

# ASEAN Economic Co-operation The Tasks Ahead

Report of a Colloquium on "ASEAN Economic Co-operation:  
The Tasks Ahead" held in Singapore 27-28 February 1987

The Association of Southeast Asian Nations (ASEAN) has made progress in economic co-operation. However, the twentieth anniversary of the founding of the Association and the forthcoming ASEAN Summit of Heads of Government provide an excellent opportunity to critically review this progress as well as consider the tasks ahead, especially with regard to ASEAN economic integration, including ways and means that could most effectively facilitate a greater flow of goods and services, human resources, and investment in the region, and between the region and the rest of the world.

Accordingly, the ASEAN Economic Research Unit (AERU) of the Institute of Southeast Asian Studies (ISEAS) organized a Colloquium on "ASEAN Economic Co-operation: The Tasks Ahead" with the objective of bringing the knowledge and experience of the regional and international economic scholarly community to bear on the opportunities and problems ahead for ASEAN, particularly with regard to trade and investment. This narrow focus was chosen following consultations with decision-makers in the region.

The Colloquium generated considerable interest and debate, and a number of specific suggestions and proposals emerged. These will require further study and refinement. In the meantime they are submitted herewith in the hope that they may stimulate discussion and action considered necessary by ASEAN officials.

## I. The Need to Think Ahead

There are several reasons why it is now time to think ahead in planning the future course of ASEAN economic co-operation. Among them are the following.

The record of ASEAN economic development has been impressive when compared both with the past and with other parts of the Third World. This serves as an encouragement for renewed efforts at co-operation in the economic sphere.

At the same time, the world environment has changed, making life for developing and newly industrializing countries more difficult.

There is also the growing temptation in the changed world economic environment of

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resorting to defensive strategies, such as high tariffs and non-tariff barriers to trade, that could ultimately prove counterproductive.

## II. Fundamental Principles

While considering the future course of ASEAN economic co-operation, the following fundamental principles need to be borne in mind.

The design and implementation of effective economic co-operation and the building up of necessary institutions takes time. It is important to guard against the temptation to plan only for what is politically feasible now, and to ignore the ultimate goal of regional economic co-operation and integration and the long-range strategy for achieving this.

The purpose of economic co-operation and integration should be to create an environment that will facilitate the efficient flow of goods and services, investments, and human resources within the region and between it and the rest of the world. The ASEAN countries are themselves—in varying degrees—excellent reminders of the importance of market forces in allocating scarce resources and of the role of private entrepreneurship in the dynamic process of economic development.

ASEAN countries owe their economic prosperity to trade and investment links with the outside world. Autarkic measures in the name of regional integration can undermine this. ASEAN must continue to maintain its outward-looking orientation and remain competitive in world markets. Measures that would erode ASEAN's dynamic efficiency must be avoided.

Strategies for greater co-operation in exploiting external markets and in helping to influence the world economic environment through international bodies (such as GATT) are inseparable from intra-ASEAN economic co-operation. But they should not be allowed to become a substitute for intra-ASEAN co-operation efforts.

Since governments naturally wish to further their perceived national interests, the form of economic co-operation proposed must offer net benefits—both from internal and external trade and other economic links—to all participating nations. Appeals to any overriding supranational regional interest would not be sufficient.

Differences in levels of development, size of country, and trade regimes, as well as political and cultural factors, cannot be ignored. To be realistic, the form and mode of economic co-operation must take into account not only considerations of economic efficiency, but also socio-political constraints within individual countries. It will therefore be necessary to give sufficient time and provide appropriate incentives or assistance for the necessary adjustments in individual countries.

The necessary adjustments required by economic co-operation and integration proposals must be achieved without placing too heavy burdens of unemployment or other forms of income loss on the groups of workers affected by the adjustment process.

## III. Objectives

The ideal of ASEAN economic co-operation is to create an outward-looking economic area with compatible economic policies, constituting a powerful production unit and permitting continuous expansion, increased stability, an accelerated rise in living standards, and the development of harmonious relations among the states thus joined together, as well as with other states in the region and worldwide.

In this ideal, ASEAN countries would assist one another in creating and maintaining the basic conditions on which economic development depends. These include the free exchange of goods and services, investment in efficient productive enterprises, and in the development of ASEAN's greatest strength—the human resources in the region—through education and development of skills. Such an

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approach and environment would encourage enterprise, willingness to adapt to change and shared enthusiasm by employers and workers for good relationships and continuous improvement of productivity.

The realization of these objectives would involve the following considerations.

The creation of such an environment will be fostered by liberalization of trade in goods and services, both between ASEAN member states and with the rest of the world, and freer movement of labour and capital. The mere reduction of internal tariffs without due attention to external tariffs may prove counterproductive.

Investment in the industries of ASEAN countries is a basic requirement of growth. Entrepreneurs invest if profits can be made, and these in turn depend on markets. Enlarging the size of the ASEAN market by liberalizing trade is one of the most promising ways of stimulating ASEAN entrepreneurs to invest locally and of attracting foreign investment.

Greater mobility of labour would be a natural complement to the free movement of goods and services and of capital within member states. However, given the cultural and socio-economic constraints of the region, liberalization of the labour market must remain a long-term goal.

#### **IV. Proposed Schemes for Integration: An ASEAN Trade Area**

Given the present wide diversity of trade regimes among ASEAN countries, none of the ideal models provided by economic theory would be immediately applicable. For this reason a specific institutional arrangement needs to be designed for ASEAN.

There are conceivably several specific institutional arrangements that can be built on the principles stated earlier, but they all centre on a notion that some form of market integration would be the most appropriate goal. Though an ideal to keep in mind, a full-fledged com-

mon market need not be addressed at this time, since many of the benefits of closer integration are believed to arise out of the freeing of trade.

On the other hand, a realizable goal in the foreseeable future is an ASEAN trade area, designed to provide net benefits for all the ASEAN countries by being geared to their present specific trade regimes. Such a trade area would incorporate mutually agreed upon mechanisms for gradually reducing internal and external trade restrictions.

The major components of this proposal are the following.

- 1 Establishment of a customs union comprising Indonesia, Malaysia, the Philippines and Thailand. Within this area all internal tariffs and non-tariff barriers would gradually be reduced to zero.

- 2 Negotiation by these countries of the common external tariff of this customs union at a level at or below Malaysia's present tariff level.

- 3 Establishment of a free trade area linking the customs union with Singapore and Brunei, but restricted to goods of ASEAN origin, defined as in the existing ASEAN Preferential Trading Arrangements.

- 4 Agreement on a ten-year timetable for achieving these objectives, prescribing annual tariff adjustments and reduction of non-tariff barriers until the final levels of internal and external tariffs have been reached.

- 5 Negotiation and agreement on a review mechanism for slowing down or speeding up the adjustment process in accordance with current developments.

Further details of this proposal are contained in Annexe 1.

In case a customs union arrangement presents operational difficulties for the four countries concerned, an alternative could be a version of a free trade area within the meaning of article 24 of GATT. Here, each member would retain the right to set its tariff and non-tariff

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barriers on imports from non-members, while making a commitment to reduce all such barriers on imports from member countries, subject to rules of origin, such as those specified by the Preferential Trading Arrangements. In the original GATT article it is clear that exemptions of some products or even sectors is possible, but that they should be strictly limited. A transition period is also assumed as in all such regional integration schemes, but in this case its form and duration is particularly important, because of the different stages of development of the manufacturing sectors of the individual ASEAN countries.

Furthermore, rather than leaving external tariffs and other trade restrictions as they are, the ASEAN countries should restructure them so as to give a strong incentive to economic sectors that are likely to be regionally and internationally most competitive in the future. Indeed, if ASEAN countries could agree to a tariff restructuring formula that limits the height of their external trade barriers (tariff and non-tariff) while leaving each country to establish levels of protection appropriate to their development needs, this could remove distortions in resource allocation among industrial sectors and improve the prospect for sound economic investment and development within the region during the transition period.

This prospect would be further enhanced if the structure of protection that emerged could be used as the common ASEAN base for bargaining with GATT partners, especially the more industrialized countries.

For an elaboration of the basis of trade barrier restructuring and transitional arrangements see Annexe II.

Specific provision can and probably should be made to deal with the problems of countries likely to experience greater changes in industrial structure during the transition to freer trade in the region, and in achieving the capacity to export processed and manufactured goods to external markets. It is suggested that Indonesia might be afforded a longer transition period. For example, while other members

might be expected to lower their trade barriers gradually during the first stage described above, Indonesia could be exempted from this obligation until the second stage. External assistance and private investment would almost certainly be available to reduce infrastructural and skill disadvantages during this period.

In the meantime, and as an immediate move towards greater ASEAN economic integration through trade and investment, the present product approach to the liberalization of intra-ASEAN trade should be replaced by a sectoral approach that would do away with the present need for item-by-item negotiations. Under this approach the member countries accord trade preferences and investment incentives to selected industrial sectors with at present little or no production in the region, such as, for example, engineering (capital goods) industries.

This sectoral approach effectively combines and modifies the measures currently in use under the Preferential Trading Arrangements, the ASEAN Industrial Complementation scheme, and the ASEAN Industrial Joint Ventures scheme, and would allow for differential timing of implementation for individual Asean countries.

In order for it to be effective, this proposal should be supported by an investment scheme that accords national treatment to all complementary investment projects. External tariff rates and non-tariff barriers to trade should be reduced where necessary to ensure that the net effects of the scheme are positive for all participating countries.

## V. Supporting Measures

In addition to the integration schemes proposed, the following individual supporting measures are suggested.

Beyond the standstill on non-tariff trade barriers agreed to in the General Agreement on Tariffs and Trade, ASEAN should energeti-

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cally strive for a roll-back of such non-tariff barriers, not only in international markets, but also within the ASEAN region.

A system of regional collaboration in services should be designed and adopted with the help of external aid programmes.

Through the activities of COIME, ASEAN has implemented a number of measures aimed at promoting industrial co-operation, such as AIC, AIJV, and co-operation in investment promotion and technology transfer. These agreements and measures should be retained to the extent that they support the integration schemes outline earlier.

Industrial policies should be compatible with trade objectives and should be made clear to potential investors, so that business plans can be made accordingly. Efforts should be made to harmonize policies towards foreign investment and technology transfer.

Non-ASEAN participation in ASEAN joint ventures should continue to be encouraged. Efforts should be made to facilitate the process of industrial complementation, particularly through the AIJV scheme.

Existing funding sources for intra-ASEAN investment, such as the AFC and the AJDC, should be expanded by improving methods for raising capital from the World Bank and other institutions.

For further details of intra-ASEAN industrial investment see Annexe III.

Further relaxation of intra-ASEAN travel formalities would facilitate greater contact and freer mobility of labour. Existing labour flows within the region should be examined with a view to working out regularized regional arrangements.

More intensive co-operation in higher education and advanced training should be promoted. This could include the standardization of educational accreditation, the introduction of other ASEAN languages in educational curricula, and the establishment of joint training and research institutes.

Wherever measures tend to liberalize the intra-ASEAN flow of labour, they should be

viewed and conceived as a move towards a common ASEAN labour market.

## **VI. Organizational And Institutional Support**

While the temptation to expand administration and institutions to inappropriate sizes must be continuously resisted, the implementation of some of the proposals mentioned requires organizational and institutional support. The following aspects should be considered when reviewing the ASEAN machinery.

Initially, a special ASEAN body should be formed to monitor non-tariff barriers and to address such questions as subsidies and other regulatory practices. It would be able to consider these matters from an ASEAN standpoint, rather than from specifically national points of view.

Some kind of ASEAN tribunal or court would eventually become necessary to adjudicate and arbitrate in matters of conflict arising in the implementation of the liberalization policies proposed.

ASEAN should consider the establishment of an ASEAN Adjustment Assistance Consortium with financial support from the World Bank, the Asian Development Bank and other multilateral or bilateral donors. The purpose of this consortium would be to facilitate necessary industrial adjustments to the freer flow of goods and services, capital and labour within the region.

## **VII. Implementation**

Decisions to accept long-range objectives and to adopt certain models of economic co-operation and integration must be supplemented by clear agreements on implementation. The phasing of measures, the treatment of exceptions to the rule, mechanisms for reviewing, speeding up or slowing down individual co-operation programmes and procedures in case of default must all be discussed

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and determined in advance for economic co-operation and integration to be successful.

The following considerations should be taken into account.

The set of measures adopted for economic co-operation and integration must be set out in a binding timetable to which the participants will adhere. The time given for adjustments will vary from one type of measure to another and, by mutual consent in advance, could be varied from country to country. Speeding up should be made possible upon mutual agreement, but slowing down should be subject to very stringent conditions.

Experience shows that, once entrepreneurs know the direction of change and the timetable, they will adjust faster than expected and call for implementation to be accelerated.

Because of the wide differences in size, resource endowment, trade regimes, and level

of economic development in the ASEAN countries, differential treatment, agreed to by all participating countries, will be necessary. This should be built into the economic co-operation and integration programme in terms of differential timing of measures, permitting special exclusion lists and special funding for adjustment processes. In determining these differential measures, the principle of net benefits for all participating parties should be kept in mind.

SOURCE: AERU, *ASEAN: The Tasks Ahead* (Singapore: ASEAN Economic Research Unit, Institute of Southeast Asian Studies, 1987), pp. 1-16.