988, the

Philippine economy has averaged a 3 percent growth.¹²¹ The government's economic program has produced mixed results with progress continuing on import liberalization and financial reform but privatization proceeding at a snail's pace.¹²²

Interestingly, during the first years of Aquino's regime, the relative political stability of the Filipino government was reflected in the nation's attempts to try to bring some stability to cooperative efforts at ASEAN. For instance, it was Filipino Economic Minister José Concepcion who introduced the common tariff reduction proposal of 1986 that included the internal/external proviso (see p. 64) in an attempt to enact a compromise situation that would satisfy both Indonesia and Singapore. More recently, the Philippines has drawn some criticisms from ASEAN partners because of its attempts to secure new foreign loans, investment, and economic assistance. This is mainly because by forming ASEAN the member states had hoped to reduce influence by or dependence on foreign powers.

The nation remains a staunch supporter of ASEAN for both economic and political reasons. Low wage rates remain the main attraction to foreign investors. Yet, despite the foreign investment in 1989, the Philippine's \$3.5 billion debt remains the number one economic problem.¹²³

Singapore

For most of the 1980s, economic progress, government-identified objectives, and fine-tuning of the political system have characterized Singapore, as has double-digit real per capita economic growth. Indeed, were Singapore ". . . a real corporation instead of merely a country that behaves as one, it would be a prime takeover target."¹²⁴ Philosophically based in free trade, Singapore's economy operates profitably; there is no foreign external debt. The United States remains the country's principal foreign investor, generating one-third of all foreign investment in Singapore.¹²⁵

Singapore has been a member of ASEAN since the beginning, but it has never been the alliance's strongest supporter. Its relationship with Indonesia has been a particular sore point in the alliance's operations. Singapore's limited size and range of industrial possibilities have kept it an advocate of free trade, while Indonesia's own growing industrial base has called for a more protectionist stance. Singapore opposed the matter of common tariffs (p. 65) because it felt that the provision for a customs union (precisely the stipulation included for Indonesia's benefit) would limit its own freedom in foreign trade.¹²⁶

More recently, Singapore's application for a permanent American naval installation (1989) has drawn heat from ASEAN

partners. Indonesia and Malaysia were particularly vocal in this regard. Each stated that while maintaining a repair and supply station in Singapore was acceptable to them, a permanent base was against ASEAN interests. Singapore's position in ASEAN continues to be one that is most often at odds to expanded, long-term cooperation; it is based more perhaps on need for a stable military alliance than for economic reasons.¹²⁷

Thailand

Thailand's economy is robust and strong; exports, manufacturing, agriculture, and services all have expanded significantly in recent years. Economic issues have gained momentum in the conduct of foreign policy. In addition to relying on ASEAN as a source of economic interaction with its neighbors, Thailand maintains its strong ties with the alliance in the interest of regional stability. Indeed, its prime trading partners are not members of the alliance but Japan, the United States, the European Community, and Australia, as well as Eastern Europe. Because of ASEAN's support of efforts to eliminate communist terrorists operating on the Thai-Malay border, Thailand has remained generally supportive of the alliance's efforts toward increasing economic cooperation between members; however, its economy is strong enough that it can maintain stability without ASEAN

support. Thailand chaired the ASEAN Standing Committee in 1990.¹²⁸

External Factors Affecting ASEAN

Japan and the United States are major investors in and trading partners with ASEAN. Even in Malaysia, where much of the colonial relationship with the British remains intact, British investment stock has slipped from 45 percent of total in 1970 to about 15 percent today while Japan has risen to first position in the interim. Japan has actively pushed economic and political ties to the rest of the region as well. The United States, in the meantime, has expanded its trade ties with ASEAN. The United States intends to continue its military presence in the region, although its two bases in the Philippines remain an open question.

The EC has become proportionally less important in both economic and security matters. Only in Singapore has the EC maintained its position as the principal source of direct foreign investment. Much of the EC's decline in the region can be traced to political problems dating back to British, Dutch, and French colonial rule. Moreover, frequent contact with Japan has helped to dispel much of the lingering distrust ASEAN nations held for Japan in the years after World War II. Indeed, the ability of the Japanese to enter into mutually beneficial commercial arrangements with ASEAN

through joint ventures has enabled it to outflank the United States in dealings with the alliance.¹²⁹

Increasing investment and trade between Japan and ASEAN demonstrate how they are becoming more dependent on each other and less dependent on the West. This is not to dismiss the still overwhelming dependence of ASEAN economies on the United States, but according to estimates, Japanese exports will surpass American exports to ASEAN in just two years. Japan's rise as an economic colossus, rapid economic growth in South Korea, Taiwan, and other parts of East Asia, and China's drive for modernization have all been significant factors in changing the balance of external power affecting the status of ASEAN. Unless Western nations make concerted efforts to lead the construction of a new Asian system of diplomacy and trade, they may lose a great deal of status there, ultimately assuming the position of an authentic outsider.¹³⁰

ASEAN Strategies in Retrospect

As described earlier, the results of ASEAN strategies have been decidedly mixed. Efforts toward expanded economic cooperation and integration have met with limited success. The extent to which ASEAN is more than a sum of its parts remains an open question. Even within the organization, ASEAN takes on different guises when viewed by its separate constituents and their representatives. These perspectives dif-

fer as well in relation to the overall weight ASEAN nations give to their associations outside the alliance and to approaches they take on economic objectives. They illustrate the difficulty of achieving a coherent focus on ASEAN activities within the organization itself; distinguishing reality from rhetoric is not always easy. It has been noted that ASEAN may well be ". . . in its essence . . . merely a state of mind . . .,"¹³¹ while the experience of other regional economic associations among the less developed countries of the world does not make for excessive optimism regarding the alliance's long-term prospects. Political differences among members remain at the core of the association's problems of implementing large-scale economic integration. Rather than making collective decisions to promote the good of the alliance, ASEAN members all too often respond in accordance to their own needs.

Issues such as these make it rather unlikely that ASEAN will expand its current economic cooperation to that of an EC-styled common market. The difference between ASEAN and the EC is that EC members believe that integration serves their economic and political needs better than any other method of organization. ASEAN members do not share this conclusion. Although further economic integration might benefit particular members of ASEAN, prevailing cultural and political conditions prevent significant moves in this direction.

It is reasonable to assume that the decreasing Soviet influence around the world and China's economic reforms will lessen the desire for further integration among ASEAN members. However, two ASEAN countries, the Philippines and Indonesia, remain at least occasional advocates of further integration. As previously mentioned, they have the most to gain from such an occurrence. What the future will bring remains an open question as many issues throughout the region are unsettled and ongoing.

CHAPTER V

CONCLUSION

The ASEAN partners represent diverse economic and political systems. Brunei, with essentially a one-product economy (petroleum), is nevertheless one of the richest nations in the world; it is a monarchy. Indonesia has the world's fifth-largest population, the vast majority of whom are peasant farmers. It has a military-dominated government and has directed its economic strategy primarily toward the creation of a broad, self-sustaining, import-substitution manufacturing base. Malaysia has maintained a parliamentary democratic structure in politics but is confronted by serious racial, religious, and social tensions. It has, over the past decade, tried to move away from its reliance on primary exports toward the newer Japanese/Korean models of export-oriented manufacture.

In the Philippines, a presidential system dominated by major landed elites existed until 1972. President Marcos' subsequent attempt to construct an authoritarian, corporatist regime collapsed in 1986, by which time the Philippines had become the poorest country in ASEAN and heavily in international debt. The political stability and economic progress resulting after the election of President Aquino in 1986 were

threatened by a revolt in December 1989. Both the Filipino economy and political system have been placed in some jeopardy. Singapore is a highly organized city-state, dominated by a single party that for two decades has been committed to the development of industries manufacturing goods for export as its economic backbone.

Thailand has a political system somewhat similar to that of Indonesia, except that the military has not been able to create political and ideological institutions as dominant, pervasive, and systematic; parties and parliament are relatively more dominant. It has been the alliance's quiet economic achiever, with a robust economy despite the fact it has no resource base other than primary agriculture, in contrast to the oil reserves of Brunei and Indonesia or the manufacturing of Singapore.

Moreover, in comparison to other Pacific Rim economic powers, such as Australia or Japan, the ASEAN countries, as an alliance and as individual countries, are not overly enthusiastic about the idea of a more encompassing institutionalization of economic cooperation and integration at the wider Pacific level. They remain more concerned with increasing economic activity and cooperation in the immediate geographic region defined by the alliance. Any expanded integration of economies has been characterized, particularly by ASEAN's lesser-developed states such as Indonesia, as con-

fining alliance members more rigidly than they might like into the predominantly lower levels of industrial activity of a Pacific regional division of labor. While ASEAN states have no objection to trading with Pacific neighbors, or any other nation interested in commerce, they insist that a relatively equal position exists among partners in all mutual matters, something they fear entering into large-scale economic organizations would deny them.

ASEAN members have similarly resisted tendencies toward expanding the character and scale of the alliance to that of the European Community. Moreover, the distinct and separate economic and political characteristics of the organization's member states make it rather unlikely that ASEAN will move toward a more encompassing degree of economic integration in the near future. Alliance members value their sovereignty and cultural traditions too much to commit themselves to further integration of economic endeavors at this time. Then, too, despite the fact that ASEAN states work together with tariff agreements and industrial projects and complementations, each still believes that it must assure its own economic future and priorities before those instituted by the alliance.

ASEAN is a thoroughly modern phenomenon, a product of new kinds of external pressures and no less novel internal ones. Yet, the fact that ASEAN is modern does not guarantee

its durability; even economic achievement and success cannot be regarded as sufficient to ensure the organization's longevity. Indeed, it can be argued that differing levels of economic achievement, leading to differing perceptions of self interest, have put major strains on the alliance.

Thus far, however, internal and external pressures have encouraged convictions that ASEAN is necessary for the survival of each member nation. ASEAN has achieved its present stage of growth through the hard work of its advocates and supporters within the alliance. Whether it can progress beyond the level of success already attained without members modifying or subordinating sovereignty and tradition further to a new regional vision remains to be seen. It does not appear that the majority of ASEAN states are willing to make such sacrifices at this time.

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APPENDIX 1
THE ASEAN DECLARATION

THE ASEAN DECLARATION

The Presidium Minister for Political Affairs/Minister for Foreign Affairs of Indonesia, the Deputy Prime Minister of Malaysia, the Secretary of Foreign Affairs of the Philippines, the Minister for Foreign Affairs of Singapore and the Minister of Foreign Affairs of Thailand:

MINDFUL of the existence of mutual interests and common problems among the countries of Southeast Asia and convinced of the need to strengthen further the existing bonds of regional solidarity and cooperation:

DESIRING to establish a firm foundation for common action to promote regional cooperation in Southeast Asia in the spirit of equality and partnership and thereby contribute towards peace, progress and prosperity in the region:

CONSCIOUS that in an increasingly interdependent world, the cherished ideals of peace, freedom, social justice and economic well-being are best attained by fostering good understanding, good neighborliness and meaningful cooperation among the countries of the region already bound together by ties of history and culture:

CONSIDERING that the countries of Southeast Asia share a primary responsibility for strengthening the economic and social stability of the region and insuring their peaceful and progressive national development, and that they are determined to insure their stability and security from external interference in any form or manifestation in order to preserve their national identities in accordance with the ideals and aspirations of their peoples:

AFFIRMING that all foreign bases are temporary and remain only with the expressed concurrence of the countries concerned and are not intended to be used directly or indirectly to subvert the national independence and freedom of states in the area or prejudice the orderly processes of their national development:

DO HEREBY DECLARE:

FIRST, the establishment of an Association for regional cooperation among the countries of Southeast Asia to be known as the Association of Southeast Asian Nations (ASEAN).

SECOND, that the aims and purposes of the Association shall be:

1. To accelerate the economic growth, social progress and cultural development in the region through joint endeavors in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations;
2. To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among

countries of the region and adherence to the principles of the United Nations Charter:

3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
5. To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communication facilities and the raising of the living standards of their peoples;
6. To promote Southeast Asian studies;
7. To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves.

THIRD, that, to carry out these aims and purposes, the following machinery shall be established:

- a. Annual meeting of foreign ministers, which shall be by rotation and referred to as ASEAN Ministerial Meeting. Special meetings of foreign ministers may be convened as required;
- b. A Standing Committee, under the chairmanship of the foreign minister of the host country or his representative and having as its members the accredited ambassadors of the other member countries, to carry on the work of the Association in between meetings of foreign ministers;
- c. Ad hoc committees and permanent committees of specialists and officials on specific subjects;
- d. A National Secretariat in each member country to carry out the work of the Association on behalf of that country and to service the annual or special meetings of foreign ministers, the Standing Committee and such other committees as may hereafter be established.

FOURTH, that the Association is open for participation to all states in the Southeast Asian region subscribing to the aforementioned aims, principles and purposes.

FIFTH, that the Association represents the collective will of the nations of Southeast Asia to bind themselves together in friendship and cooperation and, through joint efforts and

sacrifices, secure for their peoples and for posterity the blessings of peace, freedom and prosperity.

DONE in Bangkok this eighth day of August in the year one thousand nine hundred and sixty-seven.

APPENDIX 2

TREATY OF AMITY AND COOPERATION IN SOUTHEAST ASIA

TREATY OF AMITY AND COOPERATION IN SOUTHEAST ASIA

PREAMBLE

The high contracting parties:

CONSCIOUS of the existing ties of history, geography and culture, which have bound their peoples together;

ANXIOUS to promote regional peace and stability through abiding respect for justice and the rule of law and enhancing regional resilience in their relations;

DESIRING to enhance peace, friendship and mutual cooperation on matters affecting Southeast Asia consistent with the spirit and principles on the Charter of the United Nations, the Ten Principles adopted by the Asian-African Conference in Bandung on April 25, 1955, the Declaration of the Association of Southeast Asian Nations signed in Bangkok on Aug. 8, 1967, and the Declaration signed in Kuala Lumpur on Nov. 27, 1971;

CONVINCED that the settlement of differences or disputes between their countries should be regulated by rational, effective and sufficiently flexible procedures, avoiding negative attitudes which might endanger or hinder cooperation;

BELIEVING in the need for cooperation with all peace-loving nations, both within and outside Southeast Asia, in the furtherance of world peace, stability and harmony;

SOLEMNLY AGREE to enter into a Treaty of Amity and Cooperation as follows:

CHAPTER I PURPOSE AND PRINCIPLES

Article 1

The purpose of this Treaty is to promote peace, everlasting amity and cooperation among their peoples which would contribute to their strength, solidarity and closer relationship.

Article 2

In their relations with one another, the high contracting parties shall be guided by the following fundamental principles:

- 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. Noninterference 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;
- f. Effective cooperation among themselves.

CHAPTER II AMITY

Article 3

In pursuance to the purpose of this Treaty the high contracting parties shall endeavor to develop and strengthen the traditional, cultural and historical ties of friendship, good neighborliness and cooperation which bind them together and shall fulfill in good faith the obligations assumed under this Treaty. In order to promote closer understanding among them, the high contracting parties shall encourage and facilitate contact and intercourse among their peoples.

CHAPTER III COOPERATION

Article 4

The high contracting parties shall promote active cooperation in the economic, cultural, technical, scientific and administrative fields as well as in matters of common ideals and aspirations of international peace and stability in the region and all other matters of common interest.

Article 5

Pursuant to Article 4 the high contracting parties shall exert their maximum efforts multilaterally as well as bilaterally on the basis of equality, nondiscrimination and mutual benefit.

Article 6

The high contracting parties shall collaborate for the acceleration of the economic growth in the region in order to strengthen the foundation for a prosperous and peaceful community of nations in Southeast Asia. To this end, they shall promote the greater utilization of their agriculture and industries, the expansion of their trade and the improvement of their economic infrastructure for the mutual benefit of their peoples. In this regard, they shall continue to explore all avenues for close and beneficial cooperation with other states as well as international and regional organizations outside the region.

Article 7

The high contracting parties, in order to achieve social justice and to raise the standards of living of the peoples of the region, shall intensify economic cooperation. For this purpose, they shall adopt appropriate regional strategies for economic development and mutual assistance.

Article 8

The high contracting parties shall strive to achieve the closest cooperation on the widest scale and shall seek to provide assistance to one another in the form of training and research facilities in the social, cultural, technical, scientific and administrative fields.

Article 9

The high contracting parties shall endeavor to foster cooperation in the furtherance of the cause of peace, harmony and stability in the region. To this end, the high contracting parties shall maintain regular contacts and consultations with one another on international and regional matters with a view to coordinating their views, actions and policies.

Article 10

Each high contracting party shall not in any manner or form participate in any activity which shall constitute a threat to the political and economic stability, sovereignty, or territorial integrity of another high contracting party.

Article 11

The high contracting parties shall endeavor to strengthen their respective national resilience in the political, economic, socio-cultural as well as security fields in conformity with their respective ideals and aspirations, free from external interference as well as internal subversive activities in order to preserve their respective national identities.

Article 12

The high contracting parties in their efforts to achieve regional prosperity and security, shall endeavor to cooperate in all fields for the promotion of regional resilience, based on the principles of self-confidence, self-reliance, mutual respect, cooperation and solidarity which will constitute the foundation for a strong and viable community of nations in Southeast Asia.

CHAPTER IV PACIFIC SETTLEMENT OF DISPUTES

Article 13

The high contracting parties shall have the determination and good faith to prevent disputes from arising. In case disputes on matters directly affecting them should arise, especially disputes likely to disturb regional peace and harmony, they shall refrain from the threat or use of force and shall at all times settle such disputes among themselves through friendly negotiations.

Article 14

To settle disputes through regional processes, the high contracting parties shall constitute, as a continuing body, a High Council comprising a representative at ministerial level from each of the high contracting parties to take cognizance of the existence of disputes or situations likely to disturb regional peace and harmony.

Article 15

In the event no solution is reached through direct negotiations, the High Council shall take cognizance of the dispute or the situation and shall recommend to the parties in dispute appropriate means of settlement such as good offices, mediation, inquiry or conciliation. The High Council may however offer its good offices, or upon agreement of the parties in dispute, constitute itself into a committee of mediation, inquiry or conciliation. When deemed necessary, the High Council shall recommend appropriate measures for the prevention of a deterioration of the dispute or the situation.

Article 16

The foregoing provisions of this chapter shall not apply to a dispute unless all the parties to the dispute agree to their application to that dispute. However, this shall not preclude the other high contracting parties not party to the dispute from offering all possible assistance to settle the said dispute. Parties to the dispute should be well disposed towards such offers of assistance.

Article 17

Nothing in this Treaty shall preclude recourse to the modes of peaceful settlement contained in Article 33 (1) of the Charter of the United Nations. The high contracting parties which are parties to a dispute should be encouraged to take initiatives to solve it by friendly negotiations before resorting to the other procedures provided for in the Charter of the United Nations.

CHAPTER V GENERAL PROVISIONS

Article 18

This Treaty shall be signed by the Republic of Indonesia, Malaysia, the Republic of the Philippines, the Republic of Singapore and the Kingdom of Thailand. It shall be ratified in accordance with the constitutional procedures of each signatory state.

It shall be open for accession by other states in Southeast Asia.

Article 19

This Treaty shall enter into force on the date of the deposit of the fifth instrument of ratification with the governments of the signatory states which are designated depositories of this Treaty and of the instruments of ratification or accession.

Article 20

This Treaty is drawn up in the languages of the high contracting parties, all of which are equally authoritative. There shall be an agreed common translation of the texts in the English language. Any divergent interpretation of the common text shall be settled by negotiation.

IN FAITH THEREOF the high contracting parties have signed the Treaty and have hereunto affixed their seals.

DONE at Denpasar, Bali, this twenty-fourth day of February in the year one thousand nine hundred and seventy-six.

APPENDIX 3
DECLARATION OF ASEAN CONCORD

DECLARATION OF ASEAN CONCORD

**A COMMON BOND EXISTING AMONG THE
MEMBER STATES OF THE ASSOCIATION
OF SOUTHEAST ASIAN NATIONS.**

The President of the Republic of Indonesia, the Prime Minister of Malaysia, the President of the Republic of the Philippines, the Prime Minister of the Republic of Singapore and the Prime Minister of the Kingdom of Thailand:

REAFFIRM their commitment to the Declarations of Bandung, Bangkok and Kuala Lumpur, and the Charter of the United Nations:

ENDEAVOR to promote peace, progress, prosperity and the welfare of the peoples of member states:

UNDERTAKE to consolidate the achievements of ASEAN and expand ASEAN cooperation in the economic, social, cultural and political fields:

DO HEREBY DECLARE:

ASEAN cooperation shall take into account, among others, the following objectives and principles in the pursuit of political stability:

1. The stability of each member state and of the ASEAN region is an essential contribution to international peace and security. Each member state resolves to eliminate threats posed by subversion to its stability, thus strengthening national and ASEAN resilience.
2. Member states, individually and collectively, shall take active steps for the early establishment of the zone of peace, freedom and neutrality.
3. The elimination of poverty, hunger, disease and illiteracy is a primary concern of member states. They shall therefore intensify cooperation in economic and social development, with particular emphasis on the promotion of social justice and on the improvement of the living standards of their peoples.

4. Natural disasters and other major calamities can retard the pace of development of member states. They shall extend, within their capabilities, assistance for relief of member states in distress.
5. Member states shall take cooperative action in their national and regional development programs, utilizing as far as possible the resources available in the ASEAN region to broaden the complementarity of their respective economies.
6. Member states, in the spirit of ASEAN solidarity, shall rely exclusively on peaceful processes in the settlement of intraregional differences.
7. Member states shall strive, individually and collectively, to create conditions conducive to the promotion of peaceful cooperation among the nations of Southeast Asia on the basis of mutual respect and mutual benefit.
8. Member states shall vigorously develop an awareness of regional identity and exert all efforts to create a strong ASEAN community, respected by all, and respecting all nations on the basis of mutually advantageous relationships, and in accordance with the principles of self-determination, sovereign equality and noninterference in the internal affairs of nations.

AND DO HEREBY ADOPT

The following program of action as a framework for ASEAN cooperation:

A. Political

1. Meeting of the Heads of Government of the member states as and when necessary.
2. Signing of the Treaty of Amity and Cooperation in Southeast Asia.
3. Settlement of intraregional disputes by peaceful means as soon as possible.
4. Immediate consideration of initial steps towards recognition of, and respect for, the zone of peace, freedom and neutrality wherever possible.
5. Improvement of ASEAN machinery to strengthen political cooperation.
6. Study on how to develop judicial cooperation including the possibility of an ASEAN extradition treaty.
7. Strengthening of political solidarity by promoting the harmonization of views, coordinating positions and, where possible and desirable, taking common actions.

B. Economic

1. Cooperation on Basic Commodities, particularly Food and Energy

- i. Member states shall assist each other by according priority to the supply of the individual country's needs in critical circumstances, and priority to the acquisition of exports from member states, in respect of basic commodities, particularly food and energy.
- ii. Member states shall also intensify cooperation in the production of basic commodities, particularly food and energy, in the individual member states of the region.

2. Industrial Cooperation

- i. Member states shall cooperate to establish large-scale ASEAN industrial plants, particularly to meet regional requirements of essential commodities.
- ii. Priority shall be given to projects which utilize the available materials in the member states, contribute to the increase of food production, increase foreign exchange earnings, or save foreign exchange and create employment.

3. Cooperation in Trade

- i. Member states shall cooperate in the fields of trade in order to promote development and growth of new production and trade and to improve the trade structures of individual states and among countries of ASEAN conducive to further development and to safeguard and increase their foreign exchange earnings and reserves.
- ii. Member states shall progress towards the establishment of preferential trading arrangements as a long-term objective on a basis deemed to be at any particular time appropriate through rounds of negotiations subject to the unanimous agreement of member states.
- iii. The expansion of trade among member states shall be facilitated through cooperation on basic commodities, particularly in food and energy and through cooperation in ASEAN industrial projects.
- iv. Member states shall accelerate joint efforts to improve access to markets outside ASEAN for their raw materials and finished products by seeking the elimination of all trade barriers in those markets, developing new usage for these products and in adopting common approaches and actions in dealing with regional groupings and individual economic powers.
- v. Such efforts shall also lead to cooperation in the field of technology and

production methods in order to increase the production and to improve the quality of export products, as well as to develop new export products with a view to diversifying exports.

4. Joint Approach to International Commodity Problems and Other World Economic Problems

- i The principle of ASEAN cooperation on trade shall also be reflected on a priority basis in joint approaches to international commodity problems and other world economic problems such as the reform of the international trading system, the reform of the international monetary system and transfer of real resources, in the United Nations and other relevant multilateral fora, with a view to contributing to the establishment of the New International Economic Order.
- ii Member states shall give priority to the stabilization and increase of export earnings of those commodities produced and exported by them through commodity agreements including buffer stock schemes and other means.

5. Machinery for Economic Cooperation

Ministerial meetings on economic matters shall be held regularly or as deemed necessary in order to:

- i formulate recommendations for the consideration of governments of member states for the strengthening of ASEAN economic cooperation;
- ii review the coordination and implementation of agreed ASEAN programs and projects on economic cooperation;
- iii exchange views and consult on national development plans and policies as a step towards harmonizing regional development; and
- iv perform such other relevant functions as agreed upon by the member governments.

C. Social

1. Cooperation in the field of social development, with emphasis on the well-being of the low-income group and of the rural population, through the expansion of opportunities for productive employment with fair remuneration.
2. Support for the active involvement of all sectors and levels of the ASEAN communities, particularly the women and youth, in development efforts.
3. Intensification and expansion of existing cooperation in meeting the problems of

population growth in the ASEAN region, and where possible, formulation of new strategies in collaboration with appropriate international agencies.

4. Intensification of cooperation among member states as well as with the relevant international bodies in the prevention and eradication of the abuse of narcotics and the illegal trafficking of drugs.

D. Cultural and Information

1. Introduction of the study of ASEAN, its member states and their national languages as part of the curricula of schools and other institutions of learning in the member states.
2. Support of ASEAN scholars, writers, artists and mass media representatives to enable them to play an active role in fostering a sense of regional identity and fellowship.
3. Promotion of Southeast Asian studies through closer collaboration among national institutes.

E. Security

Continuation of cooperation on a non-ASEAN basis between the member states in security matters in accordance with their mutual needs and interests.

F. Improvement of ASEAN machinery

1. Signing of the Agreement on the Establishment of the ASEAN Secretariat.
2. Regular review of the ASEAN organizational structure with a view to improving its effectiveness.
3. Study of the desirability of a new constitutional framework for ASEAN.

DONE at Denpasar, Bali, this twenty-fourth day of February in the year one thousand nine hundred and seventy-six.

APPENDIX 4

MEETING OF ASEAN HEADS OF GOVERNMENT,
BALI, FEBRUARY 23-24, 1976

**MEETING OF ASEAN HEADS OF
GOVERNMENT, BALI, FEB. 23-24,
1976**

FINAL COMMUNIQUE

1. The President of the Republic of Indonesia, H.E. General Suharto, the Prime Minister of Malaysia, H.E. Datuk Hussein Onn, the President of the Republic of the Philippines, H.E. Ferdinand E. Marcos, the Prime Minister of the Republic of Singapore, H.E. Lee Kuan Yew, the Prime Minister of the Kingdom of Thailand, H.E. Krukrit Pramoj, met in Denpasar, Bali, on Feb. 23-24, 1976.
2. The meeting was held in the traditional ASEAN spirit of friendship and cordiality.
3. They reviewed the activities of ASEAN since its inception in 1967, and expressed satisfaction with its progress, especially in fostering

the spirit of cooperation and solidarity among the member states.

4. They discussed developments affecting the ASEAN region. They reaffirmed the determination of their respective governments to continue to work for the promotion of peace, stability and progress in Southeast Asia, thus contributing towards world peace and international harmony. To this end they expressed their readiness to develop fruitful relations and mutually beneficial cooperation with other countries in the region. They expressed the hope that other powers would pursue policies which would contribute to the achievement of peace, stability and progress in Southeast Asia.
5. The meeting discussed ways and means of strengthening cooperation among member states. They believed that it was essential for the member states to move to higher levels of cooperation, especially in the political, economic, social, cultural, scientific and technological fields.
6. On the zone of peace, freedom and neutrality, the Heads of Government expressed their satisfaction with the progress made in the efforts to draw up initially necessary steps to secure the recognition of and respect for the zone. They directed that these efforts should be continued in order to realize its early establishment.
7. The Heads of Government signed the Treaty of Amity and Cooperation in Southeast Asia.
8. They also signed the Declaration of ASEAN Concord.
9. In pursuance of their determination to forge closer economic cooperation among member states, they agreed that a meeting of economic ministers be convened in Kuala Lumpur on March 8-9, 1976, to consider measures to be taken towards implementing the decisions of the meeting of ASEAN Heads of Government on matters of economic cooperation.
10. They also agreed that the meeting of economic ministers would discuss particularly the following questions:
 - i The mechanisms by which member states shall accord priority in critical circumstances, such as natural disasters, major calamities, and shortages due to artificial or natural causes, to the supply of the individual country's needs in food and energy and priority to the acquisition of exports from member states.
 - ii The measures to be taken for intensifying cooperation in the production of basic commodities particularly for food and energy.
- iii The formulation of appropriate measures for initiating cooperative action toward establishing ASEAN large-scale industrial projects. Examples of some of the ASEAN industrial projects that could be considered by the meeting of ASEAN economic ministers are urea, superphosphates, potash, petrochemicals, steel, soda ash, newsprint and rubber products. The meeting will also give consideration to other projects.
- iv The instruments to be employed in preferential trading arrangements to facilitate the expansion of trade among ASEAN member states in basic commodities, particularly in food and energy and the products of ASEAN industrial projects. These instruments will include, but not be limited to, the following:
 - a. long-term quantity contracts;
 - b. purchase finance support at preferential interest rates;
 - c. preference in procurement by government entities;
 - d. extension on tariff preferences; and
 - e. other measures agreed upon.
- v The formulation of joint approaches to international commodity and other economic problems, giving priority to stabilization and increase of export earnings of ASEAN commodities, through commodity agreements, including buffer stock schemes and other means.
11. The foreign ministers signed the Agreement on the Establishment of the ASEAN Secretariat. The Heads of Government took note of the nomination of Mr. Hartono Rekso Dharsono as Secretary-General of the ASEAN Secretariat.
12. The Heads of Government of Malaysia, the Philippines, Singapore, Thailand were warmly appreciative of the exemplary chairmanship of their meeting by the President of the Republic of Indonesia and expressed their thanks for the traditional Indonesian hospitality extended to them and the excellent arrangements made for their meeting.

APPENDIX 5

AGREEMENT OF ASEAN PREFERENTIAL TRADING AGREEMENTS

AGREEMENT ON ASEAN PREFERENTIAL TRADING ARRANGEMENTS

The Governments of the Republic of Indonesia, Malaysia, the Republic of the Philippines, the Republic of Singapore and the Kingdom of Thailand:

RECALLING the Declaration of ASEAN Concord signed in Bali, Indonesia, on Feb. 24, 1976, which provides that member states shall take cooperative action in their national and regional development programs, utilizing as far as possible the resources available in the ASEAN region to broaden the complementarity of their respective economies;

EMPHASIZING that preferential trading arrangements among ASEAN member states will act as a stimulus to the strengthening of national and ASEAN economic resilience and the development of the national economies of the member states by expanding investment and production opportunities, trade and foreign exchange earnings;

NOTING that the international community has fully recognized the importance of encouraging the establishment of preferences among developing countries at the international, regional and subregional levels, particularly through the resolution of the United Nations General Assembly establishing the International Development Strategy for the Second UN Development Decade and the Declaration on the Establishment of a New International Economic Order and the Program of Action for the Establishment of a New International Economic Order; the Declaration on Trade Expansion, Economic Cooperation and Regional Integration Among Developing Countries adopted at UNCTAD II and Resolution 92 (IV) of UNCTAD IV; as well as of the General Agreement on Tariffs and Trade, particularly Part IV, and decisions made in pursuance thereof;

NOTING further that developed and developing countries have taken some decisions to promote preferential arrangements among developing countries as well as between developed and developing countries in terms favorable to the latter;

HAVE AGREED to establish ASEAN preferential trading arrangements as stipulated by the following provisions: —

CHAPTER I GENERAL PROVISIONS

Article 1

1. The respective governments of ASEAN member states on whose behalf the present Agreement is accepted, hereinafter referred to as the "contracting states," have agreed to extend trade preferences to each other in accordance with the provisions of this Agreement and the rules, regulations and decisions agreed within its framework.
2. The contracting states agree to establish preferential trading arrangements among them through the adoption of instruments, as may be appropriate, for ASEAN trade expansion.
3. Upon entry into force of this Agreement, concessions on products originating from all contracting states agreed upon among them through rounds of negotiations shall be implemented by them in accordance with the provisions of this Agreement and any other supplementary agreements and/or contracts which may be concluded within the context of the preferential trading arrangements on the individual products or groups of products.
4. The contracting states agree that the preferential trading arrangements among them shall be implemented in the spirit of ASEAN cooperation and mutual benefit.

Article 2

Contracting states shall cooperate through mutual assistance in respect of basic commodities, particularly food and energy; provision of market support for the products of the ASEAN industrial projects; expansion of intra-ASEAN trade and increase in the utilization of raw materials available in the contracting states.

CHAPTER II INSTRUMENTS AND DEFINITION OF PREFERENTIAL TRADING ARRANGEMENTS

Article 3

The contracting states agree to adopt the following instruments for preferential trading arrangements: long-term quantity contracts; purchase finance support at preferential interest rates; preference in procurement by government entities; extension of tariff preferences; liberalization of nontariff measures on a preferential basis; and other measures.

Article 4

The preferential trading arrangements shall be applied to basic commodities particularly rice

and crude oil; products of the ASEAN industrial projects; products for the expansion of intra-ASEAN trade; and other products of interest to contracting states.

Article 5

Long-term quantity contracts shall apply to selected products subject to specific agreements negotiated among the contracting states or their nominated agencies. Long-term contracts shall be for a period of three years to five years depending on the products and quantities to be agreed upon subject to annual review where appropriate. However, this provision does not preclude contracts of less than three years as may be agreed upon by the contracting states.

Article 6

Purchase finance support at preferential interest rates may be applied to either exports to or imports from contracting states of selected products of ASEAN domestic origin to be covered by the preferential trading arrangements.

Article 7

1. Pre-tender notices for international tenders in respect of procurement by government entities should be sent to the missions of the contracting states in the relevant ASEAN capital.
2. Subject to such provisions as may be embodied in supplementary agreements on government procurement and to the rules of origin to be subsequently decided, contracting states shall accord each other a preferential margin of 2½% which should not exceed US\$40,000 worth of preferences per tender in respect of international tenders for government procurement of goods and auxiliary services from untied loans submitted by ASEAN countries vis-a-vis non-ASEAN countries.
3. The preferential margin should be applied on the basis of the lowest evaluated and acceptable tender.

Article 8

1. An effective ASEAN margin of tariff preference should be accorded on a product-by-product basis.
2. Where tariff preferences have been negotiated on multilateral or bilateral basis, the concessions so agreed should be extended to all contracting states on an ASEAN most-favored-nation basis, except where special treatment is accorded to products of ASEAN industrial projects.
3. In the negotiations on tariff preferences, considerations for the balancing of preferences should take into account the possibility of using other instruments of preferential trading arrangements.
4. The effective ASEAN margin of tariff

preferences to be accorded to the selected products should take into account existing levels of tariffs in the respective contracting states.

Article 9

Without prejudice to the provisions in Articles 5, 6, 7 and 8, the contracting states may decide on other preferences as may be mutually agreed upon.

CHAPTER III PREFERENTIAL TREATMENT OF THE PRODUCTS OF ASEAN INDUSTRIAL PRO- JECTS AND INDUSTRIAL COMPLEMEN- TATION SCHEMES

Article 10

1. Notwithstanding the provisions of Articles 5, 6, 7, 8, 9 and 15 of this Agreement, the contracting states shall establish special preferential trading arrangements in respect of products of ASEAN industrial projects which shall be embodied in supplementary agreements. Such supplementary agreements shall include the provision that trade preferences shall be extended exclusively to the products of the ASEAN industrial projects within agreed timeframes and subject to such other conditions as may be set forth in the supplementary agreements.
2. The products of the ASEAN industrial complementation projects shall qualify for preferential trading arrangements, provided that these individual industrial complementation schemes or projects fall within the guidelines approved by competent committees of ASEAN economic ministers and that the specific schemes or projects are approved by the Committee on Industry, Minerals and Energy.

CHAPTER IV MAINTENANCE OF CONCESSIONS

Article 11

Contracting states shall not diminish or nullify any of the concessions as agreed upon through the application of any new charge or measures restricting trade, except in cases provided for in this Agreement.

CHAPTER V EMERGENCY MEASURES

Article 12

1. If, as a result of the implementation of this Agreement, imports of a particular product eligible for preferential trading arrangements are increasing in such a manner as to cause or threaten to cause serious injury to sectors producing like or similar products in the importing contracting states, the importing contracting state may suspend provisionally

and without discrimination, the preferences included in this Agreement.

2. Without prejudice to existing international obligations, a contracting state, which finds it necessary to institute or intensify quantitative restrictions, or other measures limiting imports with a view to forestalling the threat of, or stopping a serious decline in, its monetary reserves or limiting exports due to serious decline in supplies shall endeavor to do so in a manner which safeguards the value of the concessions agreed upon.
3. Where, however, emergency measures are taken in pursuance to this Article, immediate notice of such action must be given to the committee referred to in Article 13 and such action may be the subject of consultations as provided for in Article 14.

CHAPTER VI INSTITUTIONAL ARRANGEMENTS

Article 13

The ASEAN Committee on Trade and Tourism (hereinafter referred to as the committee) is hereby directed and authorized to conduct trade negotiations within the framework of this Agreement and to review and supervise the implementation of the Agreement. In respect of all matters concerning the implementation of the Agreement, all decisions of the committee shall be taken by consensus. The ASEAN Secretariat shall monitor the implementation of the Agreement pursuant to Article 3 item 2(8) of the Agreement on the Establishment of the ASEAN Secretariat.

CHAPTER VII CONSULTATIONS

Article 14

1. Each contracting state shall accord adequate opportunity for consultations regarding such representations as may be made by another contracting state/states with respect to any matter affecting the implementation of this Agreement. The committee may, at the request of the contracting state/states, consult with any other contracting state/states in respect of any matter for which it has not been possible to find a satisfactory solution during previous consultations.
2. If any contracting state should consider that any other contracting state has not carried out its obligations under this Agreement so that it nullifies or impairs any benefit accruing to it, the affected contracting state, with a view to the satisfactory adjustments of the matter, may make representations or proposals to the other contracting state concerned which thus approached shall give due consideration to the proposals made to it.

3. If no satisfactory adjustment is effected between the contracting states concerned within 60 days from the date on which such representation or request for consultation was made, the matter may be referred to the committee, which shall consult with the contracting states concerned and arrive at a solution mutually acceptable to the states concerned. Where the circumstances are serious enough, a contracting state may temporarily suspend the application of the concession to the contracting state, states concerned until a mutually satisfactory solution is arrived at. A contracting state suspending the concession shall give written notification to the other contracting states within 30 days prior to such action.

CHAPTER VIII RULES OF ORIGIN

Article 15

Products mentioned in Article 4 of this Agreement shall be eligible for preferential treatment if they satisfy the rules of origin set out in Annex I which is an integral part of this Agreement.

CHAPTER IX GENERAL EXCEPTIONS

Article 16

Nothing in this Agreement shall prevent any contracting state from taking action and adopting measures which it considers necessary for the protection of its national security; the protection of public morality, the protection of human, animal and plant life and health, and the protection of articles of artistic, historic and archaeological value.

CHAPTER X MISCELLANEOUS AND FINAL PROVISIONS

Article 17

1. This Agreement shall enter into force on the 30th day after the deposit of the fifth instrument of ratification.
2. This Agreement may not be signed with reservation, nor shall reservations be admitted at the time of ratification.
3. All Articles of this Agreement may be modified through amendments to this Agreement agreed upon by consensus. All amendments shall become effective upon acceptance by all contracting states.
4. This Agreement shall be deposited with the Secretary-General of the ASEAN Secretariat who shall promptly furnish a certified copy thereof to each contracting state.
5. Each contracting state shall deposit its instrument of ratification with the Secretary-

General of the ASEAN Secretariat who shall likewise promptly inform each contracting state of such deposit.

IN WITNESS WHEREOF, the undersigned being duly authorized thereto by their respective governments have signed this Agreement on ASEAN Preferential Trading Arrangements.

Done at Manila this twenty-fourth day of February 1977 in a single copy in the English language.

ANNEX I

RULES OF ORIGIN FOR THE ASEAN PREFERENTIAL TRADING ARRANGEMENTS

For determining the origin of products eligible for preferential concessions under the Agreement on ASEAN Preferential Trading Arrangements, the following rules shall be applied:

RULE 1. ORIGINATING PRODUCTS — Products covered by preferential trading arrangements within the framework of this Agreement, imported into the territory of a contracting state from another contracting state which are consigned directly within the meaning of Rule 5 hereof, shall be eligible for preferential concessions if they conform to the origin requirement under any one of the following conditions:

- a. Products wholly produced or obtained in the exporting contracting state as defined in Rule 2; or
- b. Products not wholly produced or obtained in the exporting contracting state, provided that the said products are eligible under Rule 3 or Rule 4;

RULE 2. WHOLLY PRODUCED OR OBTAINED — Within the meaning of Rule 1(a), the following shall be considered as wholly produced or obtained in the exporting contracting state:

- a. mineral products extracted from its soil, its water or its seabeds;
- b. agricultural products harvested there;
- c. animals born and raised there;
- d. products obtained from animals referred to in paragraph (c) above;
- e. products obtained by hunting or fishing conducted there;
- f. products of sea fishing and other marine products taken from the sea by its vessels;^{1 & 3}
- g. products processed and/or made on board its factory ships^{2 & 3} exclusively from products referred to in paragraph (f) above;
- h. used articles collected here, fit only for the recovery of raw materials;
- i. waste and scrap resulting from manufacturing operations conducted there;
- j. goods produced there exclusively from the

products referred to in paragraph a. to i. above.

RULE 3. NOT WHOLLY PRODUCED OR OBTAINED

- a. i Subject to subparagraph ii below, for the purpose of implementing the provisions of Rule 1 b. and subject to the provisions of Rule 4, products worked on and processed as a result of which the total value of the materials, parts or produce originating from non-ASEAN countries or of undetermined origin used does not exceed 50% of the f.o.b. value of the products produced or obtained and the final process of manufacture is performed within the territory of the exporting contracting state.
- ii In respect of Indonesia, the percentage referred to in subparagraph i above is 40%. On certain categories of manufactured products to be agreed upon from time to time, the requirement of 50% of non-ASEAN content may apply.
- b. In respect of the ASEAN industrial projects, the percent criterion of Rule 3 a. may be waived.

¹"vessels" — shall refer to fishing vessels engaged in commercial fishing, registered in a contracting state and operated by a citizen or citizens or government of such contracting state, or partnership, corporation or association, duly registered in such contracting state, at least 60% of the equity of which is owned by a citizen or citizens of such contracting state or 75% by citizens or governments of the contracting states, provided that the conduct of fishing activities or operations in the territorial waters of any of the contracting states, shall be subject to the provisions of the constitution and existing laws of the respective contracting states.

²"factory ships" — shall refer to special types of vessels equipped with processing facilities and able to do processing operations offshore and in the high seas, registered in a contracting state and operated by a citizen or citizens or government of such contracting state, or partnership, corporation or association, duly registered in such contracting state, at least 60% of the equity of which is owned by a citizen or citizens or government of such contracting state, or 75% by citizens or governments of the contracting states, provided that the conduct of fishing activities or operations in the territorial waters of any of the contracting states, shall be subject to the provisions of the constitution and existing laws of the respective contracting states.

³In respect of vessels or factory ships operated by government agencies, the requirements of flying the flag of a contracting state does not apply.

c. The value of the nonoriginating materials, parts or produce shall be:-

- (1) The c.i.f. value at the time of importation of the products or importation can be proven; or
- (2) The earliest ascertainable price paid for the products of undetermined origin in the territory of the contracting state where the working or processing takes place.

RULE 4. CUMULATIVE RULE OF ORIGIN — Products which comply with origin requirements provided for in Rule 1 and which are used in a contracting state as inputs for a finished product eligible for preferential treatment in another contracting state/states shall be considered as a product originating in the contracting state where working or processing of the finished product has taken place provided that the aggregate ASEAN content of the final product is not less than 60%.

RULE 5. DIRECT CONSIGNMENT — The following shall be considered as directly consigned from the exporting contracting state to the importing contracting state:

- a. if the products are transported without passing through the territory of any other non-ASEAN country;
- b. the products whose transport involves transit through one or more intermediate non-ASEAN countries with or without transshipment or temporary storage in such countries, provided that:
 - (1) the transit entry is justified for geographical reason or by considerations related exclusively to transport requirements;
 - (2) the products have not entered into trade or consumption there; and
 - (3) the products have not undergone any operation there other than unloading and reloading or any operation required to keep them in good condition.

RULE 6. TREATMENT OF PACKING

- a. Where for purposes of assessing customs duties a contracting state treats products separately from their packing, it may also, in respect of its imports consigned from another contracting state, determine separately the origin of such packing.
- b. Where paragraph (a) above is not applied, packing shall be considered as forming a whole with the products and no part of any packing required for their transport or storage shall be considered as having been imported from outside the ASEAN region when determining the origin of the products as a whole.

RULE 7. CERTIFICATE OF ORIGIN — A claim that products shall be accepted as eligible for preferential concession shall be supported by

a certificate of origin issued by a government authority designated by the exporting contracting state and notified to the other contracting states in accordance with the certification procedures to be developed and approved by the Committee on Trade and Tourism.

RULE 8. REVIEW — These rules may be reviewed as and when necessary upon request of a contracting state and may be open to such modifications as may be agreed upon by ministers responsible for trade of the contracting states.