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ASEAN

Towards the 21st Century

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A Thirty-year Review of the
Association of
Southeast Asian Nations

With a foreword by
The Secretary-General of Asean



RANJIT GILL

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ASEAN TOWARDS THE 21ST CENTURY
A THIRTY-YEAR REVIEW OF THE ASSOCIATION
OF SOUTHEAST ASIAN NATIONS

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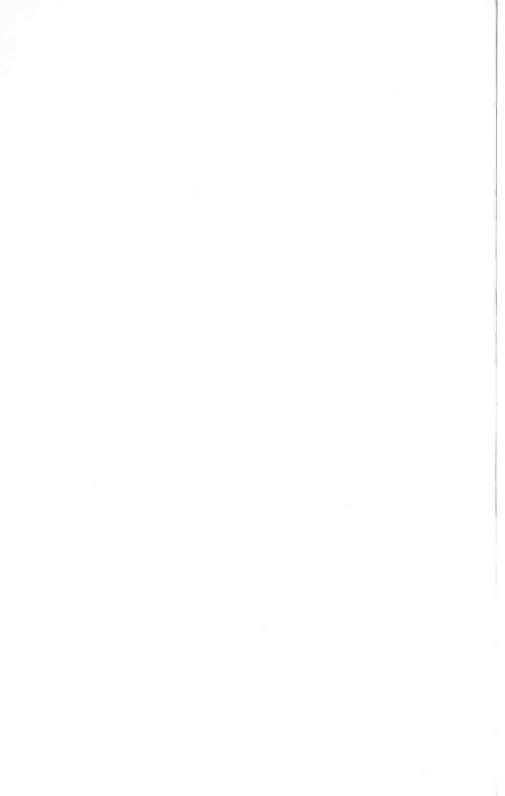
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This book is dedicated to
Irene, Zarina, Mui Juan, Caroline,
Ruth, Catherine, Emmy, Nana, Maribel,
and former members of my staff at the
Asean Business Forum,
Dato' Seri Anwar Ibrahim, Dato' Ajit Singh,
Dato' Paul Leong, Tan Sri Eric Chia,
Datuk Abdul Khalid Ibrahim,
Tan Sri Dr Noordin Sopiee, Tan Sri Loy Hean Heong,
Tan Sri Azman Hashim, Puan Maznah Jalil,
Tan Sri Low Yow Chuan, Tanri Abeng,
Ical Bakrie, Fadel Muhammad,
Dr Amable Aguiluz, Gloria Tan-Climaco,
Boonchu Rojanstien, Anand Panyarachun,
Shanti-Lyn Gill,
and most of all, Evelyn,
who made the ultimate sacrifice
in helping me make a small contribution
towards the development of Asean.





Foreword

DATO' AJIT SINGH

*Secretary-General of Asean
Jakarta, Indonesia*



RANJIT GILL'S *Asean Towards the 21st Century: A Thirty-Year Review of the Association of Southeast Asian Nations* should be welcomed by any Asean observer and general reader both for the book's rich information as a result of painstaking research as well as its insight into many of the events and processes which led to where Asean is today. His grasp of the issues in the region's history, particularly those in the political, security, economic and cultural spheres, has led to this retrospective study which could not have been written by anyone not familiar with developments in this region.

I welcome this book as a valuable contribution to the increasing literature on current issues in Southeast Asia as the region emerges as a strong and united force in Asia and in the world. I am certain that the book will also be of great interest to readers outside the region for purposes of comparative studies of experiences in regional co-operation. Indeed, the author has undertaken a commendable task consonant with one of the original objectives of Asean stipulated in the Asean Declaration of 1967 which is "to promote Southeast Asian studies".



Introduction

IN MY previous book, *Asean: Coming of Age* (1987), I lamented the failure of the then six-nation organisation to make tangible progress on two important fronts: economic co-operation and greater cultural awareness amongst the highly diversified community.

Today, eleven years later, there are both muted and muttered complaints that Asean is moving too quickly on too many fronts: that the frantic pace of the past few years poses the real danger of the organisation tripping over itself while it makes haste to achieve a variety of goals.

While these comments may be somewhat exaggerated, there is no denying the accelerated pace of developments, witnessed by the sheer volume of meetings and seminars, both private and public. (According to one source not a day goes by without a gathering of sorts in one city or town with Asean the topic under discussion.)

But the reality is that there are compelling reasons for Asean to act, and act with alacrity, to anticipate and keep in step with a rapidly changing global environment which relentlessly throws up new situations which constantly require a redefinition of stated positions. Any rigid adherence to previously stated positions is no longer a valid proposition for any country, let alone an amalgam of seven.

In the past decade, and particularly over the last five years, policymakers have faced an avalanche of challenges, notably in the sphere of new trading ar-

rangements, and in the rather nebulous area of what constitutes a basic violation of human rights, and related efforts to establish a nexus between them. The merits of this argument aside, there is no escaping the fact that the global spotlight on wages and working conditions, the use of child and forced labour, trade unions and environmental degradation will intensify.

Then there is the spectre of retaliatory measures to bludgeon ballooning trade surpluses, discriminatory practices and worst of all, protectionism, which assumes a variety of guises.

The emergence of a global marketplace, increased international trade and increasing affluence, especially amongst developing economies, have impacted heavily upon the manner in which governments have had to manage their economies, and more to the point, the aspirations of their people. The totality of these momentous challenges has probably not quite taken root fully, but as it does it will have far-reaching consequences and shape the destiny of nations and their citizens in the next century. The impact on Asia, in general, and Asean countries, in particular, will be indelible.

On a more localised level, the imminent enlargement of Asean will pose a number of challenges in terms of accommodation and adherence to established norms. Asean will doubtlessly share the painful experiences of its larger counterpart, the European Union, which itself turned forty in early 1997.

For Asean, the next millennium is one full of promise, yet fraught with uncertainties which will inevitably emerge. On balance, though, Asean should evolve into a more resilient and even more influential regional body in the decades ahead.

This slim volume, far from being a comprehensive review of all the events of the past thirty years, is but a modest contribution to the plethora of literature on Asean. But I do hope it serves as a useful guide, espe-

cially for students in Asean who may not be fully aware of the meaningful milestones achieved over the past thirty years.

I would like to express my sincere appreciation and thanks to Dato' Ajit Singh for encouraging this undertaking, and members of his staff who have assisted in providing data and photographic materials. I would also like to dedicate this book to my family of fellow Aseanites, whose number is growing.

Ranjit Gill
July 1997

POSTSCRIPT

As this book went to press, Cambodia was in the throes of a civil war. Following rumours of the death of the infamous Pol Pot and attempts by the ousted First Prime Minister Prince Norodom Ranariddh's Royalist party to forge an alliance with surrendering Khmer Rouge elements, Second Prime Minister Hun Sen sent his troops into action, seizing all strategic strongholds of the Royalist party.

Hundreds were reportedly killed, including many children caught in the crossfire, while thousands fled the new war zones. Prince Ranariddh rushed to Paris and then to the United States where he had talks with State Department leaders. The Americans deplored the *coup* by Hun Sen and in turn spoke privately with Asean leaders. They were encouraged not to admit Cambodia while the hostilities lasted.

At a hurriedly convened meeting of the Asean Foreign Ministers and senior officials on July 10, a decision was taken to postpone indefinitely Cambodia's entry into Asean. Hours before the decision was taken, a defiant Hun Sen warned Asean not to interfere with internal developments in Cambodia.



About the Author



RANJIT GILL is a veteran journalist of more than 25 years standing and a keen observer of the Southeast Asian economic and political scene. He has held various positions in the media, and in 1985 stepped down as Editor and Executive Publisher of *Insight* magazine.

Since then, Ranjit has devoted himself to literary pursuits and has hitherto written more than ten books. Amongst his earlier works include *The Making of Malaysia Inc.: A Twenty-five Year Review of the Securities Industry of Malaysia and Singapore* (1985) and *Asean: Coming of Age* (1987). In his book, *Tracing the First 20 Years of Asean's Development*, he describes himself as an Asean national. He was appointed the first Executive Director of the Asean Institute (now known as the Asean Business Forum).

Married with a daughter, Ranjit is a Singaporean who frequently travels throughout the region. His only hobby is gardening, with a particular interest in roses.



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1. *Before Asean:*
The Turbulent '60s



THE EAST INDIA ISLANDS,
Comprehending
THE ISLES OF SUNDA
THE MOLUCCAS
and
THE PHILIPPINE ISLANDS.
by
SAMUEL DUNN,
Mathematician.
Published by L. B. SHERIDAN, at the India Office.
London.
1825.

BORN out of adversity, Asean has endured over the last three decades, expanded and emerged as a potent regional force that represents the aspirations of some 360 million Indonesians, Filipinos, Malays, Chinese, Indians, Thais, Vietnamese and many other ethnic groups to whom Southeast Asia is home.

It is no longer perceived as a chummy regional club but accepted as a regional force to be reckoned with by the superpowers, both in the West and East. Once a passive observer of international developments, it is today a vocal force determined to have a meaningful say in matters which it feels will shape the destiny of its peoples and their share of the vast resources the region is abundantly endowed with.

Yet, while Asean is accepted as the most cogent grouping of rapidly-developing countries—and no longer a Third World gathering—ironically it is, to many nationals of the seven-nation organisation, somewhat of an enigma. Indeed, while diplomatically it is almost universally known, large sections of the national communities it represents have yet to comprehend the concept of Asean, and the changes that its many achievements have wrought, let alone “think”, or “act” Asean. A straw poll will confirm the low level of awareness.

Indeed as recently as five years ago, Singapore's veteran former Foreign Minister, S. Rajaratnam, while bemoaning Asean's lack of idealism quipped: “We never (then) discussed ideals, just common enemies.” Another former Foreign Minister, Indonesia's Mochtar Kusumaatmadja, noted that modern Asean leaders were too “cerebral”, took things too seriously, and had abandoned the clubby atmosphere.

Both viewpoints have their merits, and it must be acknowledged that in the 1960s and 1970s Asean re-

OPPOSITE

*Before Asean:
The East India
Islands, a map
by Samuel*

*Dunn, published
in 1789.*

maintained largely a friendly society. Thoughts of forging a strategic alliance were at best a futuristic development.

In trying to understand Asean, and the Asean dilemma, one has to return to its roots and come to terms with the reasons which spawned the concept. The situation in Southeast Asia in the early 1960s is a good starting point.

There is no underestimating the significant, even dominant role, that Indonesia played in welding Asean and steering the group along a course it found comfortable. Indeed, while the establishment of Asean was to a large extent a Thai-Malaysian initiative, primarily intended to contain Indonesia, it would not have come to pass had the early promoters not recognised Indonesia for what it was—a somnolent giant which would eventually emerge as the superpower of Southeast Asia once it shrugged off the domestic constraints that beset the country in the two decades following independence.

First, there was Indonesia's sheer size and population. Geographically, it is the largest country in the region—larger than the European Union (EU) countries combined—and covers some 40 per cent of the Asean land area, including Vietnam. Being the poorest (then) in per capita income, Indonesia faced problems of a magnitude far exceeding that of former colonies, notably Singapore, Malaysia and the North Borneo Territories (later renamed Sabah and Sarawak when they joined the Federation of Malaysia in 1963) and present-day Brunei Darussalam. The Philippines was a beneficiary of substantial US aid after the War, while the Kingdom of Thailand, never colonised, was less ravaged by the Japanese Occupation than several Asean countries.

Indonesia's problems—emanating in part from the style and ambitions of its first president, the fiercely nationalistic and flamboyant Sukarno—directly affected

Singapore and Malaysia, prior and subsequent to the establishment of Malaysia.

Indonesia was not the only country at odds with its immediate neighbours. The Philippines had laid claim to Sabah in June 1962—leading to a steady deterioration in ties—and relations between Singapore and Malaysia soured soon after they were unified in Malaysia. The acrimonious and destabilising disputes between these countries arose from the highly individualistic foreign policies perused by the respective governments after achieving independence, compounded by perceived threats from within and without.

Indonesia's Confrontation with Malaysia after its formation was the single most overtly hostile development. President Sukarno viewed Malaysia as a threat, and his vitriolic outbursts were eventually translated into military incursions. While the actual level of insurgency was relatively low, the psychological damage was greater by far, sowing the seeds of bitter discord between erstwhile friendly neighbours. Also looming on the horizon was the threat of pre-emptive strikes by Malaysia's Commonwealth defence partners—notably Britain, Australia and New Zealand—if the situation got out of control. In which event the region could have become the theatre of new conflict, coming less than two decades after the Japanese surrender.

Three of the newly independent Third World countries, which had a decade previously, in 1955, at the historic Afro-Asian Conference hosted by Indonesia in Bandung, and chaired by President Sukarno, joined in demanding a say in international affairs, were suddenly deadly foes. Hostilities ceased only after Singapore was unceremoniously drummed out of Malaysia for quite different reasons.

The turbulent regional environment was further exacerbated by the possibility of a Communist takeover in Indonesia. This was however averted by the abortive coup of October 1, 1965, which led to the sub-

sequent demise of Sukarno. He was replaced by General Suharto, after relations with its neighbours had been restored. This in itself was no easy task, but Suharto's appointee as Foreign Minister, Adam Malik, was just the man needed to smooth the ruffled feathers of its neighbours.

The suave Malik, an articulate and skilful negotiator, also had other ambitions for his country as he entered into discussions with his Malaysian and Singaporean counterparts in 1966 to normalise relations. A new regional grouping, which would give Indonesia a pre-eminent role, was at the forefront of Malik's thinking even as the peace agreements were being brokered.

The first was an agreement ratified with Malaysia, in Bangkok on June 1, 1966, following lengthy meetings between Malik and his counterpart, the pragmatic Tun Abdul Razak, who went on to become his country's Prime Minister. Thailand's then Foreign Minister, Thanat Khoman, played a significant, mediatory role in bringing an end to the Confrontation.

While the move was hailed as a victory for good sense and democracy, an unanswered question remained: "Would Sukarno's successor, Suharto, had normalised ties if Singapore had remained in the Federation of Malaysia?" It may be pure conjecture, but a clue is to be found in Malik's statement of June 4, 1966. Addressed to the Singapore government, it read in part: "We have noted and given thorough attention to the fact ... (that) as of the 9th of August, 1965 (Singapore) proclaimed itself the free and sovereign Republic of Singapore, and are undertaking to perfect that independence and sovereignty ... as neighbours of ours, whom from long ago have conducted relations with Indonesia."

It went on to say: "We now have a good opportunity to convey our high regard for your policy and firm determination of the people of Singapore to remove,

step by step, each and every bond ... no longer beneficial for the growth of a more secure and perfect independence. In reality, we in Indonesia too are ceaselessly working, struggling and taking action in order to perfect the independence, prosperity and security of our State and nation ...".

Without saying as much, it was clear that an independent Singapore was acceptable. It served as a reiteration of Sukarno's view that the Federation of Malaysia was a Colonial plot to perpetuate Britain's interests in the region.

Thus Indonesia had, in one calculated move, achieved peace with its neighbours while making clear that it called the shots in what clearly was her sphere of influence.

Singapore, too, made its point: that recognition was on the basis of mutual respect but that diplomatic ties would not be at the expense of its defence links with Malaysia. To underscore the point, Singapore's Lee Kuan Yew, kept the Malaysian Prime Minister, Tunku Abdul Rahman (1903-1990) fully informed of the exchanges. Even so, it took all of ten months before full diplomatic ties between Indonesia, Malaysia and Singapore were fully restored.

In June 1966, the Philippines also announced the resumption of ties with Malaysia—and for the first time in years it appeared that a new phase in bilateral relations between countries in the region was being carved out from the ashes of suspicion and mistrust. Finally, too, it appeared, the newly-independent nations could begin the task of national development to deliver on the promises made in their quest for freedom.

But before they could go forward, there were a number of specific issues to be resolved. Malaysia's then Permanent Secretary to the Ministry of Foreign Affairs, Tan Sri Ghazali Shafie, worked strenuously to overcome the outstanding issues with Indonesia. On

June 14, 1966, he announced a formula to end (the policy) of Confrontation. Suharto (Chief of State before he took over as President) agreed that the Confrontation should come to an end but that a pre-condition was a referendum to allow the peoples of Sabah and Sarawak to decide whether they wish to remain in Malaysia. (They later voted overwhelmingly to do so.)

But the embattled and belligerent Sukarno—seemingly oblivious to the deteriorating local economy and believing naively that nationalistic fervour alone was sufficient panacea to placate the swelling ranks of unemployed and the poor—remained a thorn in the side of the negotiators. Declaring he would keep his mouth shut in a thousand languages on moves to end Confrontation, he nevertheless continued to insist that Western-styled democracy was not for Indonesia. Fortunately, many of his previous followers thought otherwise.

Finally, in April 1967, Malaysia and Indonesia resumed full diplomatic ties. Things clearly would never be the same—given the blood spilt and suspicions engendered in the preceding three years—but at least it put an end to intra-regional hostilities which had threatened to wreak havoc throughout the region and make it vulnerable to hostile pro-communist forces.

2. *The Making of Asean*



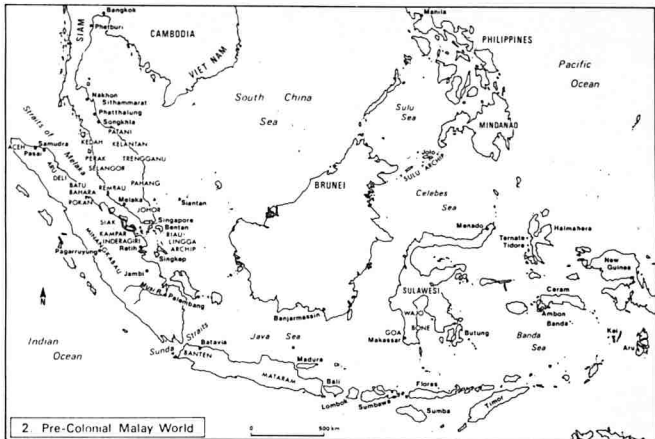
EVEN as the former protagonists sought to restore friendly ties after five acrimonious years, it was clear that a permanent and lasting solution was imperative to avert a repetition of the disruptive experiences—and more pointedly, hostility—between the main regional players. In short, a regional framework for co-operative action and assistance was required.

There had been three previous attempts, none of which proved effective. The first was the formation of the Association of Southeast Asia (ASA), in July 1961, and largely inspired by the results of the historic Bandung Conference of Afro-Asian countries in 1955. ASA covered Malaysia, the Philippines and Thailand. Its limited membership, and accusations that it was pro-West doomed ASA from the outset. It was effectively an extension of the earlier Southeast Asia Treaty Organisation (SEATO), a Western-orientated social-cum-military umbrella.

In 1963, with Indonesia and the Philippines at odds with Malaysia, Sukarno's trusted foreign minister, Dr Subandrio, supported a Filipino initiative for the formation of a Greater Malay Confederation to embrace Malaysia, Indonesia and the Philippines, and by implication exclude Thailand. (Singapore was then part of Malaysia.) The Maphilindo concept was virtually stillborn as its appeal was very narrow and threatened the alienation of non-Muslim nationals in those and neighbouring countries. The very fact that a predominantly Catholic Philippines proposed the union also caused some consternation.

OPPOSITE
President
Sukarno,
Initiator of the
Confrontation,
at the Javanese
village of
Sukabumi.

That tireless worker for peace, Thanat Khoman, was the prime mover to a larger than ASA grouping, and the timing of his suggestion—in 1966—gave it added appeal. He sounded out Adam Malik, and then took the proposal to Tunku Abdul Rahman. It later en-



2. Pre-Colonial Malay World

OPPOSITE:
*A view of the
 pre-Colonial
 Malay world
 which inspired
 the Maphilindo
 concept.*

sued that the proposal envisaged including India, Burma and Cambodia, and that Adam Malik favoured the larger grouping.

The Tunku reportedly had some reservations, but promised to give it serious consideration. His interest warmed after a chance meeting with Adam Malik, in Bangkok's airport, while they were en route to different destinations. By then ties between Kuala Lumpur and Jakarta had been restored.

By the time the Tunku had reached Tokyo, he had made up his mind. "The future of ASA was to be reconsidered," he declared. Bearing in mind Malik's comment that there was no place for Indonesia in ASA or even ASPAC (Asian Pacific Council), the Tunku noted that there was no room for two organisations. A flurry of activity followed with three separate meetings of ASA in a single week.

Privately, the governments conferred and assessed a working paper that Thanat Khoman had circulated. It was entitled "Draft Joint Declaration", proposing the formation of a Southeast Asian Association for Regional Co-operation (SEAARC).

In their deliberations, the governments of Malaysia, Singapore, Thailand and Philippines sensed that a far-reaching historical initiative was at hand. The price to be paid, however, was acceptance of Indonesia's unique role as a first among equals. It was in dire need of economic reconstruction, but to attract aid from the West it desperately needed international respectability. Thus the unique opportunity of assisting Indonesia lay in the hands of its neighbours, the Tunku argued.

Never was the timing and the circumstances better. The olive branch was sensibly extended. Thus on August 8, 1986, the five foreign ministers, meeting in Bangkok, agreed to establish a new regional organisation. ASA was to be kept alive pending meetings of a standing committee in Kuala Lumpur and later in Jakarta. A number of issues were discussed including

the choice of the name. The Filipinos noted that the name SEAARC sounded too much like a shark and "Asean" was thus agreed upon instead.

More substantive issues included membership and the presence of foreign bases, a matter raised by Indonesia. Adam Malik feared that their presence in four of the five countries would detract from the value of the grouping since it was being characterised as a non-military bloc. Later, sensing that the removal of the bases could prove difficult—assuming that the individual countries did in fact want to give up their protective umbrellas—Malik gave ground and said that since the organisation stressed economic co-operation, the presence of the bases should not prove an impediment.

On membership, Adam Malik and Tun Razak welcomed Ceylon's (Sri Lanka's) admission but Razak had reservations over inviting India and Pakistan to join. Finally, it was decided to limit the membership to the five countries while opening the doors (later) to Burma (now known as Myanmar), Cambodia, Laos, and North and South Vietnam.

In the main, the founding countries agreed to co-operate to accelerate economic growth, social progress and cultural development in the region. They also declared their determination to ensure the stability and security of the region from external interference and affirmed that foreign military bases would be temporary. The historic Bangkok Declaration was signed by Indonesia's Adam Malik, Tun Abdul Razak for Malaysia, S. Rajaratnam for Singapore, Thanat Khoman for Thailand and Narciso Ramos for the Philippines.

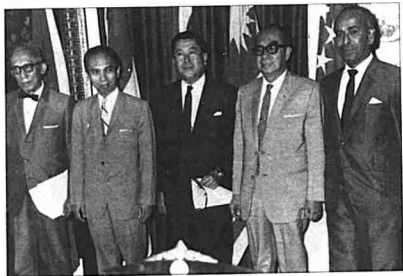
The next step was to dissolve the ASA. This was done on August 30, 1967, the eve of Malaysia's 10th anniversary of independence. The Tunku, at the forefront on the national leadership level, convincingly argued for the adoption of Asean as the principal forum for collective action and co-operation. He said that

OPPOSITE, ABOVE:
Tunku Abdul Rahman.

OPPOSITE, BELOW:
Tunku Abdul Rahman, a founding father of Asean, explaining his concept to the author in 1967.



ASEAN TOWARDS THE 21ST CENTURY



OPPOSITE: The historic meeting in Bangkok in 1967 which marked the signing of the Asean Declaration. Seated from left to right are Foreign Ministers Narciso Ramos (Philippines), Adam Malik (Indonesia), Thanat Khoman (Thailand), Tun Abdul Razak (Malaysia) and S. Rajaratnam (Singapore).

ASA's survival throughout the turbulent years was proof of the fundamental importance its members attached to its ideals. However, the future of ASA had now reached the crossroads, giving way to Asean. The latter, he said, was the positive result of a new atmosphere of optimism and faith.

This new organisation showed even greater promise for peace, stability and co-operation in our region of the world, and for progress in economic, social and cultural developments in the fields of technology and research, the Tunku argued.

With Asean a *fait accompli*—although others questioned its real value and, more importantly, its durability—the leaders turned their attention to a set of formal principles, objectives and a programme of action. There were many sensitive areas which had to be circumvented and the Declaration can be read as being quite defensive in nature.

Malaysia's Tun Dr Ismail noted that economic co-operation is often the most durable foundation upon which political and cultural co-operation can be built. Thanat's view was that Asean could counter the revived germs of an old disease: imperialism. Narciso Ramos, in a similar vein, declared that the time had come for a concerted struggle against the forces which are arrayed against the very survival of member countries.

Adam Malik stressed the need "for a strong bulwark against imperialist manipulations as a well as a decisive stabilising factor in this part of the world, ending once and for all foreign influence, domination and intervention, stemming yellow as well as white imperialism in Southeast Asia."

The reaction to Asean was mixed. For reasons unknown, the United States went out of its way to deny it had influenced the establishment of the grouping. The Soviet Union denounced it and labelled Asean a new military grouping. Burma and Cambodia remained lukewarm, and China ignored it altogether.

Asean was born at a time when the Communist Chinese called for a People's War, and the United States' involvement in Vietnam was escalating. For the founding fathers of Asean, the timing would prove providential; Asean nevertheless had to contend with its share of teething problems.

3. *Grappling With Uncertainties*



ASEAN almost faded into oblivion a little over a year after it was formed. This caused a temporary suspension of the group's activities, hampered co-operative efforts, and strained relations between some of the members for several years thereafter.

The "Corregidor Affair" revived the Philippine claim over Sabah, yet again testing relations between Kuala Lumpur and Manila. The incident stemmed from the discovery of a special military force comprising Muslim recruits. They were reportedly trained on the island of Corregidor, where US General Douglas MacArthur (1880-1964) made his final stand against the Japanese more than two decades previously. The purpose of the military force was to infiltrate Sabah.

A furious Malaysian government lodged a formal protest in September 1968. A subsequent meeting between Tun Abdul Razak and Narciso Ramos in Bangkok proved fruitless. They, however, agreed on a cooling-off period. Matters worsened when the Philippine Congress approved a resolution delineating Philippine territorial waters. The bill made it clear that the Philippines had acquired dominion and sovereignty around the territory of Sabah and its waters.

The situation was further aggravated by a directive to Filipino diplomats that they were to, at international conferences, record reservation over Malaysia's competence to represent Sabah. When one such reservation was recorded, at an Asean meeting, the Malaysians demanded its withdrawal, failing which they would not attend any further meetings of the organisation.

Malaysia stood firm and the Philippines did likewise. Diplomatic representatives were withdrawn from their respective capitals and Asean came to a standstill.

The pity of it all was that only two months prior, at the 2nd Ministerial Meeting in Jakarta, a framework

OPPOSITE
President
Ferdinand E.
Marcos: *The
Filipino version
of Sukarno.*

for co-operation in specific fields had been drawn up. Permanent committees were also to be set up to study food production and supply, civil air transportation, air traffic services and shipping. The Ministers reportedly met in an "atmosphere of perfect cordiality, mutual understanding and goodwill", selecting Kuala Lumpur as the venue of the 3rd Meeting.

It was to be convened in December 1969. However, the Ministers only met in December 1970 due to two major developments: racial riots that broke out in Malaysia in May 1969, and national elections in the Philippines soon thereafter. Prior to the suspension of activities, member nations had achieved little, in quantifiable terms. This was not entirely surprising given the problems that member states faced domestically and tensions further afield.

China's Great Proletarian Cultural Revolution fuelled communal fears in Asean; particularly in countries where there existed a preponderance of ethnic Chinese, or as it more often the case, where they dominated the economy.

The escalating war in Vietnam, while threatening peace in the region and widening Communism's appeal among agrarian communities, nevertheless bolstered the price of basic commodities, especially rubber and tin, on whose exports several Asean countries were highly dependent. The rest and recreation needs of the increasing number of American servicemen in the region were also profitably exploited, albeit without fanfare.

China's officially-sponsored Cultural Revolution had a far different impact, filling its neighbours with "a mixture of derision, awe and fear". Then UN Secretary-General U Thant (1909-1974) summed up the rampant violence and its implications saying that he had witnessed more crises in one year than in the preceding eleven since he took office. He was not exaggerating.

The social and economic damage spilled over to Southeast Asia. In many Asean capitals anti-Chinese riots broke out. Feeding on this new wave of violence, communists in the region revived their struggle in the streets of Singapore and jungles of East Malaysia. Surviving members of the banned Indonesian communist party PKI also went underground to ferment rebellion, and in the Philippines the notorious Huks resumed activity. Even Japan witnessed bloody demonstrations against the Prime Minister's visits to Saigon, Taipei and Washington.

The general revulsion towards the violence did elicit a collective reaction. Even though some Asean leaders disagreed with Lee Kuan Yew's support for America's "patience and restraint" in Vietnam, the group responded to internal and external threats during those turbulent years. Then, and in the years to follow, a political consensus emerged, crystallising a decade later in Asean's joint opposition to the Vietnamese invasion of Cambodia.

The American policies towards Vietnam came in for a fair share of criticism, but there is no denying that the protection that the US shield provided for Asean, giving the fledging economies time to pursue economic advancement without the fear of military encroachment. The high-profile presence of US troops, especially in Thailand and the Philippines, and the social consequences thereof, was of course a price that had to be paid.

Thailand was home to more than 40,000 US servicemen and their dependents. Singapore, though bereft of commodities, or for that matter resources of any consequence, was nevertheless also a beneficiary, providing vital transportation and related services. The Singapore government, independent and somewhat isolated, was hard-pressed on two fronts: fending off leftist elements and seeking vital foreign investments to establish a small manufacturing base, and more

critically create employment. The boost in sale of goods and services to war-torn Vietnam, though short-lived, helped.

Singapore and Malaysia also faced a new challenge: the decision by the British to withdraw their troops from the East of the Suez by early 1970, resulted in the loss of thousands of jobs. The subsequent devaluation of sterling was a further blow, and when rubber prices later slumped, Malaysia was adversely affected. The issuance of separate currencies was initially met with dismay, with fears that the end of a vital, traditional economic link would erode foreign investors' confidence. However, the decision has long since been vindicated. With hindsight it can be seen that the total separation compelled the governments to seek greater self-reliance and resilience as they pursued new economic agendas.

In Indonesia, President Suharto and his team of policymakers proclaimed the New Order while grappling with a myriad of problems that had been ignored during the heady reign of Sukarno. The transition to Suhartoism was anything but smooth, and it took almost two decades to elicit results.

Rehabilitating the shattered economy was among the main priorities, the other being containing elements still loyal to the old regime. Being part of Asean was a plus, but insufficient appeal unto itself. A group of hand-picked technocrats, forerunners of the so-called "Berkely Mafia" were charged with the task of revamping the economy. Runaway inflation was checked, and state funds, including bank credits, were channelled into productive enterprises.

But progress was predictably slow, and remained at a snail's pace until the country set out to exploit its vast hydrocarbon resources in the mid-1970s. The capital inflows and royalties were a much-needed boost for the stagnant economy. The oil bonanza and its benefits also spilt over into the region, encouraging neighbour-

ing Malaysia and Thailand to exploit their own reserves, while Singapore became a major logistics centre. But, such was the outlook that, in 1969, President Suharto warned his ministers that if targets were not met in the subsequent year the people's confidence not only in the present government but future governments would be affected.

Asean's other member, the Philippines, was also on the threshold of political changes. The stage was set with the election of Ferdinand Marcos to the presidency. Like Suharto, President Marcos had a daunting task on his hands. His primary task was to neutralise the warring political factions that had left the country in limbo, put down insurgents including the Huks and the fanatical Lapiang Malaya. The latter group once stormed the presidential palace, Malacanang, resulting in 33 deaths. Subsequent senatorial elections proved even more bloody, with more than a hundred assassinations.

After a disastrous 1966, the economy staged a mild recovery which was sustained in subsequent years. An intensified programme to improve the economic infrastructure was implemented, with top priority given to increasing rice and corn production. Simultaneously, the provinces and cities were linked by a major network of highways and feeder roads thus widening the economic base. The results were creditable: the manufacturing sector recovered and dramatic advances on the agricultural front were recorded. In 1968, the GNP grew an impressive 6 per cent.

President Marcos, a nationalist on par with the late Sukarno, was ostensibly committed to Asean. In reality the Philippines, under his rule, paid scant interest to the region's interests. Its heavy American orientation, and the strong presence of US troops in Clark and Subic Bay, left it less than discernibly Asian, and thus out of step with the thinking of its Southeast Asian partners. Marcos was notoriously flamboyant and

given to heady rhetoric. In reality, it did not enamour him to his fellow leaders, certainly not Tunku Abdul Rahman, who labelled him a "braggart".

4. Moving On, *Tentatively*



THE 3rd Ministerial Meeting hosted by Malaysia at the Cameron Highlands hill-resort was followed by a surge of activity. Announcing a resumption of relations with the Philippines after the Corregidor flap, Tunku Abdul Rahman said it reflected the great value Malaysia placed on Asean.

Previously, 98 recommendations had been forwarded to the Foreign Ministers and duly approved. These were primarily programmes for co-operation in a variety of fields, and the former *ad hoc* committees on finance, commerce and industry, transportation and communications, and tourism were upgraded to permanent groups. Two agreements, one for the establishment of an Asean Fund, and another for the Promotion of Co-operation in Mass Media and Culture, were signed. The year 1971 was also designated "Visit Asean Year", an appropriate and soft approach in persuading neighbouring communities to better understand each other.

By the time the 4th Ministerial Meeting convened in Manila, a year later, the Asean concept appeared to have taken root. While intra-Asean consciousness was still limited to politicians and bureaucrats, Asean became an increasingly familiar name abroad.

An early appraisal of the Asean region by the retiring German Ambassador to Singapore, Baron Oswald von Richtofen, in 1971, is worth recounting. In his opinion, there was no danger of a "full-size military aggression". Should "minor incidents" break out, the five-power defence agreement (FPDA) between Singapore, Malaysia, Britain, Australia and New Zealand was adequate to deal with them. He also dismissed the notion of the "Indo-China war" (hostilities in Vietnam) spreading to the countries in Southeast Asia. He also

OVERLEAF:

*The Asean
Declaration of
August 8, 1967.
(Also known as
the Bangkok
Declaration.)*

**THE ASEAN DECLARATION (BANGKOK DECLARATION)
BANGKOK, 8 AUGUST 1967**

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

MINDFUL of the existence of mutual interests and common problems among countries of South-East Asia and convinced of the need to strengthen further the existing bonds of regional solidarity and cooperation;

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

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

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

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

DO HEREBY DECLARE:

FIRST, the establishment of an Association for Regional Cooperation among the countries of

South-East Asia to be known as the Association of South-East Asian Nations (ASEAN).

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

1. To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of South-East Asian Nations;
2. To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;
3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
5. To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their peoples;
6. To promote South-East Asian studies;
7. To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves.

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

- (a) Annual Meeting of Foreign Ministers, which shall be by rotation and referred to as ASEAN Ministerial Meeting. Special Meetings of Foreign Ministers may be convened as required.

- (b) A Standing Committee, under the chairmanship of the Foreign Minister of the host country or his representative and having as its members the accredited Ambassadors of the other member countries, to carry on the work of the Association in between Meetings of Foreign Ministers.
- (c) Ad-Hoc Committees and Permanent Committees of specialists and officials on specific subjects.
- (d) A National Secretariat in each member country to carry out the work of the Association on behalf of that country and to service the Annual or Special Meetings of Foreign Ministers, the Standing Committee and such other committees as may hereafter be established.

FOURTH, that the Association is open for participation to all States in the South-East Asian Region subscribing to the aforementioned aims, principles and purposes.

FIFTH, that the Association represents the collective will of the nations of South-East Asia to bind themselves together in friendship and co-operation and, through joint efforts and sacrifices, secure for their peoples and for posterity the blessings of peace, freedom and prosperity.

DONE in Bangkok on the Eighth Day of August in the Year One Thousand Nine Hundred and Sixty-Seven.

For the Republic of Indonesia:



ADAM MALIK

Presidium Minister for Political Affairs/
Minister for Foreign Affairs

For Malaysia:



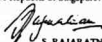
TUN ABDUL RAZAK
Deputy Prime Minister,
Minister of Defence and
Minister of National Development

For the Republic of the Philippines:



NARCISO RAMOS
Secretary of Foreign Affairs

For the Republic of Singapore:



S. RAJARATNAM
Minister of Foreign Affairs

For the Kingdom of Thailand:



THANAT KHOMAN
Minister of Foreign Affairs

saw the prospects of Asean co-operation as "promising".

Asean's moves towards collaboration then, and thereafter, were largely influenced by major international developments, which saw a shift in the super-power structure, and which the grouping's partners rightly perceived would effect their collective future. This meant increased emphasis on political co-operation, particularly on building a consensual approach to regional challenges. Economic issues were left on the back burner, with only marginally incremental growth in intra-Asean trade and cross-investments. Social and cultural co-operation were encouraged and, as one Asean leader put it, "started to laugh at each other".

The accelerated British withdrawal meant that only a token force would remain in Singapore and Malaya after 1971. With the United States' involvement in Vietnam deepening, there was much cause for concern. The Tet offensive, launched by North Vietnam in 1968, together with the National Liberation Front, signalled the beginning of the invasion of South Vietnam, a bloody and ruthless exercise completed only in April 1975.

The process would have been completed earlier but for US support. Later attempts by the Johnson administration to bolster the South Vietnamese military while ostensibly disengaging, and thus give the conflict a domestic flavour, backfired disastrously. The withdrawal of key American units only hastened the fall of Saigon.

Equally significant was China's entry into the United Nations in October 1971, in the wake of the era of ping-pong diplomacy initiated by President Richard M. Nixon. Relations between China and the Soviet Union, however, deteriorated and clashes across the Ussuri River in late 1969 prompted fears of a major offensive by Moscow.

By the early 1970s, the Soviet Union's profile in Southeast Asia moved into sharper focus. With diplomatic ties established with Singapore and Malaysia, Soviet naval vessels were deployed to the Indian Ocean. Following clashes with China, then Soviet leader, Leonid Brezhnev, presented his proposal for a collective Asian security system aimed at isolating China. It received only cursory attention from Asean.

The emerging multipolarity in which the United States, Soviet Union, China and Japan would have the strongest influence over developments in Asean necessitated a fresh reappraisal. Thus, among Asean leaders a new sense of urgency to work towards collective action emerged. Faced with rapidly developing shifts in the geo-political arena, the earlier assumptions were no longer valid.

Against this backdrop, the Asean countries entered a period of renewed and sustained demand for commodities, particularly Indonesia's increasing oil exports. Consequently, they were able to afford the luxury of agreeing on larger issues, leaving bilateral trade considerations for later. Singapore's Foreign Minister, S. Rajaratnam, assessed Asean's progress in 1971, saying: "I for one feel reassured that Asean has not attempted any great leap forward ... I know that such an attempt at this juncture of our history would also prove the last leap forward."

Malaysia's Tun Dr Ismail acknowledged that Asean projects that were being implemented represented the highest co-operation based on the lowest common factor and were not likely to provide any startling reflection of the co-operation exercise at work. He added, pertinently: "The constant contact and communication between our officials has helped develop a habit of co-operation and solidarity which will in turn help us when we move to wider areas of co-operation."

Others had a grander vision. President Marcos freely advocated, back in 1968, the establishment of a

Common Market, a proposition which received little serious attention. Some twenty-five years later, however, it began to take root.

Between 1970 and 1972, the Asean ministers were primarily preoccupied with the external challenges to the group. The first major policy issue agreed upon was the adoption of a neutral stance, thus assuring friendly support in the event of external aggression.

The first to espouse this view was Tun Dr Ismail, whose earlier suggestion received little attention. With Tun Razak taking over the helm from Tunku Abdul Rahman, Malaysia became a strong advocate of neutralisation. Ghazali Shafie, speaking in Dar Es Salaam said: "It is Malaysia's hope that non-aligned countries will be able to endorse the neutralisation of not only the Indo-China area but the entire region of Southeast Asia, guaranteed by the major powers." Tun Razak repeated his country's position at the Lusaka Conference and sought the assistance of the United Nations, the Commonwealth and of course his Asean partners. He personally explained the concept to leaders of Indonesia and Thailand during visits.

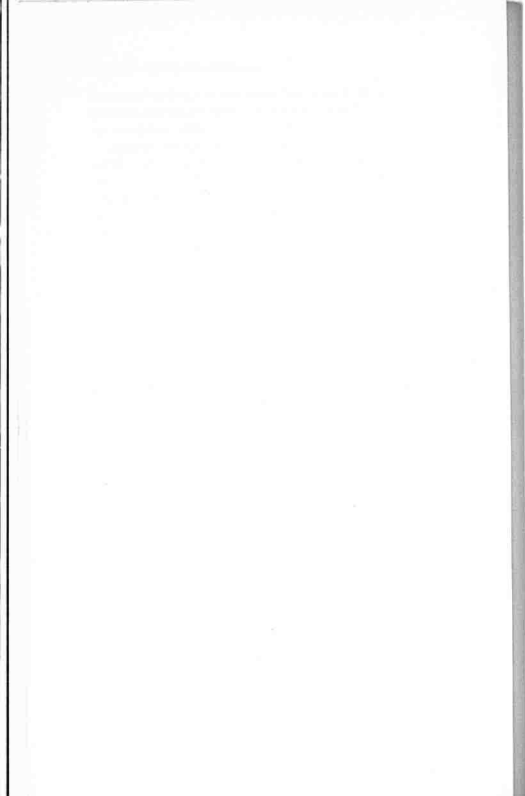
Tun Razak's central argument was that the region had not been at peace "essentially because of the involvement of major powers in our affairs." He was careful to add that the Five Power Defence Agreements were in no way incompatible with the neutralisation proposal or Asean's non-aligned policy.

Ghazali Shafie set out the details to achieve the stated objective. There were two levels: first, individual countries were to respect one another's sovereignty and territorial integrity; and all foreign powers were to be excluded from the region. Southeast Asia should not be allowed to be used as a theatre of conflict in the international power struggle. At the second level, regional co-operation should be promoted and the Asean countries should present a collective view on matters of security. For the first level to be effectively imple-

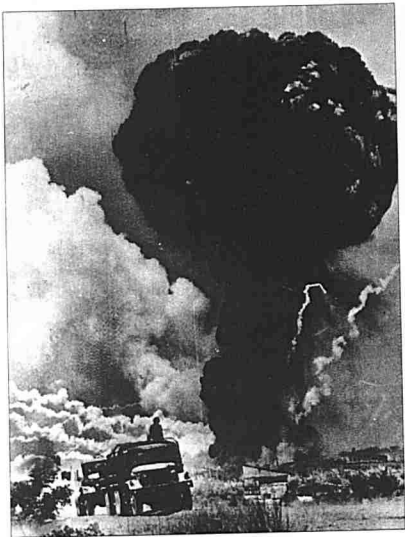
mented the superpowers had to agree on Southeast Asia being an area of neutrality, refrain from drawing any of the countries into larger conflicts and devise supervisory means to guarantee the region's neutrality.

Malaysia's views were fairly representative of the thinking in Indonesia and Thailand. Soedjatmoko spoke of the widely held vision in Indonesia of a neutral Southeast Asia working together in freedom and equality. Thanat Khoman, proposing a *Pax Asiana*, spoke of the need "for a tacit agreement among the larger powers to refrain from interfering or intervening in the affairs of smaller nations with the view of upsetting the precarious present international balance".

But there were divergent views when it came to implementing the proposal. The Declaration, signed on November 27, 1971 did not spell out the steps to achieve a Zone of Peace, Freedom and Neutrality (ZOPFAN). It was simply a statement of intent. Carlos P. Romulo articulated the differences when he said there were deep-seated attitudes to changes and habits to overcome, as well as matters of a practical nature.



5. Taking Stock



WHEN the 5th Asean Ministerial Conference convened in Singapore in April 1972, Lee Kuan Yew assessed the progress made in the five years since the group's formation. He noted perceptible progress in regional co-operation, but was less sanguine about economic co-operation. Detecting an impression that Asean did not, then, aim at creating a regional economy, he went on to say that it would also be unrealistic for the group to propose programmes that could not fit in, and assist, in the consolidation of the respective economies.

Lee's remarks set the tone for the deliberations that followed. Both economic and political stability of the whole region were stressed, thus focusing, for the first time, on measures to strengthen economic ties. The ministers expressed satisfaction with the establishment of the Special Co-ordinating Committee of Asean Nations (SCCAN) headed by the distinguished Indonesian economist, Prof Sumitro Djojohadikusumo. SCCAN served as the vehicle for subsequent dialogue sessions with the European Union.

The ministers also approved the report of the Special Committee which had analysed the findings of the United Nations-commissioned Kansu Report. According to the Report, the most important sector would be manufacturing, with a gradual diminution of the traditional dependence on agricultural production. By 1968, the Report said, slightly more than 60 per cent of the total supply of finished goods was produced by regional industries, even though they continued to rely heavily on foreign imports. The increasing imports of capital and intermediate goods would lead to deficits in the balance of payments for most Asean countries, especially when the export of primary commodities could not match the value of imports.

OPPOSITE
*The Bombing
of Saigon.*
Photograph
courtesy of Straits
Times Singapore

Asean Statistics, 1967 and 1970 (US\$ million)

	Imports (1)	Exports GDP (2)	Int'l Reserves (3)
Indonesia	649	665	5,182b (Rp)
Malaysia	1,086	1,217	12,160m (R)
Philippines	1,180	820	51b (P)
Thailand	1,067	681	15,000m (B)
Singapore	1,439	1,140	5,579m (S\$)

(1) US\$m; 1967

(2) 1970, local currency million/billion - Rupiah (Rp), Ringgit (R), Peso (P), Baht (B) Singapore dollar (S\$)

(3) US\$

Thus the urgent need to industrialise, and to promote closer economic co-operation. The benefits were spelt out: firstly, there would be a more efficient use of resources in the region; secondly, there was an urgent need to increase productivity. In order to attain economies of large-scale production, the Report pointed out that Asean required markets substantially larger than any single Asean country could provide. Economic co-operation within Asean thus was equated not only with large-scale industrial projects but a protected market and enhancement of intra-Asean trade.

The techniques recommended were co-operation with regard to selective trade liberalisation of selected commodities through direct government-to-government negotiations designed to provide an approximately balanced expansion of trade in such commodities. Co-operation was also desirable in the form of complimentary agreements, negotiated mainly by the private sector, but facilitated if necessary by tariff concessions approved by governments. Co-operation in the form of "package deal" agreements for the allocation of large-scale industrial projects between governments was recommended.

Pertinently, it suggested that the governments should declare as a long-term objective their intention

to set up an Asean Free Trade Area (AFTA), which would involve the removal, by a specified date (i.e. 1990), of all tariffs and quantitative restrictions on trade between member countries.

The recommendations were intended to achieve a fair and balanced distribution of the benefits of economic co-operation. The Report accurately envisaged conflicting interests and national priorities including obligations by certain countries under other international agreements such as the General Agreement on Tariffs and Trade (GATT).

The Report identified thirteen large industrial undertakings—including nitrogenous fertilizer, soda ash, sheet glass, newsprint, refrigerators and air-conditioners and steel plants—as being feasible but not unless they were developed at the regional level. Complementation of industrial enterprises and an equitable distribution through the group were recommended.

To finance the various projects, the Report advocated the establishment of an Asean Development Corporation to provide project financing. Foreseeing increased intra-Asean trade, the Report also recommended that a regional multinational insurance company, a regional reinsurance company and export credit agency be set up.

In summary, the Kansu Report provided the all-important first step necessary for the development of a conceptual framework for co-operation. Several, but not all, of its recommendations were implemented. However, it clearly influenced the establishment of several major schemes such as the AIJV, Cost Effective Preferential Tariff (CEPT) and AFTA in the latter years.

While economic co-operation was officially high on the agenda, Asean had to face head-on a more pressing security matter: Vietnam. A decision was taken "to explore the possibility of making a concrete contribution towards the final settlement of the Indo-China question". In other words, Asean decided to play a me-



OPPOSITE:
*American
 assistance in the
 final days before
 Saigon fell.*

Photograph
 courtesy of Straits
 Times Singapore.

diatory role. The first joint initiative was to submit a five-point proposal, which Hanoi rejected on the grounds that it favoured its opponents. Later, when a ceasefire agreement was signed in Paris, as part of the overall Agreement on Ending the War and Restoring Peace in Vietnam, failed, an Asian Forum was mooted with the specific objective of assessing how to assist the rehabilitation of the war-ravaged economy.

North Vietnam rejected an invitation to observe the 6th Ministerial Meeting in Pattaya, in April 1973, but the ministers, nevertheless, established a Co-ordinating Committee for the Reconstruction and Rehabilitation of the Indo-Chinese states.

Asean was clearly determined to defuse escalating tension in the North and its implications for the grouping. Before it could act, the whole region was thrown into turmoil when the North Vietnamese juggernaut finally crashed through Saigon. Not only South Vietnam but the anti-communist government of Cambodia also collapsed in tandem.

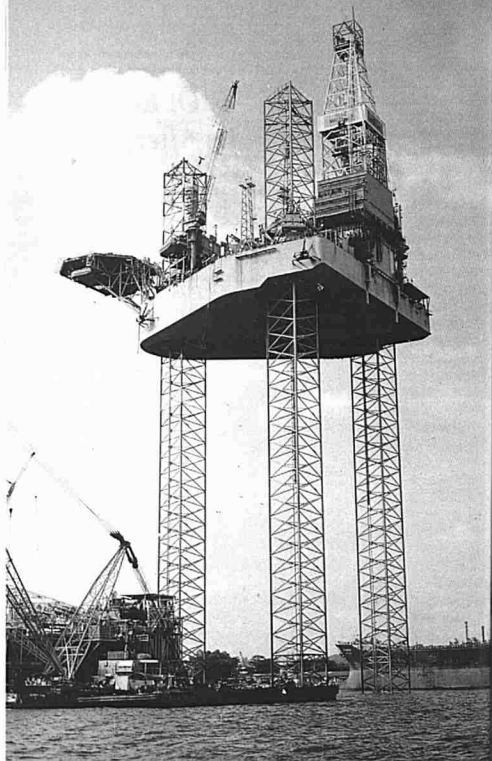
The capitulation of South Vietnam and Cambodia brought forth divergent views as Asean sought to respond collectively. Tun Razak viewed the situation as one that provided the peoples of Southeast Asia—including Vietnam, Cambodia, Laos and Burma—with an unprecedented opportunity to establish a "new world of peace, free from foreign domination and influence, in which to co-operate with one another for the common good." Such a development, he stressed, was consistent with the objectives of the founding fathers of Asean: "When I look at a map of the world, I see Southeast Asia as a cohesive and coherent unit ... (and) surely the moment has come for that community of Southeast Asia, which has been our dream, to be realised."

Singapore's S. Rajaratnam took a different view. While he argued that Asean should not be hostile to the communist regimes—unless they provoked mat-

ters—Asean should not give the impression of being prepared to win favour at any cost. The wooing should be mutual. He also noted that the strength of Asean was a practical way of safeguarding against the possible adverse consequences of the emergence of a revolutionary Indo-China. He felt, too, that Asean being a "going concern" did not need to look for new members.

The end of the war in Vietnam marked a turning point in the development of Asean. It had come to terms with the realities of its neighbours, friend and foe alike, its economic fortunes had improved and the world was taking closer note of the grouping. It may have taken the Vietnam debacle to compel its members to reappraise their achievements, and shortcomings, but whatever the reason, Asean was ready to break fresh ground. In reality it had little choice, otherwise it risked becoming irrelevant.

6. OPEC and Its Aftermath



THE first half of the 1970s witnessed improved, but mixed fortunes, for the Asean countries. The first three years saw impressive gains, but the quadrupling of crude oil prices after the establishment of OPEC in 1974 checked the growth of resource-poor countries, particularly non-oil producers.

Indonesia emerged as the principal beneficiary, and by 1975 was earning a million dollars a day from crude exports. But the newfound wealth also had a downside. In July 1974, riots broke out in Jakarta during the visit of Japanese Prime Minister Tanaka Kakuei. Eleven were killed, more than a hundred injured, and countless more arrested.

The causes behind the rioting have never been fully explained. Some suggest it was the culmination of a domestic power struggle, others put it down to a spontaneous outburst of dissatisfaction against the growing gap between the poor and *nouveau riche*. The official version referred to a conspiracy between two banned political groups, Parti Sosialis Indonesia (PSI) and the Masjumi. The upshot was the replacement of several senior officials, including the head of the State Intelligence Agency, General Sumitro. Another influential figure, General Ali Moertopo, a rival of General Sumitro, also had his wings clipped.

By the end of 1974, however, order was restored. Another equally controversial development in that year—one which remains a subject of active debate till this day—was a plebiscite over Portuguese-ruled East Timor, resulting in its incorporation into Indonesia.

Economically the government had good reason to be satisfied. The objectives of the First Five-Year Plan had been met. The oil bonanza in turn swelled the country's foreign exchange reserves to more than US\$2,300 million on the back of a budget surplus of

OPPOSITE
Indonesian oil
boom: a revenue
of US\$1 million
per day.

US\$1,800 million. Flushed with funds, efforts were made to diversify the economy with a strong emphasis on manufacturing. This in turn sparked off fresh non-oil foreign investment in a variety of industrial undertakings, thus launching a new era for a country which had for years previously had been heavily dependent on foreign aid alone.

Asean Statistics, 1974 (US\$)

	Indonesia	Malaysia	P'pines	Thailand	Singapore
Imports	2,346m	4,512m	1,200m	2,000m	5,000m
Exports	3,061m	4,849m	1,087m	1,600m	3,560m
GNP	18,000m	16,788m	5,900m	8,000m	9,800m
GNP per capita	100	-	121	190	300
Foreign investment	476m	-	161m	900m	-

1. 1973

2. January-May

3. Excludes trade with Singapore

Sources: Various.

In Malaysia, Tun Razak led the National Front to a resounding electoral victory, taking 135 of the 154 parliamentary seats and retaining control of all 13 States.

The establishment of diplomatic ties with China was a major step, though some of Malaysia's Asean neighbours cautioned against the move. Razak's visit proved a triumph in statesmanship. In a joint communiqué issued in Beijing the governments declared, "All foreign aggression, interference, control and subversion (is) to be impermissible." This was a significant concession on the part of the Chinese. More pointedly, the joint statement noted, "The Chinese government considers anyone of Chinese origin who has taken up citizenship of his own free will, or acquired Malaysian nationality, as automatically forfeiting Chinese nationality." China was effectively saying it would no longer



Imelda R. Marcos

support the Malayan Communist Party, which it had backed since the onset of World War II.

On the economic front, the economy grew by a creditable 6.3 per cent. Though rubber and timber prices declined, palm oil demand and prices rose. With crude oil exports coming on stream, overall exports grew by a hefty 40 per cent in 1974.

In the same year, the Philippines entered into its second year of martial law under President Marcos, a move which he said "was necessary in order to save the Republic and deal effectively with the state of rebellion".

By this time, the communists had stepped up their operations and attempted to unite all factions opposed to the government. They found some solidarity with the Muslim secessionists from the South. Arms were regularly smuggled in via a neighbouring country, and sections of the clergy declared their support for the Luzon-based dissidents.

In dealing with the twin problems, Marcos advocated accommodation with the Muslims and destruction of the communists. Steps to appease the growing numbers of disgruntled Filipinos were implemented, including crucial land reform programmes.

Culturally, the Philippines blossomed, becoming Asean's cultural and entertainment capital. However, as the gains of previous years were eroded by blatant nepotism and corruption, the Filipinos began to fall behind their neighbours. Marcos and his cronies may have been aware of the rising tide of poverty but it did not stop them from plundering the economy.

The country was especially active in foreign affairs, establishing ties with eight East European socialist states. Subsequently, full diplomatic relations with China and the Soviet Union were set up, with the President's flamboyant wife, Imelda, leading the diplomatic overtures.

Thailand also experienced a traumatic year in 1974. Before the steep jump in oil prices impacted on the economy, Thais had to brace themselves for another round of political jitters.

It began in October 1973 when the monarch, King Bhumipol Adulyadej (Rama IX) announced the resignation of the government of Field Marshal Thanom Kittikarchon, one of a long list of military leaders who ruled post-War Thailand. The resignation came in the wake of massive student protests against repressive measures instituted by the military ruler. Thanom, together with Field Marshal Prapas Charusathiara and Colonel Narong Kittikarchon fled the country. Sanya Dharmaskiti, Rector of Thammasat University and President of the Supreme Court, was named prime minister.

But even as Sanya sought to defuse the smouldering crisis—precipitated by students and radical Buddhist monks—new political parties were being formed to make a bid for power. Strikes broke out throughout the country as the cost of staple consumer goods rocketed. There were further protests against the planned visit of Japanese Prime Minister Tanaka, and demands that the US bases be dismantled.

A new constitution was finally introduced in March 1974, but this did little to appease the agitators. Some members of the prime minister's cabinet were accused of profiteering, while controversy raged over education policies. Sanya reshuffled his cabinet—after his resignation was turned down by the King—but the chaos prevailed. A State of Emergency was declared and remained in force until October 1974, when relative calm was restored. But the embers of discontent continued to smoulder.

Throughout this turbulent period, Thailand's foreign policy remained intact, a phenomenon which continued with each subsequent change of government. Though then firmly in the US orbit and depend-

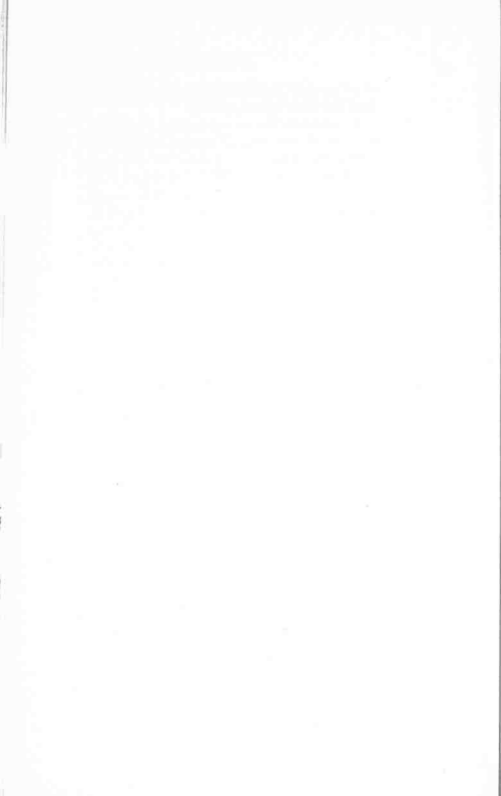
ent on American military and civilian aid, Thailand closed ranks with its Asean partners.

Economically, the country suffered a major setback. The oil crisis, rampant inflation and a general slowdown in production pushed the GNP down by 2 percentage points to 6 per cent. Radical measures were called for, and as stability returned the badly battered manufacturing sector gradually began to pick itself up.

In Singapore, 1974 saw the ruling People's Action Party (PAP) further consolidating its power after the arrests of more than a hundred persons accused of being communists or communist sympathisers. Premier Lee Kuan Yew, pulling no punches, said: "We are an authoritative lot because we are willing to discipline ourselves. In balancing our budget and refusing to go along with fads and fancies of the contemporary permissive societies of the West, if that is authoritarianism, so be it. Singapore is solvent."

Indeed it was, and though hit hard by the oil price increases, Singapore registered a healthy 5 per cent GNP growth in 1974—a precursor of sustained annual growth that would later make it the envy of Asia.

For Asean as a whole, 1974, with its ups and downs, was a meaningful year. In the midst of the economic and political upheaval, interdependence took on a new meaning. Though Asian unity was too much to expect, Asean solidarity made its mark.



7. *The Second Decade*

MEETING OF
ASEAN HEADS OF GOVERNMENT

(ASEAN SUMMIT MEETING)

BALI . 23RD FEBRUARY 1976



THE Bali Summit of February 1976, the first formal meeting of Heads of State since the formation of Asean, marked the turning point for the organisation. From thence, it passed from the formative stage into an action-orientated group and spokesman for Southeast Asia. In the words of Tun Razak, who tragically passed away weeks before the Summit, it was time "to go beyond mere form to substance, beyond politics and projects on paper to actual results".

It has been argued that the drive towards visible co-operation after the Bali caucus arose from the realisation that earlier efforts had been hampered by a lack of decisiveness, of clear targets and a time frame in which to attain stated objectives.

There is some truth in that; but the slow pace of progress in the first decade must be seen in the context of internal disputes, economic setbacks arising from spiralling oil prices, slackened demand for regional exports and the emergence of protectionism. Collectively, too, Asean could not possibly have posed an economic threat to larger powers who preferred, and did their utmost, to deal with each country on an individual basis. Be that as it may, by 1976, the time had come for more proactive co-operation, which had to go beyond the common concern shared over the fate of the region in the face of communist-controlled Indo-China.

By late 1975, President Suharto began making statements placing more stress on the Indonesian concept of "national resilience", and this was progressively translated into a wider "regional resilience". The Indonesian approach, now generally accepted by its partners, holds that if each member develops its own "national resilience", a regional resilience to all forms of threats and challenges will emerge, finally leading to a regional identity.

OPPOSITE
*The Asean Heads
of Government
signing the Treaty
of Amity and
Co-operation in
Southeast Asia at
the historic 1st
Asean Summit in
Bali in 1976.*

In Bali, President Suharto called for a demonstrable increase in economic and political co-operation, arguing that a higher standard of living, shared by all, was the best defence against foreign-inspired intervention. Thus the road from Bali was lined by the highest expectations and stoked the hopes of sectors of the community who had waited impatiently for Asean to take off.

A flurry of pre-summit meetings between officials was followed by two days of discussions between the leaders, with President Suharto the main architect of the compromises struck to reach a final agreement. On February 24, 1976, President Suharto, Prime Minister Dato' Hussein Onn, President Ferdinand Marcos, Prime Minister Lee Kuan Yew and Prime Minister Kukrit Pramoj, signed two historic agreements: a treaty to promote Perpetual Peace, Amity and Co-operation, and secondly, a Declaration of Concord, pledging the five nations to step up economic, political and social co-operation.

The leaders also undertook to give immediate consideration of initial steps towards the recognition and respect for the Zone of Peace, Freedom and Neutrality (ZOPFAN) wherever possible.

Dato' Hussein Onn recounted the progress and problems that the grouping had faced in the first decade. "As we meet today, the world has already entered the last quarter of the 20th century. Great and rapid changes have occurred and will continue to occur around us. Staggering problems confront us—of international monetary and trade relations, of multinational corporations, of raw materials and energy, of a new regime for the seas, the environment, of poverty and overpopulation, to list but a few. These are problems which require a measure of co-operation among nations, unprecedented in human history.

"For our part, we in Malaysia are fundamentally geared to the politics of co-operation. Internationally,





OPPOSITE
*The signing of
 the Kuala
 Lumpur
 Declaration of
 1971, also
 known as the
 ZOPFAN (Zone
 of Peace,
 Freedom and
 Neutrality)
 Declaration.*

we seek the creation of a new international system based on peace, order and justice.

"The history of Southeast Asia, particularly in the past three decades, surely reinforces the urgency of co-operation. Because of our natural resources and our strategic location, we have always been objects of interest to external powers. This pattern will go on until such time as we can co-operate together, and stand together, and assert our rights against those who take advantage of our weakness and our disarray.

"This awareness long ago caused us in Malaysia to espouse regionalism. Let me reaffirm that regionalism will continue to be given primary importance in Malaysia's foreign policy. Today, as we deliberate together, we can look back with quiet pride as to just how much Asean has transformed, first of all, the mood of Southeast Asia.

"Nine years ago, for many of us, our ties with external powers were stronger than our links with each other. Today, we are true neighbours, more conscious of our common destiny, more aware of our shared traditions and histories and more determined to work together towards higher levels of co-operation."

Looking ahead, he added: "Our economic and planning ministers have come up with several recommendations that should now serve as the agenda for action in the field of economic co-operation; let us now pursue these objectives with vigour."

He concluded by saying Asean was today a viable organisation. It had emerged as a genuine sub-regional organisation of considerable promise. These were not inconsiderable achievements."

Among other decisions taken at the Bali Summit was the establishment of a permanent Asean Secretariat based in Jakarta, a long overdue initiative which over time has acted as the catalyst for further action.

Within a year of the Bali Summit, Asean celebrated its 10th anniversary in Kuala Lumpur. Economic min-

isters laid the groundwork for industrial and commercial co-operation by establishing five committees: Committee on Trade and Tourism (COTT), Committee on Industry, Minerals and Energy (COIME), Committee on Transport and Communications (COTAC), Committee on Finance and Banking, and Committee on Food, Agriculture and Forestry (COFAF). An array of ambitious economic objectives were laid out for the group to achieve within a specified time frame. Finally, a real breakthrough appeared possible.

8. *Getting Into Gear*



THE economic ministers moved swiftly to capitalise on the political will demonstrated in Bali. To accelerate co-operation in commerce and trade, the Philippines and Singapore proposed deep tariff cuts, while Indonesia and Malaysia preferred to move more cautiously, to protect sectors which remained subsidised.

Nevertheless a Preferential Trading Agreement (PTA) was hammered out in the weeks following the summit. This was consistent with the decisions set out in the Concord. The section on trade co-operation stated, under B3(ii): "Member states shall progress towards the establishment of preferential trading agreements as a long-term objective on a basis deemed to be at any particular time appropriate through rounds of negotiations subject to the unanimous agreement of member states." B3(iii) states: "The expansion of trade among member states shall be facilitated through co-operation on basic commodities particularly in food and energy and through co-operation in Asean industrial projects."

At a subsequent meeting, economic ministers identified rice and crude oil as the first two basic commodities to be accorded preferential trading. Priority of supply and priority of purchase in critical circumstances, in times of shortage and oversupply, were also agreed upon.

The PTA was signed in February 1977 and came into force on January 1, 1978. Under the PTA, six instruments were adopted, subject to stipulated criteria being met.

OPPOSITE
*Opening of the
Asean Secretariat
in Jakarta by
President Suharto
in 1981.*

Long-Term Quality Contracts were applicable to selected products and subject to specific agreements to be negotiated between member countries. Long-term contracts were defined as being for a period of three to five years depending on the products and the quanti-

ties, and subject to an annual review whenever appropriate. Contracts of less than three years were also negotiable.

Purchase Finance Support at Preferential Interest Rates were recommended, applicable to either exports to, or imports from member countries for selected products of Asean origin. It could be applied differently by individual countries depending on the nature of their fiscal policies. In the case of Indonesia, for example, the reduction of 40 per cent of the advance payment for imports (Import Deposits) could be considered. For the Philippines, the allocation of the necessary foreign exchange could be granted for certain controlled items if imported from Asean countries. In the case of exports, preferential rates under export rediscounting bills could be extended to exporters to Asean countries.

Preference in Procurement by Government Entities was to take the form of pre-tender notices for international tenders being sent to member states before being advertised generally. A preferential margin of 2.5 per cent but not exceeding US\$40,000 worth of preferences per tender would be accorded to goods of Asean origin. The preferential margin would be applied on the basis of the lowest evaluated and acceptable tender.

An Asean tariff margin of preference (MOP) was accorded to products negotiated on a product-by-product basis. The margin of preference, ranging from 10 to 50 per cent, was based on the full rate of duty. In addition to tariff margins, preferences could also take the form of a binding tariff for Asean products.

Member countries, under the Asean Preferential Tariff Quota (APTQ), were encouraged to accord a minimum margin of preference of 25 per cent and a quota of at least 30 per cent of the total imports of semi-sensitive products based on the moving average of a particular Asean country's imports during the most recent three-year period preceding the completion of ne-

gotiations. The semi-sensitive list items were to be determined by shortening the Exclusion Lists derived from the previous across-the-board tariff cut approach. Exporters in Asean countries would therefore be able to secure market access to products which may be domestically produced by the importing country.

To ensure that the PTA benefits producers and manufacturers in Asean, the PTA laid down the "origin criteria". Generally, goods would qualify if they were wholly produced or obtained in the Asean area. Goods manufactured in Asean with imported parts also qualified if the total value of the imported items did not exceed 50 per cent of the FOB value of goods manufactured.

The PTA also introduced the ruling of Direct Consignment. Goods must be consigned from one country to another directly, with the exception in the case where geographical and transport requirements necessitated transit through a third country.

Recommendations for tariff preferences came under the aegis of COTT which submitted them for approval to the economic ministers. A sub-group within COTT, the Trade Preferences Negotiating Group, (TPNG) was charged with this specific task. Meeting four times a year, they rapidly enlarged the range of items to be traded under the PTA. From a mere 71 items in 1977 it swelled to 18,000 by 1986.

By 1980, the economic ministers were of the view that Asean had completed its first phase of economic co-operation and decided to identify new areas to further strengthen trade and investment. In this spirit the 10th Asean Economic Ministers Meeting approved a deep tariff cut of up to a 25 per cent margin of preference to all items agreed upon under the PTA. Between 1982 and 1984, across-the-board 20-25 per cent preferential tariff was extended to steadily increasing import values—from US\$500,000 initially and up to US\$10 million by the end of 1984.

Asean: Intra-Asean Imports, 1976-1984 (US\$ million)

In From	Total Region	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand
Asean Total							
1976	4111.9	58.8	794.0	623.0	257.9	2208.0	170.2
1977	4977.6	70.0	890.0	697.0	272.1	2728.0	261.5
1978	5698.1	85.6	642.0	849.0	288.3	3439.0	394.2
1979	8339.9	112.5	838.0	1142.0	418.2	5181.0	648.2
1980	11493.5	149.8	1350.0	1774.0	559.1	6556.0	1104.6
1981	12499.0	188.2	1702.0	2075.0	680.2	6641.0	1162.6
1982	15472.0	253.9	3303.0	2468.0	616.2	7754.0	1127.2
1983	16773.4	223.1	3916.0	2500.0	734.4	8041.0	1358.9
1984	15053.4	371.3	1947.0	2868.0	779.7	7445.0	1642.4
Brunei							
1976	147.5		-	75.0	1.9	21.0	49.6
1977	158.0		-	34.0	n.a.	60.0	64.0
1978	179.3		-	1.0	1.4	100.0	76.9
1979	322.2		-	1.0	38.6	174.0	108.6
1980	472.5		-	1.0	55.5	199.0	217.0
1981	608.4		-	2.0	122.7	329.0	154.7
1982	401.8		-	1.0	78.7	223.0	99.1
1983	370.5		-	1.0	58.5	191.0	120.0
1984	469.2		-	1.0	55.7	195.0	217.5
Indonesia							
1976	808.3	0.7		43.0	116.9	644.0	3.7
1977	1216.8	0.2		45.0	159.6	1004.0	8.0
1978	1466.6	0.3		47.0	153.5	1241.0	24.8
1979	2265.5	0.7		68.0	189.8	1951.0	56.0
1980	2797.3	0.5		81.0	187.0	2484.0	44.8
1981	2646.2	0.6		69.0	232.6	2320.0	24.0
1982	3366.5	0.5		69.0	152.8	3121.0	23.2
1983	3435.6	n.a.		97.0	176.8	3128.0	33.8
1984	2558.2	n.a.		155.0	199.0	2126.0	78.2
Malaysia							
1976	1438.7	13.3	19.0		90.0	1297.0	19.4
1977	1560.4	14.4	18.0		63.0	1421.0	44.0
1978	1835.4	14.5	22.0		58.7	1673.0	67.2
1979	2748.0	16.9	35.0		93.1	2481.0	122.0
1980	3710.4	23.4	36.0		162.1	3323.0	165.9

ASEAN TOWARDS THE 21ST CENTURY

1981	3953.8	30.9	60.0		182.4	3412.0	268.5
1982	4432.3	31.2	57.0		122.0	3778.0	444.1
1983	4892.2	31.5	60.0		158.9	4088.0	553.8
1984	5287.1	36.4	86.0		354.8	4306.0	503.9
Philippines							
1976	75.9	1.3	17.0	13.0		37.0	7.6
1977	125.4	1.6	20.0	27.0		68.0	8.8
1978	196.2	2.4	76.0	45.0		65.0	7.8
1979	219.2	2.0	49.0	68.0		74.0	26.2
1980	353.2	2.9	90.0	107.0		75.0	78.3
1981	478.6	2.6	253.0	96.0		107.0	20.0
1982	510.9	5.6	228.0	156.0		102.0	19.3
1983	494.4	9.9	182.0	159.0		128.0	15.5
1984	459.9	0.6	15.0	239.0		185.0	20.3
Singapore							
1976	1032.5	38.9	550.0	332.0	21.7		89.9
1977	1123.4	47.8	524.0	380.0	34.9		136.7
1978	1280.5	60.7	443.0	506.0	53.3		217.5
1979	1763.3	84.3	535.0	723.0	85.6		335.4
1980	3040.8	108.7	936.0	1265.0	132.5		598.6
1981	3704.9	139.4	1243.0	1513.0	114.1		695.4
1982	5525.2	152.6	2819.0	1782.0	230.1		541.5
1983	6400.9	165.3	3465.0	1845.0	289.8		635.8
1984	5066.3	323.4	1791.0	2010.0	119.4		822.5
Thailand							
1976	609.0	4.6	208.0	160.0	27.4	209.0	
1977	793.6	6.0	328.0	211.0	14.6	234.0	
1978	740.1	7.7	101.0	250.0	21.4	360.0	
1979	1021.7	8.6	219.0	282.0	11.1	501.0	
1980	1119.3	14.3	288.0	320.0	22.0	475.0	
1981	1057.1	14.7	146.0	395.0	28.4	473.0	
1982	1235.6	14.0	199.0	460.0	32.6	530.0	
1983	1179.8	16.4	209.0	398.0	50.4	506.0	
1984	1212.7	10.9	55.0	463.0	50.8	633.0	

Source: For 1976: International Monetary Fund, *Direction of Trade Statistics*, 1981 Yearbook

For 1977: International Monetary Fund, *Direction of Trade Statistics*, 1984 Yearbook

For 1978-1984: International Monetary Fund, *Direction of Trade Statistics*, 1985 Yearbook

Asean: Intra-Asean Exports, 1976-1984 (US\$ million)

From To	Total Region	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand
Asean Total							
1976	4526.7	96.1	759.0	1175.0	80.7	1901.0	514.9
1977	5392.4	125.1	1155.0	1176.0	127.0	2175.0	634.3
1978	6425.1	146.0	1478.0	1402.0	210.3	2552.0	636.8
1979	9456.4	274.4	2219.0	2244.0	189.4	3637.0	892.6
1980	12950.6	584.7	2760.0	2923.0	380.4	5238.0	1064.5
1981	13991.5	551.7	2843.0	3152.0	415.5	5992.0	1037.3
1982	16988.5	415.6	3499.0	3659.0	363.3	7969.0	1082.6
1983	18332.9	443.1	3477.0	4028.0	358.6	9026.0	1000.2
1984	16221.3	426.7	2488.0	4394.0	517.1	7348.0	1047.5
Brunei							
1976	138.5		-	37.0	0.5	97.0	4.0
1977	152.8		-	25.0	1.1	120.0	6.7
1978	192.7		-	27.0	2.0	158.0	5.7
1979	247.4		-	23.0	1.8	216.0	6.6
1980	312.5		-	23.0	3.2	277.0	9.3
1981	366.3		-	29.0	3.3	323.0	11.0
1982	417.6		-	46.0	4.5	359.0	8.1
1983	415.8		-	46.0	7.2	353.0	9.6
1984	340.4		-	36.0	0.5	294.0	9.9
Indonesia							
1976	739.1	n.a.		23.0	12.4	550.0	153.7
1977	775.4	n.a.		19.0	22.5	524.0	209.9
1978	620.9	n.a.		19.0	90.4	443.0	68.5
1979	791.2	n.a.		21.0	46.0	535.0	189.2
1980	1313.8	n.a.		34.0	107.2	936.0	236.6
1981	1589.9	n.a.		58.0	153.6	1243.0	135.3
1982	3096.7	n.a.		38.0	55.0	2819.0	184.2
1983	3673.9	n.a.		59.0	30.1	3465.0	119.8
1984	1934.1	n.a.		88.0	8.3	1791.0	46.8
Malaysia							
1976	1233.1	74.3	23.0		4.8	1005.0	126.0
1977	1466.0	48.3	21.0		30.0	1182.0	184.7
1978	1710.9	34.2	21.0		36.5	1408.0	211.2
1979	2430.3	34.6	66.0		57.1	2039.0	233.6
1980	3399.2	44.4	60.0		94.4	2908.0	292.4

ASEAN TOWARDS THE 21ST CENTURY

1981	3765.2	25.2	47.0		104.1	3269.0	319.9
1982	4275.5	14.0	59.0		177.8	3669.0	355.7
1983	4366.2	17.8	58.0		162.1	3843.0	285.3
1984	4530.6	1.0	98.0		178.0	3902.0	351.6
Philippines							
1976	253.4	1.8	90.0	80.0		52.0	29.6
1977	332.2	n.a.	126.0	76.0		118.0	12.2
1978	426.9	1.4	198.0	59.0		148.0	20.5
1979	571.2	39.6	165.0	118.0		237.0	11.6
1980	726.7	51.2	181.0	198.0		273.0	23.5
1981	1038.5	119.2	439.0	186.0		274.0	20.3
1982	856.6	77.7	293.0	129.0		323.0	33.9
1983	952.3	58.7	242.0	163.0		421.0	67.6
1984	818.6	50.7	166.0	372.0		207.0	22.9
Singapore							
1976	1888.8	20.0	644.0	967.0	56.2		201.6
1977	2324.2	64.9	1004.0	970.0	64.5		220.8
1978	2928.1	87.8	1241.0	1197.0	71.4		330.9
1979	4561.3	160.1	1951.0	1933.0	65.4		451.6
1980	5879.8	300.5	2482.0	2480.0	112.6		502.7
1981	5963.8	280.8	2320.0	2683.0	129.2		550.8
1982	6964.9	226.6	3121.0	3005.0	111.6		500.7
1983	7177.5	210.3	3128.0	3182.0	139.3		517.9
1984	6665.9	177.3	2126.0	3425.0	321.3		616.3
Thailand							
1976	273.8	n.a.	2.0	68.0	6.8	197.0	
1977	341.8	11.9	4.0	86.0	8.9	231.0	
1978	545.6	22.6	18.0	100.0	10.0	395.0	
1979	855.0	40.1	37.0	149.0	18.9	610.0	
1980	1318.6	188.6	35.0	188.0	63.0	844.0	
1981	1267.8	126.5	37.0	196.0	25.3	883.0	
1982	1377.7	97.3	26.0	441.0	14.4	799.0	
1983	1747.2	156.3	49.0	578.0	19.9	944.0	
1984	1931.7	197.7	98.0	473.0	9.0	1154.0	

Source: For 1976: International Monetary Fund, *Direction of Trade Statistics, 1981 Yearbook*

For 1977: International Monetary Fund, *Direction of Trade Statistics, 1984 Yearbook*

For 1978-1984: International Monetary Fund, *Direction of Trade Statistics, 1985 Yearbook*

Asean: Exports to Selected Countries, 1976-1984 (US\$ million)

	1976	1977	1978	1979	1980	1981	1982	1983	1984
World	27324.6	33456.5	38544.8	53451.5	71123.6	73301.8	70899.9	71772.4	77776.6
Intra-Asean Exports:	4526.7	5392.4	6425.1	9456.4	12950.6	13991.5	16988.5	18332.9	16221.3
Brunei	138.5	152.8	192.7	247.4	312.5	366.3	417.6	415.8	340.4
Indonesia	739.1	775.4	620.9	791.2	1313.8	1589.9	3096.2	3673.9	1934.1
Malaysia	1233.1	1466.0	1710.9	2430.3	3399.2	3765.2	4275.5	4366.2	4530.6
Philippines	253.4	332.2	426.9	571.2	726.7	1038.5	856.6	952.3	818.6
Singapore	1888.8	2324.2	2928.1	4561.3	5879.8	5963.8	6964.9	7177.5	6665.9
Thailand	273.8	341.8	545.6	855.0	1318.6	1267.8	1377.7	1747.2	1931.7
Industrial Countries	18303.2	22062.4	24618.4	34181.2	44328.5	43568.8	41447.9	41618.3	45980.6
Dialogue Partners:									
United States	5610.1	6997.3	7742.2	9245.6	11657.3	11772.1	10508.9	13103.6	14856.7
Canada	182.6	212.4	231.5	318.4	311.3	399.2	301.8	419.4	527.7
Australia	562.0	662.8	759.0	1058.5	1506.7	1720.1	1888.5	1218.41	1557.4
Japan	7655.2	9056.1	10151.4	15705.5	21085.3	21038.2	20568.2	18796.0	20343.0
New Zealand	99.7	110.1	150.0	323.7	534.9	529.4	632.7	466.9	460.4
EEC	3854.6	4650.9	5229.6	7357.9	8619.8	7636.5	7085.7	7196.4	7664.6
EFTA:	242.6	283.0	444.5	404.9	558.2	530.9	441.6	446.1	503.4
Australia	9.4	10.8	12.1	20.9	28.5	30.9	26.3	31.3	50.1
Finland	5.1	5.3	8.3	12.7	18.4	23.4	20.5	28.3	36.3

Iceland	0.1	n.a.	n.a.	0.1	0.3	n.a.	1.1	0.1	0.3
Norway	92.9	88.7	43.7	70.3	109.7	88.6	76.9	75.8	75.7
Portugal	11.1	21.6	27.7	35.2	43.3	29.7	30.8	26.7	34.9
Sweden	71.1	80.7	88.1	125.7	147.7	141.5	134.5	124.6	136.6
Switzerland	52.9	75.9	100.5	140.0	210.3	216.3	151.5	159.3	169.5
Spain	109.7	165.3	164.1	228.1	233.1	191.7	153.9	193.2	235.3
Developing Countries:									
Nigeria	30.2	107.6	224.8	106.7	373.3	358.5	267.5	243.8	137.8
China	183.7	373.9	292.4	480.2	692.7	539.2	775.8	526.7	663.0
Hong Kong	791.9	926.7	1185.6	1664.4	2414.8	2780.3	2666.5	2384.0	2491.0
India	93.9	338.9	565.2	503.9	822.3	973.8	807.6	857.4	1324.6
South Korea	373.8	530.8	663.4	1018.8	1097.2	1365.8	1763.3	1938.4	2136.1
Pakistan	93.4	140.6	152.9	274.2	338.1	305.0	279.8	301.5	480.9
Iran	60.6	104.9	122.0	42.7	226.7	335.3	372.8	553.3	496.5
Iraq	72.7	107.1	157.5	236.8	235.5	110.5	84.2	80.5	88.8
Kuwait	46.4	49.2	65.0	106.0	133.5	299.9	188.6	162.5	235.3
Saudi Arabia	136.1	201.3	277.4	498.7	603.1	769.9	947.2	853.2	1088.1
United Arab Emirates	99.9	140.2	196.1	293.3	436.1	445.8	240.7	305.9	292.4

Sources: For 1976: International Monetary Fund, *Direction of Trade Statistics, 1981 Yearbook*
 For 1977: International Monetary Fund, *Direction of Trade Statistics, 1984 Yearbook*
 For 1982-1984: International Monetary Fund, *Direction of Trade Statistics, 1985 Yearbook*

The success of the PTA scheme, though moderate initially, did help increase intra-Asean trade. Between 1978 and 1983, it increased from \$9,853 million to \$27,389, registering an annual increase of 24 per cent. The picture, however, was not so rosy in respect of intra-Asean imports which comprised only 7 per cent of total Asean imports in 1985. Thus, despite the PTA, more than 90 per cent of Asean imports came from other sources.

The main obstacle to increased intra-Asean trade was clearly reflected by the extensive number of items on the exclusion lists. Recognising this impediment, the 16th Meeting of Economic Ministers, in May 1984, directed COTT to "exert full efforts in reducing the numbers on the exclusion lists."

Ignorance in the private sector of the benefits of the PTA, and the perceived marginal benefits after fulfilling tedious documentation procedures has been cited as other causes of the less than enthusiastic response to the PTA. Despite its shortcomings, the PTA scheme has significantly contributed to regional economic co-operation. It may have fallen short in quantifiable terms, but it did demonstrate the political willingness to engage in genuine Asean collaboration. In more ways than one, the PTA was the earliest foundation on which future Asean trade would grow.

9. *Making Haste
Slowly*



DESPITE the heady expectations of the business community, who believed that boundless opportunities would flow from the Bali Summit and subsequent developments, economic co-operation in the years that followed could best be described as agonisingly slow.

Significantly, there were differing approaches and speed at which some of the countries chose to move. Indonesia for one wanted to "make haste more slowly" while Singapore and the Philippines wanted to dismantle tariff and non-tariff barriers as rapidly as possible. There were also specific differences. The much-touted industrial complimentation scheme was stalled from the very start. Finally, member countries had little choice but to accept Singapore's proposition that a five-minus-one or even a five-minus-two approach be adopted where specific countries wanted to opt out—as Singapore did in the case of Indonesia's diesel engine project.

Though the differences did impede the pace of progress achieved, the group remained cohesive. Further tempering the tempo at which Asean chugged along were major regional developments the group could not ignore.

The Vietnamese invasion of Cambodia left Asean in a political bind. A resolution had to be found, but the superpowers made it increasingly difficult. The United States, under newly-elected President Ronald Reagan, blamed the Soviet Union. The latter had, between 1975 and 1980, installed pro-Moscow parties in various hotspots, including South Vietnam, Laos, Angola, Ethiopia, Afghanistan and South Yemen.

The Heng Samrin regime, installed in Cambodia, was yet another addition to the long list of countries which succumbed to Soviet seduction. It has been argued that the failure, or unwillingness, of the United

OPPOSITE:
Tun Hussein
Onn, Datuk
Musa Hitam
and Tengku
Razaleigh
Hamzah:
UMNO leaders
meeting in 1982
before Tun
Hussein Onn
stepped down.
He chose Dr
Mahathir
Mohamad to
succeed him as
Prime Minister.

States to normalise relations with Hanoi after 1978 forced Vietnam to be even more dependent on Soviet aid. But that does not explain Vietnam's intransigence in refusing Asean's proffered hand of friendship. Had it done so, it might well have influenced US policy towards Hanoi and changed the course of the history of the region.

In 1980, the United States chose to acknowledge the Pol Pot regime (with disastrous consequences) and in turn rejected the Vietnam-backed Heng Samrin regime. The PRC initially stayed its hand, believing that Vietnam would be bogged down and would not constitute a threat to the rest of Southeast Asia.

Asean countries did not share the views of either the US or the PRC and consistently deplored the occupation of Cambodia. Observers detected a willingness on the part of Indonesia and Malaysia to compromise as they took a softer stance than that of their partners. But with no resolution in sight, Jakarta and Kuala Lumpur's patience with Hanoi began to wear thin.

Individually, the Asean countries focused on political cohesion as they took bold economic steps to bolster their economies. In 1980, President Suharto was forced to make some uncharacteristically strong speeches to rebut the open support from the Armed Forces (Abri) for the government-backed Golkar movement. (Golkar was fashioned in the 1960s into a political organisation which totally supported the Suharto administration. Today it is a fully-fledged political party.)

Elements in the army and political opponents poured scorn over the Golkar-Abri tie-up, earning the wrath of the President. "Before the New Order was born, we saw and sensed that our national ideology was submerged by various existing ideologies, whether it is Marxism, Leninism, communism, socialism, Marhaensim (a Sukarno-inspired social concept), nationalism or religion," he stated. "Groups which prac-

tised any of these considered themes felt strong enough to impose their will on other groups, leading to unending rebellions," he argued. *Pancasila*, a new, all-embracing state ideology, the President said, would replace all the separate ideologies.

Economically, 1980 and the subsequent years were good for Indonesia. Its performance exceeded the expectations of the Third Five-Year Plan. Its balance of payments surplus amounted to \$1.7 billion with forecasts of a surplus of \$3 billion in the following year.

Crude oil and gas exports fuelled the economy, cushioning the fall in commodity prices and a marginal growth in the non-oil sector, though manufacturing activities continued to attract more investments. Government spending on infrastructure projects increased substantially—a trend that would continue through the subsequent decade. Not unexpectedly, borrowings for development projects pushed the external debt up to \$2.6 billion, despite an additional \$1.8 billion in official development assistance (ODA) from the IGGI, a consortium of 14 developed countries.

Malaysia recorded an 8 per cent growth and single-digit inflation in 1980 as the country made significant progress in difficult conditions: the demand from major markets for its main commodities stagnated as the recession took hold in the developed countries. However, being a net exporter of crude oil helped, and for the first time, oil became the country's top exporter, ahead of rubber and palm oil.

On the other hand, Malaysia had to grapple with festering social and political problems as it moved towards the general elections in 1981. Rural discontent, refugees, the drug menace and political jockeying headed the list of challenges that Tun Hussein Onn had to face in his last year in office.

By 1980, the number of boat people arriving from Vietnam and Cambodia amounted to hundreds each month, though down from the thousands that had

sought refuge each month in the previous two years. The drug addict population began to grow alarmingly, and the authorities were hard-pressed to check the contagion.

Quite unexpectedly, a dispute between farmers and the authorities escalated into riots in the outskirts of Alor Setar, Kedah. Their demands included increased rice subsidies to be paid in cash instead of food coupons. Student agitators, seeking to exploit the issue, were detained without trial under the Internal Security Act (ISA) and those arrested were later identified as fanatics linked with a group whose professed aim was to seize power for the Malays in the name of Islam.

On the political scene, there was intense lobbying for seats on the ruling UMNO Supreme Council, and similar situations among the National Front (*Barisan Nasional*) partners, the Malaysian Chinese Association (MCA), and the Malaysian Indian Congress (MIC). In 1982, when Hussein Onn stepped down because of health problems, Dr Mahathir Mohamad was named Prime Minister.

On a more positive note, Malaysia and Indonesia took the initiative to look for a solution to the Cambodian crisis. Tun Hussein Onn and President Suharto met in the coastal town of Kuantan for private discussions, after which they made a joint declaration, since dubbed the "Kuantan Agreement". They called on both the Soviet Union and China to keep out of Indo-Chinese affairs. It marked the first time the superpowers were named by Asean. Though the hope for a breakthrough did not materialise, it served to remind the superpowers that Asean meant business.

In 1980, President Marcos entered his 16th year of office, beset with a host of problems. Facing a rising tide of criticism from an increasingly vocal majority over the administration's mishandling of the economy, and calls for political changes, Marcos battled for survival even as the odds stacked up.

That year, Marcos allowed his arch-foe, Benigno (Ninoy) Aquino, to leave the country for medical treatment in the United States, hoping that his absence would restore calm in the country. It did not. The situation deteriorated further and after Ninoy was brutally and dramatically assassinated on his return, it spelt the end of the Marcos regime. He was succeeded by Ninoy's widow, Cory Aquino.

By early 1980, stability had returned to Thailand with the appointment of royalist General Prem Tinsulanond as Prime Minister. He took over from General Kriangsak Chomanand, who had been preceded by three civilian heads of government since 1976.

General Prem's government clearly reflected a shift towards greater civilian participation, and though this did not go down well with the armed forces, his appointment was widely welcomed by a population fed up with military dictators. General Prem also enjoyed the support of the monarch, a critical factor which kept him in office for eight years, making him the longest-serving Prime Minister in post-War Thailand.

Despite the hefty imports of oil, which alone constituted 40 per cent of the total value of imports, the country had a modestly satisfying year due largely to the strong performance of the agro-industrial sector.

The "self-renewal" programme of the PAP, and the advancement of a second generation of leaders to take over from the "old guard" of 1959 were the highlight of 1980. That year also saw the first member of opposition to beat the ruling party's candidate in a decade, in a by-election. The victor was J.B. Jeyaratnam, a lawyer, who was returned again four years later.

Following the demise of the much-loved President, Professor Benjamin Sheares, Lee Kuan Yew proposed his long-time comrade and veteran unionist, C. V. Devan Nair to succeed Prof Sheares. Mr Nair was however forced to step down in 1985.

The second team, handpicked by Lee and his deputy, Dr Goh Keng Swee, included Goh Chok Tong, (now Prime Minister) Ong Teng Cheong (President), S. Dhanabalan, and Dr Tony Tan. Mr Lee's son, Brigadier-General Lee Hsien Loong, joined the new team in 1984. In 1980, the Singapore economy rebounded. It recorded a 10.7 per cent real GDP growth, making it the envy of the region.

On balance, the decade saw almost all the Asean economies displaying marked growth and resilience, and entering the '80s with renewed confidence.

10. A Major Review



REALISING that the level of co-operation achieved at that point left much to be desired, the 15th Ministerial Meeting, held in Singapore, took the unprecedented step of setting up a Task Force to review all areas of co-operation that had been proposed. Specifically, they were asked to look into those recommendations in the Kansu Report which had been implemented following the Bali declarations. Three senior officials from each country were appointed to the blue-ribbon panel. Their findings, released in late 1984, were revealing.

Although political co-operation was not the stated aim of the Bangkok Declaration of 1967, member countries had attached much significance to pursuing this objective, convinced that it would lead to regional stability, and in turn economic co-operation.

The report focused heavily on economic matters, assessing the achievements or otherwise, of the various standing committees and sub-committees, and trade clubs. It came to the conclusion that while trade preferences had been impressive in terms of the number of items covered, they had little impact on intra-Asean trade. Co-operation in tourism was singled out as being successful.

Reviewing the various industrial co-operation programmes—Asean Industrial Projects (AIP) which were government initiatives, and the Asean Industrial Complementation Scheme (AICS) and Asean Industrial Joint Ventures (AIJV), both of which had been initiated by the Asean Chambers of Commerce and Industry—the report noted that these schemes had generated several successful undertakings. The most successful project, it said, was the urea project, undertaken in both Indonesia and Malaysia. In the area of minerals and energy, several projects had been

OPPOSITE
*Meeting of
Asean Foreign
Ministers in
1982, with Tun
Ghazali Shafie
in the centre.*

Photograph
courtesy of *Straits
Times Singapore*

launched after the Working Group on Minerals formulated the Asean Minerals Co-operation Plan in 1981.

In 1977, Asean central banks and monetary authorities entered into a swap arrangement to provide member countries with short-term support. The private sector-established set up Asean Finance Corporation (AFC) to help finance joint ventures. The report noted that these had been one of the more active areas of regional co-operation.

The report took note of the efforts of co-operative efforts in food, agriculture and forestry. Asean efforts to increase market access internationally had been limited. Only moderate success was achieved in a common stance taken by producers of commodities, such as tin and rubber.

Economic complementarity raised further problems. In negotiations with developed countries, individual Asean countries were able to obtain the necessary financing for plant and machinery to produce and export, more efficiently, their commodities to developed countries.

Asean had not been conceived with supra-national objectives, the report noted. As such, economic co-operation, and not integration was its main aim. This resulted in countries being more willing to pool resources rather than share markets. Regional interests would be accorded priority only if they coincided with national interests.

On the question of equity and gains, Asean had yet to come up with an acceptable formula which would ensure equitable sharing of benefits acceptable to all.

Financial constraints, internal and external, had limited the number of joint Asean projects. An alternative would be direct foreign investment but this would mean closer trade and investment ties with developed countries, rather than with each other.

The report argued that the decentralised Asean organisational structure and inadequate support facilities

were two factors hampering the development of meaningful economic co-operation. Since equitable benefits in intra-Asean trade were difficult to achieve, member nations were forced to take a short-term view of perceived gains and losses. The Task Force made many specific recommendations, including the following:

1. Asean should monitor closely the economic development of member countries in the context of sub-regional, regional and global economic developments with a view to identifying areas for co-operation, common strategies and joint ventures, and avoiding possible conflicts.
2. An important Asean strategy should be to continue to strengthen the foundation for closer economic co-operation in the future. Regional economic co-operation did not necessarily imply economic integration but it could be a first step in that direction.
3. A greater exchange of information on national development plans and objectives should be encouraged to bring about deeper mutual understanding and trust, and to facilitate identification of complementarity and co-operative opportunities.
4. In order to achieve a greater degree of economic co-operation based on effective market sharing arrangements, Asean should consider adopting guidelines which would achieve limited market-sharing. Market-sharing arrangements should be specific and participation in some arrangements should be voluntary; and finally market-sharing arrangements should be based on the sharing of costs and benefits.

Specific recommendations included the exchange of tariff preferences (under PTA) on the basis of non-discrimination *vis-à-vis* the Most Favoured Nation (MFN) principle. Other instruments under the PTA, namely long-term quality contracts, purchase finance support, preference in government procurements and liberalisation of non-tariff measures should be more actively used.

In the context of industrial co-operation, it suggested that initially two or more countries participating in such preferential projects may conclude special trading arrangements related to the products that are beyond the provisions of the PTA. In such cases, for a limited period, extra preferences so provided could be exclusive to the participants.

On commodities, the report recommended intensified co-operation with the view to realising a common Asean commodity policy, the creation of alternative strategies in order to be more effective in international forums, and the pursuit of new approaches as complementary and supplementary measures to existing international agreements.

On industrial co-operation and to facilitate the pooling of resources, it urged member countries to allow the free import and export of raw materials, extend national treatment to investors who were nationals of participating countries, work towards appropriate tax arrangements, and be liberal in permitting nationals of participating countries to be employed in Asean projects.

Many of the report's recommendations were accepted at the 17th Ministerial Meeting in 1985. But only some of the measures suggested were subsequently implemented. A major opportunity to enhance economic co-operation may have been lost, but with hindsight it may have been the timing that was not right.

11. Plodding Towards Greater Co-operation

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that this is essential for ensuring transparency and accountability in the organization's operations.

2. The second part of the document outlines the various methods and tools used to collect and analyze data. It highlights the need for consistent data collection procedures and the use of advanced analytical techniques to derive meaningful insights from the data.

3. The third part of the document focuses on the role of technology in data management and analysis. It discusses how modern software solutions can streamline data collection, storage, and processing, thereby improving efficiency and accuracy.

4. The fourth part of the document addresses the challenges associated with data management, such as data quality, security, and privacy. It provides strategies to mitigate these risks and ensure that the data remains reliable and secure throughout its lifecycle.

5. The fifth part of the document concludes by summarizing the key findings and recommendations. It stresses the importance of ongoing monitoring and evaluation to ensure that the data management processes remain effective and aligned with the organization's goals.

MAKING co-operation manifest in a highly visible manner continued to elude Asean as it entered the mid-1980s. Even as it pushed ahead in forming new Councils and establishing dialogue sessions with major trading partners, including the United States, the European Union, Australia, New Zealand, Canada, Japan and China, there was an underlying feeling of frustration at not being able to achieve the level of economic co-operation that some leaders hoped for.

The entry of Brunei as the sixth member in late 1984 was a major development, but enlargement alone was not deemed sufficient.

The views of Singapore's then Permanent Representative to the United Nations, Professor Tommy Koh, are worth recalling. "Politically, I would like to see Asean continue in its present course as a non-military organisation, as an organisation of developing countries primarily devoted to the enterprise of regional, social and economic co-operation," he said.

"I think the habit of consultation which has developed among our foreign ministers is a very good thing and I would like to see it continue. This habit of consultation is very similar to a similar organisation which exists among the five Scandinavian countries (Nordic Council)."

On the economic front, Koh hoped Asean would accelerate the pace. "I think the pace of the past fifteen years has been relatively slow." He advanced the view that "our friends who have examined our record may well say you seem to be more effective in dealing with other countries and other groups of countries, especially in the political field rather than in the economic field. I feel there is some truth in this criticism."

Clearly it had been easier to demonstrate unity on geo-political matters than when it came to bread-and-

butter issues—notably access to each other's markets on preferential terms.

Intra-Asean trade, which rose steadily in the years following the Bali Summit and introduction of the PTA, never exceeded 15 per cent of the groups total external trade. In 1980, it was estimated to be in the region of US\$20 billion.

In the context of trade with other major partners, intra-Asean trade was less than that with Japan and the United States, and only slightly more than with the European Union.

While progress in the "showcase" areas—the Asean Industrial Complementation Scheme—was understandably slow, there were more concrete examples elsewhere. Notably in the private sector, and nudged on by the Asean-CCI.

The Working Group on Trade (WGT) was subsequently renamed to focus exclusively on PTA. Working closely with COTT, the WGT helped bolster the number of items selected for preferential trading to 18,000, though in reality only about 8,000 items were actively traded.

Non-tariff barriers remained another obstacle. It was estimated in the early 1980s that 7.5 per cent of export costs were attributable to documentation.

Another significant step taken by the WGT was the formation of Asean Commodity Clubs—covering sugar, coffee, cocoa and tea, fruits and vegetables, cut flowers, and handicrafts.

The Working Group on Industrial Co-operation (WGIC) directed its efforts towards promotion of industrial development through industrial clubs. The close contact between the WGIC and COIME helped advance the views of the private sector, a trend which assumed increasing importance as the group entered its third decade.

Through the WGIC, deeper tariff cuts for food products and rubber tyres were advanced, as well as re-

quests for PTA in respect of zinc ingots, sponge iron, slabs and hot-rolled coils of iron and steel.

The AIJV was conceived as a successor and improvement over the moribund AICS. The AIJV was designed as a more flexible scheme whereby only two participating countries were required, with the 51 per cent Asean ownership requirement subject to a waiver. By late 1984, 9 projects were submitted for approval at the 16th Asean Economic Ministers Meeting, and 4 were approved. They included mechanical and power rack, pinion steerings, constant velocity joints, and motorcycle electrical parts.

A year later, 4 more AIJV projects were approved: for printing security paper, potash feldspar, quartz and slaughtered meat. Automotive lamps and motorcycle electrical parts joined the list in 1986. Several projects made satisfactory progress and one, the mechanical and power rack and pinion steerings venture between Malaysia and the Philippines, started production in December 1985. The first 300 units were delivered to Proton Malaysia in August 1986.

Another successful regional undertaking was the Asean Finance Corporation. It was the brainchild of the Asean Banking Council, an organisation which included all commercial banks in the grouping. It is recognised as the first truly Asean joint venture between private sector companies.



12. Caught in the Economic Crunch

6TH GENERAL ASSEMBLY ASEAN INTER - PARLIAMENTARY ORGANIZATION

SINGAPORE 5-7 OCTOBER 1983



ASEAN'S 20th anniversary was marked with a minimum of fanfare: there was good reason not to uncork the champagne.

The stagnation of world trade and the worldwide commodity slump since 1985 had adversely affected the grouping's economic growth. In that year, GNP growth in Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand was -1.0, 1.6, -1.5, -3.98, -2.1 and 4.1 per cent respectively.

Though the Asean economies had recovered somewhat by the time the Foreign Ministers met for the 20th Ministerial Meeting in June 1987, growth rates were far, far below the pre-1985 figures. Nor was the future particularly promising.

Trends in developed countries do not portend well for Asean, noted the then Foreign Minister of Singapore, Mr S. Dhanabalan, in his opening address of a meeting between the group and its dialogue partners. First, protectionist measures in the United States and the European Union remained unabated. Second, market opening measures in Japan had yet to show any real increases of access to its markets for foreign products. Third, there was an increase in bilateral trade deals among the developed countries at the expense of multilateralism. Developing countries like those in Asean with their limited bargaining power would be the losers if multilateralism embodied in the GATT continued to be eroded.

He noted that his remarks should be viewed in the context of Asean having some of the most open economies and markets among the developing countries.

These concerns, which were spelt out in greater detail by the Foreign Ministers in their joint communiqué, were preceded by telling statements by Prime Minister Lee Kuan Yew, in his welcoming remarks.

OPPOSITE
Singapore's Lee
Kuan Yew
addressing the
Asean Inter-
Parliamentary
Organisation in
1983: some
sobering advice
on how Asean
should move
forward.
Photograph
courtesy of Straits
Times Singapore.

"The United States is faced with the problem of declining competitiveness," he noted. "She has to overcome deep-seated problems. To exploit her abundant natural resources, technological knowledge and skills, and her lead in the scientific and industrial fields, she has to muster the political will to address the root causes of her enormous budget and trade deficits.

"American Congressmen become more protectionist with every monthly release of trade figures which threaten to push the value of the dollar down and interest rates up. But in the hearts, they know that protectionism is not the answer, and that it will be as disastrous as it was in 1930 ... (yet) it is in our (Asean) interest to have America recover her competitiveness and become a creditor and not a debtor nation ... furthermore, the American market is our most important. A loss of American *elan* will have serious consequences for us. If serious economic problems plague the US economy, we shall have trouble with our own."

Turning to Japan, Mr Lee said that Japan faced the problems she had created for her trading partners through her massive trade surpluses. She had to move from export-led growth to domestic demand. "Japan is capable of a major role in the international economic system. She can help revitalise it. With her strong lead in technology, her disciplined social system, and strong administration and efficient business management ... if her trade is more in balance, she can keep up her growth indefinitely."

Turning to Asean's major security problem, the Vietnamese occupation of Cambodia, Mr Lee said Vietnam had said it would withdraw its troops by 1990. "Asean is willing to work out an honourable formula which respects the Cambodian people's rights as well as the security interest of Vietnam. Asean wants to live in peace with its neighbours in the Indo-Chinese peninsula. Vietnam need not leave the solution of her Cambodian dilemma to just the Soviet Union or

China. Asean participation under UN auspices is likely to lead to a better solution for Vietnam and the region."

Asean countries, Mr Lee went on to say, were themselves undergoing major changes. Their youth, accounting for two-thirds of the population knew little of the past conflicts in the region. "They have to learn without repeating the errors of the past, that Asean co-operation is infinitely preferable to the costly strife and confrontations which result when competing national interests are allowed free reign."

In their joint communiqué, the Asean foreign ministers dwelt heavily on the continued Vietnamese occupation, now in its ninth year. They reiterated support for the CGDK, under the presidency of Prince Norodom Sihanouk, and their eight-point proposal to resolve the crisis which the Vietnamese had earlier rejected.

On the hundreds of thousands of refugees who had fled Vietnam and Cambodia for sanctuary in Asean countries, the Ministers expressed concern over the continuous inflows and the slowdown of their resettlement in third countries.

The Foreign Ministers noted the progress achieved in Asean economic co-operation. They pointed to the improvements made to the AIJV scheme and the conclusion of an agreement on preferential short-listing of Asean contractors to promote the development of the regional construction industry. The agreement by the Central Banks to extend the Asean Swap Agreement for an additional five years and the doubling of the available credit line to US\$200 million, or US\$40 million per country, the proposed establishment of an Asean Tourism Information Centre in Kuala Lumpur, an Asean-EU Energy Management Research and Training Centre in Jakarta, and the establishment of an Asean Poultry Disease Research Centre, were cited as concrete steps in continued co-operation.

In addition to a joint statement on Indo-Chinese refugees and the social and cultural impact on Asean economies, which faced the additional burden of a global recession, the foreign ministers issued a strong statement on the situation in South Africa.

They expressed grave concern, and condemned the decision of the racist Pretoria regime to extend the state of emergency. They deplored repressive policies which had led to the escalation of strife and tension and the suffering of the black majority under the inhuman apartheid system. They pledged solidarity with the peoples of South Africa and frontline African states.

*13. Starting Anew
in Manila*

EMBER 1987

MANILA, PH



SIX months later, Asean heads of state met for the 3rd Asean Summit, in Manila, marking the culmination of 18 months of extensive preparations by senior political and economic officials.

While the theme of the 3rd Summit was firmly on furthering economic co-operation, the leaders endorsed the signing of a Protocol Amending the Treaty of Amity and Co-operation, which effectively allowed other states in and outside Southeast Asia to accede to the Treaty, thus making them eligible for membership. This marked the first of several moves aimed at enlarging the group of six.

In announcing new measures to intensify economic ties, the leaders would have remembered the harsh criticism levelled by their host, President Cory Aquino, soon after she assumed office in February 1986. She blasted Asean for spending 19 years "endlessly discussing regional economic co-operation but failing to expand ties and depending on the industrialised West for growth". In her opinion, "Asean had fallen short of its goals and the lack of progress on substantive economic issues threatened to render meaningless our continued association."

Though President Aquino did not repeat her views in public, her strident criticism somehow seemed to have achieved the desired effect.

One of the agreements signed was a basic revision of the AIJV scheme to make it more flexible, quicker to implement and more attractive to private investors. This followed an earlier agreement aimed at deepening the minimum margin of tariff preference (MOP) by the participating countries, from 50 per cent to 75 per cent. Further revisions were ratified to deepen the MOP to a minimum of 90 per cent.

OPPOSITE:
The Manila Summit in 1987: Asean had come of age but economic integration still in the distance.

The Asean Heads of Government endorsed a package of new initiatives in the areas of trade, tourism, investment, finance and banking, transportation and communications, and food, agriculture and forestry. These were embodied in Three Agreements signed by the Economic Ministers at the Summit.

The first was aimed at encouraging intra-Asean trade via a widening of the items covered by the PTA, and a further deepening of the MOP. A five-year time frame was set, but exceptions were made for Indonesia and the Philippines to comply within seven years.

A Memorandum called for an immediate standstill on non-tariff barriers (NTBs) with negotiations on a rollback of existing NTBs to commence immediately and be concluded within five years. The revamped Asean Secretariat, long overdue, was charged with the responsibility of monitoring adherence to the agreement.

An Agreement for the Promotion and Protection of Investments was adopted, aimed at increasing the flow of investment and technology, thus accelerating industrialisation of the whole region.

The 3rd Summit endorsed several other new initiatives including the setting up of an Asean Reinsurance Corporation. To stimulate intra-Asean trade and private sector investment, the leaders agreed to accelerate co-operation in the fields of finance, taxation and customs procedures. It urged the avoidance of double taxation, liberalisation in the use of Asean currencies in bilateral trade and training programmes to harmonise tax and customs administration.

In reviewing industrial co-operation, they set a modest target of raising intra-Asean investments to a level that constituted at least 10 per cent of total foreign investments in Asean by the year 2000. To boost the PTA, the leaders recommended that the exclusion lists be limited to 10 per cent or less of traded items within five to seven years, and that items remaining on the ex-

OPPOSITE
President Suharto, Cory Aquino, H.E. Sultan of Brunei and Dr Mahathir Mohamad with other dignitaries at the Manila Summit in 1987.



clusion lists account for no more than 50 per cent of intra-Asean trade value. Items phased into the PTA would enjoy improved MOP on a graduated scale.

Many of these measures were successfully implemented over the successive years, and in retrospect the Manila Summit finally paved the way for the establishment of the Asean Free Trade Area. But more of AFTA later.

*14. The Run-up
to AFTA*



IN the three years preceding the establishment of AFTA, the economies of the region enjoyed a resurgence, posting firm annual GDP growth. Despite the emergence of new trade blocs—which Asean never inspired to be in the fullest sense—new foreign investment inflows, matched by domestic investments, brought welcomed relief to the region after the battering it took during the 1985-1987 recession.

With the exception of the Philippines, which was bogged down by domestic political issues which left the economy stagnant, the remaining Asean countries entered a new phase of rapid industrialisation and massive investments in infrastructure. (Brunei's continued success was heavily reliant on increasing oil exports, though tentative steps were taken to widen its virtually non-existent manufacturing base.)

Equity markets rose in tandem with improved corporate results, tourism boomed and the real estate markets enjoyed spectacular growth. Asean nationals, it appeared, were clearly benefiting from pragmatic policies pursued by their governments. Wealth was being created at a rapid pace in the face of seemingly boundless opportunities. While national policies such as Malaysia's National Economic Policy (NEP) and promotion of indigenous (*Bumiputera*) interests, and Singapore's move towards higher value-added technology products generated higher growth, to overseas investors who flocked to the region in growing numbers, it appeared to be payback time for the regional co-operation so carefully nurtured over more than two decades.

OPPOSITE:
Brunei joins
Asean as its
sixth member in
late 1984.

Policymakers, however, remained guardedly cautious, sensing that regional stability and security could not be taken for granted, at least not until the Cambodian crisis had been fully resolved. Asean leaders ap-

peared obsessed with seeking a solution, often devoting their energies almost exclusively to this thorny issue, while economic activity was expected to generate a momentum of its own.

Some of these concerns were articulated in a major review taken by the "Group of Fourteen", an undertaking mooted by the Asean-CCI in 1986/87. Dato' Paul Leong Khee Seong, a former Malaysian Minister for Primary Industries, was the Group's chairman. It solicited a wide spectrum of views and the findings and recommendations were published in *Asean at the Crossroads*.

According to Dato' Leong: "... the bustle of activity is not a substitute for meaningful accomplishments. Objectively, the success of Asean in economic co-operation has not been that exemplary. It is a record of protracted negotiations, exasperation and frustration. Intra-Asean trade is still insignificant and the number of implemented Asean-wide projects rather small."

Noting that the measure of success achieved was to be found in the intangible goodwill that prevails, he lamented, "... but why have we been too sluggish, even indifferent at times, in implementing the economic programmes ... after two summits why have we not been able to go beyond the rhetoric?"

In addressing the problems and challenges, Dato' Leong traced the prevailing "new crisis" and the various national responses. "The global economy is now consolidating under stress. Every nation is struggling to revive itself, but in searching for solutions they have created new crises and conflict situations. To survive they have to outdo, and economically, hurt each other. This is not the practice we wish to adopt, but these are the types of challenges facing Asean.

"The first challenge to Asean is the politics of market protectionism and control of international market niches. Scrambling for market share in the interna-

tional economies is practising the art of the impossible. It is a war scenario.

"The second concerns the uncertainty of the world's financial stability, international debt and the fluctuations of foreign exchange. These are contentious and controversial issues. The instrument of foreign exchange has also become a weapon in trade and capital flows. Capital, indeed, is the flywheel that spins the global economy.

"The third challenge arises from technological breakthroughs. New materials and new substitutes have played havoc with the steady development of the primary commodities industry. The delinking of the primary industry from the techno-information sector has profoundly eroded the long-term viability of our leading industries.

"Lastly, there is also the challenge of emerging economic powers like China and other newly-industrialised countries like Brazil, India and Mexico. We are now pressed between the advanced industrial economies and the low-wage countries. The competition is intensifying.

"All the above have created new uncertainties which threaten our comparative advantages in industries and the very foundation of our long-term economic growth in the region.

"During the last two years the recessionary impact has exposed our economic fragility, and an important lesson is that growth management under stress conditions demands new game-plans and crisis management skills. This is a new experience Asean leaders are not well prepared for."

Recent experience, he said, drove home hard the point that reality had changed. "The world economy drives us, not the other way around."

Asean's response and choice, noted Dato' Leong, had to be positive and swift. There was, he said, a consensus that economic success requires the spirit of free

enterprise, minimal government intervention, and minimal government regulation. These were necessary factors to give Asean businesses the climate to innovate, to excel and to create growth and opportunities.

*Intra-Subregional and Regional Trade
of Developing Countries (1970-1985)*

Sub-regional and regional groupings	Intra-group trade in US\$ million ¹			
	1970	1980	1983	1985
ALADI ²	1,290	10,947	8,210	n.a.
Andean Group ³	109	1,187	959	661
CACM ⁴	299	1,135	667	715
CARICOM ⁵	73	485	422	296
UNDEAC ⁶	33	200	n.a.	28
CEAO ⁷	73	263	408	n.a.
Asean ⁸	8,686	11,886	15,625	12,150
ECOWAS ⁹	61	876	819	n.a.
CEPGL ¹⁰	2	5	n.a.	n.a.
Bangkok Agreement ¹¹	-	560	978	1,047

Source: Unctad

Notes:

¹ Based on exports. Also, intra-trade data for 1983 are provisional.

² Latin American Integration Association (formerly Latin American Free Trade Association)

³ Andean Group

⁴ Central American Common Market

⁵ Caribbean Community

⁶ Central African Customs and Economic Union

⁷ West African Economic Community

⁸ Association of Southeast Asian Nations

⁹ Economic Community of West African States

¹⁰ Economic Community of the Great Lake Countries

¹¹ Bangkok Agreement

According to Dato' Leong, the basic framework for any feasible Asean economic integration must take into account different backgrounds, positions and aspirations, accommodate an acceptable scheme of equi-

table sharing of regional benefits, and adopt a flexible formula for participation in regional projects.

Proportion of Asean Trade by Major Trading Partners, 1973-1985 (%)

Trading partners	1973	1983	1984	1985
Asean	14	21	19	19
United States	16	16	18	18
EEC	16	11	11	13
Japan	25	22	23	23
Other OECD countries	6	5	5	n.a.
Opec	3	8	7	n.a.
NICs	6	7	7	n.a.
Socialist bloc	1	1	1	n.a.
Others	12	10	11	n.a.

*Source: International Monetary Fund,
Direction of Trade Statistics Yearbook (various years)*

Proportion of Asean's Exports by Major Destinations (%)

Destination	1973	1983	1984	1985
Asean	14	21	20	19
United States	27	23	24	25
EEC	17	18	20	21
Japan	16	10	10	12
Other OECD countries	5	4	4	n.a.
Opec	n.a.	3	3	n.a.
NICs	6	7	8	n.a.
Socialist bloc	2	1	1	n.a.
Others	12	12	12	n.a.

*Source: International Monetary Fund,
Direction of Trade Statistics Yearbook (various years)*

The strategic pathways to achieve the common objectives in the short term called for implementing that which is achievable and feasible, in the medium

term setting the framework for integration, and in the long term, working conscientiously towards the desired level of integration. He reminded Asean that "in the struggle for economic success, only winners count, nobody takes failure as a model."

*Proportion of Asean's imports
by major countries of origin (%)*

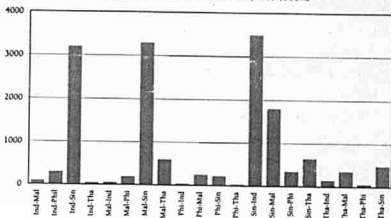
Countries of origin	1973	1983	1984	1985
Asean	14	20	18	18
United States	15	15	16	15
EEC	16	11	11	13
Japan	24	20	21	20
Other OECD countries	7	6	6	n.a.
Opec	6	12	11	n.a.
NICs	6	6	6	n.a.
Socialist bloc	1	0	0	n.a.
Others	2	9	10	n.a.

*Source: International Monetary Fund,
Direction of Trade Statistics Yearbook (various years)*

The G-14 assessment and recommendations were to have far-reaching implications. It had bluntly addressed the shortcomings of the group and its hesitant approach to economic integration. The choices were starkly characterised: change, adapt and co-operate or face the consequences of a global economic assault alone.

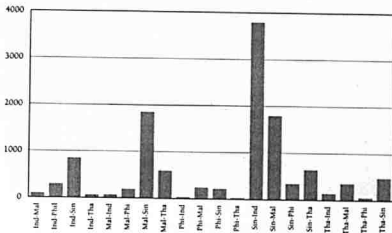
A stark reminder of what could ensue came when Australia's then Prime Minister, Bob Hawke, revived an idea mooted earlier: an Asia-Pacific caucus. This flew in the face of an earlier proposal by Dr Mahathir Mohamad to establish an East Asian Economic Caucus (EAEC) which would have excluded a number of developed countries. The EAEC met with stiff resistance from the Western powers, who in turn pressured Japan initially not to endorse the proposal.

Intra-Asean Trade Flows Distribution, 1983 (US\$m)



Source: International Monetary Fund, *Directions of Trade Statistics Yearbook* (various years)

Intra-Asean Trade Flows Distribution, 1985 (US\$m)



Source: International Monetary Fund, *Directions of Trade Statistics Yearbook* (various years)



OPPOSITE:
*Foreign
 Ministers at the
 admission of
 Brunei into
 Asean in late
 1984.*

Pragmatism prevailed and Asean Foreign Ministers met with their counterparts from Australia, Canada, Japan, Republic of Korea, New Zealand and the United States, in Canberra on June 7, 1989. It was the first Ministerial-level meeting of the Asia-Pacific Economic Co-operation (APEC).

While no major decisions were taken in Canberra, apart from the decision to stage the 1st Apec Summit in 1991, Asean Foreign Ministers made a point of expressing, in carefully couched terms, their reservations over any attempt to detract or dilute Asean, or worse still integrate the group into Apec.

Before the meeting buckled down to the agenda, Indonesia's Dr Ali Alatas, reminded participants that, while ideas for greater co-operation in the Asia-Pacific region had been around for quite some time, "most failed to garner enough support or persuasive force in terms of political desirability or practical feasibility".

Hitherto, he pointed out, the only regular inter-governmental forum in the Asia-Pacific context was established by Asean in 1984 when it introduced Post-Ministerial Conferences with dialogue partners from the West and East (and the European Union, though it was not invited to the APEC meeting.)

He also pointedly stated that in any enhanced Asia-Pacific economic co-operation, "Asean's identity and cohesion should be preserved and its co-operative relations with dialogue partners and other third countries should not be diluted." Clearly the formation of Apec, and its subsequent enlargement under the aegis of the United States, served as a wake-up call to Asean. It certainly was at the crossroads and its destiny in the balance. Rapid economic integration was the only option open.



*15. A Breakthrough
At Last*

**MEETING OF THE
ASEAN
HEADS OF GOVERNMENT**

27-28 JANUARY 1992
SINGAPORE

FOURTH
ASEAN
SUMMIT
SINGAPORE



THE 4th Asean Summit, held in Singapore in January 1992, opened in a blaze of publicity and high expectations. The run-up was preceded by a media blitz of unprecedented proportions, with regional newspapers plugging Asean solidarity incessantly for more than two weeks before the leaders met on January 23.

The far-reaching agreements reached in three days of closed-door discussions met the expectations of a major breakthrough. It was without doubt a historic summit. Before the milestone agreements were endorsed by the Heads of State, their senior ministers and officials huddled daily, for lengthy, demanding meetings, for a whole week, ironing out lingering differences and perceptions between countries who felt that forcing the pace of intra-Asean trade could boomerang.

What had to be faced squarely was that for Asean economic co-operation to work, the harsh realities, warts and all, had to be embraced before the group could make further significant progress. This time, the summit lived up to expectations and did not degenerate into what former Malaysian Foreign Minister, Ghazali Shafie, once described as "a graveyard of good intentions".

While the Cambodian issue was relegated to the back burner, with Vietnamese troops having withdrawn in late 1979 and a comprehensive settlement worked out in the Paris negotiations, the summit was not entirely free of contentious issues. High on the list was the EAEC.

Dr Mahathir Mohamad tackled the matter head-on in his opening statement, hitting out against those who opposed the proposal. He argued there was no reason to object to the caucus which could co-exist with other regional organisations in the Asia-Pacific. "In a world where people and countries are organising

OPPOSITE
*Official opening
of the 4th Asean
Summit in
Singapore on
January 27-28,
1992.*

themselves regionally, it could not be so wrong for East Asian countries to come together."

He went on: "If Southeast Asia can form an association to derive mutual benefits and still remain compatible with being members of Asia-Pacific organisations is there any reason why East Asian countries cannot form a caucus and co-exist with other organisations in the Asia-Pacific region?" The Prime Minister noted that the creation of powerful economic groupings to pursue regional interests was becoming a reality and that international trade was becoming protectionist. To compete in such an environment, the experience of Asean, working as one group was invaluable, as it showed that speaking with one voice the status and interests of its members were enhanced. Similarly, the EAEC, which was not meant to be a trading bloc, could be an informal gathering of East Asian nations for consultations and consensus, for speaking in one voice at international trade meetings.

"We do not understand," he said, "why we are not allowed to speak to each other or even call ourselves East Asians. Is this a foretaste of the new world order?"

The issue was touched upon by leaders from Singapore, Thailand and the Philippines. However, President Suharto chose not to refer to the EAEC. This prompted suggestions that Indonesia was lukewarm to the proposal, a suggestion hotly denied by its Foreign Minister, Dr Ali Alatas. He categorically denied a *Bername* report that his country's response was prompted by fears that it might lose access to the US market as the Americans were against the EAEC.

"We have always said that of the EAEC proposal that all countries are agreed on the fundamental principles underlying the proposal. We agreed that is an important proposal which requires further study and further refinement," Dr Alatas said. On US reprisals, he declared, "We do not fear anybody. If it is a contest of

being courageous, I can stand any comparison with any other country."

Ultimately, the matter of the EAEC was amicably resolved in a meeting of Asean foreign and economic ministers. Basically, they agreed that the proposal be sent back to their respective officials for further refinement before it was adopted. The Malaysian Foreign Affairs Minister, Dato' Abdullah Ahmad Badawi, said he was happy with the outcome. "It is no longer a problem. There is no more controversy." Till this day, the EAEC has yet to come into being and there is little evidence to suggest it will be implemented in the foreseeable future.

The most far-reaching decisions of the summit were the dismantling of the trade barriers through a Cost Effective Preferential Tariff (CEPT) scheme, intended to pave the way for an Asean Free Trade Area (AFTA) within 15 years. Indonesia, which had reservations about the time frame, and preferred 20 years, however, did propose CEPT scheme. Others like Singapore, which favoured a shorter time frame, and Thailand which had pushed for a free trade area in 10 years, readily accepted the compromise.

Indeed, it was Thailand who had been the driving force behind AFTA. Its Prime Minister, Anand Panyarachun, had been advocating such a concept ten years previously and was among early proponents of a common market, though not quite on the same lines as the EU. Singapore, too, was keen on such an arrangement but feared that any vocal advocacy might be construed as promoting its self-interest.

In adopting the CEPT, the economic ministers decided to scrap five committees which were originally responsible for sectoral co-operation, because of the slow progress they had made. They included COTT, COIME, finance and banking, transportation and communications, and food agriculture and forestry.

Instead the work of the committees would be taken over by senior economic officials of the respective countries and co-ordinated by the Jakarta-based Asean Secretariat, under the leadership of former Malaysian diplomat, Dato' Ajit Singh. The Secretariat was to be given enhanced "influence and authority". The Secretary-General was also accorded ministerial rank.

The introduction of the CEPT called for the reduction of tariffs to a uniform 20 per cent between five and eight years, with subsequent tariff cuts to below 20 per cent in a further seven years. It was originally intended to cover only manufactured products, but in a dramatic turn, the leaders agreed to include capital goods.

The decision heralded a new dawn in the history of Asean, and this momentous event could not have been better timed. It marked a break with the difficult past and a great leap into the 21st century. Issues emerging from the end of the Cold War and the resolution of the Indo-Chinese conflict—developments which prompted the formation of Asean and around which the group drew closer—were being unravelled. Thus the imperative need for a strong and cohesive regional order to work and co-exist within the new world order.

Singapore's Goh Chok Tong put it succinctly when he said that the summit was taking place at a time when the world was undergoing dramatic and profound changes. The decision to establish AFTA demonstrated a maturity and a new political will which had previously been reliant more on words than actions.

The realisation of AFTA, while historic, and ushering in a new era in economic co-operation, was markedly distinct from previous summits. The latter were always long on rhetoric and short on results in the area of economic co-operation. A stark reminder was the status of the five Asean joint-venture projects—urea for both Indonesia and Malaysia, copper fabrication for the Philippines, Hepatitis B vaccine for Singapore, and

rock ash for Thailand. Not much progress had been achieved, to the point that these joint ventures received only cursory attention during the various committee meetings.

It had also become clear that the PTA, which took a product-by-product approach before any item was given preferential tariff, was becoming a tiresome and almost irrelevant undertaking.

The breakthrough to new levels of economic co-operation were widely hailed by the private sector. The two leaders who emerged as the "kingmakers" for the groundbreaking accord were Mr Goh Chok Tong and Mr Anand Panyarachun. Mr Anand was then serving the final months of his two-year stint as a caretaker prime minister. A highly-respected former diplomat-cum-businessman turned politician, he used his wide regional contacts to influence fellow Asean leaders into giving serious consideration to a free trade area for over a year before Singapore hosted the 4th Summit.

Mr Goh, in turn, was viewed as a quiet but firm advocate of the proposal. He also put his role as host to maximum use by accommodating all divergent views—and even initially agreeing to Indonesia's suggestion that AFTA should evolve over two decades.

Expressing unqualified support for AFTA, Mr Anand pointed out that while the agreement initially covered manufacturing products (and capital goods), he was hopeful that agriculture and services would be included within the fifteen-year time frame.

On the subject of overcoming a sense of competitiveness while working together, Mr Anand agreed that in the past a sense of competition often prevailed, thus eroding the co-operative gains. However, in the face of fast-changing global developments, political and economic, Asean was forced, by necessity if not choice, to pursue policies of competitive co-operation.

To demonstrate his country's commitment to AFTA, Mr Anand announced that his government

would take immediate steps to introduce a blanket cut in import duties on manufactured goods from other Asean countries. Such imports would be subject to a maximum tariff of 30 per cent by January 1, 1993. This new ceiling would be further reduced to a maximum of 20 per cent by 1994. In one bold stroke, the Thais had set a new target for AFTA's realisation. It would be hard not to follow suit.

The introduction of CEPT to pave the way for the free trade area meant that about two-thirds of the current intra-Asean trade would be covered by the scheme. The substantial increase was largely due to the unexpected inclusion of capital goods. Singapore accounted for 61 per cent of the regional trade in capital goods in 1990. But most of Singapore's exports of capital goods (up to 60 per cent) were re-exports and hence would not qualify for preferential tariff rates under the CEPT.

Malaysia's domestically produced capital goods accounted for 26 per cent of intra-Asean trade, which is about the same as Singapore's share.

The introduction of capital goods for preferential treatment eliminated the countless problems that would otherwise have arisen in defining what really constitutes capital goods. In many instances, capital goods could also be considered as manufactured goods. Added to this is the anomaly which could arise when some capital goods are excluded from CEPT which already enjoy tariff preference under the existing PTA.

The impact on the Asean economies, arising from the inclusion of capital goods, however, would vary. The market in Singapore in 1990 was estimated at around S\$8.8 billion. Based on import figures, Malaysia's capital goods market amounted to \$19.3 billion, marginally less than that of Thailand. The amount imported by Indonesia was \$11 billion, and \$1.9 billion for the Philippines.

The adjustments that member states would have to make varied, given the wide variations of tariff levels. Thailand's tariffs on capital goods was the highest, ranging between 30 and 80 per cent, but mainly between 30 and 40 per cent. In the case of Indonesia, rates were between zero and 60 per cent. Tariff rates in Malaysia and the Philippines were almost similar, zero to 50 per cent. Singapore imposed no tariffs on capital goods.

A new council to oversee the implementation of AFTA was immediately established. It included high-level representatives from each of the countries and the Secretariat.

While the spotlight was initially focused on economic integration, it moved perceptibly towards an area hitherto cautiously avoided—regional security co-operation. The proposal was first forwarded by former Indonesian foreign minister, Mochtar Kusumaamadja a week before the summit took place. Vietnam, which attended the summit as an observer, also indicated its keenness to accede to the Treaty of Amity and Co-operation in Southeast Asia (Amity Treaty).

Indonesia made its position crystal clear at the outset. Dr Ali Alatas stated categorically that his country would oppose any attempt to make the Treaty the main mechanism for structuring a new regional order. It could not, he declared, replace ZOPFAN (Zone of Peace, Freedom and Neutrality) which was still relevant for promoting regional peace—despite the end of the Cambodian crisis.

Dr Alatas slammed proponents of new proposals that allowed countries outside Southeast Asia to accede simply to the Treaty, saying the proposed approach was "unbalanced".

His reaction came in the wake of suggestions during meetings of officials that more countries be invited to sign the Treaty, which provides the framework for the peaceful settlement of disputes. The Treaty had

been amended at the previous Manila Summit to allow countries from outside the region to accede to it.

Expressing his concerns over any attempt to discard ZOPFAN, and allow more countries to accede to the Treaty, Dr Alatas maintained that while ZOPFAN was a flexible blueprint, and though the concept should be adopted in the light of new developments, it should not be discarded.

ZOPFAN, he said, had been "kept under wraps" awaiting a resolution of the Cambodian crisis, and had never been presented to other countries in the Asia-Pacific (and not to members of APEC).

Now that the Cambodian conflict was settled he suggested that Asean take it out of the drawer, dust it up, look at it together and see what adaptations needed to be made on certain of its parts.

Explaining ZOPFAN's continuing relevance, Dr Alatas said the concept operated on two levels. On the regional level, it committed countries within Southeast Asia to a code of conduct based on principles such as mutual restraint and the peaceful resolution of conflicts. This, he pointed out, had been the legal framework within the Treaty, signed in 1976. "That's our part of the bargain. That's how we will contribute to a new regional order."

On the extra-regional level, ZOPFAN sought to commit outside powers to a code of conduct based on principles such as non-interference and efforts to strengthen Asean's economic development, instead of military intervention as in the case of Cambodia.

Dr Alatas said he could not understand any proposal to drop ZOPFAN and allow outside powers to accede to the Treaty. "What then remains of their commitment? If that's the idea, I'm going to go against it."

Malaysia's position was that ZOPFAN still remained relevant in the post-Cold War world. For the present, the focus should remain within the region and hence Vietnam and Laos should sign the Treaty, as

should Cambodia. The Philippines sketched an ideal scenario in which regional security was maintained entirely by countries in the region.

Publicly, President Cory Aquino, soon to step down at the end of her term, backed the formation of an Asean committee on defence co-operation. She said the decline of the United States' military presence had made Asean countries realise that they needed to give serious thought to regional security. In the Philippines, a total pull-out of US armed forces from Clark and Subic bases—the largest US bases overseas—was scheduled to be completed in 1992.

Aquino noted that informal seminars on security matters in the Asia-Pacific, conducted by the Philippines and Thailand a year previously, had placed the topic squarely on the Asean agenda. "We view this process of consultation on the requirements of regional security, amongst ourselves and with our friends in the region, as an important confidence-building measure," she said.

Later, her Foreign Minister, Raul Manglapus, expressed the hope that details of a defence committee would be discussed at the next meeting of foreign ministers in Manila in July. He said his government wanted to see a consensus emerge on the subject. "There is a lack of consensus on security. The Philippines believes very strongly that a consensus must take shape soon."

Thus, in addition to ushering in a new era in economic co-operation, the Singapore Summit also sowed the seeds for yet another important Asean forum: The Asean Regional Forum (ARF).

*16. Tentative Start
to AFTA*



NOT unexpectedly, after the euphoria had settled, a number of misgivings over the bold proposal were aired and there were some fears that the free trade area might become yet another non-starter. Though critics of AFTA—mainly ultra-conservative domestic politicians within countries who perceived themselves to be “losers”, and some perennial opponents of Asean—sought to rock the boat, the supporters of the proposal, including senior officials, steadfastly promoted the new initiative.

The first hint of a delay came in May 1992 when the Thais sought approval from their counterparts to allow it to defer by a year full implementation of the proposed tariff cuts. This request contrasted with Mr Anand Panyarachun's pledge at the Singapore Summit to implement cuts sooner, if not before the January 1, 1993 deadline set for the CEPT.

According to a Thai spokesman, “We have a long list of products to sort out and we believe it is not possible to finalise the full list in the next seven months. We also feel that there are certain products which should not be put in the basket until we are ready.” The spokesman said, however, that Bangkok would proceed with the phased tariff cuts of some products by January 1.

The spokesman insisted that the requested extension had nothing to do with the country's domestic problems—those associated with the handover of power by Mr Panyarachun and fresh national elections, and deep-seated reservations from sections of the army and private sector. “Bangkok is definitely committed to the success of AFTA,” the spokesman reiterated.

On domestic objections to AFTA, the spokesman said: “We are drawing up a schedule while trying to

convince our private sector that such a plan, which will result in a loss of taxes, will benefit them in the long run."

Palm oil was considered a sensitive item because the authorities were trying to balance the supply of and demand for the commodity. In fact, Thailand imported 10,000 tonnes from Malaysia to top up a cyclical shortfall. The spokesman suggested that even though Thailand was not prepared to cut tariffs on palm oil, other members, especially Malaysia and Indonesia, could proceed under the "six-minus-one" principle which temporarily allowed one member country to opt out. Thailand did make a number of cuts before January 1, but the failure to comply fully drew criticism from some neighbouring states.

Shortly before the Thai request, a leading regional securities company highlighted potential problems which could hinder the smooth implementation of AFTA. In a less than optimistic forecast a quarterly review by Securities warned of pitfalls. While it conceded that the AFTA initiative had a greater chance of success than several other previous schemes it, questioned the level of commitment.

The review drew up a list of "winners" and "losers" following the implementation of the CEPT, asserting that the distribution of benefits appeared to be biased in favour of Singapore and Thailand, something that would weaken the commitment of other governments. It also noted that there have been squeals of protest by business interests in a number of countries. It also pointed out highly sensitive product areas and singled out cement and vegetables as "clear problem areas".

On a broader level, Crosby's survey of Asian economies found policymakers having difficulty in shaping new policies to suit the more liberal economic regimes. The traditional tools of policy do not work as well as before, it said, citing, for example, Singapore's inability to depend on Malaysian workers to ease its la-

bour shortage now that Malaysia itself was facing similar problems. In some countries, it claimed, uncertainty over policy directions resulted in different arms of government being at odds over which policies to pursue.

Total Intra-Asean Trade, 1985 and 1990

	1985 (%)	1990 (%)	Growth (%)
Brunei	3.0	2.1	6.7
Indonesia	11.0	8.1	8.0
Malaysia	25.2	26.4	15.9
Philippines	4.9	3.5	7.2
Singapore	45.6	47.1	15.6
Thailand	10.2	12.8	20.1
Total	100.0	100.0	14.8
US\$ billion	26.7	53.3	

Source: Direction of Trade Statistics, International Monetary Fund Trade Statistics (1991), Taiwan

Note: Singapore-Indonesia trade figures obtained from Trade Statistics, Indonesia

Meanwhile a study by two Singaporean economists, Toh Mun Heng and Linda Loh, of the National University of Singapore (NUS), suggested that AFTA would offer only modest economic benefits, but nevertheless was a useful showcase of regional unity.

Figures from their econometric study showed that a total reduction in tariffs will lift the income of member nations by an average of 3.1 per cent, using 1990 as a base. The reason for this marginal improvement was that Asean economies did not complement each other much when it came to trade.

A breakdown of their figures showed that Singapore's income would rise by 5.5 per cent with the free flow of goods within the group. Malaysia would be richer by 5.1 per cent, Thailand 2.7 per cent, Indonesia by 2.3 per cent and the Philippines by 1.8 per cent.

With no tariffs within Asean, intra-Asean trade would rise by 14.7 per cent. Philippine exports within Asean would rise by a hefty 19.5 per cent, Thailand by 18.9 per cent, Singapore by 14.9 per cent, Indonesia by 14.5 per cent and Malaysia by 12.3 per cent, according to the study.

Another survey, by DBS Bank, reporting on the effect of the global capital crunch on four Asean economies—excluding Singapore and Brunei—was more sanguine about AFTA. The free trading environment and ready access to a huge domestic market of more than 350 million would encourage greater foreign investment.

The Bank was, however, concerned over the worldwide shortfall in capital. It quoted a Japanese White paper which put the shortfall at US\$103 billion in 1993. This could worsen the overall balance of payments of Singapore, Malaysia, Thailand and Indonesia, and could also result in the shelving of several major infrastructure projects.

In the face of uncertainties, the report said that Asean economies needed to generate sufficient investment capital internally to reduce dependency on external funds and facilitate stable, long-term growth.

By October 1992, a new problem emerged, throwing into doubt the role of the AFTA Ministerial Council, which had been mandated to oversee its implementation. Its second meeting, scheduled for October 21, in Manila, was indefinitely postponed after fresh uncertainty over Thailand's position on the CEPT.

After two days of meetings, officials could not resolve all items to pave the way for a tariff-reduction exercise. An announcement said that "the CEPT-AFTA meeting has been postponed indefinitely because the Thai position is unknown. The Thai Parliament is meeting only today".

Initially, the Thais requested a two-week postponement but after discussions in Manila, no headway

was made. The Thais officially attributed the delay to the status of their new Cabinet, which had yet to be formalised.

Press reports, however, noted that Thailand had made a fresh proposal that in effect amounted to a policy difference between Bangkok and their partners over who the AFTA Council should report to. The Thais reportedly wanted the Council to report to the Heads of Government instead of the Asean Economic Ministers (AEM) Meeting as originally conceived.

The new proposal had been described as "impractical" as the Asean heads met only once in three years, while the Council, as an implementing body, had to meet more regularly. The AEM met annually. In effect the Thai proposal could have resulted in the 15-year time frame being delayed.

In the wake of widening debate, regional labour leaders expressed concern that AFTA could trigger labour displacement in the region. "We feel there will be drastic short-term effects of labour displacement as our regional economic restructuring gets underway," then Philippines Labour Minister, Mrs Nieves Confessor, said at the end of the 9th Labour Ministers meeting.

Some industries, she said, which would not be able to compete under a free trade agreement, were expected to lay off workers, a move which would drive up unemployment in some countries.

"There will be losing as well as gaining industries. For sure, losing industries will be forced to fire their workers." She added that the Asean Ministers had agreed to undertake a study to identify industries that would be hard hit. Unlike the European Union's Single Market Scheme, AFTA was limited to the movement of goods and excluded skilled labour.

In their joint communiqué, the labour leaders agreed to "intensify efforts in addressing changes in the employment structure arising from economic and industrial restructuring." They also called for a realign-

ment of Asean labour policies and a "retooling of the skills of the region's workers and shifting them to newly emerging industries".

"This means facing the formidable issue of restructuring the sectoral distribution of our manpower resources from a predominantly agricultural to a predominantly industrial orientation," Mrs Confessor said.

The ministers also assailed what they called "increasing attempts" by certain developed countries and international trade secretariats to impose pressure on developing countries to comply with rigid ILO standards and link such compliance with trade privileges.

Amidst the uncertainties, Dr Mahathir Mohamad made a strong appeal for Asean to "focus on economics" in the face of rising trade blocs. Addressing a forum in Kuala Lumpur, the Prime Minister proposed that Asean economic ministers elevate the status of its annual meetings.

If Asean did not bring economics to the centre stage, it could end up "a toothless tiger", he warned. "The time has come for us to bring economics to the core of the Asean enterprise. In a world where international relations are being dictated overwhelmingly by economic considerations, failure to have an effective, meaningful and workable programme of economic co-operation which ensures a stake for all will make Asean a toothless tiger rather than an economic tiger that we aspire to be."

On AFTA, he said, Malaysia wanted the free trade area to come into being earlier. "If we appear in a hurry, it is only because Asean has little lead time to prepare itself against the growing challenges coming its way—challenges which, if not met, would threaten our economic well-being."

To achieve this, Dr Mahathir suggested that Asean economic ministers meet jointly with their dialogue partners, rather than meet with them after their annual

meetings. In addition to existing dialogue partners—US, EU, Australia New Zealand, Canada, South Korea and Japan—China and the Soviet Union had expressed interest in participating, he noted. Later, he suggested that there be two annual forums with dialogue partners, one between economic ministers and the another between foreign ministers.

The presence of Nafta and the EU, and the close ties that bind member countries of those organisations, required Asean to safeguard its own interests. For that reason, he said, Malaysia had proposed the formation of the EAEC.

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that proper record-keeping is essential for ensuring transparency and accountability in the organization's operations.

2. The second part of the document outlines the various methods and tools used to collect and analyze data. It highlights the need for consistent data collection procedures and the use of advanced analytical techniques to derive meaningful insights from the data.

3. The third part of the document focuses on the implementation of data-driven decision-making processes. It provides a detailed overview of the steps involved in identifying key performance indicators (KPIs) and using data to inform strategic decisions.

4. The fourth part of the document discusses the challenges and risks associated with data management and analysis. It addresses issues such as data privacy, security, and the potential for bias or misinterpretation of data.

5. The fifth part of the document offers practical recommendations and best practices for organizations looking to optimize their data management and analysis processes. It includes suggestions for improving data quality, enhancing data security, and fostering a data-driven culture within the organization.

6. The sixth part of the document provides a summary of the key findings and conclusions of the study. It reiterates the importance of data in driving organizational success and the need for continuous improvement in data management practices.

7. The seventh part of the document includes a list of references and sources used in the research. It provides a comprehensive overview of the literature and resources that informed the study.

8. The eighth part of the document contains a list of appendices and supplementary materials. These materials provide additional details and data that support the findings and conclusions of the study.

9. The ninth part of the document includes a list of figures and tables. These visual aids help to illustrate the data and findings presented in the document, making it easier for readers to understand the results.

10. The tenth part of the document contains a list of footnotes and endnotes. These notes provide additional information and clarifications related to the content of the document.

17. Taking Off On Separate Tracks



AS the January 1993 deadline for the implementation of AFTA approached, there were impassioned pleas to give AFTA a chance. There were also pessimistic predictions that the free trade area proposal was doomed to failure, in the same way as the PTA scheme which had preceded it for 13 years. The six constituent members were criticised for dragging their feet and failing to live up to the expectations generated by the Singapore Declaration. Officials in turn, privately blamed the hiatus on what they felt was a purely political decision, taken without a practical assessment of pitfalls in implementing the proposal.

But there was no looking back, and as far as the governments were concerned, the CEPT had to come on stream on time, failing which the credibility of the grouping would suffer irreparable damage. At the back of their minds, too, was the rationale behind AFTA—to counter the emergence of new trade blocs. Coincidentally, the Single European Market (SEM)—representing 665 million people from 18 countries and spread over two continents was scheduled to be launched on January 1, 1993—the same day as the CEPT was to come into operation.

Thus, Asean senior officials had no choice but to hammer out a compromise deal to meet the deadline. And this they did over innumerable meetings in the last quarter of 1992, primarily at the incessant prodding of their economic ministers who met in Manila on November 23. The ministers, clearly dissatisfied with the lack of progress, pressed home the urgency for a stronger push for AFTA following the breakdown in the latest round of GATT talks.

Expressing grave disappointment over the impasse in negotiations between the US and EU on agriculture issues, the economic ministers said they were

OPPOSITE, ABOVE:

*Dr Mahathir
Mohamad with
the author.*

OPPOSITE, BELOW:

*Dato' Seri
Anwar Ibrahim
with the author.*

seriously concerned over the possible breakout of what was described as a "calculated and limited trade wars" between the major trading nations.

According to Singapore's Deputy Prime Minister, Lee Hsien Loong, the GATT impasse underscored the need to press ahead with AFTA. He said it was not acceptable to have a single issue—agriculture—derail the whole international trading system.

Mr Lee added that unfavourable developments like the GATT impasse could nevertheless have a sobering effect on Asean by giving AFTA a nudge forward. It may well have done so.

Despite the problems raised by Thailand's initial hesitancy, under a new government, the Thais came around and its Deputy Prime Minister, Supachai Panichpakdi, assured the economic ministers that his country would co-operate fully to launch the CEPT on time. He probably also took the point made by Malaysia's Rafidah Aziz when she said that Asean countries would have to co-operate among themselves even more while forging closer links with neighbouring countries in East Asia. "It looks like the world is being driven by the big players, unless the smaller ones get into a situation where you can be a force to be reckoned with collectively," she said.

A month later, Rafidah Aziz breathed a sigh of relief as she and her counterparts emerged from the AFTA Ministerial meeting in Jakarta. After lengthy discussions—and a resolution of Thailand's initial disquiet over the AFTA Council's terms of reference—the ground-laying talks were finally wrapped up. Within a week, the details were announced. Not everyone was pleased by the subsequent announcement (though a two-speed highway was agreed upon to free trade under the CEPT scheme) but at least AFTA took off as promised on New Year's Day, 1993.

The first was a fast track for 15 product groups; the second, a normal track for all remaining items destined

to be put on the chopping block. For the first category, tariffs of 20 per cent or less would be reduced to between zero and five per cent within seven years (by January 1, 2000) while those subject to tariffs in excess of 20 per cent would be slashed to between zero to five per cent within 10 years.

The agreed product groups were: vegetable oil, cement, chemicals, pharmaceuticals, fertilizers, plastics, rubber products, leather products, pulp, textiles, ceramics and glass products, gems and jewellery, copper cathodes, electronics, and wooden and rattan furniture.

Under the normal track, all tariffs on the fast track i.e. 20 per cent and below, would be reduced to between zero and 5 per cent within ten years. Tariffs above 20 per cent in this category would be slashed in two stages: first to 20 per cent within five to eight years and subsequently, to between zero and 5 per cent in seven years, or by January 1, 2008.

"Thus, while the time frame stipulated in the CEPT scheme for bringing tariffs down to between zero and 5 per cent is 15 years, the agreed schedules would bring tariffs down to such a level ahead of 15 years," a Council statement said. However, it did not highlight the fact that while Singapore, Brunei and Malaysia would implement tariff cuts almost immediately, the other member states would begin some years later.

There would also be some items excluded from tariff reduction, some temporarily, others permanently. Indonesia and the Philippines submitted the longest list of temporary exclusions, indicating the extent to which many of their industries were unable to face open competition.

AFTA thus got off to a slow start, but there was no denying the fact that basic pledges at the Singapore Summit were essentially kept. With the launch of the CEPT scheme, hopes were pinned on greater political will to achieve the free trade area, not just within the

stipulated 15 years but possibly somewhat earlier. As ensuing developments unfolded, this expectation was well founded, but not before the scheme, and the greater objective, AFTA, was subject to some boat-rocking.

The culprits were protected industries which thrived while enjoying a high degree of domestic protection, but which clearly would end up losers once the playing field was levelled. And with strong vested interests leading an often well-disguised anti-AFTA campaign, little wonder that the grand plan was often the object of strident criticism. This was particularly so in the Philippines, Indonesia and, to a lesser degree, Malaysia.

Filipino private sector objections were understandable. The country was left out of the mainstream of Southeast Asia's remarkable economic development and growth during the 1980s, with the country beset with political woes, prior to Marcos' unceremonious departure and throughout the best part of Cory Aquino's six-year term. It was, simply put, an economic laggard within the Asean context, failing to attract anything but a modicum of investor interest.

Explaining their dilemma, an exasperated Mr Raul Concepcion, chairman of Concepcion Industries, makers of air-conditioners, told *Business Times* in February 1993, that "we preempted ourselves. We are in effect 7 to 12 years ahead of our counterparts in the region who are just starting to reduce their rates through CEPT". He was referring to former President Cory Aquino's earlier promulgation of an executive order liberalising imports, a condition imposed by the IMF in exchange for additional soft loans.

The order was made in August 1991, ahead of AFTA, and six months before she handed over to Fidel Ramos, thus weakening Manila's bargaining role in subsequent tariff-cutting discussions. Most industrialists, it would appear, were against the CEPT and AFTA,

not of their own volition, they claimed, but because their government had its hand forced, unilaterally opening up the economy too quickly to imports.

Compounding matters, the order pegged the tariff for imported materials at an average of 10 per cent, compared to 0 to 2 per cent in the case of Malaysia, Indonesia and Thailand, thus effectively making Manila's production costs higher. The order made further tariff cuts, from 30 per cent for finished goods to 20 per cent for intermediate products. "This created major distortions, and many industries were caught in the situation where tariff levels for certain imported raw materials were even higher than the rates slapped on finished products," Mr Concepcion said.

An example quoted was steel. While imported raw materials were subject to import duty of 20 per cent, finished products were allowed in at a lower 15 per cent rate. This was negative protection, he lamented.

The interview revealed that 27 industrial groups had appealed for a government re-think. Unless Manila cut the duty on raw materials imports, it couldn't conceivably compete with its partners, thus forcing it to opt out of AFTA. Even giant San Miguel voiced concern over its competitiveness in products like beer, its mainstay. While the company had to pay 30 per cent duty on imported malt beer, producers in other Asean countries paid a 2-per-cent duty.

The new Ramos Administration's initial reaction was that there would be no turning back on the commitment to AFTA, and that local industries needed to improve their efficiency. The industrialists countered that in addition to high import tariffs, they faced high financing costs, wages, foreign exchange losses, and significantly, power shortages, despite the fact that power costs in the Philippines were much higher than in Malaysia or Indonesia.

This led to a serious debate as to whether the Philippines was indeed ready for a free trade regime. The

Business Times conducted an in-depth interview with Wilson Wy Tiu, executive director of the Federation of Philippines Industries (FPI). In Mr Tiu's view the long-term benefits and advantages could not be presumed. "Tariff reduction should not be utilised to discipline uncompetitive industrial sectors. Test periods must be provided to allow for withdrawals, if and when necessary. Or when the scheme proves not viable."

In his view, the Philippines was not in a good position as their long-term industrial plan had yet to be put in place. He conceded that the Philippines then had very few products which could compete under a free trade scheme. He expressed real concern over a flood of imports from neighbouring countries which Filipinos would buy based on price alone.

Mr Tiu said the FPI had appealed to the government to help level the economic field and to develop an industrial strategy to enable the Philippines to cope with AFTA's regulations. More pertinently, the government was asked to seek the views of the Federation and not the views of a few key players. The administration's response, he said, had varied from "lukewarm to abject disregard": "By ignoring these problems ... the government is only creating hostility and in the process signals its preference for an import-based economy ... by ceding controls over most of the tariff settings through treaties it shuts out the development of new industrial areas."

Similar responses met with a strong rebuke from Singapore's Trade and Industry Minister, S. Dhanabalan, who criticised the private sector for causing the delay in the launch of AFTA. Blaming protectionist pressures from private-sector interest groups in some countries, he hit out at the "schizophrenic approach" of wanting their cake and eating it.

He told *Business Times* ahead of the 25th AEM, that leaving the implementation of AFTA in private sector hands would not work. "I never believed the

various claims by the chambers of commerce and the private sector that if things are left to them, the whole free trade arrangement will move faster. That's not true because they are the ones who put the pressures on their governments to go slow or erect protective barriers."

Dhanabalan also disclosed that the AEM would thrash out a new package of tariff cuts aimed at making sure that AFTA kicked off on schedule. The proposed list would be a short one, but good enough to send a clear signal that AFTA was credible and workable.

Dhanabalan's candid views surprised many in the private sector. He signalled clearly that governments would carry AFTA through and by implication, the private sector would have to make the necessary adjustments to subscribe to the plan—failing which they would go out of business. It revived an older argument: what was the role of government in business development and promotion? Apart from Singapore, and to some extent in Malaysia, government direct equity involvement—which gave it a large say in how such corporations managed their affairs—was not the norm in other countries.

Be that as it may, the undertakings given at the Singapore Summit committed Asean governments to seeing Asean through—regardless, it would seem, of how the private sector felt. Dhanabalan's remarks raised some fears among the business community. Many felt this would translate into an unhealthy trend, as government policies, especially those which led to accession to treaties, should, they argued, reflect the economic realities faced by private businesses and the private sector's views ought to be widely canvassed in advance of major policy decisions.

To senior government officials, the question being asked was: Was the private sector indeed complacent or indifferent towards AFTA and did their views reflect only the perpetuation of self-interest?

THE ROAD TO AFTA: General Formulae of Programmes for Tariff Reduction

FAST TRACK												Table 1
Products with tariffs above 20%												10 Years
Country		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Brunei												
Indonesia	Existing tariff rates (%)											
	40	40	40	30	30	20	20	15	15	10	10	0-5
	30	30	30	20	20	20	20	15	15	10	10	0-5
	25	25	25	20	20	20	20	15	15	10	10	0-5
Malaysia	Existing tariff rates (%)											
	50	45.5	41	36.5	33	27.5	23.0	18.5	14	9.5	5	
	40	36.5	33	29.5	26	22.5	19	15.5	12	8.5	5	
	30	27.5	25	22.5	20	17.5	15	12.5	10	7.5	5	
Philippines	Asean duty (%)											
	46-50				45	40	35	30	25	20	15	0-5
	41-45				40	35	30	25	20	15	10	0-5
	36-40				35	30	25	20	15	10	10	0-5
	31-35				30	25	20	20	15	15	10	0-5
	26-30				25	25	20	20	15	15	10	0-5
	21-25				20	20	15	15	15	10	10	0-5
Singapore	Asean duty (%)											
	above 20	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Thailand	Existing tariff rates (%)											
	above 30	30	30	25	25	20	20	15	15	10	10	0-5
	26-30			25	25	20	20	15	15	10	10	0-5
	21-25			20	20	15	10	10	10	10	0-5	

Source: Third AFTA Ministerial Council Meeting

THE ROAD TO AFTA: General Formulae of Programmes for Tariff Reduction

FAST TRACK												Table 2
Products with tariffs 20% and below												7 Years
Country		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Brunei Darussalam	Existing tariffs rates (%)											
	20	20	20	15	15	15	10	0.5				
	15	15	15	10	10	10	10	0.5				
Indonesia	10	10	10	5	5	5	5	0.5				
	Existing tariff rates (%)											
	20	20	20	15	15	15	10	10	0.5			
	15	15	15	10	10	10	5	5	0.5			
Malaysia	10	10	10	5	5	5	5	5	0.5			
	Existing tariff rates (%)											
	20	17.86	15.72	13.58	11.44	9.3	7.16	5.02				
Philippines	10	9.3	8.6	7.9	7.2	6.5	5.8	5				
	Asean duty (%)											
	16-20				15	5	10	0.5				
	11-15				10	10	0.5	0.5				
	6-10	0.5	0.5	0.5	0.5	0.5						
Singapore	0.5	0.5	0.5	0.5								
	Asean duty (%)											
Thailand	0-25	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
	Existing tariff rates (%)											
	20	20	20	15	10	10	10	10	0.5			
	15-19			15	15	15	10	10	0.5			
	10-14			10	10	10	0.5					
	5-9			0.5								
5 and below	0.5											

Source: Third AFTA Ministerial Council Meeting

THE ROAD TO AFTA: General Formulae of Programmes for Tariff Reduction

NORMAL TRACK																	Table 3
Products with tariffs above 20%																	15 Years
Country		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Brunei Darussalam	Existing tariff rates (%)																
	30	30	28	26	24	22	20	15	15	10	10	10	0.5				
Indonesia	Existing tariff rates (%)																
	50	50	50	50	50	50	40	30	30	20	20	20	15	15	10	10	0.5
	40	40	40	40	40	40	30	30	30	20	20	20	15	15	10	10	0.5
	30	30	30	30	30	30	20	20	20	20	20	20	15	15	10	10	0.5
	25	25	25	25	25	25	20	20	20	20	20	10	15	15	10	10	0.5
Malaysia	Existing tariff rates (%)																
	50	46.25	42.5	38.75	35	31.25	27.5	23.75	20			15		10		5	
	30	28.75	27.5	26.25	25	23.75	22.5	21.25	20			15		10		5	
Philippines	Asean duty (%)																
	46-50				45	40	35	30	20	20	20	15	15	10	10	0.5	
	41-45				40	35	30	25	20	20	20	15	15	10	10	0.5	
	36-40				35	30	25	25	20	20	20	15	15	10	10	0.5	
	31-35				30	30	25	25	20	20	20	15	15	10	10	5	
	26-30				25	25	25	25	20	20	20	15	15	10	10	0.5	
	21-25				20	20	20	20	20	20	20	15	15	10	10	0.5	
Singapore	Asean duty (%)																
	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Thailand	Existing tariff rates (%)																
	above 30	30	30	30	30	30	25	25	20	20	20	20	15	15	10	10	0.5
	26-30						25	25	20	20	20	20	15	15	10	10	0.5
	21-25								20	20	20	20	15	15	10	10	0.5

Source: Third AFTA Ministerial Council Meeting

THE ROAD TO AFTA: General Formulae of Programmes for Tariff Reduction

NORMAL TRACK												Table 4		
Products with tariffs 20% and below													10 Years	
Country		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003		
Brunei Darussalam	Existing tariff rates (%)													
	20	20	20	20	15	15	15	10	10	10	0.5			
	15	15	15	15	10	10	10	5	5	5	0.5			
	10	10	10	10	5	5	5	5	5	5	0.5			
Indonesia	Existing tariff rates (%)													
	20	20	20	20	15	15	15	10	10	5	5	0.5		
	15	15	15	15	10	10	10	5	5	5	5	0.5		
	10	10	10	10	5	5	5	5	5	5	5	0.5		
Malaysia	Existing tariff rates (%)													
	20	18.5	17	15.5	14	12.5	11	9.5	8.0	6.5	5			
	10	9.5	9	8.5	8	7.5	7	6.5	6	5.5	5			
Philippines	Asean duty (%)													
	16-20				15	15	15	15	10	10	10	0.5		
	11-15				10	10	10	10	10	10	0.5	0.5		
	6-10				0.5	0.5	0.5	0.5	0.5					
	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5						
Singapore	Asean duty (%)													
	0-2.5	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Thailand	Existing tariff rates (%)													
	20				20	20	20	15	15	10	10	0.5		
	15-19							15	15	10	10	0.5		
	10-14							10	10	5				
	5-9							0.5						
	5 or below	0.5												

Source: Third AFTA Ministerial Council Meeting

Around the same time, Singapore's Economic Development Board (EDB) signed a memorandum with its Asean counterparts to jointly attract foreign investments. According to Dhanabalan, who witnessed the signing ceremony, Asean's political stability had been a big draw for foreign investors. "We have actually been successful in creating an oasis in a world that is full of turmoil."

But what of intra-Asean cross-investments, a subject that attracted little attention prior to AFTA. Privately, there were forces at work, quietly promoting intra-Asean investments.

One such movement was the Asean Business Forum (ABF), a wholly private-sector initiative which comprised corporate leaders from some 160 public-listed and private companies in the region. This author conceived the project in 1989 and it was launched in Jakarta in 1991—well before AFTA and APEC. (I also had the honour to serve as its first executive director.)

The ABF's primary role was to bring CEOs together in conducive conditions—and it worked. Within two years of its establishment some US\$200 million in seed-capital had been subscribed by members in joint ventures with fellow members. ABF also promoted cultural and educational ties between the various communities, initiating programmes such as the annual Asean Achievement Awards—which saluted leaders in specific disciplines—a Young Leaders' Forum, and annual gatherings of highly talented pre-university students. But its main thrust was to quietly promote regional investments.

One person, in particular, who saw the merit in ABF activities, and constantly cajoled the private sector, was the current Secretary-General, Dato' Ajit Singh—whom many correctly credit with the revival in Asean's co-operative efforts, since the Secretariat was vested with wider, executive powers. Another was Ma-

laysia's Deputy Prime Minister, Dato' Seri Anwar Ibrahim.

Speaking at the 1st Asean Business Forum, in early 1992, Dato' Ajit told his audience of private businessmen and women that there was an urgent need to "institutionalise private sector presence in future discussions on AFTA". He said that while governments were taking the lead in establishing the legal and administrative framework, it was the private sector which was translating these initiatives into productive activities: "Your opinions and views are of utmost importance in helping governments to design the appropriate policies and mechanisms for the success of AFTA," he said. He acknowledged that to date the public sector had failed to fully tap the private sector's views. This had led to obstacles in implementing AFTA.

Leading Indonesian businessman, Tanri Abeng, agreed, and welcomed the Secretary-General's offer to host a meeting with business leaders to discuss the various issues which had been raised during the on-going debate as to whether AFTA was a workable proposal. Stressing the need for a strong partnership between the two sectors, Mr Abeng said the Indonesian government had not approached his company for feedback, even though it was among the largest in the country.

Thus the debate continued, and even after the 4th AFTA Council meeting in October 1993, progress in implementing the proposal was painfully slow. But the following two years, however, were to prove far more productive.

[The text on this page is extremely faint and illegible. It appears to be a list or index of items, possibly names of people or places, arranged in a columnar format. The text is too light to transcribe accurately.]

*18. 1994: A Year
To Remember*



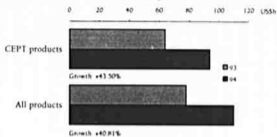
THE year began on a high note, with healthy rates of economic performance registered by the member nations, ranging from 10 per cent for Singapore to 1.7 per cent for the Philippines. The mechanics of export-led growth in Asia has been widely debated. A metaphor conjured to illustrate this achievement has been that of flying geese.

According to Prof Yamazawa of Hitotsubashi University, and quoted by Anne Booth, Economics Professor at the School of Oriental Studies, University of London: "The main mechanism underlying this increasing interdependence in the Asia-Pacific region is the transfer of industries, particularly manufacturing industries, from early starters to the late comers. In fact, there has been a shift in the countries which have a comparative advantage in the mature industries, such as textiles and steel; namely from the United States and Japan to the Asian NIEs, and from them to Asean. This is known as the 'flying geese' pattern of industrial development ... and this pattern has already been extended to the stage of developing the electronics and automobile industries in Asean."

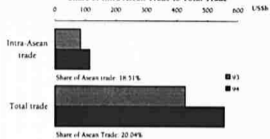
He went on to point out that the roles of both local industry and that of MNCs were crucial in promoting the growth of new enterprises. The role of MNCs was especially important in sectors such as electronics and fine chemicals where new products and technologies were constantly emerging.

One of the motives of the MNCs for locating manufacturing plants in the industrialised countries in the Pacific Rim has been to take advantage of the rapidly growing domestic market, but equally important, to utilise cheaper labour in order to reduce production costs and thus expand market share worldwide. Other MNCs manufacture for export.

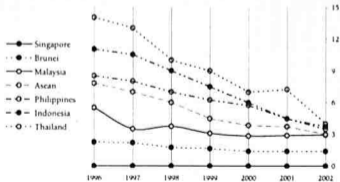
Growth of Intra-Regional Trade



Share of Intra-Asean Trade to Total Trade



Average CEPT rates



Source: Asean Secretariat

Why America cares

Strategic importance of the Straits of Malacca, Sunda, Lombok and the Spratly Islands

- US\$500b of long-haul interregional seaborne shipments passed through Southeast Asian sea-lanes in 1993, or over 15% of the world's cross-border trade.
- Shipping through Straits of Malacca is several times greater than traffic through the Suez or Panama canals.
- Japan, Australia and Southeast Asia send over 40% of their trade by sea through these sea-lanes.
- Hong Kong, Taiwan and South Korea send more than one-quarter of their imports and exports through them.



In addition, many local manufacturers have succeeded in penetrating international markets in a range of labour-intensive products, especially from those countries where governments have pursued economic policies conducive to export production.

Projections by the Manila-based Asian Development Bank (ADB) indicated that growth momentum would continue through to 1995, and accelerate in some cases, such as the Philippines. On the back of this optimism, several countries in the region published upbeat economic growth projections into the 21st century. Malaysia's "Vision 2020" which envisages the country's economy rapidly catching up with developed countries, received much attention when it was revealed in 1994. Indonesia too published a set of targets for economic and social development over 25 years, from 1994 to 2019. Indonesia forecast growth to accelerate from 6.2 per cent per annum under the Sixth Plan (1994-1999) to 8.7 per cent per annum during the 10th Plan (2014-2019). If these targets were met, per capita GDP in 2019 would be an impressive US\$2,630, slightly higher than that of Malaysia in 1990.

Prof Booth noted in 1994 that "by the end of the second decade of the twenty-first century, the main economies of Southeast Asia would together represent an important bloc within the world economy." She quoted a survey by *The Economist* which claimed that by 2020, Indonesia would be the fifth largest economy in the world, after China, the United States, Japan and India. Thailand would rank eighth, just behind Germany and South Korea.

Given the potential economic clout of Asean countries, it is little wonder that the region, which had for years before been attracting new investments, became the centre of world attention in the mid-1990s.

Khong Yuen Foong, a Fellow of Nuffield College, writing in *Southeast Asian Affairs* 1995, (an ISEAS publication), noted that "a decade hence, an analyst

writing on Southeast Asian security and economics, would identify 1994 as a pivotal year for the region".

Two developments with enormous potential significance for the entire Asia-Pacific region occurred. First, the birth of the Asean Regional Forum (ARF), and second, Indonesia's hosting of the 2nd APEC Summit. Symbolically, the holding of these two major meetings in Bangkok and Bogor suggested Asean's readiness to assume a higher profile in the region's security and economic future. But this did not necessarily suggest there was uniform enthusiasm among its members in taking the lead in these two major initiatives.

There were some concerns that these new institutions might dilute the group's sense of purpose and solidarity, while others saw ARF and APEC "in sync" with the changing times, that is the post-Cold War security economic landscape. But despite the differing perspectives, Asean had little choice but to take a front seat, lest its 27 years of efforts became irrelevant.

Thus it fell to Asean, in 1994—more than a year after the idea had been mooted—to host the first-ever regional conference on security, bringing together global superpowers and the Asean 6 together with other Southeast Asian countries. Asean's role as the architect of a new power balance in Asia and the Pacific was literally thrust upon the grouping. It was the only cohesive regional organisation which had endured for more than two decades. It had also demonstrated credibility and displayed a maturity that belied its relatively short history since the member states became independent nations.

Despite the awesome powers present—including the US, EU, Russia, China, Japan, Vietnam, South Korea, Canada, Australia, New Zealand, and lesser lights such as Laos and Papua New Guinea—sceptics of the first Asean Regional Forum (ARF), held in Bangkok July 25, 1994, dismissed it as little more than an infor-

mal exchange between the Asean 6 and their principal dialogue partners. The fact that the meeting was scheduled for just three hours certainly suggested that few if any, meaningful decisions would be reached.

But the mood for the ARF had been set a year earlier, when Singapore's then Foreign Minister, Wong Kan Seng, hosted a dinner for the same partners who would gather for the first inaugural meeting. Prior to that meeting, Prof Michael Leifer, pro-director of the London School of Economics and Political Science, wrote in the *Business Times*, that Asean had addressed regional security in a more piecemeal manner by deliberately avoiding the problem of power which was at the centre of all international relations. Common to this aversion, he stated, was the absence of a common strategic perspective or a shared sense of security priorities among member states.

The scale and complexity of the undertaking presented the ARF with its first major challenge. "The ARF represents an attempt to cope with changes in a wider strategic environment arising from the impact of the end of the Cold War in Asia and the Pacific. Japanese and American encouragement prompted Asean to extend the geographic compass of their well-tryed collegial approach to regional security," claimed Prof Leifer.

Practical issues to be addressed by the ARF initiative, Prof Leifer argued, would include sustaining the acceptable regional engagement of Japan and the US. More critical, would be how to ensure that China behaves like a good regional citizen and not like a hegemon, laying down the law to suit its exclusive interests.

He noted: "The problem is that none of the Asean states is willing to confront the issue of China's rising military might through the traditional response of the balance of power ... such an enterprise has always been out of the question for Asean which lacks the common

purpose and will to contemplate the projection of military power within Southeast Asia in the corporate interest. For example, the opportunity was not seized when Asean was undertaking a joint peacekeeping role in Cambodia.

"The alternative to the balance of power," he said, was, "the extension of Asean's model of regional security through confidence-building in East Asia."

Writing in the same issue, Eichi Furukawa, executive director of the Japan Centre for International Studies, noted that on security matters, the West wanted East Asia to march to a different beat.

The Western view of how the ARF should develop called for a quick approach and elaborate measures and institutions. The Conference on Security and Cooperation in Europe (CSCE) was being held up as a model. But the author argued that the situation in East Asia was quite different.

While the CSCE's tasks included extinguishing the fires of local and ethnic conflicts in former Yugoslavia and former Soviet republics, and assisting democratisation and free elections in those republics, in East Asia there were no such similar situations requiring similar solutions.

The alternative school of thought, one supported by Japan, Mr Furukawa, said, emphasised co-operation with extra-regional countries and called for reciprocity. Furthermore, the CSCE was dominated by superpowers such as the US, EU and Russia, while the ARF was small-country orientated, mooted by relatively small countries in Southeast Asia.

Also the ARF was likely to spend a few years on confidence-building measures while testing the Chinese, and also monitoring Vietnam (which had requested and been granted membership of Asean a day before the inaugural ARF meeting.)

Rejecting calls for a faster pace, which he felt would be counterproductive, Mr Furukawa said the

ARF would follow the traditional Asean style—slow and steady, consensual and less legalistic.

As the talks opened, the regional and international media focused on areas which the ministers were expected to take up. Many felt that the Spratlys would be high on the agenda—a resource-rich group of islands to which Brunei, China, Malaysia, Taiwan, Vietnam and the Philippines all laid claim to. All but Brunei has troops stationed on some parts of the islands. Despite Taiwan's absence, there was speculation that some of the claimants would try to reach some accord on joint development.

The nuclear dispute in North Korea, a matter of considerable concern to all, was also expected to be discussed, with the ARF expected to persuade North Korea to allow international joint inspection of existing facilities.

Closer home, Asean leaders were expected to raise the delicate matter of Cambodia's uncertain future. There had been an attempted coup in June 1994 and the Khmer Rouge continued to threaten the fragile peace between the ruling coalition, led by Prince Ranariddh and Hun Sen. Bangkok was particularly concerned over the continued fighting between government troops and the Khymer Rouge elements and a possible spillover. The Thai government meanwhile steadfastly denied providing sanctuary for the guerrillas.

Last, but not least, the ARF was expected to address China's emergence as a superpower and its growing military might, and the implications that this would have on its neighbours.

On their part, the participating countries downplayed the possible outcome, choosing to describe the forum as a discussion among friends with no set agenda. This approach gave added weight to the achievements recorded during their talks. Indeed some substantive results did follow the three-hour dialogue.

In a pre-ARF meeting, Asean leaders agreed to the admission of Vietnam—a landmark decision considering that a mere six years ago that country was Asean's nemesis; and vice-versa. Vietnam's entry, scheduled for a year later, presaged the future entry of Laos, Cambodia and Myanmar, a possible development fraught with both opportunities and complications. While the decision to admit Vietnam was Asean's alone, taken at the inaugural meeting of the ARF made it easier, given China's possible misgivings.

A second ARF-related result was the pledge by China and Vietnam, after a separate meeting between their foreign ministers, to exercise self-restraint in settling their competing claims to the Spratlys. Though this was but a reiteration of previous announcements, what was significant was the context in which China renewed earlier pledges. At the ARF, it had placed its international reputation on the line.

Another result, more symbolic than substantive, was the endorsement, by ARF participants, of Asean's Treaty of Amity and Co-operation in Southeast Asia (1976).

The media reported the ARF ending on an upbeat note with Asean foreign ministers delighted at the outcome. Brunei, which was chosen to host the second of the agreed annual meetings was charged with the responsibility of collating and studying all papers and ideas on confidence-building measures, nuclear non-proliferation, peacekeeping co-operation and an exchange of non-classified military data.

It was also proposed that steps be taken to encourage all ARF members to eventually participate in the UN Conventional Arms Register.

The response of several foreign ministers says it all. According to Singapore S. Jayakumar: "I thought it went better than most people expected ... there was a refreshing atmosphere. There was no tension in the room ... there was a high degree of spontaneity."

According to China's Qian Qichen, "The establishment of the ARF has provided us with a good opportunity. China is ready to work along with the other members and make positive contributions to the fulfillment of this important mission."

Japan's Yobei Kono hailed the meeting as a memorable day for the Asia-Pacific as the birthday of the ARF: "Let us confirm that we will make steady efforts together in order to rear this child called ARF after a year of gestation to an adult in its own right."

Australia's Michael Costello, said of the participants: "They were much more adventurous and willing to talk—about anything—than I expected."

Academics hailed the ARF as a success and few, if any, doubted its usefulness and durability. Dr Khong Yuen Fong, a Research Fellow at ISEAS and Associate Professor of Government at Harvard, set out three main reasons on why he felt the ARF would succeed.

"First, the ARF is the right institution at the right time. In a strategically uncertain environment, it helps to have an organisation that can alleviate some of that uncertainty, attenuate suspicions and build trust." With Russia out of the power equation, regional powers such as China, Japan and India have more room to project their rising military strength into Southeast Asia, he said, noting that many Asean countries were spending more on arms.

"A second reason why the ARF is likely to work is that it embodies the converging security strategies of the US, Japan and Asean after the Cold War. Until recently, all three parties had been skeptical about the value of formal, multilateral security discussions; yet with the end of the Cold War it has become obvious that the basis of those strong bilateral ties—American troops on Asian soil—would gradually weaken; as such, it makes sense to supplement existing bilateral agreements with a blend of multilateral agreements like ARF and APEC.

"Third, the fact that the ARF is an outgrowth of the Asean Post-Ministerial Conference (PMC), is important. A major reason why the US and Japan threw their weight behind ARF, was that it was the only Asia-Pacific institution with standing and a proven track record, fifteen years of 'PMC-ing', in other words, has turned it into a formidable institution; the ARF could not have a better pedigree."



19. *First PAFTA, Then APEC*



WHILE the idea of an Asia-Pacific economic grouping is far from new—it was advocated as far back as 1960—the idea *per se* was articulated by former Australian Prime Minister, Bob Hawke, in 1989. That it was successfully implemented, in the face of initial objections, is due in part to thorough preparations that the Australians made before announcing the initiative. Mr Hawke's successor, Paul Keating was subsequently the driving force behind the proposal, despite some antagonism generated by his zeal.

What made it work though was the confluence of new trends and developments in the regional and global economies that made it imperative for the establishment of more formal inter-governmental arrangements for consultation and co-operation.

When the US seized the lead after the Blake Island Summit in 1993, it gave Apec a fresh impetus and converted it into a formidable institution, with its original eighteen members accounting for some 40 per cent of world trade.

At the outset, Asean expressed caution over the new Asia-Pacific gathering. The disparities in income, technology and skills among the Apec economies raised genuine fears that rather than benefit from the planned, widened co-operation, the Asean countries could find themselves dependent, and possibly even enmeshed in larger trade rivalries. The fact that the EU countries were denied even observer status, largely because of intense US lobbying to exclude them, was one such example. Subsequent attempts by the US to use Apec to goad the Uruguay Round of Talks into a speedy conclusion, and the emergence of Nafta soon after Apec also raised eyebrows in Asia.

Then there was early opposition from within the Asean itself, notably from Malaysia, whose proposed

East Asian caucus had been shot down by the United States, and found little support from some Asian and Asean countries. In an interview with *Asia Today* in late 1992, Dr Mahathir Mohamad said his main concern about Apec was that it consisted of countries which were economically and politically powerful, referring specifically to the United States, and to a lesser degree, Australia: "We are very worried by Nafta, especially as it may be extended [from the United States, Canada and Mexico) to cover Central and South America. Then the whole of America will have sufficient resources as well as the market to remain a world apart from the rest of us," he said.

	US\$ billion				
	1988	1989	1990	1991	1992
<i>Apec's exports</i>					
To member countries	712.1	784.3	839.9	914.6	1,002.6
To outside Apec	367.3	395.7	436.8	480.6	515.4
Total exports	1,079.4	1,180.0	1,276.7	1,395.2	1,518.0
% of intra-Apec exports	66.0	66.5	65.8	65.6	66.0

<i>Apec's imports</i>					
From member countries	737.5	814.9	862.3	934.8	1,020.9
From outside Apec	384.6	425.7	480.0	468.9	498.5
Total imports	1,122.1	1,240.6	1,342.3	1,403.7	1,519.4
% of intra-Apec imports	65.7	65.7	64.2	66.6	67.2

Source: Australian Government

"This is very dangerous. It would mean that world development would be uneven. This also applies to Europe, where the EU and the East European countries could get together. They will have a huge market that is self-sufficient, so literally, they do not need the rest of the world." On the end of the Cold War, he feared global domination by a single superpower. "Our worry is that we are living in an unequal world, with

one superpower dominating. Power tends to corrupt. Powerful people do things that are not always right or fair. We are already seeing these things happening, this is worrisome."

Instead, he proposed the adoption of the EAEC. "We are not a trade bloc. We want a consultative forum where we will discuss matters related to the state of free trade in the world, and joint actions we need to preserve it. We are all dependent on trade and want to make sure it remains free."

Paul Keating wasn't impressed by the arguments. In a wide-ranging interview after the Singapore Apec ministerial meeting, in September 1992, he dismissed the EAEC out of hand. "Apec is an organisation. The other isn't. The other is a proposal, which quite frankly, doesn't have much support in Indonesia or Japan. And it excludes the US (and Australia) which is a major trading partner of most countries in this region.

"So I don't know if the proposal is that relevant to dealing with trade problems for some countries. Apec, on the hand, has a broader agenda and potentially a much more powerful institution."

On Apec, he said Australia viewed it as a body able to play a substantial role as a trade liberalising institution: "The primary contributing factor to higher incomes in the post-war years has been growth in world trade and whenever we see trade liberalisation, were generally seen a rapid growth in trade and trade opportunities."

Saying that Australia had dramatically dropped its wall of protection, he added, "we'd like to see more of that sort of thing being done in the region. We think Apec is the right vehicle to be doing it in, as well as the background overlay to a successful completion of GATT (Uruguay) round; and so therefore Apec fits the Asia-Pacific role in terms of trade liberalisation. And we like to see the institutionalisation of Apec progressed."

This did not go down well with many in Southeast Asia. More support came for a less formal trade network that would benefit all its members. Nevertheless, a Secretariat had to be established, and with Singapore chosen as the site, it eased concerns of overt domination by the larger non-Asian participants.

Eventually, Asean decided to act pragmatically, accept Apec, and contribute constructively to the consultative process. Once this consensus had been reached, Apec took on a more cohesive outlook. But Asean made it clear that support for Apec rested on six caveats.

One was that Asean's identity and cohesion would not be eroded and all its co-operative efforts be preserved. Second, as Apec included developed and developing countries, it should be based on the principle of equality, equity and mutual benefit. Third was that Apec would not be an inward-looking trade bloc but served to strengthen the multilateral economic and trading system instead.

In this context, a fourth consideration was for Apec to be a forum for consultations and constructive discussion of economic issues through dialogues rather than through unilateral or bilateral measures. As a self-reliant process, a fifth point envisaged by Asean for Apec, was for it to enhance individual and collective capacity of participants and articulate them in multilateral forums. Finally, a gradual and pragmatic approach with regard to its eventual institutional structure and membership problems was recommended.

At the first summit, hosted by President Bill Clinton, on Blake Island, Apec took off—with the notable and pointed absence of Dr Mahathir Mohamad. Despite this, there was heavy diplomatic shuttling and posturing in the run-up to the summit.

The Eminent Persons Group (EPG), charged with fine-tuning the structure of Apec presented its report,

which recommended that Apec move to a free trade area, and suggested that 1996 be the target year. It also proved to be the most contentious point of the EPG report, with Japan and China voicing serious reservations.

Arguing that the EPG report was "deliberately vague" about how a free trade area between the 18 countries could be achieved, it noted that if Most Favoured Nation (MFN) privileges were extended to Apec members, they should also be similarly applied to non-members to be consistent with the spirit of multilateralism. The Japanese also cautioned that Apec should move slowly to allay Asean's fears that the new organisation was becoming too institutionalised.

The Japanese were in turn accused of protecting their own markets and hiding behind Asean's cloak. The Chinese took issue with the wording of the EPG report, fearing that it gave the impression of being a rigid institutionalised framework, similar to the EU, and would be legally binding.

A highly pessimistic view of Apec was advanced by several American political and economic observers. One of them, Gregory Clark, Professor of Business and Economics at Sophia University, Japan, wrote in the *International Herald Tribune*: "It [Apec] is a flawed idea whose time should never have come; a classic example of how fading ideas gain a momentum of their own, distracting attention from more important issues."

Prof Clark traced the origins of Asia-Pacific economic co-operation back to the 1960s, when Japanese businessmen, convinced they needed to look to the West, proposed the Pacific Free Trade Area (PafTa), comprising Japan, the US, Canada, Australia and New Zealand—"an unrealistic proposal, a Japanese Anglo-Saxon club that excluded most of Asia and gave the Japanese privileged access to Western markets".

"But PafTa's backers persevered. First, they came up with PBCC, a private business-academic forum,

and then PECC. Apec emerged from the debris of these schemes, thanks to the intense lobbying by Japanese and Australian economists originally involved in Pafta. The strong free trade area emphasis in Apec is a direct hangover of Pafta's efforts and ambitions to help Japan have expanded access to lucrative markets. Apec makes more sense if it was intended to act as a counter to Nafta and the EU."

In opposing arguments, other American observers made the point that Apec represented the centrepiece of a new American strategy towards Asia. According to C. Fred Bergsten, who chaired the EPG, the Clinton administration was likely to place high priority on American's relationship with the Asia-Pacific region, and that henceforth, "US foreign policy would increasingly emphasise economic issues".

In sketching a futuristic scenario, Bergsten noted Japan's "posture as an economic superpower and emerging force in political issues" and the "push effect from Europe and the Atlantic" that reinforces the "pulls from the Asia and Pacific".

Not unexpectedly, in a pre-summit statement, Clinton warned his European allies that unless they showed flexibility over the stalemate in resolving the GATT talks, the US would turn to Asia, in effect to Apec. "The Europeans have to recognise that Apec can be a building bloc," his spokesman said, adding, "if GATT is a failure, Apec stands out there as an alternative way to solve the problem."

The somewhat divergent views of the Asean Ministers is best spelt out in their reactions to the EPG report. Wong Kan Seng said: "If the vision of the EPG comes true, all our people will be better off. It is therefore in our natural self-interest to push for a realisation of the vision."

Dr Ali Alatas did not quite agree. "It is our view that it would be premature at this stage to try to set a date and timetable for the achievement of this goal."

Malaysia's Dato' Rafidah Aziz was equally guarded. "Malaysia is wary and chary about accepting any recommendation that will change radically the original mandated profile of Apec."

Prior to the formal meeting, President Clinton's position was bolstered by a victory—Congress approval of the Nafta treaty. Speaking ahead of the formal gathering of heads of governments, he painted a grand vision for Apec. "We cannot imagine now how we could have weathered the Cold War without Nato. In the same way, future generations may look back and say they cannot imagine how the Asia-Pacific region could have thrived without the existence of Apec."

But pertinently, he warned that countries which had benefited from the peace kept by US forces in their region had a debt to repay. "We do not intend to bear the cost of our military presence in Asia and the burdens of regional leadership, only to be shut out from the benefits that stability brings."

The summit, was, according to one media report, "a highly qualified success—and a victory for the US".

Despite differences, the Apec leaders reached agreement on a number of key issues in expanding global free trade and expanding the global economy.

In an Economic Vision Statement, the leaders supported the growth of Apec as a community that is united, not divided, open but not closed, and harmonious as a regional entity. They came out strongly in favour of an open multilateral trading system and threw their weight behind GATT.

Acceding to divergent views, addressed by Indonesia, China and Japan, the statement played down attempts by some countries to push for an Asia-Pacific Economic Community and a Pacific Free Trade Area. But Clinton, as spokesman, welcomed the EPG recommendation to achieve free trade in the Asia-Pacific, without setting out a time frame.

During the deliberations, the US and Asean agreed to establish a US-Asean Alliance for Mutual Growth (AMG) to enable the US to exploit the emerging AFTA and cut down on its US\$12 billion trade deficit with the Asean countries.

Apec would make further headway a year later, this time in Indonesia.

In the intervening year, however, Apec came in for both kudos and criticism, but with the US pushing the proposition at every opportunity, and trying to reach a compromise with the Asean states on outstanding differences, Apec began to evolve into a cogent institution with a demonstrable capacity to push for free trade.

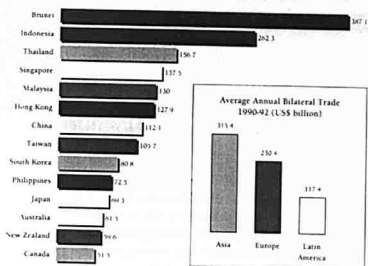
In a significant development, finance ministers from Apec, meeting in Honolulu, decided to launch a US\$1 trillion fund to meet the needs of less-developed member countries. Speaking for the ministers, US Treasury Secretary, Lloyd Bentsen said: "We want a concerted effort. We're talking about US\$1 trillion for infrastructure projects over the next decade."

While Apec countries had registered rather strong growth in the 1990s, rapid growth had strained the capacity of many to cope, resulting in polluted cities, endless traffic overcrowding and a breakdown in jammed telecommunication systems.

The ministers acknowledged the formidable challenges in raising the funds needed, despite growing domestic savings pools, and to help tackle the problem commissioned the IMF to prepare a study of cross-border capital flows throughout the region. The ADB was also asked to study the financing issues.

In a statement, Bentsen noted that the ministers had agreed on the importance of privatisation, deregulation, trade liberation and closer economic ties. To help achieve this, the ministers spelt out five principles to guide their respective economies into the next century. They included the pursuit of sound budgetary and interest rate policies to check inflation; promotion

US Merchandise Export Growth to APEC 1987-92 (%)



Source: USDOC 1992 US Highlights of Foreign Trade Imports, Exports

of increased investment links, and continued reliance on the private sector as the main engine of growth.

Later, in 1994, the EPG set out a timetable for lifting trade barriers. 2020 was set as the target date, thus allowing individual countries to liberalise at their own pace within a 20-year schedule beginning in the year 2000. The group proposed four ways to allow members to drop their trade barriers by 2020:

- Reduce trade barriers to the maximum on a unilateral, unconditional basis;
- Offer the same benefits to outside countries as they extend to each other;
- Extend trade concessions to non-members on a reciprocal basis; and
- Liberalise unilaterally and offer their benefits to others.

On this occasion, the EPG stressed that it was not recommending the establishment of a "free trade area".

Instead it proposed "lowering of barriers towards non-members so the region is open. We are strongly opposed to a trade bloc as well as inward-looking regionalism".

This major departure from the original stance—though not articulated, but certainly implied—went a long way towards assuaging some of the fears of members, and far enough for President Suharto to propose a set of recommendations palatable to all when they met in the historic town of Bogor in November 1994.

The Bogor Declaration, hailed as a milestone in the five years since Apec was established, adopted a two-tiered approach for free trade in the region. The year 2020 was the target date set but the overall agreement included fresh proposals. To begin with, there was agreement to immediately stop erecting new trade barriers and concurrently begin the process of trade liberalisation.

Developed countries were set an earlier goal—2010—and to win the widest possible support, they agreed on an "escape clause". It read: "In order to facilitate and accelerate our co-operation, we agree that Apec economies that are ready to initiate and implement a co-operative agreement may proceed to so, while those who are not ready may participate and join at a later date."

Malaysia, still at odds with aspects of the agreement, submitted an addendum of reservations to the Bogor Declaration. It spelt out Malaysia's own interpretation of what various points in the Declaration meant, including the deadlines set.

Dr Mahathir Mohamad said, "As far as we are concerned, we interpret the Declaration as allowing us to go beyond 2020, if by then our country is still not at the stage of development where we can open up everything ... we will make our best efforts. But if by the year 2020, we still cannot compete, I don't think anyone

should force us to open up our economy to competition from developed countries."

Some view the annex as being at odds with the Declaration, but none of the leaders chose to take issue with it, lest this put a dampener on an otherwise far-reaching agreement.

There was a clear consensus that the success of the Bogor Summit was a triumph in diplomacy for President Suharto, who used his full weight of influence—and Javanese charm—to put Apec on the road to free trade. As the President himself remarked, "We have set a course for the future."



*20. Into the
International
Limelight*



OPTIMISM ran high as the leaders gathered for the 5th Asean Summit in Bangkok, in December 1995. It served as a prelude to two future years of frenetic activity during which Asean's international posture took on new meaning. The region also hosted two of the most significant international trade meetings, developments which would shape the course of global commerce in the 21st century.

The summit took on a special significance—and provided a foretaste—of things to come as, for the first time, all ten leaders of Southeast Asian states met in Bangkok. The Asean 7 (including Vietnam) were joined by leaders of Laos and Cambodia, who had previously attended as observers, and for the first time, Myanmar, which had indicated it would apply for membership by the year 2000.

Economic ministers, meeting in advance advocated new measures to speed up and develop AFTA by bringing forward earlier targets. But the whole exercise was nearly torpedoed by Indonesia's unexpected decision to remove 15 farm products from the tariff-cut plan. These products, including rice and cloves, were initially on the temporary exclusion list, but in Bangkok, it made clear that these products would be moved to the "sensitive" list, thus effectively delaying the implementation of AFTA.

The Thais were dismayed as it meant their agricultural produce would not be accessible to some Asean markets, a key consideration among a package of concessions they made when their entry into the CEPT was temporarily in doubt, in late 1992.

Indonesia's Trade and Industry Minister, Tungki Ariwibowo, explained the Indonesian move, claiming that it had to protect the livelihood of its millions of farmers. The imports of these ultra-sensitive farm

OPPOSITE
*The 5th Asean
Summit in
Bangkok on
December
14-15, 1995.*

products were allowed only by state-owned enterprises and were protected by the GATT and WTO agreements.

The AFTA Council reached a compromise hours before the heads of state met. It agreed to establish a "special category" under the CEPT to accommodate the 15 Indonesian items. Indonesia on its part agreed that it would request exemption for these products from tariff protection after 2010.

As had been anticipated the Asean leaders pledged to speed up the formation of AFTA before the target date of 2003. A new goal was to achieve 0-5 per cent tariffs for most items by the year 2000. Simultaneously, they agreed on a framework pact to explore avenues to liberalising trade in services such as finance, maritime transport, aviation, telecommunications, tourism and construction.

While opening up the banking sector held a special appeal for Asean bankers, Indonesia and the Philippines, and Thailand to a lesser degree, have been the most liberal countries to date. Several banking joint ventures have been formed in Jakarta, Manila and Bangkok, but the same cannot be said of Malaysia, where the Ministry of Finance has a long-standing ruling not to issue new banking licences, except under exceptional circumstances.

In the other areas of proposed liberalisation, much progress has been made and hundreds of joint ventures have sprouted. This augurs well for the immediate future.

The Bangkok Declaration went further on economic links than ever before. It called for the implementation of industrial co-operation schemes to boost investments in technology and value-added industries; co-operation in the transfer of technology, the adoption of a general dispute settlement mechanism; and the establishment of a green lane for quicker clearance of products covered under the CEPT.

On political and regional security issues, Asean and the three other neighbouring Southeast Asian countries signed the Southeast Asia Nuclear Weapon-Free Zone (SEANWFZ) Treaty, the successor to the initially-proposed ZOPFAN. The ten signatories called on the nuclear-five—the US, China, Russia, Britain and France—to sign a separate protocol to the new treaty. The US and China expressed concerns, relating to passage of US nuclear vessels, and China's claims to areas which overlap the continental shelves of other Asean countries, including the disputed Spratlys.

The marked progress achieved in Bangkok was widely acclaimed. Host, Thai premier, Banharn Silpa-archa, described it as a "vast sea-change in a once-divided region". Goh Chok Tong said he was personally struck by the extraordinary degree to which our visions for the future overlapped.

In a subsequent interview, Mr Goh envisioned an exciting future for the region as it evolved into a thriving well-developed and inter-connected region like Europe.

"Over time, our region's connections will be as dense as Europe's. And we will continue to grow together as a community." Other leaders shared his outlook, he said, citing Dr Mahathir Mohamad's vision of an electric train running north from Singapore to Kuming, China, via Kuala Lumpur and Bangkok. Other joint projects discussed were the sharing of resources "with gas pipelines criss-crossing the region".

These new areas of co-operation, he said, would be built on sub-regional growth areas already set up. These include the Brunei-Philippines-Indonesia-Malaysia East Asia Growth Area (BIMP-EAGA), the Singapore-Johor-Riau grouping (Sijori) and the Northern Triangle between Sumatra, Peninsular Malaysia and Thailand. Also in the pipeline were discussions between Asean and other Asian countries to develop the Mekong Basin.

On the ARF, he said that it would play a leading role in getting the major powers engaged in constructive ties, while the nuclear-free treaty would further enhance peace in the region.

The active involvement of Vietnam came in for considerable praise. The fact that after only a year's membership, it had submitted a full package of items for tariff cuts was very encouraging. According to Vietnam's Finance Minister, Mr Ho Te, "we had to work very hard on this. We had to take time to understand the different positions of Asean countries (and) yet reach a broad consensus".

Intra-Asean trade, for the first half of 1995, according to the AFTA Council reached US\$31 billion, a 22 per cent increase over the previous year.

A fair summation of the success of the Bangkok Summit would be Mr Goh Chok Tong's statement that the "leaders were able to push the frontiers of Asean co-operation even further".

As the ground swell grew, so did the demands of officials and leaders who had to juggle their domestic responsibilities with a grinding schedule of international meetings, beginning with the 4th Apec Summit held in Subic Bay, south of Manila, in late November 1996. Subic had, until three years earlier been among the United States' largest overseas military installation.

The gathering of eighteen leaders, of developed and fast-developing Asian countries, was expected to be fairly contentious, with differing perceptions of how Apec should translate an earlier intent into action.

High on the agenda was a time frame for the emergence of an Asia-Pacific free trade area—on a scale much, much larger than AFTA.

Foremost among the concerns of the developing countries, as articulated by Indonesia and the Philippines, was to ensure that the benefits of Apec co-operation do not accrue largely to industrialised countries such as the US, Japan and Canada.

By the time they met in Subic, each country was obliged, by a previous pledge in Bogor, to present an action-orientated plan which would indicate the concessions they were prepared to make, and the time-span envisaged. These were described as "intermediate milestones".

The going was anything but easy judging from 24 bilateral meetings the leaders held before agreeing on a joint communiqué.

As anticipated, the leaders endorsed the Manila Action Plan for Apec (Mapa) which included a summary of concessions and intentions of member states in committing themselves to progressively slashing tariffs to achieve a totally Asia-Pacific free zone by the year 2020. If realised, it would be the world's largest such zone.

But President Clinton pulled off the biggest coup of all—after pleading his case for an information technology pact during a pre-summit meeting with his counterparts. He managed to persuade his colleagues to issue a declaration supporting a modified version of a US proposal calling for zero tariffs on information technology by the year 2000.

Essentially, the United States wanted an agreement that would cover a wide range of computers, software, memory chips and telecommunications. The tariff phase-out, it proposed, should begin in 1997 and be completed by the year 2000. Amazingly, according to observers, the US got most of what it wanted—vital support for its proposed Information Technology Agreement (ITA) in time for the inaugural WTO meeting in Singapore, on December 9.

The final Apec Declaration called for the conclusion of an information technology agreement by the World Trade Organisation Ministerial Conference, that would substantially eliminate tariffs by the year 2000, recognising the need for flexibility as negotiations in Geneva proceed. The carefully-couched statement

took into account the view of some reluctant members who wanted the 2000 deadline for zero tariffs to be dropped.

Hailing the final agreement, President Clinton said: "I am especially pleased that today the Apec leaders endorsed the early completion of an information technology agreement which would cut to zero tariff a vast array of computers, semiconductors and telecommunications technology by the year 2000.

"These products are to the 21st century what highways and railroads were to the 19th century."

Those who went along, but expressed reservations at the speed at which the United States wanted to achieve zero tariff—for products which he admitted were the core of American competitiveness—were China and Malaysia. Both, however, had the flexibility card to play, when necessary.

The 18-member grouping also agreed to enlarge the membership to invite Peru and Vietnam.

But even as the Americans were celebrating their triumph, Asean leaders huddled with their senior advisers ahead of the 1st Asean Informal Summit of Heads of Governments to be held in Jakarta later that week, on November 30, 1996.

*21. APEC: A Threat
to AFTA?*



PHILIPPINES 1996

**ASIA - PACIFIC ECONOMIC COOPERATION
FOURTH APEC ECONOMIC
LEADERS MEETING**

**24 NOVEMBER 1996
MANILA**



IN addition to preparing for the upcoming WTO meeting in Singapore—at which Asean ministers would meet their counterparts less than a month of their Apec gathering in Subic—the group's leaders had to address the possible conflict of interest in also being committed members of Apec.

The question was foremost in the minds of Asean officials, and more than one journalist at the Subic had posed the question to President Ramos. Could Apec, one day, dilute and supersede Asean and AFTA? The President's answer was that there was no reason to be concerned. After all, he argued, Asean was at the core of the larger grouping.

Instead Asean should be proud that its style of building group cohesion had been instrumental in changing a sluggish Apec into an increasingly powerful trade group. "We should appreciate the fact that it was the Asean core which provided the high quality of co-operation, which Apec in 1989 was not demonstrating. Our practice of *mufakat* and *musyawarah*, or consensus through consultation, works."

Mr Goh Chok Tong, when posed with a similar question, pointed out that the objectives were not necessarily the same. Apec focused solely on trade while Asean goes beyond this, taking into consideration security, political and other issues. But he did acknowledge that the group's overlapping free trade goals could actually overlap and even merge. AFTA would be achieved in 2003 while Apec had targeted 2020 for an Asia-Pacific free trade zone.

"Which means, you don't really have an Asean free trade area," Mr Goh pointed out. "What I would like to see will be for Asean setting the pace for Apec; that before the year 2020, Asean can move faster in this area of

OPPOSITE:
The 4th Asia
-Pacific
Economic
Co-operation
(APEC)
Economic
Leaders Meeting
in Manila on
November 24,
1996.

lowering tariffs than Apec (can). Then Asean acts as a lead within Apec."

The 1st Asean Informal Summit was described as "short but substantive". It tackled important decisions which only the leaders, not their ministers or officials could take," wrote Yang Razali Kassim of the *Business Times*.

With the decision-makers calling the shots, the whole summit took seven hours, including separate meetings with leaders from Myanmar, Laos and Cambodia. Dressed in gold-coloured batik shirts presented by their host, President Suharto, the discussions—though touching on major policy issues—took on an informal atmosphere, as was intended. In a joint statement, issued by Dr Ali Alatas, the seven Asean heads:

- called for a new Asean vision of 2020 to take the group beyond 2003 when AFTA would become a reality;
- pressed for a substantive 30th anniversary celebration, to coincide with the 2nd Asean Informal Summit, in Kuala Lumpur in July 1997;



Asean: Key Macroeconomic Indicators

	1989	1990	1991	1992	1993	1994
1. GDP Growth (%)						
Asean	8.8	8.0	6.2	5.7	6.6	6.8
Brunei Darulsalam	-1.1	3.0	4.0	-1.1	-4.1	-2.0
Indonesia	7.5	7.2	6.9	6.3	6.5	6.5
Malaysia	8.8	9.8	8.7	7.8	8.5	8.2
Philippines	6.2	2.7	-0.5	0.1	1.7	4.2
Singapore	9.2	8.3	6.7	5.8	9.9	7.0
Thailand	12.3	11.6	8.1	7.6	7.7	8.1
2. Inflation (%)						
Asean	5.8	6.8	8.3	5.9	6.1	6.2
Brunei Darulsalam	1.3	2.1	1.6	1.3	4.3	4.5
Indonesia	6.5	7.4	9.2	7.5	9.7	8.0
Malaysia	2.8	3.1	4.4	4.7	4.0	4.2
Philippines	10.6	12.7	17.7	8.9	7.6	8.9
Singapore	2.4	3.5	3.4	2.3	2.4	4.7
Thailand	5.4	6.0	5.7	4.1	3.3	4.1
3. Foreign Direct Investment (US\$ million)						
Asean	6,972	9736	10,857	12,958	1,332	14,840
Indonesia	682	1093	1,482	1,774	1,474	1,564
Malaysia	1,668	2332	4,073	4,118	4,677	4,477
Philippines	475	554	571	798	1,137	1,961
Singapore	2,317	3368	2,883	4,872	4,872	5,456
Thailand	1,730	2389	1,848	1,981	1,202	1,382
4. Exports (US\$ billion)						
Asean	119.7	138.6	159.5	178.4	201.9	224.9
Brunei Darulsalam	1.9	2.2	2.6	2.3	2.3	2.2
Indonesia	22.2	25.7	29.1	34.0	36.8	40.9
Malaysia	24.7	29.0	33.9	38.6	44.9	49.3
Philippines	7.8	8.2	8.8	9.8	11.4	12.7
Singapore	43.3	50.7	56.7	61.5	70.1	78.5
Thailand	19.9	22.8	28.3	32.1	36.4	41.3

Source: *Asean Macroeconomic Outlook: 1994-95*

Asean Macroeconomic Forecasts

	1995
1. GDP Growth (%)	
Asean	7.0
Brunei Darussalam	-0.5
Indonesia	6.4
Malaysia	8.0
Philippines	5.4
Singapore	6.8
Thailand	8.2
2. Inflation (%)	
Asean	6.0
Brunei Darussalam	5.0
Indonesia	7.1
Malaysia	4.5
Philippines	10.0
Singapore	3.5
Thailand	3.8
3. Foreign Direct Investment (US\$ million)	
Asean	14,947
Indonesia	1,652
Malaysia	4,254
Philippines	1,452
Singapore	6,068
Thailand	1,521
4. Exports (US\$ billion)	
Asean	249.9
Brunei Darussalam	2.3
Indonesia	46.9
Malaysia	52.4
Philippines	14.8
Singapore	87.0
Thailand	46.6

Source: *Asean Macroeconomic Outlook, 1994-95*

Trade of Asean With Major Trading Partners, 1994 (US\$ million)

Country	Exports	Imports	Trade Balance	Total Trade	Share of Asean's Trade (%)
Dialogue Partners:					
Australia	4,955.82	6,789.91	-1,834.09	11,745.73	2.12
Canada	2,283.38	1,809.18	474.20	4,092.57	0.74
European Union	37,013.12	38,412.92	-1,399.80	75,426.03	13.60
Japan	35,771.56	71,976.55	-36,204.99	107,748.11	19.43
New Zealand	758.27	835.46	-77.19	1,593.72	0.29
Korea	7,528.96	9,873.66	-2,344.70	17,402.62	3.14
United States	53,142.27	42,736.34	10,405.93	95,878.61	17.29
Sectoral Partners:					
India	2,248.23	1,738.76	509.47	3,986.99	0.72
Pakistan	1,128.41	183.18	945.23	1,311.59	0.24
Russia	1,083.81	516.81	567.00	1,600.62	0.29
PRC & Taiwan	13,908.21	16,705.75	-2,797.54	30,613.96	5.52
Rest of the World	45,582.90	46,329.26	-746.36	91,912.16	16.58

Note: Thailand: no data available for Sectoral and Consultative Partners for all Quarters

Source: The Asean Secretariat

- closed ranks over the Myanmar issue in a show of unity, thus paving the way for early entry into Asean;
- resolved to finalise outstanding Asean-initiated security treaties, such as the nuclear free zone by the end of 1997; and
- decided to establish an Asean Foundation to promote Asean awareness and strengthen people-to-people relations.

According to Mr Goh Chok Tong, the informal gathering had set "the tone and direction for future informal meetings. This is very important because for the first time we had an informal meeting. We need to have a clear view of what the future is going to be like".

According to Dr Alatas, the decision to embark upon Asean 2020 would give the group a new rallying point after AFTA. To be tabled in Kuala Lumpur, later this year, the vision statement is expected to encompass new strategies such as the Asean Investment Area (AIA).

The new vision, said Dr Alatas, would also help prevent Asean being submerged by Apec. "By 2003 we would have achieved AFTA." What do we do after that? The idea was for Asean to be on top of developments "not simply to become part of a larger scheme that is already operating, that is the proposed trade and investment liberalisation under the Apec scheme".

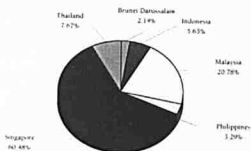
Dr Alatas' remarks came amidst rumours that two major proposals to promote post-AFTA economic integration had been aired, in the context of the proposed AIA. Work on the AIA, to turn Asean into a free investment area, is believed to be moving rapidly, and could be concluded by 1998. Other rumours suggest that Singapore has tabled a "Single Asean Market" proposal, which has been communicated to President Suharto.

The heads of governments were clearly pleased with their day's work—judging from the broad smiles

Structure of Intra-Regional Exports of CEPT Products (1994)



Structure of Intra-Regional Imports of CEPT Products (1994)





which punctuated the region's press the day after. Their economic ministers were meanwhile preparing for the inaugural ministerial meeting of the WTO.

For weeks preceding the WTO conference, intensive talks went on in Geneva to thrash out sharp differences over four contentious issues which the developing countries, lead by Asean, felt strongly would detract, and even jettison the talks in Singapore.

The impasse was over attempts by industrialised countries, led by the United States and the European Union, to include controversial issues of trade and labour standards, investment and competition policy, and government procurement in the WTO agenda. The developing economies reacted strongly and received support from some developed Latin American and Asian countries which declared the issues extraneous to more underlying agreements.

The proponents were just as adamant, arguing that trade liberalisation means more than dismantling trade regulations. For the WTO to stay relevant, they said its agenda should evolve constantly and the global watchdog must take an active role in shaping the economic patterns of the 21st century.

Potentially, the most divisive issue was that relating to labour standards. The United States had been pushing, since the signing of the final Uruguay Round in Marrakesh in 1994, for the WTO to address the linkage between trade and internationally-recognised labour standards. The United States and its allies charged that countries with poor labour records have an unfair advantage in global markets.

The issue is also motivated by Western concerns over human rights—another highly touchy issue. The stock answer of the opposing developing countries has been that the introduction of such arguments is an excuse for backdoor protectionism, and that domestic issues are the concern of local authorities alone. In any

OPPOSITE:
*The 1st Asean
 Informal
 Summit in
 Jakarta on
 November 30,
 1996.*



case, they argued, the United States was equally guilty, and was endeavouring to apply double standards.

On the matter of investment, the European Union, Japan and Canada pushed for a WTO working committee to commence an "educative process" on investment with the view aim of negotiating a Multilateral Agreement on Investment (MAI) in the WTO. This would give foreign investors an unimpeded right to set up businesses without the host government setting out conditions. Work on such a pact, drawn up by the OECD, would be binding on its members, and later open to non-members. The carrot here is that signatory countries could expect increased foreign direct investment flows.

The third issue revolved around tougher WTO rules to check both government and private anti-competitive practices. Backed by the European Union, Japan and South Korea, it had been rejected by most other WTO members.

Solidly backing the fourth controversial issue, the US wanted to seek a mandate at the WTO meeting to launch an interim agreement to make all government procurement transactions more open to scrutiny until a comprehensive global agreement is ready. The move is aimed largely at targeting alleged bribery and corruption in the award of government tenders.

Into the third day of negotiations, ministers and their aides from developing countries fought doggedly to stave off repeated efforts to have the four most divisive issues being adopted.

Malaysia, backed by eight developing countries, including four Asean countries, held out against the proposed interim pact on greater transparency in government procurements. The proponents went beyond the "interim proposal" and urged for a group to be created "to study and develop a multilateral agreement related to government procurement and in particular, to promote transparency of the procurement process". In-

OPPOSITE:
Dato' Abdullah
Ahmad Badawi
at the 1st
Informal
Summit Heads
of State Meeting,
with his CLM
counterpart.

stead, Malaysia proposed an insertion which called for due regard to be given to the national policies of each country.

On the matter of discussing linkages between investment and competition policies, earlier opponents such as Malaysia, Indonesia and India softened their position, though originally the G-15 grouping of developing countries, headed by Malaysia, announced they had not reached a consensus to disallow thorny issues such as labour standards and investment policies being mentioned, let alone discussed.

When proponents of the labour standards issue tried to bulldoze the issue onto the agenda, Malaysia's Dato' Seri Rafidah Aziz, again led the challenge. This time, however, she suggested a compromise: it was willing to allow labour standards to be mentioned in the ministerial declaration, which would spell out the areas for global trade liberalisation.

The US had earlier dug in its heels, and warned that there would be no ministerial declaration if it did not refer to labour standards.

After five gruelling days, and scores of sessions running into the wee hours of the mornings, the ministers not only hammered out their differences, they actually ended up making a major breakthrough.

Their final declaration embodied a significantly more open and fairer global trading system, including the conclusion of the much-heralded Information Technology Agreement, signed by 29 countries accounting for 80 per cent of IT products.

A beaming WTO director-general, Renato Ruggiero, architect of many of the compromises, declared hours before the declaration was signed, "We got everything."

A WTO spokesman, speaking at a midnight briefing said: "The really tough nuts have been cracked. These are labour standards, investment, competition, and textiles. Agriculture has been effectively resolved.

We haven't dotted every 'i', but we are delighted. It's an outstanding success for WTO."

The successful culmination of the inaugural meeting was largely attributed to the spirit of flexibility and compromise shown by all the delegates—after spirited defences of their original positions—and an overall willingness to work with each other for the greater good. The consensual and co-operative spirit that fashioned many an Asean agreement in the past, appeared to have made its impact at the WTO too.

1. The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that this is crucial for ensuring the integrity of the financial statements and for providing a clear audit trail. The text also mentions that proper record-keeping is essential for identifying trends and anomalies in the data.

2. The second part of the document focuses on the role of internal controls in preventing fraud and errors. It outlines various control measures such as segregation of duties, authorization requirements, and regular reconciliations. The text stresses that these controls are not only necessary for the protection of assets but also for the overall reliability of the financial reporting process.

3. The third part of the document addresses the challenges faced by organizations in implementing effective internal control systems. It discusses factors such as the complexity of operations, the rapid pace of technological change, and the limited resources of smaller organizations. The text suggests that a risk-based approach to internal control design can help organizations tailor their controls to their specific needs and resources.

4. The fourth part of the document provides a detailed overview of the external audit process. It explains the role of the auditor in providing an independent opinion on the financial statements. The text also discusses the importance of communication between the auditor and the management of the organization, particularly regarding the identification and resolution of control deficiencies.

5. The fifth part of the document discusses the impact of external factors on the financial reporting process. It highlights the influence of regulatory changes, such as the introduction of new accounting standards, and the impact of economic conditions on the underlying business performance. The text also mentions the role of external stakeholders, such as investors and creditors, in the financial reporting process.

6. The final part of the document provides a summary of the key points discussed throughout the document. It reiterates the importance of a strong internal control system and the role of the external auditor in ensuring the reliability of the financial statements. The text concludes by emphasizing the need for continuous improvement and monitoring of the financial reporting process.

22. Enlargement: Towards the Big 10



THE enlargement of Asean, from its present seven members to ten later this year was inevitable, and consistent with the vision of its founding fathers. Brunei joined the organisation in 1985 and Vietnam became its seventh member in 1996.

Given the inexorable push towards regionalism, influenced to no small extent by wanting to ensure the security of the region, there was little doubt, as far back as 18 months ago, that the inclusion of Cambodia, Laos and Myanmar was very much on the cards.

The political leadership had decided as much and various statements, together with the active presence of the new entrants at various Asean intra-governmental meetings, made their membership imminent. Their entry coincides with the celebration of Asean's 30th Anniversary in August 1997.

While the idea of extending membership to Cambodia, Laos and Myanmar (the CLM countries) had been variously mooted over the past five years, the first clear reference of a commitment came after the 1st Asean Informal Summit in Jakarta in November 1996. Following deliberations, the leaders reaffirmed their "strong commitment" to a speedy realisation of an Asean comprising of all ten Southeast Asian countries. They also decided that the CLM countries should be admitted simultaneously.

The CLM leaders, present at the informal summit, were encouraged to continue with the necessary technical and procedural operation for their subsequent admission. At a separate lunch with the heads of states, the CLM leaders exchanged views on a number of issues of common interest, especially the Asean-Mekong Basin Development Co-operation.

As observers, the CLM countries had been attending several meetings of Asean's Functional Co-opera-

tive Committees and other relevant working groups. Officials from the CLM countries had received training assistance from individual Asean countries and the Secretariat as part of their preparations to join the group. Ten officials each from Cambodia and Laos underwent training at the Secretariat, while Myanmar officials were trained in Bangkok and Kuala Lumpur.

While Asean leaders have declared their intention, there are not a few who have expressed reservations over the economic, political and security considerations in admitting the CLM countries. Brunei was admitted in 1985 but its political and economic structures, and cultural affinity towards the other members enabled it to blend in comfortably.

The admission of Vietnam was a radical departure, though Asean had held out an invitation of membership as a package of co-operative assistance in return for Vietnam's withdrawal from Cambodia and in allowing internationally supervised free elections. Asean members also took cognisance of several other important features: it ranks second, only after Indonesia, in terms of population, has a formidable army, and in the 1970s played a key role in trying to forge an Indo-Chinese axis, effectively a competing regional order.

Thus, Vietnam's admission could be viewed partly as a *quid pro quo* based primarily on security considerations, especially in encouraging it to move out of the ambit of its northern superpower.

While the merits of Vietnam's entry were widely debated, a frank analysis by Hoang Anh Guan, a Hanoi researcher at the Institute of International Relations, then made it clear that initially Vietnam stood more to gain. Its entry into AFTA would require a switch to market-orientated economic reforms to enable it to implement drastic tariff cuts and there were other anticipated spin-off benefits. Vietnamese manufacturers would be able to capitalise on comparatively lower wages, and huge natural and human resources.

Its membership of Asean, he noted, would also attract badly-needed foreign investments. As to the timing of its entry, he was confident it would be allowed to accede to AFTA only when the necessary adjustments to the economy were made. Thus it could buy time.

Pointedly Mr Joang said that by being a member, Asean's intervention in Vietnam's internal affairs on issues such as democracy and human rights would be minimised. He recalled that members are bound by a non-interference principle and that Vietnam would seek the support of its fellow members in weathering the human rights offensive spearheaded by the United States. Also, Beijing would find it more difficult to isolate Vietnam, and no longer treat it indifferently in the settlement of the disputed Spratlys.

The combined strength of Vietnam's armed forces with those of the other six members would enable it to fill the security vacuum in the region, or at least, maintain the status quo in the event the US withdrew more troops from the Asia Pacific theatre, Mr Hoang stated.

After a promising start Vietnam's attempts at economic reforms—while initially attracting fresh foreign investment—has since run into a gauntlet of predictable problems. As recently as March this year there were revelations of huge bank debts, ailing state companies and rising corruption and cronyism.

As a measure of the alarm in the government, one senior official said the authorities were anxious to avoid the kind of chaos arising from failed savings schemes which had recently rocked Albania. The disclosure of the debt problems, however, galvanised the government into bolder action.

"The political system is waking up to the reality that the banking sector is complicated. It has to be supervised and is not just an instrument of state policy," one Western investor commented.

The debt problem came under the spotlight in February after reports that a highly-respected state



SYMBOL OF UNITY

bank had failed to meet the payment deadline on a deferred letter of credit. The industry took another body blow when two prominent top executives were arrested for their alleged involvement in a massive loans scam. Several others have since been arrested.

The country's state-owned banks were spun off from the central bank as the reform process gathered steam in 1990. They were, however, still sitting on a mountain of debt left from years of politically-inspired lending to the state sector. But equally worrying is heavy exposure of both state-owned and private banks to the property sector, whose boom is rapidly turning into a bust.

Vietnam has set itself ambitious growth targets for the next five years and has tremendous cash needs to finance a US\$40 billion investment plan. The ruling Communist party has meanwhile reaffirmed that the state sector should continue to play a key role in the nation's development, even though major party leadership changes are expected.

In the light of Vietnam's present woes, what fate awaits Cambodia, Laos and Myanmar, once they become fully-fledged Asean members?

Of the three new aspirants to Asean membership, Laos presents the least of problems. If anything, land-locked Laos, with a population of 4.5 million is a country of happy contradictions—yearning for a faster pace of economic development, yet fearing that too fast a pace might upset its traditional way of life, and of course, the communist leadership which has ruled since 1975.

"Standard comments from ministers go like this: We want to catch up with our neighbours like Thailand, Cambodia and Vietnam, but we want investments that are wholesome and do not erode our cultural identity."

Nevertheless, Laos is emerging from the shadow of its past, despite being listed as a least developed coun-

OPPOSITE
The Asean
Secretariat in
Jakarta: a
symbol of unity
in diversity.

try by the United Nations. Under the previously centrally-controlled administration, the economy grew by an average of 2.5 per cent for the ten years up to 1985. Since then it has risen to almost 5 per cent and in 1995 stood at 6.5 per cent. With a per capita income of US\$325, it is higher than Cambodia and Vietnam, and somewhat lower than that of China.

Thai investors dominate among foreigners, followed by the US, South Korea and Singapore, which is the nation's 14th largest investor. Located in the heart of the Mekong Basin Development, anticipated investments, especially in railroads and related infrastructure, bode well for the Laotian economy. While Laotian and French are predominately spoken, government officials have taken to studying English, in anticipation of joining Asean. One minister revealed that he and his colleagues study English "five hours a day for five days a week".

Given its social stability, Laos appears to have an edge over Cambodia and Myanmar, and possibly even Vietnam. "There is a sense of contentment and peace when one steps into Laos, almost like an oasis in the desert," is how a Singaporean investor described the country. It is an oasis which would fit neatly into the existing Asean framework."

Cambodia, on the other hand, if one reads into the public statements by some of its leaders is divided over Asean membership. According to King Norodom Sihanouk, his country would face financial disaster and other woes if it joined Asean this year. His greatest concern is the sense of loss of enormous amounts of customs revenue in agreeing to free trade with its neighbours, under the CEPT and AFTA schemes.

While ignoring the possibility of negotiating a later-day entry into AFTA, the King appears just as concerned with administrative matters, such as the cost of sending officials abroad to attend various Asean meetings, and having to host the same in Phnom Penh.

"Cambodia, far from being a second Brunei, the bankruptcy of the government in the budgetary point of view will explode sooner than one thinks. I will probably cry," the monarch lamented.

The only tangible benefit, the monarch sees, is the security of its borders, which would have to be respected by its Asean neighbours.

Former finance minister, Sam Rainsy, currently the leading opposition leader and arch-foe of co-Prime Minister, Hun Sen, too has reservations about joining Asean at this juncture. "In Cambodia we are in favour of joining Asean. It is an irreversible trend. But the timing and the modality can be questioned." He felt that Cambodia lacked the legal institutions and human resources to join at this time.

He feared that immediate membership could also widen the door to more "hit-and-run" investments or dubious deals by neighbours in logging and gaming operations.

He was also opposed to Cambodia joining Asean at the same time as Myanmar, which he described as a dictatorship. He also expressed deep concern over national elections due in 1998, but whose timing has been threatened by an outbreak of violent attacks on opposition leaders, including Mr Rainsy, who is related to the royal family and was a member of the Funcinpec, the royalist faction led by Prince Norodom Ranariddh. The Prince's differences with Hun Sen are real, and have been widely reported.

An opposing view was articulated by Cambodia's Ambassador to Thailand, Ronald Eng. In his view, admission to Asean was not confined merely to economic and political co-operation alone. It would "broaden the Cambodian people's vision of their country's destiny and raise their aspirations".

Eng stated that Cambodia wanted to be admitted to Asean this year. "Both Prince Ranariddh and Mr Hun Sen are committed to this objective." According to him,

Cambodia's economy grew by 7 per cent in 1996. Malaysia is the top investor with US\$3.2 billion investments between 1994 and 1996. Singaporeans had invested US\$220 million.

The bottom line, however, is the diffusion of tense relations within the coalition, and unless the level of vitriolic and violence drops significantly, the very question of Cambodian admission could have other members of the group having second thoughts.

More worrisome was Myanmar's proposed entry, which reportedly had the strong backing of at least five of the seven existing members. First the EU, and more recently the US, have imposed sanctions on Myanmar on the grounds of human rights violations. While the US has made similar attacks on China in the context of extension of the MFN status, its moves against Myanmar's admission could set it on a collision course with Asean. This would be unthinkable in any other circumstances.

The EU made the first move, in late 1996, stripping Myanmar of special trading privileges on the grounds that it used forced labour to boost exports.

The decision was taken by the fifteen-nation bloc foreign ministers, following advice from the European Commission, which had earlier launched a detailed inquiry into which Myanmar refused to co-operate. The decision meant that Yangon would no longer be entitled to the so-called GSP benefits on agricultural and manufactured products.

According to a Human Rights Watch statement, "We estimate that between 1992 and 1995 some two million civilians have been forced to work with no pay, often in appalling conditions and sometimes at gun-point to build up Burma's infrastructure and help attract foreign investment and tourism."

But in Tokyo, its government expressed the view that dialogue with Myanmar's ruling junta was preferable to sanctions. It questioned whether sanctions

would serve only to further isolate Myanmar—a view shared by Asean.

But even as Asean leaders continued with the "constructive engagement" process with Myanmar's leaders to resolve its domestic problems, the US struck, in April 1997, with President Clinton assenting to the demands of Congress to impose economic sanctions. He argued that the decision was manifestly correct as the military junta had become "increasingly repressive lately", ignoring calls for progress towards a government elected democratically.

This echoed other Western criticism of the military junta's refusal to recognise the democratically-elected government of the opposition National League for Democracy, co-founded by Nobel Peace Laureate, Aung San Suu Kyi.

Myanmar's response was blunt. Its government spokesman said that his government was more concerned with the situation in Myanmar than the US or any other foreign nation. "If the US is so genuinely concerned about the human rights of the Myanmar people, why is it so necessary to deprive one of the most essential rights of the Myanmar people—to earn a living and support the family?"

"Does US human rights mean priority of one favoured person or party above everything else?" it demanded.

Earlier, Myanmar's Minister for Planning and Development, General David Abel, clarified his country's application for Asean membership. It was to strengthen the organisation and enhance regional peace, he said, and not to protect it from Western criticism of its domestic policies.

"If we want a bigger shield, we would go to China. We are very good friends. But we've kept our neutrality sacredly."

The sanctions, however, were retroactive, thus not affecting the largest US investment—a billion-dollar

deal between Unocal Corp and Frances, Total SA, to explore and develop gas fields off the Myanmar coast. Prior to the expected sanctions, several other US companies signed investment deals with state-owned companies. The US is the third largest investor in Myanmar, after France, Singapore and Thailand.

Predictably, the US then continued with on-going lobby to coax other Asean countries to deny Myanmar membership. Internally too the SLORC's critics, notably Aung San Suu Kyi, called on both the US and Asean to deny Myanmar's entry, claiming that it would legitimise "a government that does not represent the people". The point was not lost on many Asean watchers. The US has since softened its opposition.

Still, the response from the various Asean capitals was loud and clear. Asean foreign ministers reiterated that Myanmar's entry was an internal matter, and that they stood by their approach, which forswore confrontation in favour of "constructive engagement".

According to Malaysia's Dato' Abdullah Ahmad Badawi, "we see the membership of Myanmar from various angles—strategic and growth of the region. It should be brought into the regional organisation." While Asean adhered strongly to a policy of non-interference in the domestic affairs of member countries, he hoped that Myanmar's participation "would bring changes to benefit its people". Vietnam and the Philippines echoed similar sentiments.

In Bangkok, Thailand's Tinakorn Kanasuta, deputy government spokesman said, "Whatever happens, Thailand maintains its standpoint to support Myanmar; we have already made the decision."

Stepping up the pressure, the US State Department urged Asean to reconsider. Describing Myanmar's human rights record as "so woeful, so irresponsible, it should not be treated as a normal country. It should not be rewarded by membership in one of the most prestigious and important pan-Asian organisations".

The State Department added it had no objection to Cambodia and Laos joining Asean.

Myanmar responded by urging Asean not to give in to US pressure. "If Asean yields now, then Asean will have to give in every time," it warned.

The United States hopes that Asean will use its influence to get Myanmar to conform to the political and economic standards that members of the regional grouping have developed, according to a senior US official on June 17.

Sandra Kristoff, who is a Special Assistant to US President Bill Clinton, also said that the US did not oppose Myanmar's entry into Asean and that it was an internal decision for Asean to make. Speaking at a Worldnet dialogue beamed to participants from Singapore, Hong Kong, Sydney and Manila, Kristoff, who is also Senior Director for Asian Affairs in the National Security Council, said: "Let me make quite clear that the US did not oppose the entry of Myanmar into Asean that was an internal decision for Asean to make. The US will not criticise that decision."

Asked if there would be any problems on the part of US Secretary of State Madeleine Albright attending next month's Asean Regional Forum meeting in Kuala Lumpur, she said: "I would not think there would be any difficulty or embarrassment for Mrs Albright to sit at the table with other Asean Foreign Ministers, and engage in a discussion on what are after all common regional problems."

On Indonesia, she warned that US ties with Jakarta would not be able to reach its full potential unless Indonesia improved its human rights record in East Timor.

The US House of Representatives passed an amendment last Wednesday condemning alleged human rights abuses in the Indonesian province. Indonesia announced on June 6 that it was abandoning its plan to buy F-16 airplanes from the US and that it was

withdrawing from its participation in the US-sponsored International Military Education Training Programme (Imet).

Indonesian Foreign Minister, Dr Ali Alatas, said that the decisions were taken to ensure that Clinton's efforts to develop ties with Jakarta would not be hampered.

Asked about the US reaction to the Indonesian decisions, Kristoff said: "We certainly view the decisions Indonesia has taken as quite proper."

The final decision on all three countries was made by the foreign ministers on May 31, 1997, in Kuala Lumpur. All three countries will be admitted simultaneously.

Their admission is, of course, a *fait accompli*; but two views are worth considering.

Firstly, while non-interference in a country's internal affairs is sacrosanct within Asean, none of its members can live in a vacuum, oblivious of developments in a neighbouring country and which could affect the entire organisation, in the event of a security threat. Secondly, while new members will derive considerable benefits, and increased international respect by association, does it necessarily enhance Asean's standing?

23. Towards The Next Thirty Years

BACK in 1967, few would have wagered that we would be celebrating the 30th Anniversary of Asean next month. With the exception of the founding fathers, a handful of officials and dedicated Aseanites, few would or could conceivably contemplate the evolution of the then-nebulous organisation into a highly effective, and the most visible Asian grouping, not only within Southeast Asia but embracing the Asia-Pacific basin.

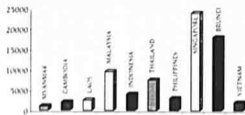
The early-day sceptics had reason to view Asean as a transient organisation which in all likelihood was created very specifically to achieve one primary objective, namely ensuring that the founding five members adhered to the treaty of non-interference and aggression. With communism taking hold in the Indo-Chinese states and events in Asia clearly influenced by the volatile developments in China, the original objective of Asean was to try and calm the choppy waters around their immediate sphere of concern and other more extraneous developments beyond their immediate control; notably in Northern Asia, and other flashpoints of the simmering Cold War which polarised the global community into two distinct camps.

Put bluntly, Asean was established to ensure that its members did not wage war on each other, and hopefully by extension, as a non-aligned bloc, not be drawn into larger conflicts.

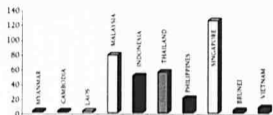
This, however, was no guarantee of living in an area of total harmony as divisions and disputes over the years emanated between member countries. However, being committed to resolve such differences without resorting to aggression was an accomplishment of no mean feat.

The initial negative dismissal of Asean by the Soviet Union as a mere puppet structure of the West, China's indifference and that of the Indo-Chinese

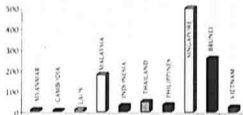
Per Capita GDP (PPP*) US\$



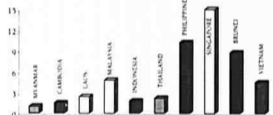
Exports 12 months (US\$billion)



Telephones per 1,000 people



Doctors per 10,000 people



* Purchasing-Power Parity (based on World Bank ratios) takes into account price differences between countries for a more accurate measure of national wealth.

Source: Asiaweb Research

States, were probably prompted by their belief that the organisation was transitory in nature and likely to fade into oblivion, as in the same way as had previous efforts to establish a regional forum for the smaller, and less-belligerent Southeast Asian states.

The critics were almost—but not quite right—as the grouping's members faced several early challenges even as momentous changes were taking place worldwide. A stark reminder of how close Asean came to being irrelevant is the early internal divisions that plagued the grouping in its formative years and left it in limbo for almost a decade.

The invasion of Cambodia, however, served to galvanise the group into action, but once again this collective response labelled it a single-issue-orientated organisation—one given to reacting rather than initiating long-term strategies intended to secure the well-being of the group and its neighbours.

But Asean's resolve grew with each year from that point on. It achieved the stated objective of having Vietnam withdraw its troops from Cambodia, and once it became apparent that joint co-operation could yield tangible results, the group became proactive and chartered a course in promoting active economic co-operation, resulting in the decision to establish a free trade area.

Once AFTA was agreed upon, the then dormant Apec proposal was rapidly revived, with Asean assuming a major role in determining the pace, and terms, upon which Apec should develop. Similarly, Asean's position on Cambodia, and its decision to invite Vietnam to join the grouping in order to distance it from its northern neighbours, sowed the seeds for the establishment of the Asean Regional Forum, which has successfully moved towards filling the security vacuum in the entire Asia-Pacific region.

Such an initiative had eluded the likes of the United States, China, Japan for decades, but once As-

can gave it its imprimatur, the whole region responded enthusiastically.

While Asean's achievements have been notable, the demands of the member countries will increase, not just to fulfill the stated objectives and progressively widen their base appeal, but to fulfill the vision of stability, resilience, prosperity and security of its member nations in the 21st century.

The crystal ball offers little clues as to what the future holds in store for Asean but one can confidently predict its durability, improved economic fortunes, and enhanced international status. The evolution of an Asean identity, once a possibility among the original six members, by the mid-21st century, has, however, become more remote with the enlargement of the group.

But if the well-being of its 500 million-strong community is steadily enhanced, then Asean would have achieved even more.

If the developments of the past thirty years are any measure of how much Asean is capable of achieving in the forthcoming decades, then its citizens can take comfort in the assurance that it will continue as the region's most progressive and dynamic grouping, dedicated to peace, prosperity and of its people and neighbours.

With the enlargement of Asean, the organisation will cover a geographical area almost as large as China and the former Soviet Union. With an existing population base of more than 400 million that's likely to rise to 525 million by 2030, it will probably be the third or fourth most populous region in the world.

With at least six of its members in an advanced state of development and the remaining four likely to experience increased growth on the back of its developed members, the region as a whole will become a formidable economic force, powered by an impressive manufacturing base. It is not inconceivable that Asean

will be on par with Nafta, and conceivably catch up with the EU in terms of overall trade.

Given the dismantling of military structures and greater emphasis on economic development, security considerations within Asean countries could have reduced priority, and any reduction in arms build-up—beyond its basic needs—will enable huge fiscal resources to be channeled into more constructive, and community-enriching development endeavours.

Literacy levels are difficult to gauge given the lack of a common lingua franca, but with English assuming increasing significance as the medium of communication, in diplomacy, as well as trade discussions, in 30 years time Asean could evolve into one of the largest English-speaking areas, and more pertinently empowered by enormous human talent. The establishment of an Asean University, which has been mooted, will go a long way towards ensuring that its manpower requirements will be adequately met.

With the free flow of trade, greater mobility of manpower will follow in its wake. This in turn will raise technological standards and translate into a growing pool of highly competent technocrats, scientists, engineers, doctors, researchers, accountants, teachers indeed in every discipline of development, including the arts.

The future is highly promising but it premised upon maintaining a high level of political stability in all member countries, and achieved through the competency of responsible and committed administrations. Corruption and nepotism bedevil virtually every government in the world and Asean administrations are no exception. They will however have to exercise greater discipline than others, given the wider existing economic disparity between member countries, failing which people-inspired revolutions will depose corrupt and dictatorial regimes, and cast asunder Asean's greater expectations.

Another area of concern is the increasing competition between the more advanced Asean economies. Singapore, with a headstart of ten years or more over its nearest neighbour, now finds Malaysia clicking at its heels in areas such as information technology development. Both countries have, or are rapidly moving out of labour-intensive industries, many of which have relocated in Indonesia and Vietnam, and will move on in the next decade to Cambodia, Laos and Myanmar.

Meanwhile Malaysia, Indonesia and Thailand remain leading exporters of identical commodities—rubber, tin, palm oil, to name a few. Indonesia's oil reserves being depleted, as are Malaysia's, though both countries and Thailand as well as Myanmar have substantial gas reserves. Brunei is self-sufficient in oil, but Singapore, the Philippines, Cambodia and Laos are net importers.

As each member country's economic development takes a new curve one can only wonder whether there will be a convergence, or conflict of interests. As far as foreign investment goes, it will flow into countries which provide the best returns. Based on this premise, the new members to Asean—given their comparative advantage in labour costs and untapped resources—would appear to be the most likely beneficiaries, assuming their political and investment climate remains attractive.

As for the more developed economies—the original Asean 5 in particular—they will have to find new global niches to maintain high standards of growth to meet the increasing expectations of their better-educated and more discerning citizens.

At some point, perhaps in the middle of the next century, Asean economies may be on par, each enjoying annual modest GDP growth of around 5 per cent, impressive but a far cry from the double-digit achievements of the 1990s. They will then be almost on par with today's developed countries, leaving today's less

and least developed countries to move up the global scale.

If this scenario is achieved, with a minimum of re-engineering—of both national economies and citizens' expectations then the Asean region would be a beacon of development and harmony—fulfilling the vision of its founding fathers. But there will be many challenges to face, many obstacles to clear before this reality is achieved. Political will and utmost goodwill will be required.

If the past thirty years are any measure of what Asean is capable of achieving, then it can take comfort in the assurance of continuing to be the region's most prestigious and influential organisation and a world leader dedicated to peace and prosperity and the standard bearer of the needs and aspirations of its peoples and neighbours.

The evolution of an Asean identity by 2050 is not an indistinct possibility, and even if it comes close enough to attaining this objective, then the group would truly have come of age.



Abbreviation

ABF	Asean Business Forum
ABRI	<i>Anghatan Bersenjata Rakyat Indonesia</i>
ADB	Asian Development Bank
AFC	Asean Finance Corporation
AFTA	Asean Free Trade Area
AIA	Asean Investment Area
AICS	Asean Industrial Complementation Scheme
AIJV	Asean Industrial Joint Ventures
AIPS	Asean Industrial Projects
APEC	Asia-Pacific Economic Co-operation
APTQ	Asean Preferential Tariff Quota
ARF	Asean Regional Forum
ASA	Association of Southeast Asia
Asean-CCI	Asean Chambers of Commerce and Industry
ASPAC	Asian Pacific Council
CEPT	Cost Effective Preferential Tariff
CLM	Cambodia, Laos and Myanmar
COFAF	Committee on Food, Agriculture and Forestry
COIME	Committee on Industry, Minerals and Energy
COTAC	Committee on Transport and Communications
COTT	Committee on Trade and Tourism
CSCE	Conference on Security and Co-operation in Europe
EAEC	East Asian Economic Caucus
EDB	Economic Development Board
EPG	Eminent Persons Group
EU	European Union
FPDA	Five-Power Defence Agreement
GATT	General Agreement on Tariffs and Trade
GSP	General System of Preferences

ILO	International Labour Organisation
IMF	International Monetary Fund
ISA	Internal Security Act
ITA	Information Technology Agreement
MAI	Multilateral Agreement on Investment
Maphilindo	Malaysia, Philippines, Indonesia
MCA	Malaysian Chinese Association
MFN	Most Favoured Nation
MIC	Malaysian Indian Congress
MOP	Margin of Preference
NAFTA	North American Free Trade Area
NEP	New Economic Policy
NTBs	Non-Tariff Barriers
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
PAFTA	Pacific Free Trade Area
PAP	People's Action Party
PKI	Parti Komunis Indonesia
PSI	Parti Sosialis Indonesia
PTA	Preferential Trading Agreement
SCCAN	Special Co-ordinating Committee of Asean Nations
SEAARC	Southeast Asian Association for Regional Co-operation
SEANWFZ	Southeast Asia Nuclear Weapon-Free Zone Treaty
SEATO	Southeast Asia Treaty Organisation
SEM	Single European Market
SLORC	State Law and Order Restoration Council
TPNG	Trade Preferences Negotiating Group
UMNO	United Malay National Organisation
WGIC	Working Group on Industrial Co-operation
WGT	Working Group on Trade
WTO	World Trade Organisation
ZOPFAN	Zone of Peace, Freedom and Neutrality

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