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**ASEAN:**

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**THE WAY**

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**FORWARD**

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The Report of the Group of Fourteen  
on Asean Economic  
Co-operation and Integration



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M 727968

Published by the Institute of Strategic and International Studies (ISIS) Malaysia

Printed by Pencetak Weng Fatt Sdn. Bhd.

Designed by T & Y Design Associates

This Report was published with financial assistance from Visia Finance Bhd.

337.109595  
ASE

21 JUN 1994

Perpustakaan Negara  
Malaysia

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THE GROUP OF FOURTEEN  
ON ASEAN ECONOMIC CO-OPERATION AND INTEGRATION

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(Asean-CCI)

3rd July 1987

Dr. Nawawi Mat Awin  
President  
Asean Chambers of  
Commerce and Industry

Dear Dr. Nawawi,

I am pleased to submit, on behalf of the Group of  
Fourteen on Asean Economic Co-operation and  
Integration, our Report entitled Asean: The Way  
Forward for onward transmission to the Asean  
Governments by the Asean Chambers of Commerce and  
Industry.

We are grateful for the enriching experience of  
being part of this major private sector initiative  
to enhance Asean economic co-operation.

Yours sincerely

Dato' Paul Leong Khee Seong  
Chairman  
Group of Fourteen on Asean Economic  
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# PREFACE

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ON JULY 11, 1986, at the 28th Council Meeting of the Asean Chambers of Commerce and Industry (Asean-CCI) held in Jakarta, a proposal was made for the establishment of a Group of Fourteen to study and recommend measures for the advancement of Asean economic co-operation and integration.

Each of the six member institutions of the Asean-CCI nominated two prominent personalities from their ranks for the G-14. The Chairman and the Vice-Chairman were nominated by Malaysia and Indonesia respectively. The membership of the Group of Fourteen is as follows:

|  |   |  |
|--|---|--|
| Chairman   | : | Dato' Paul Leong Khee Seong                        |
| Vice-Chairman  | : | Prof. Ir. Mohammad Sadli                           |
| Members  |   |  |
| Indonesia  | : | Mr. Eric F.H. Samola<br>Mr. Mochtar Riady          |
| Malaysia   | : | Dato' Azman Hashim<br>Mr. Robert Kuok Hock Nien    |
| Negara Brunei Darussalam:                                  |   | Mr. Lim Eng Ming<br>Haji Mohd. Shah bin Haji Ahmad |
| Philippines  | : | Mr. Dante G. Santos<br>Mr. Vincent T. Paterno      |
| Singapore  | : | Mr. Tan Eng Joo<br>Mr. Sia Yong                    |
| Thailand   | : | Dr. Amnuay Viravan<br>Dr. Narongchai Akrasanee     |
| Ex-officio member<br>Secretary-General of<br>the Asean-CCI | : | Mr. Mohd. Ramli Kushairi                           |

Mr. Din Merican and Tan Sri Khoo Kay Peng served as alternates for Malaysia; Mr Meneleo Carlos Jr. and Mr. Jose Luis Yulo Jr. for the Philippines; Mr. Tan Keong Choon and Mr. Chandra Das for Singapore; and Dr. Nimit Nontapunthawat for Thailand.

The Group of Fourteen established a Secretariat, appointing the Institute of Strategic and International Studies (ISIS) Malaysia to fulfil the responsibility, with Mr. Mohd. Ramli Kushairi as the Secretary-General, Dr. Noordin Sopiee as the Executive Director and Dr. Sanguan Keophumihae as the Executive Secretary.

At its meeting in Manila on August 28, 1986, the Asean Foreign Ministers formally welcomed the formation of the Group of Fourteen.

When the G-14 held its first meeting in Kuala Lumpur on December 2, 1986, it adopted as its terms of reference the following:

The Group of Fourteen will explore, study and recommend all possible measures and concrete steps with regard to trade and other areas that can be taken to foster closer economic co-operation and integration in the Asean Community of Nations. Its Report will be submitted to the Asean-CCI for final approval before submission to Asean Governments.

The Group of Fourteen will also help to mobilise public awareness in the member countries on the challenges that lie ahead, the need to move Asean forward, and the various means for achieving this objective.

The Asean-CCI on December 5, 1986, decided that it would only receive the Report for onward transmission to the various Asean Governments.

As part of its public awareness programme and in order to generate the widest possible debate in the Asean Community, the First Asean Economic Congress was held from March 13-22, 1987. This was attended by more than 400, principally from the Asean states but also from the European Community, the European Free Trade Association (EFTA) nations, Japan, Australia, New Zealand, the United States and other countries.

Altogether, the Group of Fourteen met four times. The last meeting was held on June 23 to adopt the Report. The G-14, which remains in existence until the end of the Third Asean Summit, formally handed its Report to the Asean-CCI in Bangkok on July 3, 1987, for onward transmission to the Governments of Asean.

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THE

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G-14

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STATEMENT

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## **One Vision**

WE OF the Group of Fourteen share one simple vision: to see before the end of the 20th century a dynamic, equitable, peaceful, secure and co-operative community of six sovereign states jointly engaged in an all-embracing process of optimising the economic prosperity of the peoples of Asean.

## **Our Hope**

We have one primary hope of the Third Asean Summit. In all earnestness we urge the leaders of Asean meeting in Manila to take a firm and decisive step on the economic road.

The political and peace dimensions of Asean must remain paramount. But in the face of the structural changes in the world economy which have resulted in a hostile external economic environment that already seriously challenges us all, the economic dimension must be developed to the point where, for the first time, economics will truly be a central game in Asean. We believe that if the Manila Summit does not grasp the economic imperative, we will have lost a crucial strategic opportunity.

## **A Simple Faith**

We have one equally plain belief as to the primary means by which the prosperity of the peoples and states of Asean can be achieved. With all its severe imperfections, the free enterprise system has no equal. We urge the Governments of Asean to do their utmost to create the most favourable environment for the entrepreneur to innovate, to excel and to create the opportunities for growth. Our message is: 'Maximise free enterprise. Minimise government intervention. Deregulate.'

Governments, in co-operation with private enterprise, should retain their role as stimulators of economic growth, guardians of freer trade, champions of the open economy and creators of an atmosphere conducive to investment and enterprise. But the private sector must be the primary engine of growth.

The Group realises however that 'maximum' freedom and 'minimum' intervention are relative to what is possible. In line with this, we should constantly examine the various positions we have taken and make firm decisions to make more progressive changes when the opportunity or need arises. Such changes, like the process of deregulation, can be shaped by the various proposed Ministerial Meetings and Permanent Committees which are essential to provide a sharper focus and to allow all concerned, including the private sector, to participate more effectively in the decision-making process.

### **The Four Main Thrusts**

Guided by the vision that we have, the hope that we cherish and the faith that we profoundly keep, we put forth in this Report more than 60 proposals. In this Statement, and within the parameters of the seven guiding principles outlined in the main body of this Report, we highlight the four main thrusts.

- **Towards a Freer Asean Trading System through an Immediate Asean Market Liberalisation Initiative**

We believe that the first priority should be given to the immediate launching of an Asean Market Liberalisation Initiative whose objective must be the creation of an ever freer Asean trading system. To allay fears and apprehensions, we have suggested effective mechanisms which give every sovereign state of Asean an independent and effective means for steering and dictating the speed of the entire process in as far as it is concerned.

We specifically recommend an effective standstill and rollback on non-tariff barriers and a relaxation on the Rules of Origin. We also propose that a 100 per cent margin of preference be given to all Asean Industrial Joint Venture (AIJV) products.

Most importantly, we strongly recommend a system, on the Six-minus-X principle, whereby a minimum 50 per cent margin of preference is given to all non-agricultural products and that all non-agricultural products be removed from exclusion lists. By this means, the PTA will become for the first time an effective tool for market expansion and liberalisation.

- **Forging a New Era of Asean Industrialisation**

Our emphasis with regard to industrial co-operation lies in two main directions. First, the adoption of an Asean Charter on Investments whose intention is to strengthen the competitiveness of the Asean Community as a magnet for investment.

Second, and more importantly, we put forth a proposal for the rapid multiplication of Asean Industrial Joint Ventures (AIJVs), thus turning the AIJV scheme for the first time into a substantial and vigorous mechanism for Asean industrialisation and industrial co-operation.

- **Creating the Supportive Infrastructure of Services**

The third thrust we wish to highlight is the series of recommendations we make on enhancing and creating the supportive infrastructure for Asean trade to flourish and for Asean industrialisation to prosper.

These range from strengthening Asean's transport networks, to strengthening the Asean monetary and financial system, to concerted action vis-a-vis the outside world — giving due emphasis to the principle of extending preferential regimes to every possible sector.

- **Responding to the Institutional Challenge**

The economic process that we believe Asean must become necessitates the gradual but determined building of an Asean Economic Community, one that can one day rival and complement the Asean Political Community that is now already in place and that will be strengthened in the course of time. This cannot be done with the present institutions that exist in Asean. We believe that there has to be a second phase of institutional adaptation comparable at the very least to what was done after the Bali Summit.

In this regard, we recommend new Ministerial-level structures to draw a larger range and number of national Ministers into the Asean Process and to focus high-level interest in crucial areas. We propose reform of the Asean Secretariat and decisive changes to the Secretary-Generalship.

Most importantly, we believe it is crucial to institutionalise a regular meeting of Heads of Government. We deem it important that our leaders meet once a year (as is generally the case in the Commonwealth). Only through regular meetings can directions be set, a high level of activity guaranteed, and the catalytic role discharged.

\* \* \*

This Report of the Group of Fourteen is a document of consensus, not one of unanimity — on every detail and technicality. There is complete, full and unreserved unanimity however with regard to our belief that the time has come for breaking new ground and for cautious but decisive steps to move Asean forward.

To move Asean forward, however, there must be a strong political will. This can only come from the resolve of the six leaders of Asean.

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# INTRODUCTION

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## **The Political Purpose**

FOR the first 20 years of Asean, its paramount purpose has been political: to create a community of peace, understanding, stability and security. For the issues of war and peace, amity and hostility, were the central concerns that needed to be fully addressed between us and with regard to the outside world.

It is a measure of the success of the Asean experiment that many have now forgotten that ours was once an area of turmoil, of mutual suspicion, of mutual hostility, of mutual dislike, even of mutual disinterest.

The Association's paramount concern for the political has nevertheless to be sustained. Because in the society of sovereign states there is nothing more precious than peace; because the maintenance of a harmonious, rich and co-operative peace cannot but be an ever constant struggle; and because the peace and security have to be strengthened.

## **The Economic Dimension**

As Asean moves across the threshold of its third decade and given the strategic window of opportunity afforded by the Third Asean Summit, we believe that it is time to chart new directions. What is needed now is to bring to the very core of the Asean enterprise an economic as well as a political dimension. There are four reasons.

First, Asean must not be taken for granted. Regional co-operation abhors a standstill. Momentum has to be sustained. And it can only be sustained by new initiatives.

Second, it truly is time to strengthen not just the political bonds but all the bonds that will strengthen our community of peace and security. Economic



co-operation is not a diversion from Asean's political purpose but an essential and ever more indispensable partner of political co-operation. Greater economic co-operation is essential for Asean's political ends.

Third, the economies of the Asean states have matured to the point where great and immediate benefits can be reaped from closer economic co-operation. The world has changed to the extent where many great economic opportunities lie not without but within the Asean Community.

Fourth, the severe deterioration in the external economic environment of the Asean countries, which has hit us hard in the past and which will continue to hurt us seriously in the future, demands not only an effective national response but also a productive regional response. We must move nationally and act severally. But we must also act jointly and work together regionally.

There are of course internal weaknesses that have to be confronted and domestic challenges that must be met. But the primary economic threat to the Asean states comes from the external environment. Its major elements include the following:

- The structural slowdown in the economy of the world as a whole;
- The structural changes in the demand for raw commodities;
- The rising protectionism;
- Massive trade imbalances;
- The present trade conflict among the economic giants;
- The problem of foreign debt;
- Excessive currency fluctuations;
- The structural slowdown in the rate of growth of international trade;
- Large resource gaps created by unproductive financial flows and the diversion of foreign investment to the developed countries; and
- The continuing and chronic economic problems of most of the countries of the Third World.

### **The Asean Option**

In an increasingly hostile and unproductive world economic environment where opportunities are fewer and competition between the Asean members and between them and others will increase, the Asean states must each compete. And compete more effectively. But in many areas and on many occasions we must join hands — vis-a-vis the outside world, and to develop our own region.

It would be extremely naive not to fully understand the limits of Asean economic co-operation or the enormous difficulties that even the simple co-operative endeavour can encounter. But much can be done. And much must be done.

## The Guiding Principles

In exploring and exploiting the Asean Option, we believe that the following principles must be borne fully in mind:

1. In the pursuit of economic co-operation and integration, Asean peace, amity and stability must be preserved and must not be jeopardised. The national resilience of each of the Asean partners should not be weakened. There must be Asean-wide understanding of the political and economic sensitivities that change might bring and no nation is to be made to feel unbearably uneasy.
2. In the formulation of policies and programmes for economic co-operation and integration, there must be full recognition of the differences in the level of economic development, social philosophies and positions of member country Governments. And where necessary flexibility with regard to participation and time-phasing must be provided for.
3. In the process of comparing costs and benefits, a longer-term vision must be adopted.
4. There must be full recognition of the demands of equity, the fair distribution of gains and the efficient allocation of regional resources.
5. We should proceed step by step wherever and whenever possibilities arise. In line with tradition there must be emphasis on progress by consensus, continuity and avoidance of conflict. On the other hand, at historic moments, there must be the courage to 'take the plunge' for structural reforms which could constitute a great leap forward.
6. The important role of the private sector in the economic growth process must be recognised. The private sector will contribute most in an environment where economic freedom prevails. And economic freedom is the best foundation for productivity and the efficient allocation of resources.
7. In recognition of the very important historic role Governments have played in economic development, the role of Government as a stimulator of economic growth, a guardian of fair trade and a preserver of the open economy must be recognised.

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SUMMARY

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OF

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PROPOSALS

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THE Group of Fourteen specifically recommends changes in four areas — in key sectors, *viz.* trade, industry, primary commodities, transport, tourism, energy and finance; in the management of Asean's external economic relations; in the institutions that govern the Asean Process; and in fostering an Asean consciousness. The proposals are given below; their details and rationale are contained in the Main Report.

## **A. New Directions in Economic Co-operation**

### **1. Launching an Asean Market Liberalisation Initiative**

- 1.1 Asean should accord a minimum 50 per cent margin of preference (MOP) on *all* non-agricultural products on a Six-minus-X principle. This would require that MOPs be raised from the existing 25 per cent minimum level and the removal of all non-agricultural products from exclusion lists. If such a move threatens to cause injury to certain sectors of a country, waivers may be applied for under the emergency measures contained in Article 12 of the Agreement on Asean Preferential Trading Arrangements (PTA).
- 1.2 The exchange of tariff preferences for agricultural products should continue to be on a product-by-product basis.
- 1.3 The Rules of Origin should be lowered to 40 per cent in order to encourage a greater degree of intra-Asean trade.
- 1.4 Asean countries should continue to progressively lower external tariffs unilaterally, both in order to maintain export competitiveness and to inhibit trade deflection.

- 1.5 Asean countries should continue to adhere to the 'tariffs only' principle and effect a standstill and rollback on non-tariff barriers.
- 1.6 Basic customs nomenclature, regulations and documentation procedures should be standardised among member countries.
- 1.7 Product safety and technical standards should be progressively harmonised and certification procedures of member countries should be mutually acceptable and recognised.
- 1.8 Asean should formalise the machinery for the settlement of disputes among member countries through an Asean Consultative Committee (ACC, see 9.14).
- 1.9 An Asean Trade and Industry Ministers Meeting (ATIMM, see 9.2) should be constituted. Its duties should include the development and management of the more liberal trading environment proposed and the close monitoring of the effects of trade expansion on the economies of member countries.

## **2. Forging a New Era of Asean Industrialisation**

- 2.1 Of the existing industrial co-operation schemes, the AIJV is the most practical and can be further improved. In line with this, more existing industrial projects should be accredited with Asean status if they comply with the Basic Agreement on Asean Industrial Joint Ventures (BAIJV).
- 2.2 The qualifying ownership and production conditions should be tailored so that:
  - A. A minimum Asean equity ownership of 5 per cent is imposed on the minority partner(s). AIJVs should continue to involve at least two, preferably more, Asean partners; and
  - B. If the equity of an AIJV is to be listed on the stock exchange of an Asean country, the cumulative Asean equity ownership should not be less than 51 per cent or the figure agreed upon by participating countries.
- 2.3 A package of regional 'incentives' for AIJVs should be considered among the participating countries. Specifically, three measures are proposed:
  - A. Place a 100 per cent MOP on both imports of Asean-processed intermediate inputs and final products, subject to the Rules of Origin;
  - B. Issue 'Asean Certificates' for the AIJVs to overcome administrative obstacles and delays and facilitate customs clearance for the output and inputs of Asean projects; and
  - C. Offer national treatment to products being produced by the participating country to an AIJV agreement.

- 2.4 Asean institutional arrangements should be streamlined to support, promote and develop Asean industrial co-operation efforts by the following measures:
- A. Responsibilities for trade (presently under COTT) and industry (COIME) should be amalgamated into a Committee on Trade, Industry and Investment (COTII, see 9.6). This Committee will be responsible for implementing the decisions of the Asean Trade and Industry Ministers Meeting (ATIMM, see 9.2) on all trade and industry matters. The Ministers should also meet regularly to supervise and review the progress made;
  - B. Private sector representation in COTII should be increased in effectiveness;
  - C. Promotion of the AIJV scheme should be intensified throughout the region; and
  - D. The effectiveness of regional industry clubs and associations should be increased.
- 2.5 Asean should formulate an Asean Charter on Investments which would attract foreign investment into the region especially through joint ventures which would also assist in the process of technology transfer.

### 3. An Asean Commodity Response

- 3.1 Asean should form strong lobby groups which involve both Governments and private sector. Measures should be targetted at the dialogue partners, especially the United States, Japan and the European Community.
- 3.2 The proposed Asean Ministerial Meeting on Primary Commodities (see 9.2) should be a forum where extensive consultations on the national commodity development programmes of respective countries are conducted.
- 3.3 An Asean Centre for Commodity Research and Information on Policy Issues should be set up.
- 3.4 Asean should consider encouraging more AIJVs in resource-based industries to fulfil the aims of the BAAIJV and to promote more research and development on end-user product development.
- 3.5 Efforts should be intensified to establish well-organised and self-regulating markets for major commodities in member countries. A co-ordinated regional marketing system should also be formulated and implemented for these commodities.

### 4. Reinforcing Transport Networks

- 4.1 The Group of Fourteen urges Asean to redouble efforts to bring the 'Asean

Resolution on Shipping and Trade' to fruition. In particular, we highlight the need to:

- A. Create the Asean Liner Service (ALS) through a pooling of excess shipping tonnages available in Asean. The ALS should receive automatic national treatment in all Asean countries;
  - B. Intensify efforts to establish Freight Booking Centres (FBCs) and Cargo Consolidation Centres (CCCs) in member countries so as to enable shippers to obtain the best possible shipping terms from liner conferences;
  - C. Strengthen the Federation of Asean Shippers Councils (FASC); and
  - D. Establish a Joint Standing Working Committee among the FASC, Federation of Asean Shipowners Association (FASA), Asean Port Authorities Association (APAA) and Non-vessel Owning Common Carriers (NVOCCs) to facilitate conflict management.
- 4.2 Non-government organisations (NGOs) such as FASA, FASC and APAA should be more actively involved in identifying and implementing Asean shipping projects under the overall facilitation of the proposed Committee on Transport, Tourism and Communications (COMTTAC, see 9.6).
- 4.3 Policies to preferentially treat Asean shipowners in national cabotage and bilateral shipping should be considered in order to increase the participation and effectiveness of Asean fleets in regional shipping.
- 4.4 In the area of railways, component rail services of Asean should study with a view to adopting:
- A. Greater co-ordination and networking of services and schedules; and
  - B. Rail passes which enable passengers to prepay travel on routes. Asean railways would thus have to enter revenue-sharing arrangements.
- 4.5 Planning for road systems between contiguous countries should be more co-ordinated to develop the 'Asean Highway' concept where major cities and towns are linked by road and/or ferry links.
- 4.6 Asean national air carriers should be committed by agreement to offer special rates for 'add-on' trips within Asean.
- 5. Launching an Asean Tourism Master Plan**
- 5.1 Asean should actively encourage greater intra-regional travel as a means of promoting social relationships, fostering an 'Asean consciousness' and attaining economic objectives. For this purpose, an exemption scheme should be devised to reduce the effects of existing travel taxes on intra-Asean tourists. Such exemptions could be based on length-of-stay to circumvent 'international gateway' problems.

- 5.2 It is recommended that Asean National Tourism Organisations (NTOs) devise a systematic planning method to formulate a long-range Asean Tourism Master Plan to develop markets and tourist products.
  - 5.3 Asean countries should begin to package and promote travel programmes on the basis of two or more travel destinations, or 'Asean Tourist Regions' (ATRs), to foreign markets.
  - 5.4 More Asean charter inclusive tour (CIT) flights should be arranged to lower costs to Asean tourists. For this purpose, Article 2.1(c) of the Multilateral Agreement on Commercial Rights of Non-scheduled Air Services among the Asean Nations, 1971, should be amended to allow charter operators to organise economical passenger loads.
  - 5.5 Member countries should designate specific Asean passport control counters at their main international airports to signify the special status of Asean visitors.
- 6. Creating an Energy Community**
- 6.1 Linkages in the field of energy should be strengthened by enhancing intra-regional trade in energy commodities, developing regional infrastructures for energy transmission and encouraging cross-border investments in energy projects. Among the measures that should be taken are:
    - A. The inclusion of energy commodities within the scope of Asean's system of preferential trading arrangements;
    - B. The development of an Asean network of gas pipelines connecting gas fields with energy demand centres; and
    - C. The strengthening of the Asean power grid that already exists as an alternative option for export and import of energy supplies within the region.
  - 6.2 An Asean Energy and Minerals Ministers Meeting (see 9.2) should be instituted. It should, among other matters, examine and propose measures for regional co-operation in production and marketing, focussing on co-ordination of regional oil-refining activities with a view to optimising the utilisation of existing refining facilities; rationalisation of the sale of liquefied natural gas (LNG); the possibility of setting up an Association of LNG Producer Nations; and measures to sustain the development of coal as a long-term energy source.
  - 6.3 The framework for co-operation in the energy sector should be modified to allow for greater private sector contribution.



## **7. Strengthening the Monetary and Financial System**

- 7.1 The Special Committee of Asean Central Banks and Monetary Authorities should be re-activated to examine issues relating to monetary and financial co-operation. The present Committee on Finance and Banking (COFAB) should begin to explore ways and means to enhance Asean economic co-operation in fiscal matters and should appropriately be renamed the Committee on Finance (COF, see 9.6).
- 7.2 The Asean Finance Corporation (AFC) should review its role and structure and participate more actively in the financing of Asean projects. To do so, its ownership structure should be altered to permit some form of majority control by the private sector of any Asean country. This would infuse it with the necessary management commitment and expertise.
- 7.3 The Asean Trade and Investment Corporation (ATIC) should be established as a matter of priority in order to participate more actively in Asean projects. ATIC should be set up as a subsidiary of AFC.
- 7.4 The AFC could, together with ATIC, also examine ways of acting as conduits to speed up the process by which the Asian Development Bank (ADB) lends or participates in equity funding of private regional projects.
- 7.5 To encourage Asean capital markets and to develop an Asean identity in the corporate field, the Asean authorities should consider allowing selected 'blue chip' Asean-domiciled companies to be quoted in their respective stock exchanges.
- 7.6 To foster closer relationships among Asean-based financial institutions, countries should actively encourage one another's financial institutions to invest up to 30 per cent of equity in selected banks incorporated in Asean countries.
- 7.7 The Asean banks within the Asean Bankers' Association should recommend the harmonisation of banking laws, rules and practices as a matter of priority.
- 7.8 To support intra-Asean trade and investment, more branches of Asean banks should be allowed to be established in Asean capitals on a reciprocal basis.
- 7.9 The decision to create the Asean Reinsurance Corporation (ARC) should be fully supported by Asean Governments.
- 7.10 The Asean Bankers Acceptance (ABA) market should be re-established as a matter of priority and all regulatory impediments removed.

## B. Managing Asean's External Economic Relations

- 8.1 Asean should ensure concerted and effective participation in the Uruguay Round of GATT. Its participation should be guided by the need to establish a favourable climate for economic growth in the developing countries and to preserve the special and differential treatment accorded to them under Part IV of GATT. Specifically, Asean should call for:
- Phased reduction of subsidised agricultural exports;
  - Return of textiles to GATT rules at the expiration of the Multi-Fibre Agreement in 1991;
  - A mandatory surveillance and public disclosure system; and
  - Strengthening of the dispute settlement machinery.
- Asean should also focus its efforts on the new issues of services and trade-related investments.
- 8.2 Steps should be taken to further develop Asean's negotiating power by exploiting its strengths (the dynamic nature of its economies, the growing size of its markets and its geopolitical significance) and also by developing a system of countervailing measures.
- 8.3 Asean should intensify bilateral dialogue relations with its major trading partners. Specifically, it should seek to:
- Negotiate preferential trading arrangements especially with Japan, the United States and the EEC;
  - Improve the Generalised System of Preferences (GSPs) extended to Asean countries;
  - Shift the focus of development co-operation to large projects and allow the private sector to play a role in development co-operation;
  - Institute lobby groups in Japan, the United States and the EEC countries; and
  - Integrate the private sector into the official Asean dialogue meetings.
- 8.4 Asean countries should strive individually to adopt national domestic policies and programmes which promote the growth and development of the private sector. Policies should be constantly reviewed with the aim of reducing the cost of doing business in Asean countries and making producers internationally competitive.
- 8.5 Asean countries should seek to ensure greater consistency between their national economic policies and Asean's collective efforts at the regional and global levels. An annual meeting should be instituted to allow for consultation among the national economic planners of the member countries.

- 8.6 Asean should diversify its external economic relations. Specifically, the possibility of initiating dialogue relations with the Republic of Korea, the European Free Trade Association (EFTA), the East European countries, India, Soviet Union and the Peoples Republic of China should be explored.
- 8.7 Asean countries must now be prepared to engage in more balanced negotiations with their major trading partners. A certain degree of reciprocity and acceptance of the principle of counterpart funding in development co-operation would allow Asean to engage in more meaningful co-operation with its trading partners.
- 8.8 The Asean machinery should be streamlined and strengthened for the conduct of external economic relations. Specifically, the recommendation is to:
  - A. Institutionalise the meetings of the Asean Trade and Industry Ministers with their counterparts in Japan, the United States and the EEC (once every 18 months);
  - B. Create an External Economic Relations Unit in the proposed Bureau of Research, Planning and Policy Studies in the Asean Secretariat (see 9.9);
  - C. Create a Bureau of Dialogue Relations in the Asean Secretariat (see 9.9) to carry out detailed preparatory work for Asean's formal dialogues and for representation at key international economic fora;
  - D. Link the units under (B) and (C) above with other Government and private economic research organisations in the region through funded programmes; and
  - E. Provide the Asean committees in third countries with a small complement of full-time staff from the Asean Secretariat. This would ensure Asean matters get due priority and also ensure continuity.

### **C. Strengthening the Asean Institutions**

- 9.1 The Asean Heads of Government Meeting (AHGM) should be held on an annual basis so that the leaders, as a collective, can play a more direct and effective role in fostering economic co-operation by providing the necessary political commitment and direction, and overseeing the process of implementation.
- 9.2 The Asean Economic Ministers Meeting (AEMM) should be made responsible only for trade, industry and investment and accordingly it should be redesignated the Asean Trade and Industry Ministers Meeting (ATIMM). The meetings of the Asean Ministers of Finance, Agriculture, Minerals and Energy, Primary Commodities, Transport and Tourism and

- Education should be institutionalised to oversee co-operation in their respective sectors.
- 9.3 The responsibilities of the Asean Foreign Ministers should now be converged on the onerous tasks of developing Asean's political, diplomatic and socio-cultural relations to pave the way for furthering comprehensive co-operation.
  - 9.4 The Standing Committee (SC) should be reconstituted and its terms of reference redefined so that it becomes a continuously functioning institution with the necessary standing and authority to manage Asean's business.
  - 9.5 The Permanent Committees should be strengthened by providing them with full-time technical and administrative staff.
  - 9.6 The scope and responsibilities of the following four existing Permanent Committees should be restructured and redesignated in line with the proposed Ministerial Meetings and programmes:
    - A. Committee on Trade and Tourism (COTT) as the Committee on Trade, Industry and Investment (COTII, see 2.4);
    - B. Committee on Industry, Minerals and Energy (COIME) as the Committee on Minerals and Energy (COME);
    - C. Committee on Finance and Banking (COFAB) as the Committee on Finance (COF, see 7.1); and
    - D. Committee on Transport and Communications (COTAC) as the Committee on Transport, Tourism and Communications (COMTTAC, see 4.2).
  - 9.7 Given the proposed institutionalisation of the Ministerial Meetings for primary commodities and education and the proposed programmes in these areas, it is recommended that Permanent Committees be instituted for these two sectors.
  - 9.8 The Special Committee of Asean Central Banks and Monetary Authorities should be re-activated to provide leadership and authority to implement regional monetary projects (see 7.1).
  - 9.9 The Secretary-General should be given a status just below that of the Asean Ministers but above that of all other bureaucrats participating in the Asean Process. In line with his position, the Asean Secretariat should be strengthened to allow it to play a more effective role in Asean co-operation.
  - 9.10 A new system for staffing the Asean Secretariat with both international and seconded staff should be adopted to ensure its effectiveness.
  - 9.11 National participation in Asean programmes and projects should be

strengthened. Specifically, provisions should be made for adequate staff and effective procedures at the national level.

- 9.12 While adhering to the fundamentals of consensus-building, greater flexibility should be built into the Asean decision-making method where appropriate through the Six-minus-X approach.
- 9.13 The Asean machinery should foster a more effective private sector role in Asean co-operation. In the area of intra-Asean economic co-operation, the following are specifically recommended:
- A. The President of the Asean Chambers of Commerce and Industry (Asean-CCI) be made a member-in-attendance for all the open sessions of the ATIMM (see 9.2);
  - B. The Chairmen and Vice-Chairmen of the Asean-CCI's Working Groups be made members-in-attendance of the corresponding Permanent Committees; and
  - C. The regional industry clubs can also request to attend selected Permanent Committee meetings subject to approval of the chairmen concerned.

In the area of Asean's dialogue relations, the following are recommended:

- D. An annual meeting between the Asean-CCI and the Standing Committee;
  - E. Participation of Asean-CCI representatives in the preparatory meetings before each dialogue session; and
  - F. Participation of the President of the Asean-CCI in the Asean dialogue process as a member of the Asean delegation.
- 9.14 Asean should institute an Asean Consultative Committee (ACC) to facilitate effective and speedy resolution of disputes connected with the implementation of agreed trade policies.

#### **D. Fostering an 'Asean Consciousness'**

- 10.1 An annual Meeting of Asean Education Ministers (see 9.2) and a Permanent Committee on Education and Human Resource Development (CEHRD) should be institutionalised to oversee, review, propose and implement programmes. Their tasks, among others, would be to:
- A. Examine the state of Asean co-operation in the field of education with a view to rationalising activities;
  - B. Review and expedite/improve upon measures taken in response to the part of the 1976 Declaration of the Asean Concord which states:

'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'; and

- C. Encourage intellectual advances via increased academic contacts and mobility, and through the creation of a Centre for Asean Studies in the short-term and the establishment of an Asean University in the long term.

10.2 In line with Asean's aim to enhance economic co-operation and to industrialise, the proposed CEHRD should study and suggest measures for the development and co-ordination of vocational education in Asean.

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THE

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MAIN

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REPORT

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A.

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## NEW DIRECTIONS IN ECONOMIC CO-OPERATION

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ASEAN economic co-operation has not lacked impetus for want of good ideas. From the time of the Kansu Report through to the Asean Task Force, numerous far-sighted and practical suggestions have been made by both the public and private institutional machinery of Asean. These have been a constant source of innovative proposals as is evident by the highly sophisticated projects and programmes they have tried to undertake.

The Group of Fourteen believes all recommendations, irrespective of their origin, age or nationality, should be considered so long as they subscribe to the guiding principles that have been set out and are able to raise the welfare of the Asean peoples. Accordingly, the Group proposes in this section of the Main Report over 40 measures to be taken in seven areas: trade, industry, commodities, transport, tourism, energy, and banking and finance.



## 1. Launching an Asean Market Liberalisation Initiative

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WHILE external trade-oriented strategies have enabled all Asean countries to record excellent economic performances in the past, the international stage is not as accommodating as before. The problem therefore presents itself: Should Asean strive harder to repeat past successes overseas, or should it try, by degree, to rely more on regional markets?

The Group of Fourteen strongly believes a greater emphasis on regional trade is timely. It would assist members to maintain their dynamic trade momentum and continue to build up firm and competitive industrial foundations. On this account, we urge member countries to take positive steps and strengthen trade relationships among themselves. Nine expansionary, reinforcing, facilitative and safeguarding measures are proposed as part of an Asean Market Liberalisation Initiative.

As stated before, however, regional trade expansion should closely adhere to the guiding principles that have been set out. Risks and uncertainty must be minimised wherever possible and benefits from trade equitably shared. At all times and at all stages, there must be means available to accelerate or decelerate the speed with which actions are taken.

### Expansionary Measures

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- 1.1** *Asean should accord a minimum 50 per cent margin of preference (MOP) on all non-agricultural products on a Six-minus-X principle. This would require that MOPs be raised from the existing 25 per cent minimum level and the removal of all non-agricultural products from exclusion lists. If such a move threatens to cause injury to certain sectors of a country, waivers may be applied for under the emergency*

*measures contained in Article 12 of the Agreement on Asean Preferential Trading Arrangements (PTA). \*\**

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- 1.1.1 There can be no doubt that among the obstacles to regional trade under the PTA, the distended exclusion lists of so-called 'sensitive' items are one of the, if not *the*, key issues. The size of Thailand's exclusion list comprises 63 per cent of all their traded products, Indonesia's, 54 per cent, Malaysia's, 39 per cent, and the Philippines's, 25 per cent. With each country free to determine what do or do not constitute sensitive products, items offered for preferential treatment have not been meaningful. In 1986, while over 18,000 preferences had been accorded with respect to 12,000 separate items, only 5 per cent of these items were actively traded by member countries. Accordingly, tariff cuts have, by and large, fallen on products which are neither demanded nor produced in Asean.
- 1.1.2 Asean Governments are acutely aware of the constricting effect of exclusion lists on regional trade. In 1986, the Asean Economic Ministers ratified the Preferential Tariff Quota (PTQ) scheme which reclassifies some sensitive products as 'semi-sensitive' and applies import value quotas of not less than 30 per cent for which MOPs are eligible. As set out, the PTQ can be expected to gradually draw out more heavily-traded products for preferential tariff treatment and trim exclusion lists. But the scheme could have drawbacks. The PTQ is likely to be unwieldy and complicate trade for the average importer or exporter. In many member countries, the existing PTA already does this. Furthermore, the incremental, product-by-product negotiating approach taken to free items from the exclusion lists would be time-consuming. At a time when a surge in regional trade is needed, the scheme may permit no more than a trickle.
- 1.1.3 The Group of Fourteen strongly supports efforts that simplify and facilitate regional trade. We believe that a significant and far-reaching approach is to remove *all* non-agricultural products from exclusion lists and place them within the ambit of the PTA. Key product sectors which experience serious dislocative effects may still apply for protection through waivers granted under the safeguard emergency measures contained in Article 12 of the present PTA.

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\*\* Article 12 and related Articles 13 and 14 are found at the end of this section.

- 1.1.4 Evidence received by the Group of Fourteen also suggests that current MOPs are not sufficient to induce intra-regional trade or to enable domestic producers to compete with non-Asean suppliers. MOPs currently given to items under the PTA range from 20 to 30 per cent. In a few cases, margins of 50 per cent have been accorded, but these are few and far between. For most countries, the absolute difference between the Most Favoured Nation (MFN) and Asean preferential rates is only between 5 to 10 per cent. Most foreign producers are deeply entrenched in Asean markets and can cut profits at will. They may also offer more attractive credit terms and market more aggressively to protect their markets. These, more often than not, nullify the slight differences in tariffs. The Group of Fourteen therefore recommends raising present minimum MOPs from 25 to 50 per cent as an effective step in promoting Asean trade. As circumstances allow, there should be further progressive deepening of MOPs over time.
- 1.1.5 We acknowledge, however, that in order to promote trade among Asean countries at the present time, due recognition must be given to the special circumstances surrounding member countries. In Asean today, there are nations which have moderate to high levels of tariff protection and those which have virtually none. To arrive at a compatible and workable trading arrangement, a Six-minus-X principle (see 9.12) should be adopted to ensure that trade is mutually equitable and does not gravitate solely towards low-tariff countries.
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- 1.2 *The exchange of tariff preferences for agricultural products should continue to be on a product-by-product basis.*
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- 1.2.1 Asean agriculture employs six out of 10 economically active persons and accounts for a fifth or more of total real gross domestic product. This is therefore a priority sector which our sovereign governments are bound to protect from destabilising influences. Even in the most successful example of regional market liberalisation today, the European Economic Community (EEC), agriculture remains the most protected and most costly stumbling block to full regional trade. The European Free Trade Association (EFTA), on the other hand, has carefully avoided this area.
- 1.2.2 While the Group advocates that trade in agriculture be expanded wherever possible, such moves must be cautious and tempered by the political and social realities of countries in the region. Accordingly, we believe that in contrast to the 'fast track' status proposed for non-

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agricultural products, the approach to agriculture should be more deliberate and occur on a product-by-product basis.

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**1.3** *The Rules of Origin should be lowered to 40 per cent in order to encourage a greater degree of intra-Asean trade.*

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1.3.1 The problem underlying Rules of Origin is that while they ensure that only products with a substantial Asean content benefit from preferential treatment, if local content requirements are excessive the majority of Asean products will not be eligible for preferential tariff treatment. Where local content requirements are too permissive, however, products which qualify may be minimally processed or imported from abroad.

1.3.2 The Group of Fourteen believes that at the present time a 50 per cent cumulative Asean content requirement is too restrictive to permit substantial trade flows in many manufactured products. Accordingly, we recommend that the Rules of Origin be reduced to 40 per cent.

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**1.4** *Asean countries should continue to progressively lower external tariffs unilaterally, both in order to maintain export competitiveness and to inhibit trade deflection.*

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1.4.1 Wide differences between MFN and Asean preferential tariffs make possible the flooding of high-tariff countries' markets with products that are purchased from non-Asean sources and resold by low-tariff Asean countries. Trade deflection is, therefore, one of the legitimate fears that high-tariff countries have towards regional trade expansion of any kind.

1.4.2 The most highly protected Asean countries, however, generally tend to have the lowest levels of infrastructural endowments. While these countries recognise that high MFN tariffs directly add to the costs of production and make their industries uncompetitive, the effects of the short-term structural adjustments — that is, the loss of numerous jobs, incomes and investments — may be intolerable.

1.4.3 Thus, while the Group of Fourteen proposes that each country seek to lower its own external tariffs, the effort should be made at a pace which takes into account the political and social costs. Nevertheless, this should not be construed as a proposal to maintain the status quo: if there are substantial differences in the industrial cost structure among

Asean countries because of high protection levels, regional trade may gravitate towards the lower-cost producers and result in highly uneven benefits from trade.

## **Reinforcement & Facilitation Measures**

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**1.5** *Asean countries should continue to adhere to the 'tariffs only' principle and effect a standstill and rollback on non-tariff barriers.*

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**1.5.1** Non-tariff barriers (NTBs) are fast becoming recognised as one of the most important impediments to greater intra-Asean trade. Thus, while Asean states have been lowering tariffs, trade expansion has still been largely limited because the tariff reductions are nullified by an increase in the number of NTBs.

**1.5.2** NTBs exist in various forms including import quotas, licensing, prohibitions, exchange control, technical norms, state trading monopolies and customs nomenclature, customs procedures and documentation. They are particularly common in import-substitution industries such as chemicals, textiles, electronics, machinery and food.

**1.5.3** The Group of Fourteen is of the opinion that member countries should continue to uphold the Multilateral Trade Negotiation (MTN) principle of 'tariffs only' and effect a total standstill and rollback of NTBs, particularly with respect to intra-Asean trade. Accordingly, items in the PTA should automatically be freed from NTBs unless waivers are applied for under Article 12(2) of the PTA. We further recommend that the proposed Asean Trade and Industry Ministers Meeting (ATIMM, see 9.2) constantly review NTBs.

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**1.6** *Basic customs nomenclature, regulations and documentation procedures should be standardised among member countries.*

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**1.6.1** Standardisation of customs nomenclature, regulations and documentation procedures among Asean member countries can assist immeasurably in facilitating trade. Large administrative costs have to be borne in the processing of imports and the assessment of duties. Administrative costs of between 5 and 7 per cent of Asean exports have been mentioned on numerous occasions as representative of such costs.

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- 1.7** *Product safety and technical standards should be progressively harmonised and certification procedures of member countries should be mutually acceptable and recognised.*
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- 1.7.1** In facilitating trade, it is important to harmonise product safety and technical specifications and recognise Asean institutes' certification procedures. Safety and technical specifications, especially for electrical goods, have caused some friction between Asean countries. They are also viewed by businessmen as a major psychological impediment when viewing trading prospects.
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- 1.8** *Asean should formalise the machinery for the settlement of disputes among member countries through an Asean Consultative Committee (ACC, see 9.14).*
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- 1.8.1** At any level of trade, disagreements may arise. With an increase in regional trade, however, it is likely the number of complaints will increase. In order to resolve these complaints efficiently and in a way which does not affect other areas of trade, there should be adequate institutional machinery in place. The Group of Fourteen argues that this should be in the form of a non-legal, arbitral Asean Consultative Committee.

## Safeguard Measures

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- 1.9** *An Asean Trade and Industry Ministers Meeting (ATIMM, see 9.2) should be constituted. Its duties should include the development and management of the more liberal trading environment proposed and the close monitoring of the effects of trade expansion on the economies of member countries.*
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- 1.9.1** In even the weakest form of regional trade expansion, there will be a degree of structural adjustment difficulties. A constant monitoring of the trading system is important so that early warning signals can be detected and steps can be taken to modify national policies. This would be in line with the expected changes resulting from higher volumes of trade.
- 1.9.2** The 'trade secretariats' of Asean member countries implementing the

PTA should be responsible for providing progress reports to COTII (see 2.4). COTII would, in turn, refer problems, together with its recommendations, to the ATIMM. The ATIMM should then decide on the measures to be taken and instruct COTII accordingly.

*Article 12 of the PTA on Emergency Measures states that:*

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 States 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 declines in supplies shall endeavour 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 [the Committee on Trade and Tourism — COTT] referred to in Article 13 and such action may be the subject of consultations as provided for in Article 14.

*Article 13 of the Asean PTA states that:* The Asean Committee on Trade and Tourism (COTT) is hereby directed and authorised 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 III 2.8 of the Agreement on the Establishment of the Asean Secretariat.

*Article 14 on Consultations:*

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 who 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 actions.

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## 2. Forging a New Era of Asean Industrialisation

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WHEN the 1976 Declaration of Asean Concord was signed, it was marked by an air of growing expectation. Asean members had chosen at last, or so it seemed, to accept their intertwined future and to begin to mutually share the resources and markets so vital to regional industrial advancement. Once the principal vehicles had been constructed,\*\* it appeared only a matter of time before Asean resources would be better utilised, the industrial base strengthened, trade accelerated and welfare improved.

Today, however, there is an apparent sense of frustration and cynicism at the time-consuming and sparing achievements of industrial co-operation. It is felt by those who would see Asean strengthened and those who would see it fail. Few are optimistic about the prospects for the future of regional industrial efforts.

The Group of Fourteen, however, believes that a new era of Asean industrial co-operation is possible. Asean Industrial Joint Ventures (AIJVs) should continue to be at the forefront of efforts and measures could be undertaken to accelerate and reinforce their position. To accomplish this, we firstly propose that a wider range of projects be considered than has been the case. Secondly, we suggest more incentives to promote them. Thirdly, we ask that Asean institutional mechanisms be streamlined to better support the efforts. Fourthly, and lastly, we encourage Asean member states to formulate an Asean Charter on Investment to secure and strengthen our industrial future.

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\*\* Namely, the Asean Industrial Projects (AIPs) in 1980, Asean Industrial Complementation (AICs) schemes in 1981 and Asean Industrial Joint Ventures (AIJVs) in 1983.



## Acceleration Measures

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**2.1** *Of the existing industrial co-operation schemes, the AIJV is the most practical and can be further improved. In line with this, more existing industrial projects should be accredited with Asean status if they comply with the Basic Agreement on Asean Industrial Joint Ventures (BAAIJV).*

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**2.1.1** Among the existing schemes of industrial co-operation, AIJVs are the most flexible and therefore the most practical instruments to forge closer industrial and trade co-operation. For various reasons, however, many projects which cater to domestic and foreign markets have been established outside the AIJV scheme, either as national public or private sector projects. These projects are already permitted to attain AIJV status under the BAAIJV,\*\* but to date mainly new projects have been considered by the Committee on Industry, Minerals and Energy (COIME).

**2.1.2** The *first* thrust of our recommendations is therefore to substantially increase the number of AIJVs. The proposed Committee on Trade, Industry and Investment (COTII, see 2.4 and 9.6) should accredit more existing industrial projects as long as they satisfy the basic qualifying conditions and contribute to the welfare of the region. This would create a large number of Asean projects in a short period of time and accelerate the progress of industrial development in Asean. It would also lead to speedier plant and product rationalisation.

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**2.2** *The qualifying ownership and production conditions should be tailored so that:*

- A. *A minimum Asean equity ownership of 5 per cent is imposed on the minority partner(s). AIJVs should continue to involve at least two, preferably more, Asean partners; and*
  - B. *If the equity of an AIJV is to be listed on the stock exchange of an Asean country, the cumulative Asean equity ownership should not be less than 51 per cent or the figure agreed upon by participating countries.*
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**2.2.1** Under present ownership arrangements, AIJVs involve at least two

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\*\* Articles I.2(a) and III.6(f)-(9) of BAAIJV.

countries which must together hold a minimum 51 per cent except 'where:

- a. Participating countries in a proposed AIJV product agree to a higher equity participation by non-Asean investors;
- b. More than 50 per cent of the product produced by such an entity will be exported to non-Asean markets;
- c. The product is already being produced by an entity in a participating country prior to its inclusion in the final list; or
- d. An entity has already been approved by a participating country to produce that product prior to the inclusion of the product in the final list.\*\*

2.2.2 As can be seen, the minimum equity participation of an Asean country is not specified. Since AIJVs are expected to become on-going business concerns, some capital transactions are to be expected. A suggestion would be to impose an effective minimum equity requirement of 5 per cent on minority partners to ensure there is a degree of commitment by all those participating in the AIJV.

2.2.3 The equity requirements of AIJVs do not cover the possibility that it is publicly listed on the stock exchange of an Asean country and that the capital is transacted daily. There are in fact many existing listed business concerns which could be candidates and qualify for AIJV status. In this situation, we recommend that the AIJV scheme be amended so that the cumulative Asean equity is not less than 51 per cent or the figure agreed upon by participating countries.

2.3 *A package of regional 'incentives' for AIJVs should be considered among the participating countries. Specifically, three measures are proposed:*

- A. *Place a 100 per cent MOP on both imports of Asean-processed intermediate inputs and final products, subject to the Rules of Origin;*
- B. *Issue 'Asean Certificates' for the AIJVs to overcome administrative obstacles and delays and facilitate customs clearance for the output and inputs of Asean projects; and*
- C. *Offer national treatment to products being produced by the participating country to an AIJV agreement.*

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\*\* Article I.5(a)(d) of the BAAIJV.

- 2.3.1 The *second* thrust of the Group of Fourteen's recommendations is to promote Asean projects by providing a package of 'incentives' to encourage and facilitate both production and trade.
- 2.3.2 At present, AIJVs do not enjoy tariff preferences for imported intermediate inputs apart from those which may be offered under the PTA. For final AIJV products, however, a 75 per cent MOP in the participating countries does apply. Applying a 100 per cent MOP to both imports of Asean-processed intermediate inputs and final products of AIJVs (subject to Rules of Origin) should lead to significant production cost savings, encourage more regional sourcing for supplies and allow deeper market penetration. This would assist greatly in the attainment of the basic objectives of the AIJV, that is, to 'promote the greater utilisation of their [the Asean members'] agriculture and industries'. It could also encourage more Asean and foreign industrialists to invest in these projects.
- 2.3.3 Administrative obstacles and delays can seriously inhibit the growth of AIJVs in the region. While the need to exercise caution at all times in the selection of AIJVs is well recognised, once approval has been granted they should receive speedy accreditation. For this purpose, an Asean certification procedure should be developed so that it acts as proof that the proposed project has been authorised by ATIMM (see 9.2) and satisfies all Asean AIJV project requirements. This document should, in turn, be recognised by the participating countries for the purpose of establishing the AIJV and gaining access to preferential treatment. The 'Asean Certificate' could also be used to facilitate customs clearance since delays can lead to cost increases by disrupting production schedules and raising inventory holding costs.
- 2.3.4 For the purpose of complying with national domestic content requirements, AIJV products should be accorded national treatment, which is to say that for all intents and purposes, they would be treated as if they were produced in the consuming country or countries. Any domestic content requirements which may apply should therefore be waived for AIJV products.

## Reinforcement Measures

- 2.4 *Asean institutional arrangements should be streamlined to support, promote and develop Asean industrial co-operation efforts by the following measures:*
- A. *Responsibilities for trade (presently under COTT) and industry*

*(COIME) should be amalgamated into a Committee on Trade, Industry and Investment (COTII, see 9.6). This Committee will be responsible for implementing the decisions of the Asean Trade and Industry Ministers Meeting (ATIMM, see 9.2) on all trade and industry matters. The Ministers should also meet regularly to supervise and review the progress made;*

- B. Private sector representation in COTII should be increased in effectiveness;*
- C. Promotion of the AIJV scheme should be intensified throughout the region; and*
- D. The effectiveness of regional industry clubs and associations should be increased.*

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2.4.1 The *third* thrust of the Group of Fourteen's proposals calls for enhancing the effectiveness of the various institutions involved in the promotion and development of Asean trade and industrial co-operation.

2.4.2 At present, to set up an AIJV, one has to submit a proposal to COIME for consideration and, if the proposal is satisfactory, the matter is also referred to COTT since it involves trade. Only after the two Committees have consented is the project recommended to the Asean Economic Ministers for approval. The inter-committee referral process, however, is more often than not extremely cumbersome and time-consuming. Consolidating trade and industry into one Committee would increase administrative efficiency by streamlining procedures and speeding up the approval process. The consolidation would also encourage more balanced decisions and feedback on any policy changes that need to be made.

2.4.3 Success of Asean industrial co-operation depends, to a large degree, on the extent to which the public and private sectors work together. Asean needs to work in a spirit of 'Asean Inc.', that is, where all parties strive in a partnership for industrial development. Allowing more effective private sector participation at the policy formulation stage, for example, can help to remove information bottlenecks and provide investors with more confidence when they invest in Asean projects. As mentioned above, feedback is important and private investors should be able to play an active role in the policy formulation and implementation process. To be sure, there are matters where the private sector should not and would not be involved. On operational AIJV matters, however, there should be greater participation of the private sector.

- 2.4.4 There is a need to extensively inform the private sector of Asean countries on the AIJV scheme. Often, private industrialists are only vaguely aware that such a scheme exists but not the substantial benefits that can be derived. Information should therefore be freely available, ranging from introductory pamphlets to detailed working procedures. National authorities responsible for industrial development should promote AIJV projects in the region and not solely their own industrial policies and incentives. The Asean-CCI, through its component chambers, should also actively promote AIJVs.
- 2.4.5 Effective regional industry clubs can play meaningful roles to enhance regional industrialisation: Firstly, they are channels for disseminating information; and, secondly, they can, through their activities, go a long way in creating awareness of the benefits of AIJVs. As AIJVs continue to develop, the role of regional industry clubs needs to be reinforced. Such clubs may even play a catalytic role in the development of AIJVs in the region.
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- 2.5 *Asean should formulate an Asean Charter on Investments which would attract foreign investment into the region especially through joint ventures which would also assist in the process of technology transfer.*
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- 2.5.1 The Group of Fourteen believes that investment must be the basis for industrial development and, through technology transfer, progress. Although an 'incentive' scheme has been proposed for this purpose, it must be recognised that investments are not solely determined by project returns alone. Of equal importance is the security of investments. Generally, the more secure the returns to investors, the lower will be the target rates of return necessary to induce investment.
- 2.5.2 The major principles should be based on the following commitments:
- a. Protect all foreign investments against appropriation or nationalisation;
  - b. In exceptional cases of compulsory acquisition, it should be expressly guaranteed that this measure is: (i) taken only in the most exceptional circumstances, for public purposes under due process of law; (ii) non-discriminatory; and (iii) accompanied by prompt payment of fair and adequate compensation;
  - c. Provide for remittances or repatriation of profits, dividends, interest, royalties and other earnings in any convertible currency;

- d. Guarantee and safeguard intellectual and industrial property rights;
- e. Relax restrictions on the number of expatriates employed;
- f. Avoid double taxation; and
- g. Provide avenues for the settlement of disputes.

### 3. An Asean Commodity Response

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PRIMARY commodities have been the cornerstone of Asean and our economies will continue to be dependent on them for some time to come. Structural changes in the demand for commodities and the prices they fetch in world markets, however, must force us to take a hard look at the options available. All members, from the richest to the poorest, have been affected in one way or another and this should prompt us to examine the measures that can be taken and how best to take them. There are few answers (except obvious ones) at present. In the short term, prices and/or production will have to be stabilised on a global level while regionally and nationally, more intensive marketing efforts need to be undertaken. Over the longer term, individual countries will have to enter into greater downstream processing or move into other economic activities altogether.

The Group of Fourteen suggests that the problem of primary commodities is one of the true tests of Asean solidarity. We feel that solutions call for common actions and responses both on an external and internal basis.

#### External Responses

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**3.1** *Asean should form strong lobby groups which involve both Governments and private sector. Measures should be targetted at the dialogue partners, especially the United States, Japan and the European Community.*

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**3.1.1** The need to lobby is a lesson from the West that Asean can learn to its benefit. The political systems in the United States, Japan and the European Community do take into account interest group pressure

in the policies which they make. The case for continually keeping the Governments of these countries fully informed about the consequences of protectionist policies on the Asean Community is clear and strong.

- 3.1.2 There have been a number of well-publicised instances where timely and effective regional lobby pressure could have been used to Asean's advantage. Accession to the Multi-Fibre Agreement, excessive agricultural subsidies and exports and controversies over the health implications of certain vegetable oils are instances where clear, decisive action was needed to protect Asean interests.

## Regional Efforts

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- 3.2 *The proposed Asean Ministerial Meeting on Primary Commodities (see 9.2) should be a forum where extensive consultations on the national commodity development programmes of respective countries are conducted.*
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- 3.2.1 A much argued criticism of primary commodity-based Asean countries is that their export structures are far more competitive than complementary. This allows major consuming countries to have considerable leverage in their acquisition of primary commodities. Attempts to 'cartelise' production, however, have been futile and can irreparably damage Asean's long-term interests. This is especially true since it has been realised that industrial countries are able to manage their demand through their technology policies. International commodity agreements, however, no longer receive as strong a support as before from consuming countries. Instead, important consuming countries are actually raising agricultural protection levels to protect their domestic producers.
- 3.2.2 Faced with this dilemma, the Group of Fourteen strongly urges greater consultation among Asean countries on their commodity development policies and plans. There is a critical need for member countries to recognise the interdependence of their investment decisions on total supply and prices. Investments that appear profitable individually often turn out to be unprofitable when undertaken by more than one country.
- 3.2.3 The Group's proposal is that Asean policy makers be *better informed* in their policy formulation through a consultative process. This does not imply, however, that policies would necessarily be co-ordinated.



We believe that resources can be allocated more efficiently once the total impact of Asean countries' planned supply decisions on future prices and demand are determined. The Governments can then adopt more effective land-use strategies.

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### 3.3 *An Asean Centre for Commodity Research and Information on Policy Issues should be set up.*

- 3.3.1 The Group of Fourteen believes that an Asean Centre for Commodities Research and Information on Policy Issues should be established to continuously identify and conduct research on policy issues concerning primary commodities.
- 3.3.2 First, there is a need for market surveillance and intelligence to help in forward planning and early detection of problems. One of the main functions of the Centre should therefore be to establish and maintain a data bank of relevant information.
- 3.3.3 Second, the Centre should conduct policy research with a view to making realistic, action-oriented recommendations. The Centre's recommendations should be made to the proposed Permanent Committee on Primary Commodities (see 9.2).
- 3.3.4 Third, the Centre should widely circulate information on Asean commodities. We suggest that the Centre convene an annual Asean Conference on Commodities where recent analyses and future trends can be discussed.

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### 3.4 *Asean should consider encouraging more AIJVs in resource-based industries to fulfil the aims of the BAAJV and to promote more research and development on end-user product development.*

- 3.4.1 As pointed out in earlier sections, (see 2. Forging a New Era of Asean Industrialisation), the thrust of the Group of Fourteen's recommendations in industry is that AIJVs should be the key force in driving Asean industrialisation efforts forward.
- 3.4.2 The advantages of resource-based industrialisation are well accepted throughout the region and require little justification. AIJVs can provide substantial spin-offs to producers if they extensively engage in R & D activities to find new or more intensive end-use products which have a high primary commodity content.

**3.5** *Efforts should be intensified to establish well-organised and self-regulating markets for major commodities in member countries. A co-ordinated regional marketing system should also be formulated and implemented for these commodities.*

**3.5.1** The commodities which are of strategic importance to Asean differ considerably from one country to another. Owing to the existing low degree of trade linkages and poor communications between Asean countries, the Group of Fourteen believes that member countries should establish well-organised commodity markets in their respective countries. This would enable more investors to participate in the trading of these commodities thereby increasing market 'depth'. In addition, commodity futures allow price discovery to take place and this information would be invaluable to the producers in that country.

**3.5.2** In some Asean countries, the marketing of most primary commodities has reached highly specialised levels. A great deal of effort is being spent by member countries to improve and develop technical, contractual and commercial standards in order to facilitate trade in those commodities. Problems can arise, however, when these efforts are unco-ordinated and conducted individually. Consumers are confronted by a wide range of national standards which can be confusing and make trade unnecessarily complex. It would engender confidence in 'Asean' commodities and be commercially profitable if a deliberate policy were undertaken to adopt standards which are as close as is feasibly possible.

**3.5.3** Palm oil, for example, is a commodity which Indonesia, Thailand and Malaysia produce. Adoption of standard density tables and M & I specifications for palm and fatty acid distillate in refining could be a significant first step in ensuring common bases for quality control. In the commercial area, adoption of similar CPO (crude palm oil) domestic contracts would promote greater cross-trade between countries. Asean producers should also attempt to act more in concert in their liaison with international oils and fats organisations especially in matters involving CIF contracts.

## 4. Reinforcing Transport Networks

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AFTER more than 20 years of Asean transport co-operation, the measure of concrete steps taken has still to be found. Quantum leaps have taken place in national transport development but there are still significant weaknesses in the region's transport delivery capability. This is evident in both the extent of participation by regional carriers in the trade and the high costs of transport faced by consumers. Without systematic transport development, intra-Asean trade and industry policies are meaningless. Poorly developed transportation networks can act as formidable a barrier to trade as high tariff walls or pervasive non-tariff barriers.

The Group of Fourteen recognises that transport must play a key support role in Asean economic co-operation. Accordingly, we fully reaffirm Asean's official position on the need to develop regional transport and suggest that efforts be directed to increase both the effectiveness of implementation with regard to agreed projects and also the content of the Asean transport programme. Specifically, the Group suggests measures in shipping, rail, road and air that should be considered.

### Shipping

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- 4.1** *The Group of Fourteen urges Asean to redouble efforts to bring the 'Asean Resolution on Shipping and Trade' to fruition. In particular, we highlight the need to:*
- A. *Create the Asean Liner Service (ALS) through a pooling of excess shipping tonnages available in Asean. The ALS should receive automatic national treatment in all Asean countries;*
  - B. *Intensify efforts to establish Freight Booking Centres (FBCs) and*

*Cargo Consolidation Centre(s) (CCCs) in member countries so as to enable shippers to obtain the best possible shipping terms from liner conferences;*

- C. *Strengthen the Federation of Asean Shippers Councils (FASC); and*
  - D. *Establish a Joint Standing Working Committee among the FASC, Federation of Asean Shipowners Association (FASA), Asean Port Authorities Association (APAA) and Non-vessel Owning Common Carriers (NVOCCs) to facilitate conflict management.*
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- 4.1.1 The Asean Liner Service (ALS) has been the subject of long and serious study by Asean. Originally, the ALS was to be a specially created carrier to service Asean's shipping needs and raise its participation in regional trade. Owing both to the fact that shipping fleets of member countries have expanded and demand has slowed considerably, overtonnage problems currently exist.
- 4.1.2 Under the prevailing conditions, the Group of Fourteen recommends that the ALS be formed through pooling the excess shipping tonnages of each of the national component liner services. The ALS could initially undertake tramp or non-scheduled sailings and, if there is sufficient demand to sustain it financially, it could be turned into a regular conference line over time. The ALS could be the first 'AIJV' project in transport services with common ownership by Asean member countries.
- 4.1.3 The Group of Fourteen also recommends that automatic national treatment be extended to the ALS in its carriage of domestic and international cargoes. If a Six-minus-X principle (see 9.12) is to be applied to the establishment of the ALS, then national treatment should be offered only by participating countries.
- 4.1.4 The establishment of FBCs and CCCs has large implications for shippers. The freight conference system has made it extremely difficult for small and medium shippers to obtain the best deals and they have had to accept the terms and conditions set by conference lines. Integrated FBCs and CCCs significantly reduce costs for shippers as economic cargo sizes can be hauled both on outward and inward bound journeys. These allow shippers to receive lower freight rates than 'once-off' transactions. Given their absence in most Asean countries, the Group recommends that Asean place a high priority on their establishment.

- 4.1.5 The FASC can and, in some instances, has strengthened the negotiating ability of shippers in Asean. We recommend that specific measures be undertaken to strengthen the FASC, viz:
- Establish a permanent, non-rotating secretariat staffed with a full complement of trained shipping personnel;
  - Provide constant and adequate source of funds for the secretariat; and
  - Recruit more members by each national council to ensure that maximum weight can be brought to bear in negotiations and that there are no 'free rider' problems.
- 4.1.6 Transport is an intermediate activity and cost increases reduce shippers' revenues. This can ultimately reduce demand for cargo transport in which case both parties may be worse off. The proposal that FASC join a Joint Standing Working Committee (JSWC) with FASA, APAA and NVOCCs is one way to resolve conflicts that could arise when general rate increases, changes to cargo contracts or hikes in port handling are proposed. The JSWC should assist the parties concerned to recognise problems, negotiate and settle any dispute between them.
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- 4.2 *Non-government organisations (NGOs) such as FASA, FASC and APAA should be more actively involved in identifying and implementing Asean shipping projects under the overall facilitation of the proposed Committee on Transport, Tourism and Communications (COMTTAC, see 9.6).*
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- 4.2.1 NGOs are the ultimate beneficiaries of shipping projects. They should play a key role in identifying projects which are most likely to benefit them and, since they have the necessary technical expertise and know-how, be responsible for project implementation. COMTTAC, on the other hand, should facilitate rather than initiate and implement projects.
- 4.2.2 Since FASA, FASC and APAA represent three separate interest groups, it would be preferable that COMTTAC be the facilitative umbrella agency to which the three NGOs are accountable.
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- 4.3 *Policies to preferentially treat Asean shipowners in national cabotage and bilateral shipping should be considered in order to increase the participation and effectiveness of Asean fleets in regional shipping.*
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- 4.3.1 Cabotage rules restrict non-nationals from transporting cargo within a country or from outside the country to points other than those designated within a country. This right is reserved for its domestic fleets. In the case of bilateral shipping, equal cargo-sharing ensures no external competition is experienced. The case for bilateral shipping is normally made on 'infant industry' grounds, balance of payments reasons or the need to ensure greater transport self-reliance.
- 4.3.2 It is proposed that cabotage rules and bilateral shipping be gradually relaxed to permit preferential treatment for Asean fleets. Structural dislocations, however, should be minimised wherever possible. An incremental approach may at first be taken where preferential treatment is offered reciprocally or confined only to certain domestic routes. The scope should later be widened.

## Rail Services

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- 4.4 *In the area of railways, component rail services of Asean should study with a view to adopting:*
- A. *Greater co-ordination and networking of services and schedules; and*
  - B. *Rail passes which enable passengers to prepay travel on routes. Asean railways would thus have to enter revenue-sharing arrangements.*
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- 4.4.1 Asean railways today face declining demand and most experience financial difficulties. They are still important modes of transport, however, especially for lower income classes. Where there are no economic alternatives for bulk transport, they are also a virtual necessity.
- 4.4.2 Greater co-ordination and networking of services of the railways of contiguous Asean countries, i.e. Thailand, Malaysia and Singapore, could go some way to revitalising demand. The Malaysian railway is already fully networked to Singapore. With appropriate measures taken, including revenue sharing, it may be possible to extend rail services in an integrated fashion into Thailand. In time, via ferry link, the Indonesian railway could also be included into an 'Asean Rail' concept.

## Road

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- 4.5** *Planning for road systems between contiguous countries should be more co-ordinated to develop the 'Asean Highway' concept where major cities and towns are linked by road and/or ferry links.*
- 4.5.1** Under the United Nations' Economic and Social Commission for Asia and the Pacific (ESCAP) 'Asian Highway' concept, the major capitals and cities in Asia are to be accessed by road and ferry links. In Asean, some degree of interconnecting road system already exists: between Thailand and Malaysia, and between Malaysia and Singapore. Future planning of national road systems, however, should take into account such things as the provision of dual carriageways and by-passes to facilitate motor vehicle movement.
- 4.5.2** Development of ferry services (currently under study by ESCAP) should be speeded up once feasibility of such links has been established. Governments of Asean countries, with some participation by the private sector, should take the lead in financing these interconnections with a long-term view of privatising the services once demand has reached a level where it is self-financing.

## Air

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- 4.6** *Asean national air carriers should be committed by agreement to offer special rates for 'add-on' trips within Asean.*
- 4.6.1** Thus far, the introduction of Asean circle and promotional fares has not been effective. This has not only been because restrictive conditions are attached to the fares, but also because there is little promotion undertaken to create an awareness of them. There is the added possibility that compared to the fares currently offered by Asean airlines and/or travel agents, there is a lack of a real incentive for intra-Asean travel. To achieve progress in lowering air tariffs, Asean airlines should be committed by agreement to provide specially rated add-on fares for travel between Asean destinations.

## 5. Launching an Asean Tourism Master Plan

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TOURISM is both a practical and effective way to bind the countries of Asean into a cohesive social alliance. It creates greater regional identity, fosters mutual understanding and promotes cordiality among the citizens of member countries in a way that is indispensable to social and economic co-operation.

The Group of Fourteen recommends that Asean act to achieve two principal goals: to foster greater regional tourism interaction of their peoples at all levels; and to develop viable and competitive tourist industries in the region. To this end, a number of policy measures are proposed to enhance intra-regional tourism.

### Policy Measures

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- 5.1** *Asean should actively encourage greater intra-regional travel as a means of promoting social relationships, fostering an 'Asean consciousness' and attaining economic objectives. For this purpose, an exemption scheme should be devised to reduce the effects of existing travel taxes on intra-Asean tourists. Such exemptions could be based on length-of-stay to circumvent 'international gateway' problems.*
- 5.1.1** In an optimal state, all travel barriers should be removed to permit unrestricted movement across national boundaries. While such a situation exists in some regional groupings, this is not immediately feasible for all Asean countries since travel and tourism expenditures can severely destabilise a developing country's balance of payments and foreign exchange reserves.
- 5.1.2** In the light of these national priorities, a second best solution is



therefore called for. The Group of Fourteen proposes that in order to increase tourism among Asean countries, member countries should examine ways and means to make it financially less burdensome for Asean citizens to travel within their region. The Group suggests that countries which currently levy exit taxes study the possibility of adopting a tax based on length-of-stay criteria instead. In this way, tax exemptions can be given for 'short haul' trips within the region (defined as a certain number of days spent abroad) and still prevent the 'international gateway' problem whereby residents circumvent exit taxes by leaving the region through countries other than their own after having been exempted from exit taxes.

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**5.2** *It is recommended that Asean National Tourism Organisations (NTOs) devise a systematic planning method to formulate a long-range Asean Tourism Master Plan to develop markets and tourist products.*

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- 5.2.1 All Asean NTOs prepare ambitious tourism marketing plans to capture tourists coming into the region. So far, few actively consult one another on a regular basis to co-ordinate their efforts. The need for co-ordinated planning is critical if scarce financial and physical resources are not to be wasted on duplicative work.
- 5.2.2 Tourism planning also enables strengths and weaknesses of the region's tourism assets to be evaluated, problem areas to be recognised and market opportunities identified. It is also an invaluable management aid to evaluate the impact of different tourism scenarios on Asean economies.
- 5.2.3 Planning imposes system discipline and organisation. But the advantages of planning together extend beyond rational economic arguments. The process itself will be beneficial as it provides an opportunity for Asean decision-makers to work together and chart their collective destinies.
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**5.3** *Asean countries should begin to package and promote travel programmes on the basis of two or more travel destinations, or 'Asean Tourist Regions' (ATRs), to foreign markets.*

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- 5.3.1 More effective promotion of Asean can take the form of packaging two or more destinations in the region to increase the content and convenience of a foreign tourist's travel by reducing the number of

decisions he or she has to make. 'Packaging' of tourist destinations is used routinely in the tourist trade with excellent results.

- 5.3.2 To put this proposal into effect, we recommend that Asean countries formulate separate joint agreements to promote and market their destinations overseas under the auspices of Asean Tourist Regions, or ATRs. ATRs subdivide the region into smaller tour packages comprising two or more countries which are chosen for their different strengths and tourism products. Thus, there may be a Northern ATR comprising Thailand and Malaysia, a Southern ATR with Singapore and Indonesia, and an Eastern one with the Philippines, Brunei and East Malaysia.

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5.4 *More Asean charter inclusive tour (CIT) flights should be arranged to lower costs to Asean tourists. For this purpose, Article 2.1(c) of the Multilateral Agreement on Commercial Rights of Non-scheduled Air Services among the Asean Nations, 1971, should be amended to allow charter operators to organise economical passenger loads.*

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- 5.4.1 Charter inclusive tour (CIT) operations are a special type of air service lying between normal scheduled air services and pure charter operations. They enable new air traffic to develop without competing too directly with normal scheduled air services. In the case of Asean, it is clear that CITs are suitable for short-haul travel and can substantially increase tourist traffic by lowering travel costs.
- 5.4.2 Asean Governments have not encouraged CITs for fear that passengers will be diverted from normal scheduled services of their respective national airlines. Given the low levels of intra-Asean tourism at present, this belief could be arguable. In Europe and the Mediterranean countries, for example, considerably more new traffic was generated through CITs than diverted from normal scheduled services because of the market segments catered to.
- 5.4.3 Asean has provision for CITs to be given landing rights freely in the Multilateral Agreement on Commercial Rights of Non-scheduled Air Services among the Asean Nations, 1971. Article 2.1(c) of the Agreement, however, limits the number of passengers which can be carried to just 40 people. This is far too small to be economic or effective and efforts should be made to stimulate traffic by increasing allowable passenger loads to economic sizes. If Asean Governments are still fearful of the arguments of the airlines, a reciprocal, bilateral

approach can be taken within the multilateral agreement and rights later extended to other countries.

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**5.5** *Member countries should designate specific Asean passport control counters at their main international airports to signify the special status of Asean visitors.*

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**5.5.1** Many countries belonging to regional organisations reserve special passport counters for the residents of other member countries, apart from those it sets aside for its own nationals. Most EEC countries, for example, have such designated lanes for residents of other member countries. India still maintains a passport counter for residents of the members of the Commonwealth.

**5.5.2** The proposal for the creation of special Asean lanes at the airports of member countries has a symbolism which denotes the warm and fraternal ties which exist among the countries of Asean. This gesture, together with the added convenience offered to Asean tourists, would also act to subtly suggest to Asean visitors, their elevated status in the country which they are visiting.

## 6. Creating an Energy Community

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FOR ASEAN, energy resources are essential and strategic materials. The field of energy is fertile ground for expanded and enhanced Asean co-operation. The recent trend to approach common problems from a regional standpoint holds great promise for Asean in the face of an increasingly hostile world environment. It is therefore timely and appropriate for Asean to identify energy as a priority area for future regional co-operation.

Future initiatives in Asean energy co-operation should be directed within a long-term concept of Asean as a regional grouping which uses its energy resources as a foundation for co-ordinated development, interlinking its energy systems in a robust and active economic framework for the mutual benefit of member countries. Such initiatives should move in tandem with resource production and marketing and should enable expanded private sector participation.

### An Asean Energy Community

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- 6.1** *Linkages in the field of energy should be strengthened by enhancing intra-regional trade in energy commodities, developing regional infrastructures for energy transmission and encouraging cross-border investments in energy projects. Among the measures that should be taken are:*
- A. *The inclusion of energy commodities within the scope of Asean's system of preferential trading arrangements;*
  - B. *The development of an Asean network of gas pipelines connecting gas fields with energy demand centres; and*

- C. *The strengthening of the Asean power grid that already exists as an alternative option for export and import of energy supplies within the region.*

- 6.1.1 Apart from helping to expand trade links in general between member countries, trade in energy commodities will enhance the level of security of energy supplies, allowing the three net importers of energy in Asean to be assured of at least part of their necessary supplies and permitting the exporters a base from which to develop and consolidate wider regional or global trade links. Key areas where these links could be consolidated are the marketing of petroleum products, natural gas and its derivatives, electricity and coal. Electrical power interconnections can also encourage cross-border investments and provide the impetus for the development of large hydro and coal schemes to serve regional needs.

## Production and Marketing

- 6.2 *An Asean Energy and Minerals Ministers Meeting (see 9.2) should be instituted. It should, among other matters, examine and propose measures for regional co-operation in production and marketing, focussing on co-ordination of regional oil-refining activities with a view to optimising the utilisation of existing refining facilities; rationalisation of the sale of liquefied natural gas (LNG); the possibility of setting up an Association of LNG Producer Nations; and measures to sustain the development of coal as a long-term energy source.*
- 6.2.1 Oil-refining activities, marketing of LNG and the future exploitation of coal resources are three areas which need further study so that concrete measures can be recommended for implementation.
- 6.2.2 While Asean can do little to condition the wide fluctuations in crude oil prices, there are other issues related to petroleum which must be addressed. In the downstream sectors, Asean faces potential problems resulting from the growing mismatch between local refinery output and the demand for petroleum products. Co-ordinated attempts should be made to optimise the utilisation of existing refineries. In the future, the Asean energy community also stands to derive significant benefits from co-ordination and optimisation in the planning, design and deployment of its network of refineries.

- 6.2.3 With regard to liquefied natural gas (LNG), it is in Asean's interest to collectively aim for a stable long-term energy market. To this end a mechanism must be instituted between LNG producer countries to exchange information and co-ordinate and rationalise the terms of sale of this commodity to export markets. This activity can be extended to the establishment of an Association of LNG Producer Nations, which Asean could take the lead in forming.
- 6.2.4 Coal is an important component of the regional primary energy mix. Although for the immediate to medium term it will necessarily take a secondary position in relation to natural gas, its long-term importance cannot be denied. Piecemeal and unco-ordinated development of Asean's coal resources will leave the region ill-prepared to face an increasing demand for coal in the transitional stage towards the post-gas era, and possibly deprive it of the opportunity to participate effectively in the global coal market in future years.

### Private Sector Contribution

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- 6.3 *The framework for co-operation in the energy sector should be modified to allow for greater private sector contribution.*
- 6.3.1 At the institutional level, a fairly elaborate framework has been developed at official levels for co-operation in energy. However, private sector involvement in the Asean process in these fields is still somewhat limited. Attention must be directed towards ensuring that the information on procedures, opportunities and possibilities for private sector participation is available. It will be necessary for the private sector on its part to seek appropriate avenues to participate more effectively.

## 7. Strengthening the Monetary and Financial System

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THE future of Asean trade and industry rests firmly on the shoulders of a strong and well-developed monetary and financial system. Until and unless concrete efforts are made to develop efficient markets for currencies and loanable funds, the ability of the region to progress at a steady pace will be impaired.

The Group of Fourteen recognises this and recommends measures to strengthen our 'symbol' economy. Three types of measures are proposed: institutional measures that support trade and industry; policy measures that assist better co-ordination; and project measures that continue the momentum to advance co-operation.

### Institutional Measures

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- 7.1** *The Special Committee of Asean Central Banks and Monetary Authorities should be re-activated to examine issues relating to monetary and financial co-operation. The present Committee on Finance and Banking (COFAB) should begin to explore ways and means to enhance Asean economic co-operation in fiscal matters and should appropriately be renamed the Committee on Finance (COF, see 9.6).*
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- 7.1.1** The Special Committee of Asean Central Banks and Monetary Authorities (Special Committee) ceased to operate after the establishment of COFAB in 1977. The Special Committee was unique, however, as it was made up of the Governors of central monetary authorities. In contrast, COFAB is usually represented by the most senior officials of Finance Ministries.

- 7.1.2 The nature of projects in the banking and finance area is such that, by and large, monetary authorities are directly involved in assessing their desirability and, if found feasible, these authorities are responsible for implementing them. Many projects in banking and finance, apart from the Asean Swap Arrangements which were initiated by the Special Committee in 1972, have either failed to take off or lack success. The Asean Clearing Union (ACU), for example, was first proposed in 1968 as a means to conserve foreign exchange when levels were low. A technical framework was worked out in 1980 but the idea was shelved on the consideration that intra-Asean trade was too small and commercial trade finance freely available. Another proposal was that local currencies should be permitted as a medium of exchange in intra-Asean trade. The Asean Finance Corporation (AFC) was seen to have a role in the setting up of an offshore currency market to clear excess holdings. Here also there have been technical hitches which prevented any significant progress from taking place. Recently, a proposal for a Supplementary Payments Mechanism (SPM) to assist settlements in local currencies through automated clearing facilities was mooted. This is still under consideration.
- 7.1.3 The Group of Fourteen recommends that the Special Committee be re-activated to give fresh impetus to monetary and banking projects. Since the direct expertise and commitment of central monetary authorities are required to study and, more importantly, to implement proposals, the Group of Fourteen feels that the Special Committee would be better placed to provide the necessary leadership and direction. The proposed Committee on Finance (COF) should be directed towards active involvement in new areas such as the possibility of harmonisation of tax laws and structures among Asean countries. In this respect, COF will have to work closely with all other Permanent Committees to explore ways and means of facilitating economic co-operation.
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- 7.2** *The Asean Finance Corporation (AFC) should review its role and structure and participate more actively in the financing of Asean projects. To do so, its ownership structure should be altered to permit some form of majority control by the private sector of any Asean country. This would infuse it with the necessary management commitment and expertise.*
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- 7.2.1 Although the AFC was established to function as a regional



investment bank, so far the main assets it holds are in the form of fixed deposits and cash. For the AFC to function as a catalyst to economic development, its priority must be to increase its lending to individual Asean countries and AIJV projects.

- 7.2.2 The present equal status of the five Asean nations in the ownership of the AFC, however, does not allow it to move quickly or decisively enough in any direction. The private sector of any Asean country should therefore be allowed to own more than one-fifth of its capital base. By allowing the AFC to have 'dominant' owners, a basis for providing commitment, leadership and management would be given. It may also be suggested that 'blue chip' Asean companies with surplus capital be encouraged to invest in AFC.

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**7.3** *The Asean Trade and Investment Corporation (ATIC) should be established as a matter of priority in order to participate more actively in Asean projects. ATIC should be set up as a subsidiary of AFC.*

- 7.3.1 The Asean Banking Council's recommendation to establish the ATIC in 1981 was founded on the belief that the investment corporation would work closely with the AFC to develop, diversify and expand intra-Asean trade and investments. Although the ATIC proposal was tabled at the 19th Asean-CCI Council Meeting in 1982, insufficient funds resulted in the indefinite postponement of the project. To increase Asean participation in industrial projects and, at the same time, utilise Asean funds, it is recommended that ATIC be set up as a subsidiary of the AFC so that the former can help identify and channel the funds available in the AFC into viable projects.

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**7.4** *The AFC could, together with ATIC, also examine ways of acting as conduits to speed up the process by which the Asian Development Bank (ADB) lends or participates in equity funding of private regional projects.*

- 7.4.1 The AFC should function as either co-financier with ADB in regional projects and/or on-lend to private sector projects. This 'partnership' would substantially enhance its image and effectiveness in project financing. ATIC could provide the network of regional contacts for ADB loans as well.

- 7.4.2 Under the recently-launched Equity Financing Programme (EFP) for AIJVs, the ADB uses capital subscriptions of Asean countries or the so-called 6.2(b) Resources\*\* to invest back up to 20 per cent of the equity of AIJVs. Its intention is to sell the equity at fair prices as soon as possible to the same countries making the subscription payments. The ATIC could be the vehicle for the disposal of such shares or it could hold them as part of its investments.

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## Policy Measures

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- 7.5 *To encourage Asean capital markets and to develop an Asean identity in the corporate field, the Asean authorities should consider allowing selected 'blue chip' Asean-domiciled companies to be quoted in their respective stock exchanges.*
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- 7.5.1 Asean capital market authorities should examine ways to allow selected 'blue chip' companies to be quoted on one another's stock exchanges in order to promote market consciousness of Asean-based corporations. Funds raised through the stock market of one member country, however, could be restricted to purposes of expanding investments of the company in that country. This move would promote mutual investments in one another's leading corporations and could lead to mutually beneficial sharing of benefits, expertise, technology and markets.
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- 7.6 *To foster closer relationships among Asean-based financial institutions, countries should actively encourage one another's financial institutions to invest up to 30 per cent of equity in selected banks incorporated in Asean countries.*
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- 7.6.1 Asean countries should consider actively encouraging other Asean members to invest up to a total of 30 per cent of equity in their commercial banks. This would foster closer relations among Asean-based financial institutions and develop markets. This can be pursued

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\*\* 6.2(b) Resources are capital contributions by member countries to the ADB and held in the form of non-interest bearing notes or obligations. In 1984, the sum contributed by Indonesia, Malaysia, Singapore, the Philippines and Thailand amounted to US\$102.8 million.

through private equity transactions, or, if already publicly listed, through the stock markets of the Asean countries. In the long term, these cross-holdings could lay the foundation for more inter-country banking services such as electronic funds transfer and point of sale transactions.

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**7.7** *The Asean banks within the Asean Bankers' Association should recommend the harmonisation of banking laws, rules and practices as a matter of priority.*

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7.7.1 Asean banking laws, rules and practices are widely divergent in their concepts and practice. This may be seen to be the result of three factors: Firstly, member countries have inherited financial systems that have historically been based on different banking models; secondly, national priorities have overlaid sets of regulations that serve to protect each country's resources; and, thirdly, many Asean countries continue to depend on countries outside of Asean for external settlements, correspondence relations and international banking services.

7.7.2 The result of these three factors is that the degree of banking interdependence among Asean countries, with the exception of Singapore and Malaysia, cannot be said to be strong. This feature of the Asean banking system as a whole links closely to the fact that intra-Asean trade flows have, to the present time, been small. In support of initiatives to promote regional development financing, balance of payments support, trade financing and currency clearing, efforts should be made to minimise inconsistencies in the banking systems of Asean countries and pave the way for greater financial integration among member countries.

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**7.8** *To support intra-Asean trade and investment, more branches of Asean banks should be allowed to be established in Asean capitals on a reciprocal basis.*

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7.8.1 The degree of financial integration within Asean could be raised substantially if member countries allow a greater number of bank branches to be opened in Asean capitals with the emphasis given to banks which are not currently represented in an Asean country.

- 7.8.2 Existing banking policies of member countries should therefore be reviewed with the aim of providing preferential treatment for Asean banks. Such policies could be undertaken on an orderly, reciprocal basis if there are fears that a sudden radical policy change would be disruptive to the domestic banking industries of Asean member countries.

## Project Measures

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- 7.9 *The decision to create the Asean Reinsurance Corporation (ARC) should be fully supported by Asean Governments.*
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- 7.9.1 The recent decision to corporatise the Asean Reinsurance Pool should receive the full support of the Asean Governments. In pursuit of the objective of retaining a greater proportion of insurance premiums within the region, thereby reducing foreign exchange outflow from the region, it is crucial that there be adequate capitalisation to ensure ARC's long-term viability as well as sufficient skills and expertise.
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- 7.10 *The Asean Bankers Acceptance (ABA) market should be re-established as a matter of priority and all regulatory impediments removed.*
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- 7.10.1 The proposal for an ABA market was studied for eight years before being pilot-tested in 1983 by the AFC. The test was not successful, however, owing to competition and lack of market volume: Firstly, local central banks had cheap export finance and discount windows which did not involve exchange risk; secondly, unlike the New York BA market, the ABA market only catered to intra-regional trade and was not large enough for rates to be priced efficiently; and, thirdly the New York BA market was easily accessed through US bank branches in the region. COFAB therefore proposed that ABAs be discontinued.
- 7.10.2 For ABAs to work, there must be greater uniformity in the foreign exchange regulations, withholding tax provisions and foreign currency borrowing limits. This is an area where central banks and monetary authorities of various countries should try to rationalise. Once these impediments are removed, ABAs could develop more readily.

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B.

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## MANAGING ASEAN'S EXTERNAL ECONOMIC RELATIONS

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THE ECONOMIC fortunes of Asean countries are intricately woven into the fabric of the international market economy. From trade statistics, it is clear that unlike many other developing states, the countries of Asean are essentially trading nations.\*\* As a whole, their weighted trade dependence is more than twice the global average.

The success of industrialisation, which is a prominent feature of the development programmes of most Asean countries, also depends to a significant degree on the 'open doors' of international markets. The high growth rates enjoyed by the Asean countries in the 1970s were not a consequence of intra-Asean economic co-operation, but rather the favourable conditions in the international market economy.

Yet, it is beyond dispute that the contemporary international economic environment is and is becoming more hostile: This poses Asean countries with major economic challenges and are forcing major structural adjustments onto the Asean economies. And while it is fashionable to speak of the 21st century as the 'Century of the Pacific', the possibility that the adjustments will take place in as accommodative a world economy as in the past is remote.

Given the stark economic realities, Asean's external economic relations should assume even greater significance than before and should be treated as of equal importance as intra-Asean economic co-operation. It is essential that Asean continue an outward orientation and make concerted efforts to influence

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\*\* Trade dependence, as measured by the ratio of exports and imports to the gross domestic product of its members, stands at 42 per cent for Thailand, 47 per cent for the Philippines, 50 per cent for Indonesia, 79 per cent for Malaysia, 109 per cent for Brunei and an astronomical 617 per cent in the case of Singapore.

the international economic environment to make it more favourable and conducive to its requirements.

Asean's approach to its external economic relations should be pragmatic. In the short term, the focus should be on the resolution of immediate problems to increase the revenue from exports, to secure greater flows of capital and investment, and to facilitate the industrialisation of the Asean economies. The emphasis should be on obtaining better preferences and greater market access under existing rules and practices. In the medium and long term, Asean should support international efforts through both GATT and UNCTAD to transform the international economic order to ensure greater equity and to promote development in the Third World.

With these considerations in mind, the Group of Fourteen recommends a six-pronged approach to the management of Asean's strategic economic environment. Asean should mobilise its efforts at three levels — the global multilateral, the regional and the national. In the process, it should explore the possibility of initiating new dialogue relations, be prepared to engage in more balanced negotiations with major trading partners and streamline and strengthen the machinery for the conduct of external relations.

## Global Multilateral Approach

**8.1** *Asean should ensure concerted and effective participation in the Uruguay Round of GATT. Its participation should be guided by the need to establish a favourable climate for economic growth in the developing countries and to preserve the special and differential treatment accorded to them under Part IV of GATT. Specifically, Asean should call for:*

- A. Phased reduction of subsidised agricultural exports;*
- B. Return of textiles to GATT rules at the expiration of the Multi-Fibre Agreement in 1991;*
- C. A mandatory surveillance and public disclosure system; and*
- D. Strengthening of the dispute settlement machinery.*

*Asean should also focus its efforts on the new issues of services and trade-related investments.*

**8.1.1** Although the Asean states have not attached much importance to GATT in the past, the increasingly hostile nature of the international trading environment, the need to accord special and differential treatment to tropical, agricultural and natural-resource products, and the importance of the manufacturing sector to the Asean economies

have made it imperative for Asean to adopt a pro-active stance in the Uruguay Round. Asean's participation in the Uruguay Round is also vital to ensure that its interests are reflected in the codes to be drawn up for the new issues like services and trade-related industrial investment.

- 8.1.2 To ensure effective participation, Asean countries should examine the entire range of issues under discussion in the Uruguay Round and develop an approach which, firstly, uses a collective regional front to negotiate and obtain concessions and tradeoffs and, secondly, to then use the concessions and tradeoffs won as the basis for negotiations by individual member countries. It cannot be denied that this is a very complex, time- and resource-consuming effort. Additionally, problems of how to distribute gains and losses among Asean countries would have to be addressed at some stage. It is, nevertheless, a crucial effort if Asean solidarity is to be developed and utilised to obtain concrete benefits for the region in relation to the current multilateral trade negotiations (MTNs).
- 8.1.3 Asean's participation in the Uruguay Round should be guided by clear and well-defined goals and objectives:
- The development of a new set of Trading Rules that recognises the enormous disparity in wealth among individual nations especially in terms of per capita income, the grossly uneven and persistent pattern of surpluses and deficits, and the need to establish a better climate for economic growth and major structural adjustments in the economies of developing countries; and
  - Resistance to any attempt to erode or compromise the special and differential treatment accorded to developing countries under Part IV of GATT while the new Trading Rules are being formulated.
- 8.1.4 Asean efforts should focus on both the 'old' and 'new' issues. 'Old' issues include:
- Trade in agriculture, tropical products and commodities. Asean has an unparalleled opportunity to collectively advance its interests in GATT on this issue. In contrast to other MTN rounds, the current Uruguay Round includes the full range of agricultural policies whereas before they were considered too sensitive. Asean's position, in concert with other agricultural developing countries, should be to argue strongly for a timetable or 'phased reduction' of subsidised agricultural exports;

- b. Textiles. Asean should adopt, as a matter of principle, the return of textiles to GATT rules at the expiration of the Multi-Fibre Agreement in 1991;
  - c. Safeguards and surveillance. Asean, as a collective, should argue for a mandatory surveillance and public disclosure system within the MTN system to identify the types of Government protection and subsidy of the industrialised countries. The trade policies of many industrial countries have escaped scrutiny in terms of their consistency with GATT principles, rules and disciplines. Nowhere is this more true than in the area of safeguards, whereby an industrialised country can take action to protect a domestic industry from imports. The secrecy underlying the policy formulation process means that the ability of developing countries to be represented, to complain or take countervailing measures is impaired until it is too late; and
  - d. Dispute settlement. Asean should seek to strengthen the dispute settlement machinery of GATT on the grounds that bilateral actions taken by the major economic powers are destabilising to the world economy in general, and developing countries in particular.
- 8.1.5 'New' areas which are of critical importance to Asean lie in services and trade-related investment measures. Both these areas would have a substantial impact on the balance of payments of Asean countries and should be closely examined.

## Regional Approach

**8.2** *Steps should be taken to further develop Asean's negotiating power by exploiting its strengths (the dynamic nature of its economies, the growing size of its markets and its geopolitical significance) and also by developing a system of countervailing measures.*

**8.2.1** It is an indisputable fact that Asean carries far greater collective weight than individual member countries. Asean is for many countries a large market. In the case of Japan, for example, Asean was in 1985 second only to the United States (accounting for 10.3 per cent of Japan's total exports) and was a larger market for Japanese goods than the EEC (which only accounted for 9.5 per cent of all Japanese exports in 1985). The importance of this market will grow as intra-Asean economic co-operation progressively integrates the Asean market.



- 8.2.2 Asean should make good use of its size and unity and take firm action to protect its interests. It should not fail to exploit its geopolitical significance to extract concessions from its trading partners and, at the same time, explore options to counter unfair practices by other states or regional organisations. Admittedly, countervailing measures will require careful consideration and consensus, but they are an important avenue that could be explored.
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- 8.3 *Asean should intensify bilateral dialogue relations with its major trading partners. Specifically, it should seek to:*
- A. *Negotiate preferential trading arrangements especially with Japan, the United States and the EEC;*
  - B. *Improve the Generalised System of Preferences (GSPs) extended to Asean countries;*
  - C. *Shift the focus of development co-operation to large projects and allow the private sector to play a role in development co-operation;*
  - D. *Institute lobby groups in Japan, the United States and the EEC countries; and*
  - E. *Integrate the private sector into the official Asean dialogue meetings.*
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- 8.3.1 Asean should aim at a sharper focus in its dialogue relations, revising and updating its dialogue agenda regularly to ensure attention is focussed on a few key issues in which there is adequate scope for effective bilateral co-operation. The agenda should be tailored to benefit from the comparative advantage of the dialogue partners. Generally, the emphasis should be on developing ground rules to promote trade, encourage investments in Asean countries and facilitate co-operation between the private sectors of Asean and the dialogue partner countries. Asean should engage in extensive consultations on its policies and ensure thorough preparation before the dialogue sessions. It should be united and fully committed to its initiatives.
- 8.3.2 Asean should intensify its dialogue relations with Japan, the United States and the EEC by institutionalising the meeting of Asean Trade and Industry Ministers with their counterparts to take place once every 18 months. This meeting would serve as the primary forum for economic co-operation between Asean and these countries. Given the huge markets of these three actors and their competitive edge in exports, investment and technology transfer, Asean should seek

maximum advantage in its relations with them. Specifically Asean should:

- a. Seek to negotiate step-by-step preferential trading arrangements with major market powers (Japan, the United States and the EEC) similar to the arrangements that now exist between the EEC and EFTA, the EEC and the Mediterranean countries, the United States and Israel, and the United States and the Caribbean;
- b. Move for the improvement of the GSPs extended to Asean countries. Asean should press for a lower percentage to qualify under the Rules of Origin, the removal of the 'competitive need' clause which effectively erodes the benefits of the GSP in the American market and prevent the arbitrary use of voluntary export restraint (VER);
- c. Shift the focus of development co-operation to larger projects like the development of Asean technical institutes instead of the myriad small human resource development projects. The development of such institutes would greatly facilitate technology transfer through human resource development. The private sector should also be allowed to play a role in development co-operation projects; and
- d. Institute Asean lobby groups in Japan, the United States and the EEC to promote the use of Asean products, counter NTBs and unfair practices, and provide market intelligence to enable proactive policies.

8.3.3 The private sector should be integrated into the Asean governmental dialogue process and there should also be greater co-ordination between the official dialogue and that conducted by the private sector (see 9.13).

## National Approach

8.4 *Asean countries should strive individually to adopt national domestic policies and programmes which promote the growth and development of the private sector. Policies should be constantly reviewed with the aim of reducing the cost of doing business in Asean countries and making producers internationally competitive.*

8.4.1 Asean countries can reap the benefits of Asean's collective efforts to create a favourable international economic environment only if their individual national economies are internationally competitive. They should therefore promote policies that encourage private initiative, reduce dependence on governments and minimise the cost of doing

business in these countries. Policies on taxation, utility and other service charges, wages and regulations, for example, should be reviewed and suitably modified to ensure internationally-competitive industries.

- 8.4.2 National governments should also promote economic freedom to the maximum extent possible. The worldwide trend of limiting the economic role of government, which is already under way in the Asean countries, should be maintained and encouraged. The role of government should be restricted to providing a favourable environment for the entrepreneur, allowing the private sector to take the lead role in economic development. The emphasis should be on increasing the national pie which in turn can make a significant contribution to the development of national resilience.

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- 8.5 *Asean countries should seek to ensure greater consistency between their national economic policies and Asean's collective efforts at the regional and global levels. An annual meeting should be instituted to allow for consultation among the national economic planners of the member countries.*

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- 8.5.1 Ultimately, the success of Asean's collective action at the regional and global levels would, to a large degree, be a function of the effective commitment and action by individual member states. These countries when formulating their national plans and policies should therefore take due account of Asean's policies and programmes and also the welfare of the whole region. A conscious effort should be made to harmonise national policies with those of the other member states. An annual meeting of the national planners would be an effective way to provide for consultations and to harmonise the national policies of Asean countries.

### **Diversifying Asean's External Economic Relations**

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- 8.6 *Asean should diversify its external economic relations. Specifically, the possibility of initiating dialogue relations with the Republic of Korea, the European Free Trade Association (EFTA), the East European countries, India, Soviet Union and the Peoples Republic of China should be explored.*

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- 8.6.1 Presently, almost all of Asean's dialogue partners belong to the

advanced industrialised states of the West and Japan. This firmly integrates Asean into the political economy of the West. Given the commitment of the Asean member countries to the free market economy, their colonial heritage and the correlation and alignment of forces surrounding the Kampuchean conflict, this is perhaps inevitable. However, it would be in keeping with Asean's policy of neutrality, equidistance and its commitment to the Zone of Peace, Freedom and Neutrality — ZOPFAN — to explore the possibility of commencing dialogue relations with Eastern European countries, India and China. The NICs are also potential dialogue partners.

- 8.6.2** There are political and economic benefits to be derived from dialogue interaction with these countries. They have the potential to become important trading partners and the establishment of dialogue relations with these countries could also enhance the bargaining power of Asean vis-a-vis the current dialogue partners. As a general rule, Asean should explore all possible markets and tailor its dialogue relations accordingly.
- 8.6.3** South Korea has indicated its desire to engage in official dialogue relations with Asean. The private sectors in Asean member countries already have links with their counterparts in Seoul. The private sector should now progress one step further to establish a regular Asean-level dialogue session similar to the United States-Asean, Canada-Asean and Japan-Asean fora to provide for regular interaction. This can then be followed by official dialogue between Asean and South Korea.
- 8.6.4** The Soviet Union has also indicated its desire to engage in formal dialogue with Asean. This should be given careful consideration from both political and economic viewpoints. Asean countries individually are taking measures to improve trade relations with China. A collective effort by Asean will be more effective and it could add weight to individual member countries' bilateral efforts. Asean should also consider reviving its dialogue with India.
- 8.6.5** The Soviet Union, China, India and Japan are likely to become increasingly more important actors in relation to Southeast Asia and it is in Asean's interests to engage in full constructive relations with these countries.

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## More Balanced Negotiating Approach

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**8.7** *Asean countries must now be prepared to engage in more balanced negotiations with their major trading partners. A certain degree of reciprocity and acceptance of the principle of counterpart funding in development co-operation would allow Asean to engage in more meaningful co-operation with its trading partners.*

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**8.7.1** Asean economies have grown so dramatically since the late 1960s that Singapore is now an NIC, Malaysia and Thailand have the potential to become members of this club, Brunei has a very high per capita income, and the Philippines and Indonesia are not among the poorer groups of the less developed countries. Given this situation, it would become increasingly difficult for Asean to continually seek unilateral concessions.

**8.7.2** A degree of reciprocity can be used to good advantage in Asean's external economic relations. However, it is not suggested that Asean can now graduate from special and differential treatment. Similarly, in the field of development co-operation, acceptance of the principle of counterpart funding may be necessary to engage in meaningful co-operation with the dialogue partners. The principles of reciprocity and counterpart funding would help ensure that Asean's proposals are thoroughly considered, commercially viable and have the full support of all its members.

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## Strengthened Asean Machinery

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**8.8** *The Asean machinery should be streamlined and strengthened for the conduct of external economic relations. Specifically, the recommendation is to:*

- A. *Institutionalise the meetings of the Asean Trade and Industry Ministers with their counterparts in Japan, the United States and the EEC (once every 18 months);*
- B. *Create an External Economic Relations Unit in the proposed Bureau of Research, Planning and Policy Studies in the Asean Secretariat (see 9.9);*
- C. *Create a Bureau of Dialogue Relations in the Asean Secretariat*

*(see 9.9) to carry out detailed preparatory work for Asean's formal dialogues and for representation at key international economic fora;*

- D. Link the units under (B) and (C) above with other Government and private economic research organisations in the region through funded programmes; and*
  - E. Provide the Asean committees in third countries with a small complement of full-time staff from the Asean Secretariat. This would ensure Asean matters get due priority and also ensure continuity.*
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**8.8.1** Given the complexity of multilateral and bilateral economic issues and the state of flux of the international economy, Asean should be in a position to adopt pro-active policies and also to develop quick and effective responses to unfavourable international developments. The Asean Secretariat and the Asean committees in third countries could form the core group in ensuring thorough preparation for Asean's international efforts.

**8.8.2** Insofar as the machinery for the conduct of dialogue relations is concerned, the present framework is deemed adequate except for the following:

- a. Currently only the Asean Foreign Ministers together with officials (political and economic) attend the Asean Post Ministerial Conference (PMC). Consequently the Asean Trade and Industry Ministers do not have the opportunity to participate in the main dialogue session with the major trading partners. As the bulk of the issues on the dialogue agenda are economic in nature, it is appropriate that Asean Trade and Industry Ministers participate in this forum to ensure effective Asean representation.
- b. The Asean Economic Ministers have met with their counterparts from Japan and the EEC but the frequency of these meetings has not been fixed. It is necessary to institutionalise this dialogue forum and the recommendation is to hold it once every 18 months. There is no comparable meeting with the United States. Given the importance of the United States it would be fruitful for Asean to initiate a comparable dialogue meeting with that country. These dialogue sessions should, together with the PMC, be targetted as the primary fora for economic relations with these countries.

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## C.

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# STRENGTHENING THE ASEAN INSTITUTIONS

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NUMEROUS recommendations have been made in the preceding chapters to provide a fresh and strong impetus to Asean economic co-operation. The adoption and implementation of the proposals — ranging from trade and industry to the management of Asean's external economic relations — will entail fundamental changes in the substance and process of economic co-operation. In the Group of Fourteen's opinion, such changes cannot be managed effectively by existing institutions and procedures.

It is therefore imperative that Asean enter a phase of adapting its institutions so that they fully reflect the proposed scope and depth of their functions. Asean institutions should be suitably structured and endowed with resources, expertise and systems to ensure that co-operation is not hampered by deficiencies in these areas.

The Group is sensitive to the fact that Asean is an inter-governmental regional organisation without a supranational objective. In drawing up the proposals which follow, due attention has been given to the need to leave decision-making firmly in the hands of Governments and to the need for achieving consensus in policy formulation.

We however make a distinction between supranationalism and effective inter-governmental central institutions. The absence of the latter makes a higher level of economic co-operation extremely difficult. With these considerations in mind, we propose changes in seven parts of the Asean machinery, *viz*, Asean summitry, Ministerial-level meetings, the principal 'working' institutions, the Asean Secretariat and national secretariats, principles of decision-making, Government-private sector relationships and dispute resolution.

## The Asean Heads of Government Meeting

- 9.1** *The Asean Heads of Government Meeting (AHGM) should be held on an annual basis so that the leaders, as a collective, can play a more direct and effective role in fostering economic co-operation by providing the necessary political commitment and direction, and overseeing the process of implementation.*
- 9.1.1** Summitry in Asean has been used to set new directions and endorse major programmes but it has had no direct involvement in the management of Asean co-operation. In examining the future role of summitry, two central and inter-related questions must be addressed:
- First, should Summits be held in the present tradition of Asean (i.e. when there is consensus among the six leaders on the need for one) or should they be held at regular intervals?
  - Second, should the role of the Summit be restricted to diplomacy (i.e. to declare intent and provide direction as and when confronted with major international and intra-regional challenges)? Or, should it assume multiple roles (like setting political direction, formulating policy and solving problems) and actively manage Asean co-operation (like the European Council in the EEC)?
- 9.1.2** The Group believes that there is a strong case for holding the Summit at regular intervals. This will provide impetus and strength to Asean as an institution by:
- Allowing important objectives and directions to be set and programmes to be endorsed;
  - Being a forum where performance can be reviewed and difficult problems resolved at the very highest level;
  - Creating a sense of urgency in the work of all Asean institutions by providing a target for activities and setting the pace and pattern of the Asean Process;
  - Making Asean's trading partners view it more seriously and be more responsive to Asean's concerns and interests; and
  - Cutting through much of the symbolism and the lobbying efforts expended in convening a Summit.
- 9.1.3** Similarly, the Group believes there is a strong case for the Asean Heads of Government to become more actively involved in the management of economic co-operation. They have had no direct involvement in the management of Asean co-operation so far. The Asean Ministerial Meeting (AMM) and Asean Economic Ministers Meeting (AEMM) have emerged as two separate key decision-making organs.



- 9.1.4 Co-ordination between the AMM and the AEMM needs to be addressed and can be achieved by more frequent meetings of the Asean Heads of Government. Such meetings would also help to generate a much higher degree of commitment at all levels. By becoming more involved, the Heads of Government would be more able to direct and control the pace of economic co-operation. They would also be able to formulate Asean's responses to changes in the international economic environment more effectively. Given the arguments outlined above, the Group of Fourteen feels it is important that the Heads of Government meet annually.
- 9.1.5 While the Manila Meeting will be a *Summit* in the traditional sense, subsequent meetings could be labelled simply the 'Asean Heads of Government Meeting' (AHGM). This reduces unreasonable expectations and underscores the transformation of the Asean Summit to a more regular, business-like meeting to deal with issues in co-operation.

## Ministerial-level Meetings

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- 9.2 *The Asean Economic Ministers Meeting (AEMM) should be made responsible only for trade, industry and investment and accordingly it should be redesignated the Asean Trade and Industry Ministers Meeting (ATIMM). The meetings of the Asean Ministers of Finance, Agriculture, Minerals and Energy, Primary Commodities, Transport and Tourism and Education should be institutionalised to oversee co-operation in their respective sectors.*
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- 9.2.1 Given the broad scope of Asean economic co-operation, it is not practical to overburden the AEMM with the responsibilities for steering co-operation in all economic sectors. In any case, the Ministers attending the AEMM do not always have the authority and responsibility of translating the many Asean policy decisions into action at the national level. Although it could be argued that the Secretaries-General of the various national Ministries are represented in the Asean Permanent Committees, this does not resolve the problem of matching their regional responsibilities with their national ability to commit and implement programmes. Political commitment at the national level would be more readily forthcoming if the respective Ministers are participants in the Asean decision-making process.

9.2.2 It is therefore proposed that the present AEMM focus on trade, industry and investment and be redesignated the Asean Trade and Industry Ministers Meeting (ATIMM) to more accurately reflect its scope and function. The Group also calls for regular meetings of the Asean Ministers of Finance, Agriculture, Transport and Tourism, Primary Commodities, Education, and Minerals and Energy to oversee co-operation in their respective sectors. All these sectoral Ministerial Meetings should, however, include representation from the Ministries of Foreign Affairs to ensure that the international relations dimension is adequately taken into account in decision-making.

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9.3 *The responsibilities of the Asean Foreign Ministers should now be converged on the onerous tasks of developing Asean's political, diplomatic and socio-cultural relations to pave the way for furthering comprehensive co-operation.*

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9.3.1 Currently, the meeting of Asean Foreign Ministers (called the Asean Ministerial Meeting or AMM) is *de facto* the highest decision-making body in regular session. Following the institution of the Asean Economic Ministers Meeting (AEMM) in 1976, the AMM was made responsible primarily for political, diplomatic and socio-cultural matters. It still has however a residual responsibility to co-ordinate and oversee all areas of Asean co-operation.

9.3.2 With the proposed annual AHGM, the Foreign Ministers would no longer be taxed so heavily by this wide co-ordination responsibility. Instead, they could now devote their full attention to the pressing concerns in the field of political, diplomatic and socio-cultural co-operation and in the management of Asean's external relations. These are key areas to Asean's future. In line with this more balanced scope and function, it is recommended that the AMM be redesignated the Asean Foreign Ministers Meeting (AFMM). The AFMM would act under the direction of the AHGM and in close collaboration with other Ministerial Meetings.

## The Principal 'Working' Institutions

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9.4 *The Standing Committee (SC) should be reconstituted and its terms of reference redefined so that it becomes a continuously functioning institution with the necessary standing and authority to manage Asean's business.*

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- 9.4.1 Presently, all the key decision-making organs involved in the advancement of regional co-operation meet only periodically. The AMM and AEMM meet on an average twice a year, the Standing Committee (SC) six times a year and the Permanent Committees once a year. The general format of periodic meetings, with minimal or almost no activity in between them, may not be a suitable way to advance regional co-operation even with the provision for convening special meetings in all cases. The frequent changes in personalities, the rotational system of committee chairmanship and the infrequency of meetings make for cumbersome and lengthy procedures and major programmes often take a number of years to crystallise.
- 9.4.2 There is a need for a continuously functioning body which has the necessary standing and authority to manage Asean's business at all times and with much greater efficiency. A reconstituted and redefined SC could fulfil this need. The SC, together with the Asean Secretary-General (see 9.9) should process all proposals, supervise and monitor the implementation of policies and programmes which are accepted and co-ordinate dialogue relations. The SC may comprise one permanent representative from each member country and the Asean Secretary-General. National representatives could, in addition to representing and safeguarding national interests, be responsible for one or more specific fields of co-operation.

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**9.5** *The Permanent Committees should be strengthened by providing them with full-time technical and administrative staff.*

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- 9.5.1 The Permanent Committees are the principal working organs of Asean. They are responsible for identifying and evaluating Asean programmes/projects, translating the decisions of the Ministers into policies, monitoring and supervising implementation of these policies by member states, and carrying out the detailed work for the conduct of Asean's external relations.
- 9.5.2 It is important that these Committees have adequate staffing and expertise. The current system whereby Interim Technical Secretariats (ITS) are provided by the host country could be deemed unsatisfactory and it is recommended that the Permanent Committees be provided with full-time, technical staff from the Asean Secretariat (see 9.10).
- 9.5.3 To ensure adequate national participation, member countries should, as currently practised, be represented on each of the Permanent Committees by a senior serving Government official (Secretary-

General or Deputy Secretary-General) from the respective department/agency. These officials should be able to devote the necessary time and effort to Committee affairs and should normally serve on the Committee for a period of two to three years.

**9.6** *The scope and responsibilities of the following four existing Permanent Committees should be restructured and redesignated in line with the proposed Ministerial Meetings and programmes:*

- A. *Committee on Trade and Tourism (COTT) as the Committee on Trade, Industry and Investment (COTII, see 2.4);*
- B. *Committee on Industry, Minerals and Energy (COIME) as the Committee on Minerals and Energy (COME);*
- C. *Committee on Finance and Banking (COFAB) as the Committee on Finance (COF, see 7.1); and*
- D. *Committee on Transport and Communications (COTAC) as the Committee on Transport, Tourism and Communications (COMTTAC, see 4.2).*

**9.6.1** In line with the proposed structure of Ministerial Meetings and the programmes for co-operation, the Group of Fourteen recommends redesignation of the responsibilities of the following committees:

- a. COTT as the Committee on Trade, Industry and Investment (COTII). All these three areas are closely inter-related and are better placed under one Committee. The current practice of having to process proposals through two or more different Committees is cumbersome and requires much time and effort;
- b. COIME as the Committee on Minerals and Energy (COME). This follows the transfer of industry to COTII. Given the proposed co-operation programme in the field of energy, the relevance and importance of this Committee should be increased significantly;
- c. COTAC as the Committee on Transport, Tourism and Communications (COMTTAC). As transport and tourism have very close linkages, for effective co-operation, the scope of COTAC should be expanded to include tourism; and
- d. COFAB as the Committee on Finance (COF). The Group proposes that the reactivated Special Committee of Asean Central Bankers and Monetary Authorities (see 7.1 and 9.8) deal with banking matters, while COF on the other hand begin to focus on fiscal matters as they have a very large impact on the Asean economies. Finance is an area where much has to be done and deserves greater attention than has been paid to it.

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- 9.7** *Given the proposed institutionalisation of the Ministerial Meetings for primary commodities and education and the proposed programmes in these areas, it is recommended that Permanent Committees be instituted for these two sectors.*
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- 9.8** *The Special Committee of Asean Central Banks and Monetary Authorities should be re-activated to provide leadership and authority to implement regional monetary projects (see 7.1).*
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## **The Asean Secretariat and National Secretariats**

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- 9.9** *The Secretary-General should be given a status just below that of the Asean Ministers but above that of all other bureaucrats participating in the Asean Process. In line with his position, the Asean Secretariat should be strengthened to allow it to play a more effective role in Asean co-operation.*
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- 9.9.1** Presently, the Secretary-General of the Asean Secretariat is responsible to the AMM when it is in session and to the Standing Committee at all other times. He or his representative attends all Asean meetings. According to the 'Agreement on the Establishment of the Asean Secretariat', the functions of the Secretary-General include administration of the Secretariat, communication of information on Asean activities, servicing Ministerial Meetings and the Standing Committee meeting, and budget preparation. He is also to 'initiate plans and programmes of activities for Asean regional co-operation' and to 'harmonise, facilitate and monitor progress in the implementation of all approved Asean activities'.
- 9.9.2** In practice, however, the office of the Secretary-General and the Asean Secretariat have been hampered in their efforts to function effectively because of reservations of member Governments about strong central institutions. The parallel system of national secretariats and the principle of rotation have limited the role of the Asean Secretariat. The Group of Fourteen believes, however, that it should be one of the focal points of Asean co-operation.
- 9.9.3** Given the recommendations of the Group to move Asean economic co-operation forward, it is desirable for the Asean Secretariat to have adequate capacity to assist the decision-making organs in the planning

and evaluation phase. Together with the Standing Committee, it should supervise and monitor the implementation of accepted policies. The implementation of the proposed improvements to the Asean PTA scheme, for example, will require close and effective surveillance and follow-up action to enable the ATIMM to review and regulate the pace of trade co-operation and to resolve problems quickly.

- 9.9.4** The Secretary-General and the Asean Secretariat should be, in our opinion, catalysts in the co-operation process. The prescribed duties of the Secretary-General may require no alteration but the status of his office in the Asean hierarchy and the stature of the person selected to fill that office should be elevated. In the Group of Fourteen's conception, the Secretary-General should be of a status just below that of the Asean Ministers and above that of all other bureaucrats participating in the Asean Process. The person filling this office should also be prominent, have sufficient experience and preferably not be a serving Government official to help ensure that his primary dedication is to Asean.
- 9.9.5** While the principle of rotation may continue, the selection process itself should allow all member states to have a say in selecting the best candidate for the post. To ensure continuity, the tenure of the post should be extended to four years and it should also be possible to re-nominate the incumbent for another term.
- 9.9.6** The effectiveness of the Secretary-General is to a large degree a function of the support he obtains from the Asean Secretariat. With the wide-ranging functions expected of the Secretary-General and the need for the Asean Secretariat to play a more effective role in the management of economic co-operation, it could be strengthened and re-organised into the following bureaus:
- a. Bureau of Administration (existing)
  - b. Bureau of Communications (existing as an information office)
  - c. Bureau of Budget (existing)
  - d. Bureau of Science and Technology (existing)
  - e. Bureau of Social Development (existing)
  - f. Bureau of Socio-Cultural Affairs (existing)
  - g. Bureau of Narcotics (existing)
  - h. Bureau of Energy (existing)
  - i. Bureau of Trade, Industry and Investment (to be expanded)
  - j. Bureau of Transportation, Tourism and Communications (to be expanded)
  - k. Bureau of Food, Agriculture and Forestry (to be expanded)

- l. Bureau of Finance and Banking (to be expanded)
  - m. Bureau of Dialogue Relations (new)
  - n. Bureau of Conferences/Meetings (new)
  - o. Bureau of Research, Planning and Policy Studies (new)
  - p. Bureau of Political Co-operation (new)
  - q. Bureau of Primary Commodities (new).
- 9.9.7 Each bureau should have the necessary technical staff to undertake research, develop policies, evaluate projects and supervise and monitor the implementation. It should also have a small administrative staff to co-ordinate and service meetings conducted under the aegis of the bureau which will include the meetings of the related Permanent Committees. The bureau director should be a member-in-attendance in the corresponding Permanent Committee and also attend the respective Ministerial Meetings with the Secretary-General. In effect, the bureaus could replace the Interim Technical Secretariats (ITS) of the Permanent Committees which are currently provided by the host country.
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- 9.10** *A new system for staffing the Asean Secretariat with both international and seconded staff should be adopted to ensure its effectiveness.*
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- 9.10.1 The current emphasis on national representation through the home-based staff (HBS) system may not be compatible with a strong Asean Secretariat. Some staff may not be fully dedicated to working for Asean and their short tenure works against continuity.
- 9.10.2 It is therefore recommended that the system of staffing the Secretariat be changed from the present HBS system to one with international and seconded staff. International staff are 'Asean' as opposed to *national* civil servants recruited from the Asean member states. The seconded staff should be from the civil service organisations of member states. It is proposed that the bureau directors be international staff who are recruited by an Asean committee headed by the Secretary-General. The remaining officers may be a combination of international and seconded staff.
- 9.10.3 Notwithstanding this proposed change in staff recruitment, the present quota system should continue to ensure that all member states are adequately represented at the various levels. Clerical staff can continue to be locally recruited.

**9.11** *National participation in Asean programmes and projects should be strengthened. Specifically, provisions should be made for adequate staff and effective procedures at the national level.*

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9.11.1 The success of Asean co-operation is a function of effective participation of member countries in the relevant programmes and projects. Presently, in all member states, the Ministries of Foreign Affairs are responsible for co-ordinating overall national participation in Asean. This function is quite effectively carried out by the national secretariats. However, not all Ministries get the necessary attention and priority in Asean matters. This is largely a result of the lack of special departments and insufficient number of full-time staff to look into Asean affairs in their Ministries.

9.11.2 It is strongly recommended that member Governments examine this issue of national participation at all levels and provide for adequate staff and effective procedures. This is vital because both the decision-making and implementation functions in Asean are the responsibility of member states.

### Principles for Decision-making

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**9.12** *While adhering to the fundamentals of consensus-building, greater flexibility should be built into the Asean decision-making method where appropriate through the Six-minus-X approach.*

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9.12.1 Decision-making, negotiations and the general conduct of diplomacy in Asean are all based on the principle of consensus. Consensus-building requires lengthy and tedious negotiations but ensures that the national interests of all member states are taken into consideration. This results in Asean cohesion which is a fundamental if unstated objective of Asean.

9.12.2 While this method certainly has its merits and is perhaps the only acceptable method at the highest levels and on major policy issues, the application of the consensus method *at all levels and to all issues* has reduced the effectiveness of intra-Asean co-operation. This even includes issues where agreement has already been reached at the policy level. The need for consensus has also prevented the Association from co-operating in areas which may have been beneficial to a substantial number (though not all) of its members.



- 9.12.3 It is recommended that the Asean Heads of Government Meeting, the Ministerial Meetings and the Standing Committee meeting continue to be governed by the consensus method. However, where applicable, provision should be made to use a *Six-minus-X* consensus approach. To ensure that the use of this approach does not create dissension or create perpetual sub-groupings within Asean, decisions to resort to this approach and the determination of the value of X must be arrived at through the consensus method. The value of X, however, should not exceed three.
- 9.12.4 The following system is recommended for levels below the Standing Committee:
- a. The initiation and submission of programmes/projects for consideration by the principal decision-making organs should be supported by at least four member countries. Dissenting opinions should, however, be recorded and attached to the proposal for consideration by the members of the decision-making body who will finally decide, by the consensus method, whether to proceed with the programme. This approach ensures that ideas supported by a majority of the members do not stop at the officials' level but receives the attention of the political leaders.
  - b. For the implementation of accepted policies, it is recommended that agreement should be reached by at least four members and with a proviso that if the dissenting party so desires, the matter can be referred back to the decision-making organ for further clarification.
- 9.12.5 The intention of the above proposals is to provide for flexibility in the conduct of Asean affairs but with the necessary checks to preserve the spirit and harmony which should be uppermost in the minds of the members of the various bodies.

## Interaction between the Private and Public Sectors

- 9.13 *The Asean machinery should foster a more effective private sector role in Asean co-operation. In the area of intra-Asean economic co-operation, the following are specifically recommended:*
- A. *The President of the Asean Chambers of Commerce and Industry (Asean-CCI) be made a member-in-attendance for all the open sessions of the ATIMM (see 9.2);*
  - B. *The Chairmen and Vice-Chairmen of the Asean-CCI's Working Groups be made members-in-attendance of the corresponding Permanent Committees; and*

C. *The regional industry clubs can also request to attend selected Permanent Committee meetings subject to approval of the chairmen concerned.*

*In the area of Asean's dialogue relations, the following are recommended:*

D. *An annual meeting between the Asean-CCI and the Standing Committee;*

E. *Participation of Asean-CCI representatives in the preparatory meetings before each dialogue session; and*

F. *Participation of the President of the Asean-CCI in the Asean dialogue process as a member of the Asean delegation.*

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9.13.1 Following from the proposals the Group of Fourteen has made, the private sector has heavy duties and obligations to fulfil in all areas of economic co-operation. For it to perform its functions effectively, it is desirable that the private sector be given a more formal and active role in planning and implementing Asean projects. At present, while the Asean-CCI can have an input into the AEMM, its attendance is only by invitation. At the level of the individual Asean-CCI Working Groups, where the relationship to the Asean machinery is more formal, the views of the Working Groups may not be solicited on important issues. For example, the Asean Industrial Complementation scheme guidelines which were drawn up without private sector participation have been described as inflexible and impractical by Asean businessmen. The Asean private sector does not also appear to be integrated into Asean's dialogue process with its trading partners.

9.13.2 Without active private sector participation, economic co-operation, especially in trade and industry, is unlikely to make headway. Every effort should be made to allow the private sector to participate more fully in the planning and implementation of economic programmes. Similarly the private sector may also invite the public sector to participate in its deliberations and this interaction must take place both at the regional and national levels. It is recommended that:

- a. The President of the Asean-CCI be made a member-in-attendance for all the open sessions of ATIMM. The six Vice-Presidents of the Asean-CCI (who are also the presidents of their respective NCCIs) could also attend ATIMM as part of their national delegations. Additionally, the Chairmen and the Vice-Chairmen of the Asean-CCI's Working Groups could be made members-in-attendance of the corresponding Permanent Committees.

The regional industry clubs (RICs) can also request, through the respective Working Groups and subject to the approval of the Chairmen of the relevant Permanent Committees, to attend selected meetings when an issue of interest to the RIC is being discussed. Their attendance should, however, be restricted to specific items on the agenda.

While the private sector should be able to present its views, it would have no role in the actual decision-making. This should rest with member Governments. Similarly, there is also a need to affiliate the other non-governmental organisations (NGOs) with the Permanent Committees or sub-committees and provision should be made for regular interaction between them. This format for regular participation by the private sector will, in addition to allowing the representation of the views of the business community, also provide an impetus for the Asean-CCI and the NCCI machineries to get their act together and work more efficiently with specific targets in view.

- b. There should be greater co-ordination of the official dialogue relations between Asean and the dialogue partners, and the private sector dialogue with their counterparts in the dialogue partner countries. At present, the two dialogue processes have their own momentum and direction. Co-ordination of both dialogue processes would yield greater benefit to Asean and, accordingly, the following are proposed:
  - (i) A meeting between the Asean-CCI and the Standing Committee at least once a year. This meeting can also cover other areas of Asean economic co-operation;
  - (ii) Participation of Asean-CCI representatives in the Asean preparatory meetings held before each dialogue session; and
  - (iii) Participation of the President of the Asean-CCI or his representative in the Asean dialogue process as a member of the Asean delegation.
- c. There is a need for a permanent secretariat of the Asean-CCI which should be co-located with the Asean Secretariat in Jakarta. This will facilitate a greater flow of information, allow closer co-ordination and be in keeping with the other measures being proposed for the Asean machinery.
- d. The private sector should be allowed to play a role in Asean development co-operation with third countries, which is presently confined essentially to the public sector.

## Dispute Resolution

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**9.14** *Asean should institute an Asean Consultative Committee (ACC) to facilitate effective and speedy resolution of disputes connected with the implementation of agreed trade policies.*

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**9.14.1** Presently, Article 14 of the PTA provides for a system of consultation to resolve disputes. It includes a bilateral complaints procedure, referral to COTT and finally a suspension of concessions if the dispute cannot be resolved satisfactorily. Up to now there have been relatively few disputes and these have been resolved through bilateral negotiations. No case has been referred to COTT.

**9.14.2** With the proposed improvement of the PTA, it is possible that increased intra-Asean trade may be accompanied with many more disputes, thus fully exercising the dispute-resolving mechanism. In the absence of a legal framework to govern Asean economic co-operation, the Group of Fourteen views the provisions of Article 14 as a satisfactory approach to resolve intra-Asean trade disputes. We, however, believe that COTT (or the proposed COTII) is not the suitable body to resolve disputes because of its role in policy-making. The recommendation is to institute a separate and independent Asean Consultative Committee (ACC) which is still within the framework of the Asean machinery.

**9.14.3** The ACC could comprise one representative from the judiciary of each member state who may be accompanied by advisors. It will operate on the basis of negotiation and consensus and the chairmanship will be on a rotational basis with each chairman serving for a period of one year. Secretarial support for the ACC should be provided by the Asean Secretariat.

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D.

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## FOSTERING AN 'ASEAN CONSCIOUSNESS'

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FOSTERING an 'Asean consciousness' can place the desire for economic co-operation on a higher plane. If the nationalist outlook of the Asean peoples, proudly acquired during our struggles for independence and efforts at nation-building, is complemented by a strong regional consciousness, our ability to work together will be greatly enhanced.

The Group of Fourteen notes that much has been done in the area of culture and information, *viz*, in the visual and performing arts, literary works, and information and communications. Such efforts, magnified by constant media coverage, have done a lot to bring to our people the 'idea' of Asean not only as a political and economic organisation but also one which aspires towards the ideals of socio-cultural exchange.

It is timely now to deepen and widen the process of fostering this regional consciousness. The Group of Fourteen believes that this can be achieved through the educational process — by, for example, tailoring the education systems and research programmes of our countries so that Asean studies have greater prominence.

### Co-ordination of Education and Research

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**10.1** *An annual Meeting of Asean Education Ministers (see 9.2) and a Permanent Committee on Education and Human Resource Development (CEHRD) should be institutionalised to oversee, review, propose and implement programmes. Their tasks, among others, would be to:*

- A. *Examine the state of Asean co-operation in the field of education with a view to rationalising activities;*

- B. *Review and expedite/improve upon measures taken in response to the part of the 1976 Declaration of the Asean Concord which states: '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'; and*
  - C. *Encourage intellectual advances via increased academic contacts and mobility, and through the creation of a Centre for Asean Studies in the short-term and the establishment of an Asean University in the long term.*
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- 10.1.1 Most regional educational activities in Southeast Asia do not occur under the ambit of Asean. Instead, they are the initiatives of United Nations agencies, non-Asean intergovernmental agencies (like the Southeast Asia Ministers of Education Organisation or SEMEO) and non-governmental organisations (like the Association of Southeast Asian Institutions of Higher Learning — ASAIHL). While the contributions of these organisations are recognised and appreciated, a review of such arrangements should be made in the light of Asean's efforts to enhance economic co-operation.
- 10.1.2 Consciousness of Asean, systematically introduced through the education system, would be more comprehensive and would reach a much larger section of the population. In the review of Part D (1) of the programme of action in the 1976 Declaration of the Asean Concord quoted above, attention should be paid to introducing Asean studies to all levels of education. Particular emphasis should be placed on the contemporary history of the region and the role Asean has played in creating the foundation of peace and amity upon which we have built our prosperity. In the long run, this will enlarge the pool of people who would be willing to venture across the national borders be it as tourists, civil servants or businessmen. This is an essential pre-requisite for more interaction and greater co-operation.
- 10.1.3 Increased mobility and contacts within the academic circles could be achieved in a number of ways, *viz.* visiting lectureships, fellowships, student scholarships, student exchange and conferences. Many of these programmes could come under the purview of the proposed CEHRD to ensure direction and co-ordination. In addition, the creation of the 'Asean Chair' in one or more major universities in each country would provide focal points for Asean studies and facilitate this process of exchange.

- 10.1.4 In addition to the mobility of academic staff, the Asean governments should consider setting up a Centre that is geared to pursue studies on the progress of Asean economic and political co-operation. This Centre would define its own research priorities, carry out its studies independently and provide inputs directly to the various Asean fora like the Ministerial Meetings and Permanent Committees. It could also network with the existing programmes on Asean studies so as to expand its intellectual environment and bring to the Asean fora ideas and recommendations that have been aired and discussed with as many quarters as possible.
- 10.1.5 In the longer term, an Asean University should be set up primarily to ensure that some of the best and brightest in Asean are brought together into one institutional setting and partly with a view to creating a centre for the comprehensive study of Asean. By placing emphasis on Asean studies, but not neglecting the others, it should be able to accelerate intellectual advances not only in Asean history and politics but also in matters pertaining to Asean trade, industry, law, banking and finance, agriculture and so on. Part of its teaching programme should be tailored to accelerate the creation of a stratum of Asean 'internationalists' in all fields. This group would be of critical importance in enhancing the Asean Process.

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**10.2** *In line with Asean's aim to enhance economic co-operation and to industrialise, the proposed CEHRD should study and suggest measures for the development and co-ordination of vocational education in Asean.*

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- 10.2.1 Asean nations would need a large pool of skilled and semi-skilled workers for their industrialisation programmes. Although this is being created by the member countries individually, there will be a need to develop and co-ordinate vocational training once Asean economic co-operation is enhanced. The CEHRD should study and suggest measures that would ensure a more rational development of vocational education in Asean. In particular, it should look at possible institutional set-ups (e.g. a centre for the development and co-ordination of Asean vocational training), ways to harmonise the policies of individual countries pertaining to supply and demand of skilled labour, course contents and so on. (see also 8.3.2 (c))

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# ACKNOWLEDGEMENT

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THE Group of Fourteen wishes to express its sincere thanks to the following for their financial contributions:

Asean Federation of Cement Manufacturers  
Amalgamated Steel Mills Bhd  
Bangkok Bank Ltd  
Bank Buana Indonesia  
Brunei Chinese Chamber of Commerce  
The Government of Canada  
The European Economic Community  
Federal Flour Mills Bhd  
Fraser & Neave Ltd (Singapore)  
Genting Berhad  
Ipoh Garden Berhad  
Indonesian Chamber of Commerce & Industry (KADIN)  
The Government of Japan  
Kuala Lumpur Kepong Bhd  
Kuok Hock Nien  
Kuok Brothers Sdn Bhd  
Malaysian Airline System  
Malayan Cement Berhad  
Malayan Sugar Manufacturing Sdn Bhd  
Malayan United Industries Bhd  
Pacific Bank, Jakarta  
Perlis Plantations Bhd  
Philippine Airlines  
Singapore Chinese Chamber of Commerce and Industry

Singapore Airlines Ltd  
Sim Lim Finance Ltd  
Sime Darby Bhd  
Tasek Cement Bhd  
Yayasan Arab-Malaysia

The Group is extremely grateful to the Board of Directors of the Institute of Strategic and International Studies (ISIS) Malaysia for permitting the institute to be the G-14 Secretariat and to the staff of ISIS without whose invaluable input the task entrusted to us could not have been successfully completed.

We also wish to acknowledge the contributions of all other resource people from academia, civil service as well as private sector who have attended our meetings and discussions.

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# ABBREVIATIONS

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|           |  |
|-----------|--|
| ABA       | Asean Bankers Acceptance                                       |
| ABC       | Asean Banking Council  |
| ACC*      | Asean Consultative Committee                                   |
| ACU       | Asean Clearing Union   |
| ADB       | Asian Development Bank   |
| AEMM      | Asean Economic Ministers Meeting                               |
| AFC       | Asean Finance Corporation                                      |
| AFMM*     | Asean Foreign Ministers Meeting                                |
| AHGM*     | Asean Heads of Government Meeting                              |
| AIC       | Asean Industrial Complementation                               |
| AIJV      | Asean Industrial Joint Venture                                 |
| AIP       | Asean Industrial Project                                       |
| ALS*      | Asean Liner Service  |
| AMM       | Asean Ministerial Meeting                                      |
| APAA      | Asean Port Authorities Association                             |
| ARC       | Asean Reinsurance Corporation                                  |
| ASAIHL    | Association of Southeast Asian Institutions of Higher Learning |
| Asean-CCI | Asean Chambers of Commerce and Industry                        |
| ATIC*     | Asean Trade and Investment Corporation                         |
| ATIMM*    | Asean Trade and Industry Ministers Meeting                     |
| ATR*      | Asean Tourist Region   |
| BAAIJV    | Basic Agreement on Asean Industrial Joint Ventures             |
| CCC       | Cargo consolidation centre                                     |
| CEHRD*    | Committee on Education and Human Resource Development          |
| CIT       | Charter inclusive tour   |

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| COF*     | Committee on Finance                                    |
| COFAB    | Committee on Finance and Banking                        |
| COIME    | Committee on Industry, Minerals and Energy              |
| COTII*   | Committee on Trade, Industry and Investment             |
| COME*    | Committee on Minerals and Energy                        |
| COTAC    | Committee on Transport and Communications               |
| COTT     | Committee on Trade and Tourism                          |
| COMTTAC* | Committee on Transport, Tourism and Communications      |
| EEC      | European Economic Community                             |
| EFP      | Equity Financing Programme                              |
| EFTA     | European Free Trade Association                         |
| ESCAP    | Economic and Social Commission for Asia and the Pacific |
| FASA     | Federation of Asean Shipowners Association              |
| FASC     | Federation of Asean Shippers Councils                   |
| FBC      | Freight booking centre                                  |
| GATT     | General Agreement on Tariffs and Trade                  |
| GSPs     | Generalised System of Preferences                       |
| HBS      | Home-based staff  |
| ITS      | Interim Technical Secretariats                          |
| JSWC     | Joint Standing Working Committee                        |
| LNG      | Liquefied natural gas                                   |
| MFN      | Most Favoured Nation                                    |
| MOP      | Margin of preference                                    |
| MTN      | Multilateral Trade Negotiation                          |
| NCCI     | National chamber of commerce and industry               |
| NGO      | Non-government organisation                             |
| NTB      | Non-tariff barrier                                      |
| NTO      | National tourism organisation                           |
| NVOCC    | Non-vessel Owning Common Carrier                        |
| PMC      | Post Ministerial Conference                             |
| PTA      | Preferential Trading Arrangements                       |
| PTQ      | Preferential Tariff Quota                               |
| RIC      | Regional industry club                                  |
| SEMEO    | Southeast Asian Ministers of Education Organisation     |
| SPM      | Supplementary Payments Mechanism                        |
| SC       | Standing Committee                                      |
| VER      | Voluntary export restraint                              |
| UNCTAD   | United Nations Conference on Trade and Development      |

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\* New or proposed institutions/arrangements