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The Switch in Intra-ASEAN Economic Cooperation – The “Manila Declaration” at the Third ASEAN Summit in 1987 and the “Strategy of Collective FDI-Dependent and Export-Oriented Industrialization” –

Kazushi SHIMIZU

A fundamental switch in intra-ASEAN economic cooperation was implemented in the “Manila Declaration” at the 3rd ASEAN Summit in 1987, based on the fundamental changes in ASEAN and the world economy. ASEAN’s intra-economic cooperation strategy was switched to a new strategy “ASEAN’s strategy for Collective FDI-dependent and Exported-oriented Industrialization (ASEAN’s strategy for CFEI).” The “Manila Declaration” in 1987 was the foundation of current intra-ASEAN economic cooperation including the ASEAN Free Trade Area (AFTA). The current intra-ASEAN economic cooperation including AFTA has been an extension of ASEAN’s strategy for CFEI. This paper will clarify the process of the switch and reorganization of the intra-ASEAN economic cooperation strategy in 1987 and the characteristics of this new intra-ASEAN economic cooperation strategy exactly.

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1. Introduction

The Association of Southeast Asian Nations (ASEAN) began intra-ASEAN economic Cooperation at the 1st ASEAN Summit in 1976. This economic cooperation, based upon a report formulated by a United Nations Team (“Economic Cooperation among member countries of the Association of Southeast Asian Nations”¹⁾: “UN Report”), was carried out according to the “ASEAN’s strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries (ASEAN’s Strategy of CISI).” This strategy was designed under the restricted foreign direct investment (FDI), and carried out by collective self-reliance policies. However, this strategy suffered a setback due to failure in the implementation of the following policies: the

1) United Nations (UN) (1974).

ASEAN Industrial Projects (AIP), the ASEAN Industrial Complementation (AIC) and the Preferential Trading Arrangements (PTA) as well as the ASEAN Industrial Joint Venture (AIJV) which started in 1983, and also due to the failure of the creation of an interdependent market within ASEAN. What mainly caused these failures were the conflicts of economic interests among the ASEAN countries, and their inability to overcome them.²⁾

A fundamental switch in intra-ASEAN economic cooperation was implemented in the “Manila Declaration” at the 3rd ASEAN Summit in 1987, based on the fundamental changes in ASEAN and the world economy. ASEAN’s strategy for CISI from 1976 was switched to a new strategy “ASEAN’s strategy for Collective FDI-dependent and Exported-oriented Industrialization (ASEAN’s strategy for CFEI).”³⁾

The “Manila Declaration” in 1987 was the “foundation” of current intra-ASEAN economic cooperation including the ASEAN Free Trade Area (AFTA), which was approved at the 5th ASEAN Summit in 1992 and was established by 6 preceding member countries in 2002. The current intra-ASEAN economic cooperation including AFTA has been an extension of ASEAN’s strategy for CFEI. Although many have pointed out that the 5th ASEAN Summit and AFTA concept in 1992 helped rejuvenate intra-ASEAN economic cooperation, we focus on the decisive switch in intra-ASEAN economic cooperation policy that was implemented in the “Manila Declaration” at the 3rd ASEAN Summit in 1987.

In this paper, we shall clarify the process of the switch and reorganization of the intra-ASEAN economic cooperation strategy and the characteristics of new intra-ASEAN economic cooperation strategy (ASEAN’s strategy for CFEI) specifically.⁴⁾

This paper will explain the fundamental change of basic structures in intra-ASEAN economic cooperation in the mid-1980s in Section 2. Section 3 will examine the process of the switch and reorganization of the intra-ASEAN economic cooperation strategy. Section 4 will examine the 3rd ASEAN Summit and the “Manila Declaration.” The concluding section will characterize and conclude this newly specified strategy based on the “Manila Declaration.”

2) Shimizu (1993), Shimizu (1998a), Chap. 1- 3 and Shimizu (1998b)

3) Shimizu (1993) and Shimizu (1998b).

4) This paper will limit the focus to economic factors in understanding the historic circumstances in 1987, because there was little change in political factors surrounding ASEAN; the switch in economic cooperation policy was made mostly due to economic factors, as will be discussed in Section 3.

2. Fundamental Change of Basic Structures in Intra-ASEAN Economic Cooperation

The Intra-ASEAN economic cooperation from 1976 which was based on ASEAN's strategy for CISI ended in failure. Various specific policies (AIP, AIC and PTA) achieved few results because of the conflict of economic interests among member countries and their lack of ability to resolve them. Furthermore, they also failed to achieve the goal of establishing interdependent markets within ASEAN. Owing to these setbacks as well as the fundamental change of the basic structures of intra-regional economic cooperation, ASEAN was under great pressures to reorganize its intra-regional economic cooperation.

Above all, the basic structures of intra-ASEAN economic cooperation were changed due to the emergence and development of intra-regional division of labor by the multinational corporations (MNCs) with the structural changes in the world economy. In the late 1980s, this trend became more prominent. A decisive turning point came in the form of the Plaza Accord in September 1985. After the Plaza Accord, the international division of labor by MNCs began to take place at an increasingly faster pace with the high yen and cheap dollar and the FDI from Japan to Newly Industrializing Economies (NIES) and ASEAN countries increased rapidly. Specifically, Japanese FDI (in approved base) in Thailand skyrocketed from 169 million baht in 1985 to 1.675 billion baht in 1986 and to 3.66 billion baht in 1987.⁵⁾ Moreover, according to the JETRO survey in 156 cases out of the 160 cases of approved Japanese investment between 1986 and 1987, approximately three quarters (117 cases) were export-oriented cases with an export ratio of 80-100% (such as refrigerators, videotapes, and floppy disks). Electric and electronic machines, in particular, were all export-oriented.⁶⁾

MNCs, leading this new international division of labor and interdependent market formation, requested ASEAN to change its strategy of intraregional economic cooperation. Mitsubishi Motor Corporation (MMC)'s proposal of the Brand-to-Brand (BBC) Complementation scheme reflected this movement typically. MMC, which had auto-parts and assembly joint ventures in ASEAN countries, proposed a preferential program to accommodate regional

5) Board of Investment (Thailand) (1988), *Activity Report for the Month of June*, 1988. The total amount of foreign investment also skyrocketed from 1.884 billion baht in 1985 to 3.139 billion baht in 1986 and to 8.317 billion baht in 1987. By country, Japan accounts for a large percentage with 44% in 1987.

According to statistics of the Thailand Board of Investment (BOI), only investment approved under the Investment Promotion Act has been posted. Thus, when analyzing the statistics on FDI in ASEAN countries, we must pay attention since their accounting method is problematic. In this respect, refer to Kitamura, K.

(1984) and the Institute of Developing Economies (1989).

6) JETRO (1989), *JETRO White Paper on Investment 1988*, p. 137.

auto parts distribution from 1987 because of the necessity of parts distribution within the area. Then, it was decided to discuss its implementation in the 3rd ASEAN Summit. Unlike the concept of packaging based on conventional AIC : the project to manufacture ASEAN cars by allocating auto-parts production to individual countries, the BBC concept was the intra-regional auto-parts distribution being guaranteed on a corporate brand basis, by which foreign car manufacturers could take the initiative. MMC's proposal was approved by ASEAN at the 20th ASEAN Economic Ministers Meeting (AEM) in October 1988, when the "Memorandum of Understanding (MOU), Brand to Brand Complementation in the Automotive Industry" was signed.⁷⁾ A proposal by an MNC that had urged ASEAN to change its strategy in intra-regional economic cooperation was approved by ASEAN. This event signified a great change in ASEAN's attitude towards intra-regional economic cooperation.

In addition, there was another change that had occurred inside ASEAN. This change was that each ASEAN country switched its foreign capital policies from FDI-regulated ones, which was the premise of the ASEAN's strategy for CISI, to FDI-attractive ones. As the global recession worsened and the price of primary goods dropped due to resource-saving innovation in the 1980s, economic growth stagnated in every ASEAN country in 1985 and 1986. Every ASEAN country was under tremendous pressure to search for a new type of development and growth strategy, suited to the structural changes in the world economy. Particularly the price lowering of primary goods, which had caused the bankruptcy of the New International Economic Order (NIEO), meant the disappearance of conditions of growth for ASEAN countries who continued to grow in the 1970s mainly by exporting primary goods. Now they had to further promote the export of industrial products. It also signified the demise of NIEO, which used to be against advanced countries by using oil and primary goods as bargaining tools, as well as the demise of the NIEO-type development and growth strategy, by which foreign investment had been regulated. With this experience and lessons of the growth of Asia NIES, ASEAN countries began to adopt the FDI-dependent and Export-oriented strategy for economic growth and development. Furthermore, the rapid expansion of Japa-

7) "The BBC scheme is an arrangement whereby specified parts/components of a specific vehicle model are traded and used by the Brand-Owners (e.g. Mitsubishi Motor Corporation) and Brand Related Original Manufacturers (BR-OEMs) in their respective Original Equipment products, and there shall be two or more countries participating in respect of any specific BBC scheme. Participating countries shall be granted a) local contents accreditation, b) a minimum of 50% margin of tariff preference (MOP) to BBC products, if a BBC product is a component for the manufacture of any products in the participating countries ("Memorandum of Understanding, Brand to Brand Complementation on the Automotive Industry under the Basic Agreement on ASEAN Industrial Complementation," ASEAN Secretariat, 1988b, pp.45-48)." Refer to Shimizu (1994), Shimizu (1998a), Chapter 5 and Shimizu (1999).

nese FDI to ASEAN countries which originated in the Plaza Accord made these changes within ASEAN conclusive.

ASEAN countries switched foreign capital policies drastically, from FDI-regulated ones to FDI-attractive ones, in the mid 1980s. Even Indonesia, which had continued to strictly regulate foreign investment since the mid-1970s, was making a quick switch to the FDI-attractive policies, after the “May 6 Package” in May 1986. By this package, the 475 categories open to foreign investment in Indonesia were doubled to 926 categories. Furthermore, in December 1987, Indonesia relaxed the restrictions on the capital share for export-oriented corporations and extended the period for reaching the local capital rate of 51% from 10 years to 15. In Malaysia, which adopted the “New Economic Policy (Bumiputra Policy : preferential treatment for Malays) from 1971 and adopted strict controls for foreign investment, restrictions on foreign investment were relaxed extensively after 1985. As of September 1986, if one was to export 50% of products to foreign countries or sell in the export-processing zones or had 350 or more permanent employees, up to 100% of foreign capital was approved. Thus, those measures meant the shelving of the “New Economic Policy.” In Thailand, the Board of Investment (BOI) announced a deregulation measure in October 1986 that would lower the export ratio of conventional 80% to 50% for the first two years of operation, and this export ratio was a condition for approving a 100% foreign capital. The Philippines, though only gradually, has also moved towards FDI-attractive policy after the political change of 1986. All those trends in ASEAN countries have been consistently maintained.⁸⁾

Together with Singapore, which had already adopted a FDI-attractive policy, ASEAN countries matched their foreign capital policies towards FDI-attractive ones. The ASEAN's strategy for CISI was premised on the tension between ASEAN countries which adopted FDI-regulated policies and Singapore which adopted FDI-attractive policy. This policy match among ASEAN countries was a great change in the basic condition of intra-ASEAN economic cooperation.

These fundamental changes of conditions of intra-ASEAN economic cooperation forced the switch and reorganization of previous strategy, the “ASEAN's strategy for CISI.” Now, the new strategy of FDI-dependent and Export-oriented Industrialization would be placed at the center stage of intra-ASEAN economic cooperation. Next, let us clarify the process of the switch and reorganization of the new strategy of intra-ASEAN economic cooperation.

8) For the individual policies on foreign investment of ASEAN member countries, refer to *JETRO White Paper on Investment* by JETRO and *ASEAN Member States Investment Relation Law* by the ASEAN Promotion Centre on Trade, Investment and Tourism.

3. The Road to the “Manila Declaration”

The “Manila Declaration” was proposed at the 3rd ASEAN Summit in December 1987. This declaration reflected the fundamental changes of basic structure in intra-ASEAN economic cooperation. Let us examine the strategy switch observed at the 3rd ASEAN Summit in the “Manila Declaration.”

In April 1986, Philippine Vice President and Foreign Minister Laurel proposed at the 4th ASEAN Standing Committee to hold the 3rd ASEAN Summit. At the Special ASEAN Ministerial Meeting (AMM) in the same month and at the 19th AMM in June the same year, it was agreed that the summit would be held in Manila in the second half of 1987 to discuss economic cooperation as the main agenda.⁹⁾ As the Philippines’ Laurel stated at the 4th Standing Committee, “ASEAN needs to hold a summit meeting to transform itself into a strong economic organization,”¹⁰⁾ the main focus on the agenda was to be economic cooperation. The joint communiqué at the 19th AMM reported, “The Foreign Ministers reiterated their conviction that present conditions in the world economy, which have had serious repercussions on the economies of ASEAN member states, necessitate new directions in intra-ASEAN cooperation and in ASEAN’s relations with third countries.”¹¹⁾ That reflected that ASEAN had seriously recognized the change in the foundation of intra-ASEAN economic cooperation.¹²⁾

Thus, it was decided that the 3rd ASEAN Summit be held based on economic factors. Needless to say, the political factors discussed at the First ASEAN Summit in 1976 were not brought to the fore. Following the initial 10 years, ASEAN continued to promote political cooperation after 1976, which was indeed the chief factor in solidifying ASEAN. ASEAN had cooperated or coordinated against Vietnam, which had invaded Cambodia in 1978, and also cooperated or coordinated against China and the Soviet Union in terms of the Indochina policy. At the U.N. Assembly, ASEAN proposed that Vietnamese forces should withdraw from Cambodia. However, since the Cambodian issue had reached an impasse from around 1986 to 1987, economic cooperation became the urgent task.

The agenda at the 3rd ASEAN Summit was economic issues, especially

9) ASEAN Secretariat (1988), pp. 133, 162, Tonan-AJia-Chousa-Kai (1987), *Tonan-Ajia Yoran (Southeast Asian Affairs) 1987*, pp. 16-17.

10) *Ibid.*, 1987, pp. 16-17.

11) “Joint Communiqué of the Nineteenth ASEAN Ministerial Meeting Manila, 23-28 June 1986,” ASEAN Secretariat (1988b), p. 133.

12) On the other hand, the Philippine proposal for the summit was not strictly for economic reasons. The new Aquino administration had a political purpose: by hosting an ASEAN Summit in her country, it aimed to conduct ASEAN diplomacy more aggressively. There had been a tacit understanding that the next Summit venue was going to be the Philippines (Yamakage, 1994, p. 31).

intra-ASEAN economic cooperation. Specifics were discussed further at subsequent meetings : the 18th AEM in August 1986, the 19th AEM in July 1987 and another AEM in October of the same year held in preparation for the 3rd ASEAN Summit. As a result, the direction was defined for the improvements of AIJV and PTA and the conclusion of the Investment Guarantee Agreement.¹³⁾ Above all, ASEAN countries were interested in the attraction of FDI, especially Japanese FDI, the new trump card for achieving development and growth. The above measures were all related to the attraction of FDI. Prime Minister Lee of Singapore urged to build the appropriate environment to attract FDI for ASEAN and ASEAN countries. He stated “Each member state of ASEAN needs to relax their economic restrictions and make the utmost effort to entice foreign investment with the Japanese funds to ASEAN as the driving force”¹⁴⁾ in the opening statement at the 19th AEM in July 1987.

At the same time, in preparation for the 3rd ASEAN Summit, *ASEAN the Way Forward*, which had been compiled by the Group of Fourteen, an advisory panel for ASEAN-CCI, became the proposal to guide intra-ASEAN economic cooperation for the new direction. It gave a boost to the switch in intra-ASEAN economic cooperation.¹⁵⁾

The Group of Fourteen was officially recognized at the 19th AMM in June 1986 and compiled *ASEAN the Way Forward*. This proposal was submitted to ASEAN-CCI in July 1987 and then delivered to each member country. The Group of Fourteen pointed out in the proposal the economic importance of the 3rd ASEAN Summit and its influence on structural changes in the world economy, “We have one primary hope of the 3rd ASEAN Summit. In all earnestness we urge the leaders of ASEAN meeting in Manila to take a firm and decisive step on the economic road. The political and peace dimensions of ASEAN must remain paramount. But in the face of the structural changes in the world economy which have resulted in a hostile external economic environment that already seriously challenges us all, the economic dimension must be developed to the point where, for the first time, economies will truly be a central game in ASEAN. We believe that if the Manila Summit does not grasp the economic imperative, we will have lost a crucial strategic opportunity.”¹⁶⁾ The external environments mentioned here, which posed an economic threat to ASEAN

13) ASEAN Secretariat (1988b), pp.212-213, 215-216, 220-221.

14) Tonan-Ajia-Chousa-Kai (1988), *Tonan-Ajia Yorari* (*Southeast Asian Affairs*) 1988, pp. 16-22.

15) The “Manila Declaration” was drawn up in step with *ASEAN the Way Forward*. Thus, ASEAN-CCI, representing the private sector of ASEAN and enthusiastic about attracting FDI, became an important actor in intra-ASEAN economic cooperation.

16) The Secretariat of Group of Fourteen (ASEAN-CCI) and Institute of Strategic and International Studies (ISIS) (1987), *ASEAN the Way Forward (The Report of the Group of Fourteen on ASEAN Economic Cooperation and Integration)*, p. ix.

member countries, were specifically the structural slowdown in the economy of the world as a whole, the structural changes in the demand for raw commodities, the rising protectionism, and massive trade imbalances.¹⁷⁾

Based on this, the Group of Fourteen proposed an improvement of PTA, a standstill and a rollback of non-tariff barriers (NTBs), an improvement of AIJV, and a declaration on investment, thereby vowing that those measures would attract FDI.¹⁸⁾ In regard to the improvement of AIJV, this proposal stated, "It could also encourage more ASEAN and foreign industrialists to invest in these projects."¹⁹⁾ In "An ASEAN Charter on Investments," it predicted, "ASEAN should formulate An ASEAN Charter on Investments which would attract foreign investment into the region especially through joint ventures."²⁰⁾ Regarding the "Managing ASEAN's External Economic Relation," it stated, "It is essential that ASEAN continue an outward orientation and make concerted efforts to influence the international economic environment to make it more favourable and conducive to its requirements,"²¹⁾ This stated the necessity for cooperative action by the member countries to secure extra-ASEAN markets to implement export-oriented industrialization.

Similar proposals were made by the Institute of Southeast Asian Studies (ISEAS) as well. *ASEAN the Tasks Ahead*, a proposal on ASEAN's new direction in economic cooperation prepared by the ASEAN Economic Research Unit of ISEAS, defined the objective of economic cooperation.²²⁾ It stated "The Ideal of ASEAN economic cooperation is to create an outward-looking economic area with compatible economic policies."²³⁾ At the same time, the proposal clarified the combination of foreign investment and intra-regional market integration, "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."²⁴⁾ *ASEAN the Tasks Ahead* further proposed "An ASEAN free trade area, by which a customs union (CU) would be established by Indonesia, Malaysia, the Philippines and Thailand, and a linked free trade area with this CU would be established by Singapore and

17) The Secretariat of Group of Fourteen (ASEAN-CCI) and Institute of Strategic and International Studies (ISIS) (1987), *ASEAN the Way Forward (The Report of the Group of Fourteen on ASEAN Economic Cooperation and Integration)*, p. 4.

18) *Ibid.*, pp. x-xi, 9-11, 24-37.

19) *Ibid.*, p. 34.

20) *Ibid.*, p. 36.

21) *Ibid.*, p. 61.

22) *ASEAN the Tasks Ahead* was compiled by the ASEAN Economic Research Unit of ISEAS based on the Expert Meeting on intra-ASEAN economic cooperation in February, 1987.

23) ISEAS (1987), *ASEAN the Tasks Ahead*, p. 5

24) *Ibid.*, p. 6.

Brunei.²⁵⁾

Thus, all moves were designed to adopt the attraction of foreign capital, FDI in particular, as the new direction of intra-ASEAN economic cooperation. Based on this, it was proposed to improve individual programs. That direction was deemed most reasonable for ASEAN as an organization as well as for individual countries. Behind those proposals was obviously the emergence and development of intra-regional division of labor by MNCs.²⁶⁾ Also, to implement this division of labor on a full-scale basis, ASEAN realized that they needed to implement intra-ASEAN economic cooperation much further. At the extension of export-oriented industrialization of individual ASEAN countries, they found it necessary to promote intra-ASEAN economic cooperation and extra-economic cooperation. Worthy to note here is that those new proposals were not presented to ASEAN by outside entities such as the "UN Report" in 1974, but rather they were all presented within ASEAN, with the exception of the BBC proposal by Mitsubishi Motor Corporation (MMC). This fact indicated an accumulation of intra-ASEAN economic cooperation and a certain degree of maturity on the part of ASEAN.

There was a clear understanding about the major shift in policy of intra-ASEAN economic cooperation and the agreements at AMMs, but not everything went smoothly. The "Common Market" concept was suggested by the Philippines in August 1986. This proposal invited many discussions and conflicts among ASEAN countries. Under this proposal, the tariff would eventually be eliminated by 2000 by gradually lowering it at an annual rate of 7%. The proposal was discussed at the 18th AEM the same year. It never made it to the Summit agenda due to objections by Indonesia, Thailand and Malaysia. In the end, they compromised by agreeing to the improvement of PTA in terms of trade liberalization.²⁷⁾

4. The 3rd ASEAN Summit and the "Manila Declaration"

The 3rd ASEAN Summit was held on December 14 and 15, 1987. It was the first summit since the Second ASEAN Summit in 1977. In this meeting, the "Manila Declaration"²⁸⁾ was signed. The "Manila Declaration" emphasized the importance of economic aspects in the preamble, stating, "Convinced that economic development and progress are fundamental to the stability and security of the region."²⁹⁾ The declaration featured six items on "political cooperation" and nine on "economic cooperation." Thus, unlike the "ASEAN Con-

25) ISEAS (1987), *ASEAN the Tasks Ahead*., pp. 7-11.

26) Shimizu (1998a), Chapter 3, Shimizu (1993) and Shimizu (1998b).

27) *Nippon Keizai Shimbun*, August 31, and October 22, 1986, Tonan-Ajia-Chousa-kai (1988), pp. 16-12-13.

28) "The Manila Declaration of 1987," ASEAN Secretariat (1988a), pp. 43-46.

29) *Ibid*., p. 43.

cord” in 1976, this declaration focused more on economic cooperation.³⁰⁾ Indeed, this “Manila Declaration” clearly demonstrated the switch in the strategy of intra-ASEAN economic cooperation.

That switch was clearly indicated in the following four points. First, the “Manila Declaration” pledged that ASEAN would implement intra-ASEAN economic cooperation by combining it with FDI from advanced countries, while verifying the importance of FDI from advanced countries for the development and growth of ASEAN countries. The “Joint Press Statement” released with the “Manila Declaration” stated, “Recognizing the role of foreign investments as an effective source of capital inflow and modern technology, the Heads of Government reaffirmed their commitment to promote investment opportunities in the ASEAN countries, to adopt measures that would attract direct investments into the region, and to encourage intra-ASEAN investment.” It further stated the relationship between the expansion of intra-regional trade and FDI, “The Heads of Government agreed on the need to enhance intra-ASEAN trade cooperation to attract foreign investments and agreed that as a long-term goal, ASEAN should work towards the significant expansion in intra-ASEAN trade.”³¹⁾ In other words, it plainly desired the combination of intra-ASEAN economic cooperation and FDI from advanced countries. With regard to AIJV, it pledged to improve AIJV in order to increase the flow of investments into the region and clarified its relationship with foreign investment, stating “The Heads of Government affirmed their commitment to ASEAN cooperation for the purpose of accelerating sound industrial development as a long-term goal for the region. They reiterated ASEAN’s intension to increase the flow of investments into the region,” “In pursuit of these goals, they agreed to improve AIJV Scheme in order to render it more flexible, quicker to implement, and more attractive to investors.”³²⁾

Regarding the actual intra-ASEAN economic cooperation, they agreed to an extensive improvement of PTA, which would help expand FDI, and at the same time, to liberalize the non-ASEAN AIJVs investment from 49% to 60%. Thus, it became possible that foreign capital might make up the majority of the AIJV.

More specifically, Paragraph 7 of the “Manila Declaration”, which addresses “economic cooperation,” pledged the improvement of the PTA toward significant expansion of intra-ASEAN trade and the standstill and rollback of

30) The “Manila Declaration” is composed of the Preamble, Fundamental Principles, Political Cooperation, Economic Cooperation, Relationship with Dialogue Partners, Functional Cooperation and Machinery for ASEAN Cooperation.

31) ASEAN Secretariat (1988a), p.49.

32) *Ibid.*, p.50.

non-tariff barriers.³³⁾ The “Joint Press Statement” stated, “The Heads of Government therefore agreed on the following recommendations to improve the PTA over the next five years : reduce the exclusion lists of individual member countries to not more than 10 per cent of the number of traded items and to not more than 50 percent of the value of intra-ASEAN trade.”³⁴⁾ That was the first time that ASEAN declared a yearly period limit in the implementation of intra-regional economic cooperation policy. It also declared, “deepen (from 25 per cent) to 50 per cent the Margin of Preference (MOP) for items already included in the PTA.”³⁵⁾ Furthermore, the statement declared to reduce the ASEAN content requirement in the Rules of Origin on a case-by-case basis, to implement immediate standstill and of NTBs and negotiate the rollback of such NTBs.³⁶⁾

Paragraph 8 on “economic cooperation” in the “Manila Declaration” pledged to improve the AIJV and conclude an investment guarantee agreement in relation to the AIJV.³⁷⁾ The “Joint Press Statement” stated “liberalizing the non-ASEAN AIJVs from 49 per cent to 60 per cent up to 31 December 1990,” and “deepening of the margin of tariff preference from a minimum 75 per cent to 90 per cent.”³⁸⁾ Originally, the AIJV program was dependent on foreign capital (the high non-ASEAN AIJVs equity ownership) and export-oriented (a minimum ASEAN equity ownership of 51% shall not be required where more than 50% of the products by such entity will be exported to non-ASEAN markets).³⁹⁾ Thus, it was imperative that this program needed to be improved as the strategy of intra-ASEAN economic cooperation was switched.

To implement the above, the following agreements were signed at the 3rd ASEAN Summit : “Revised Basic Agreement on ASEAN Industrial Joint Venture,” “Agreement for the Promotion and Protection of Investment,” “Protocol on Improvements on Extension of Tariff Preferences under the ASEAN Preferential Trading Arrangements,” and “Memorandum of Understanding on Standstill and Rollback on Non-Tariff Barriers among ASEAN Countries.”⁴⁰⁾

Meanwhile, the “Manila Declaration” emphasized that ASEAN countries,

33) ASEAN Secretariat (1988a), p. 44.

34) *Ibid.*, pp. 49-50. The Far Eastern Economic Review (*F.E.E.R.*) evaluated the reform plan of ASEAN PTA, under which intra-PTA trade would account for 50% of intra-ASEAN trade, by calling the plan “most ambitious,” *F.E.E.R.*, 24 December, 1987.

35) ASEAN Secretariat (1988a), p. 50. The minimum rate of 25% was applied to new PTA products.

36) *Ibid.*, p. 50.

37) *Ibid.*, p. 44.

38) *Ibid.*, p. 50.

39) ASEAN Secretariat (1988b), pp. 274-275.

40) ASEAN Secretariat (1988a), pp. 57-80.

with aspirations of export-oriented industrialization, would need to counter the protectionism of advanced countries. The “Manila Declaration” stated, “Member States shall strengthen intra-ASEAN economic cooperation to maximize the realization of the region’s potential in trade and development and to increase ASEAN’s efficacy in combating protectionism and countering its effect.”⁴¹⁾ The “Joint Press Statement” claimed, “The Heads of Government observed that during this particular period of unfavorable world trading conditions the ASEAN countries have become increasingly dependent on external markets for their export.”⁴²⁾ This would apparently be imperative, because the new industrialization strategy was centered on improving the conditions for export-oriented MNCs. There were different aspects from previous economic cooperation that used to be in step with NIEO, which had depended on the export of primary goods and import substituting industrialization.

Second, Prime Minister Takeshita of Japan, in response to ASEAN’s policies, promised to establish the ASEAN-Japan Development Fund (AJDF) with no less than 2 billion US dollars at the Meeting of the ASEAN Heads of Government and the Prime Minister of Japan, which was held following the 3rd ASEAN Summit. Yet, this fund did not target projects such as AIP either; its objective was to promote FDI and to promote the private sector development.⁴³⁾ Japan was the only outside country invited to the 3rd ASEAN Summit. That was because Japan had long been offering financial support to ASEAN.

Third, Mitsubishi Motor Corporation (MMC)’s proposal of the BBC scheme was approved at the 3rd ASEAN Summit, though it was not stated in the “Manila Declaration.” An expert meeting consisting of representatives from each member country was established to discuss the scheme specifically. The “Memorandum of Understanding” of the scheme was officially signed at the 20th AEM in October 1988. Compared to the former programs for intra-ASEAN economic cooperation, this scheme allowed a great deal of initiative for MNCs.⁴⁴⁾

Fourth, the “Manila Declaration” did not even mention AIP and AIC, the core programs of the ASEAN’s Strategy for CISI from 1976.

Thus, it was clear that intra-ASEAN economic cooperation had made a fundamental switch from the ASEAN’s Strategy for CISI to a new strategy. To clarify some points, the switch in intra-ASEAN economic cooperation at the 3rd ASEAN Summit and the “Manila Declaration” was not a switch from government-guided to private sector-guided or private sector-oriented, as

41) ASEAN Secretariat (1988a), p.43.

42) *Ibid.*, p.49.

43) *Ibid.*, pp.86-90.

44) Refer to Shimizu (1994), Shimizu (1998a), Chapter 5 and Shimizu (1999).

noted by a number of authors such as Naya and Plummer (1991).⁴⁵⁾ The switch took place because of the fundamental change of basic structures in intra-ASEAN economic cooperation due to the improving international division of labor by MNCs and also because of the subsequent switch or compliance in the development policy of individual ASEAN member countries.⁴⁶⁾ It was a switch from the foreign-investment-regulatory ASEAN's Strategy for CISI to the strategy of FDI-dependent and Export-oriented intra-regional economic cooperation.

5. Conclusion : The ASEAN's Strategy of Collective FDI-Dependent and Export-Oriented Industrialization

Now, let us characterize the newly specified intra-ASEAN economic cooperation strategy by the "Manila Declaration." As clarified above, the main content of the new strategy was that ASEAN as a group supported the strategy of FDI-dependent and Export-oriented industrialization of individual ASEAN countries, which had begun around the mid-1980s. Specifically, this new intra-ASEAN economic cooperation strategy would 1) attract foreign capital (especially, FDI) as a whole, instead of on an individual country basis, 2) promote economic activities by foreign capital, 3) thus, form an integrated intra-regional market, and 4) create exportable industries in ASEAN region.

Considering these characteristics, it will be most suitable to call that new strategy, which began at the 3rd ASEAN Summit and "the Manila Declaration," "The ASEAN's Strategy for Collective FDI-dependent and Export-oriented Industrialization (ASEAN's Strategy for CFEI)." ASEAN made a fundamental switch in the strategy of intra-regional economic cooperation from the "ASEAN's Strategy for Collective Import Substituting Heavy and Chemical Industrialization (ASEAN's Strategy for CISI)" to the "ASEAN's Strategy of Collective FDI-dependent and Export-oriented Industrialization (ASEAN's Strategy for CFEI) ," with the "Manila Declaration" as a turning point, in response to its past failure and structural changes in ASEAN and the world economy.

The policy system of intra-ASEAN economic cooperation also changed dramatically after the "Manila Declaration." Under the ASEAN's Strategy for CISI from 1976, ASEAN adopted the three policies of AIP, AIC and PTA as the main policies of intra-ASEAN economic cooperation. The main role of PTA was

45) Naya and Plummer (1991) perceived that the development of ASEAN economic cooperation had been moving towards "private sector oriented" from AIP, to AIC, AIJV. This study regarded the private-sector orientation as the axis for ASEAN economic cooperation. Pangestu, Soesastro and Ahmad (1992) also shared the same view by saying that the role of the private sector has increased.

46) Also refer to Shimizu (1998a), pp. 12-13 and Shimizu (2002b), pp. 103-104.

initially to support AIP and AIC. Meanwhile, the 1 billion-dollar aid from Japan, a result of the “External Joint Approach,” was supposed to give AIP a financial base. However, after the “Manila Declaration,” the policy system of intra-regional economic cooperation changed fundamentally. AIP, the central program under the ASEAN’s Strategy for CISI, fell from that status; the “Manila Declaration” did not even mention it. AIC, under which the ASEAN car had been manufactured by designating the auto-parts production to individual ASEAN member countries, was transformed into the BBC scheme under which the initiative by MNCs would be largely accepted. PTA was carried out not as a program to guarantee scale economy for import-substituting industrialization but as a way of “attracting foreign investment.” Not only that, AIJV became an effective policy to attract FDI after the “Manila Declaration.” To summarize, with the “Manila Declaration” as a turning point, the policy system of intra-ASEAN economic cooperation underwent a fundamental change for the purpose of attracting FDI from advanced countries.

The switch and reorganization in the strategy of intra-ASEAN economic cooperation was based on the change of the basic structures in the intra-ASEAN economic cooperation. Unlike the ASEAN’s Strategy for CISI, the compliance of member countries in foreign capital policy helped resolve problems that used to exist in intra-ASEAN economic cooperation. Considering these aspects, the ASEAN’s Strategy for CFEI did have strengths and advantages for ASEAN or ASEAN member countries in response to the historical circumstances following the mid-1980s.

Thus, did the ASEAN’s Strategy for CFEI, unlike the former ASEAN’s Strategy for CISI, have sufficient strengths and advantages? It should be noted that some factors causing the failure of the ASEAN’s Strategy for CISI had not yet been resolved. There were always economic disparities between Singapore and other member countries, despite the economic growth of other member countries. There was no “common policy for the redistribution of income and reallocation of capital,” which are inevitable when implementing intra-regional economic cooperation and economic integration including market integration. Moreover, there was no organization to control common policies and adjust the interests among member countries. Needless to say, the economic nationalism of each member country was still strong. Hence, it can be noted that the potential economic conflict of interests among member countries would be exposed in time.⁴⁷⁾

With both strengths and problems, how was the new strategy implemented? We examined this issue in other papers.⁴⁸⁾

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47) Refer to Shimizu (1993), Shimizu (1998a), Chap. 2 and Supplementary chapter and Shimizu (1998b).

48) Refer to Shimizu (1994), Shimizu (1998a), Chap. 5 and Shimizu (1999).

Notes

This paper is based on Shimizu, K. (1998a), *Political Economy of Intra-ASEAN Economic Cooperation*, Minerva Shobo, Chapter 4.

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