

# New Directions for ASEAN Economic Co-operation

## Summary Record of the Second ASEAN Roundtable, Kuala Lumpur, 20–21 July 1987

Jointly Sponsored by Malaysian Institute of Economic Research (MIER), Institute of Strategic and International Studies (ISIS), Malaysia, Institute of Southeast Asian Studies (ISEAS), Singapore

### 1. Preamble

The Malaysian Institute of Economic Research (MIER), the Institute of Strategic and International Studies (ISIS) Malaysia, and the Institute of Southeast Asian Studies (ISEAS) convened the “Second ASEAN Roundtable: New Directions for ASEAN Economic Co-operation” in Kuala Lumpur on 20–21 July 1987.

The objective of the ASEAN Roundtable series of discussions is to review major developments in ASEAN and to explore new directions for ASEAN economic co-operation in the light of the changing global economic environment, as well as in terms of the emerging domestic economic situation and needs.

In view of recent developments in the region and the significance and topicality of the issues involved, the Second Roundtable specifically sought to examine the various proposals available for ASEAN co-operation, especially with regard to trade and related matters. The recommendations of the 19th ASEAN Economic Ministers Meeting held in Singapore on 9–11 July 1987 were also discussed.

Thirty-one individuals from the public and

private sectors, academia, and the mass media — all acting in their personal capacities — participated in the Second Roundtable.

The Agenda of the Roundtable was:

- to review the proposals for ASEAN co-operation focusing on trade and related matters, including those put forward by various groups and committees;
- to examine ways and means of effective implementation of ASEAN co-operation, including various proposals advanced;
- to consider problems and possibilities ahead.

Discussion focused primarily but not exclusively, on trade and industry. Attention was also given to proposals developed in turn by the ASEAN Committee on Trade and Tourism (COTT); by Dr Seiji Naya of the East-West Center, Honolulu; by the ASEAN Chamber of Commerce and Industry’s Group of Fourteen; and by the ASEAN Economic Research Unit (AERU) of the Institute of Southeast Asian Studies, Singapore.

In addition, the Roundtable discussed ASEAN co-operation in banking and finance, the management of ASEAN’s external relations, and institutional arrangements required

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for strengthening ASEAN machinery for economic co-operation.

## 2. ASEAN Trade Co-operation

The Roundtable welcomed the AEM's proposals to enhance existing Preferential Trading Arrangements (PTA) as steps in the right direction. Particular attention was also paid to:

### a) *Exclusion Lists*

The proposal that 90 per cent of all traded items should be included within the PTA within five years and that the remaining 10 per cent of items not included within the PTA should not amount to more than 50 per cent of the intra-ASEAN trade value was regarded as a significant and positive achievement. The Roundtable felt that, in general, the use of safeguard mechanisms (PTA article 12) is preferable to the exclusion lists maintained by each country. However, one of the main concerns of the Roundtable was that the safeguard provisions contained in Article 12 of the PTA should not be applied extensively and permissively, as this would negate the purpose of the trade liberalization measures proposed.

### b) *Margins of Preference*

The deepening of the margins of preference (MOPs) from a minimum of 25 to 50 per cent over five years was also regarded as positive by the Roundtable, although the 50 per cent maximum is considerably less than that recommended by several groups.

### c) *Local Content Requirement*

The Roundtable welcomed the proposal to reduce the local content requirement in the rules of origin. However, reservations were expressed regarding the process of deciding on the products that would qualify for a lower 35 per cent local content as proposed by the AEM. It was felt that this should not be a cumbersome, discretion-

ary, and lengthy case-by-case process. A smaller across-the-board reduction in the local content requirement with automatic qualification of all products fulfilling the criterion was thought to be preferable to case-by-case decisions. In any case, it was recommended that the rule-of-origin requirement should be easy to administer and should not be excessively time-consuming.

## 3. ASEAN Industrial Co-operation

### a) *Margin of Preference for AIJVs*

The Roundtable also endorsed the proposed measures to further ASEAN industrial co-operation. The decision to increase the MOP of ASEAN Industrial Joint Ventures (AIJV) products from 75 to 90 per cent — just short of free trade in those products — was viewed as a major contribution of the AEM meeting. However, some participants expressed concern that the expectations regarding the economic impact of AIJVs might be too high.

### b) *Pre-approved List of Potential AIJVs*

There was considerable discussion on the proposal that a pre-approved list of products be drawn up. The Roundtable felt that it would be important to draw up such a list before the forthcoming Summit. While endorsing the need for such a pre-approved list, it was also stressed that the administrative process of approving products for inclusion as AIJVs should be as simple and quick as possible and should not require excessive "political" bargaining. Administrative procedures for the approval and implementation of AIJVs should be streamlined. In general, it was felt that the process of approving AIJV status should operate on the principle of automatic qualification on the basis of pre-determined criteria rather than on a case-by-case discretionary basis.

### c) *Complementarity*

The main incentive for the private sector

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to engage in AIJV schemes was thought to be the preference margin. Thus, unless other incentives in equity and/or loan financing were provided by the AIJV schemes, they would lose their attraction as the PTA was extended. In the extreme of a fully implemented PTA scheme they would even become redundant. The Roundtable recommended a review of both incentive systems.

#### **4. ASEAN Co-operation in Banking and Finance**

Participants pointed to the need to develop strong financial institutions for trade and project financing purposes. There was general agreement that there was need for a more active and participative role for the ASEAN Finance Corporation (AFC). To this end, the Roundtable took note of some recent and important organizational changes that had taken place in the AFC.

#### **5. Managing ASEAN's External Relations**

While taking note of the active role played by ASEAN in its external economic relations, especially with its dialogue partners, and in multilateral forums, such as GATT, it was felt this aspect of ASEAN could be further developed, that is, in terms of how best to minimize weaknesses and maximize strengths and possibilities.

#### **6. Strengthening ASEAN Institutions**

On institutional issues, the Roundtable was especially pleased with the trend towards greater co-operation between officials responsible for political affairs and those in charge of economic affairs. Suggestions were made that some "issues" committees [see G-14 Report for this], such as COIME and COTT, should be reorganized to optimize division of labour.

It was strongly felt, too, that there should be adequate provisions for the strengthening of the research capability of ASEAN and the ASEAN Secretariat, so that decisions on ASEAN economic co-operation would not have to be based on insufficient information.

Likewise, as intra-ASEAN trade grows, ASEAN would need to have an effective mechanism for dispute settlements.

#### **7. Problems and Possibilities**

##### *a) Automaticity*

In general, it was strongly felt that greater automaticity in the application of measures to the private sector should be preferred to lengthy approval procedures on a case-by-case basis.

##### *b) Protectionism*

The Roundtable clearly and firmly registered its concern over the continuing danger of protectionism, and the need for ASEAN to collectively counter it without complacency.

##### *c) External Relations*

The Roundtable was optimistic of the opportunity for ASEAN to play a significant role in the GATT system. It emphasized the need to increase efforts to promote European investments in ASEAN and called for a new era of more fruitful relations with Japan.

##### *d) Outward-Looking Orientation*

ASEAN countries owe their economic prosperity to trade and investment links with the outside world. Measures in the name of regional integration that discriminate against more efficient producers 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 should be avoided. Hence, the improved PTA must be coupled with greater liberalization *vis-à-vis* the outside world.