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The Origin of Intra-ASEAN Economic Cooperation

Kazushi Shimizu

The Association of Southeast Asian Nations (ASEAN) was founded in 1967 for the purpose of political cooperation and began intra-ASEAN economic cooperation with the “Declaration of ASEAN Concord” at the First ASEAN Summit in 1976. This economic cooperation was based upon a report formulated by a United Nations Team and carried out based on the “ASEAN’s Strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries (ASEAN’s Strategy of CISI).” In this paper, the origin of Intra-ASEAN economic cooperation will be examined. The formation process of this first intra-ASEAN economic cooperation strategy (“ASEAN’s Strategy for CISI”) in 1976 and the characteristics of this economic cooperation strategy will be explored.

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1. Introduction

The Association of Southeast Asian Nations (ASEAN) was founded in 1967 for the purpose of political cooperation and began intra-ASEAN economic cooperation with the “Declaration of ASEAN Concord” at the First ASEAN Summit in 1976. This economic cooperation was based upon a report formulated by a United Nations Team and was carried out based on 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). This strategy suffered a setback due to failure in the implementation of the following policies: the ASEAN Industrial Projects (AIP), the ASEAN Industrial Complementation (AIC) and the Preferential Trading Arrangements (PTA). It was also due to the failure of the creation of an interdependent market within ASEAN.¹⁾ 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 Col-

1) Refer to Shimizu (1993, 1998a, 1998b).

lective FDI-dependent and Exported-oriented Industrialization (ASEAN's Strategy for CFEI).” This strategy 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 original member countries in 2003.²⁾

In this paper, the origin of intra-ASEAN economic cooperation will be examined. The formation process of the first intra-ASEAN economic cooperation strategy (“ASEAN's Strategy for CISI”) in 1976 and the characteristics of this strategy will be explored. This paper aims to clarify what historical factors the intra-ASEAN economic cooperation from 1976 reacted to, what economic rationality it was based on, and finally what was the fundamental concept of the strategy of this intra-ASEAN economic cooperation. This analysis will be necessary to understand intra-ASEAN economic cooperation from its beginning to the present, and especially to contrast the new strategy “ASEAN's Strategy for CFEI,” which was the “foundation” of current intra-ASEAN economic cooperation.

In Section 1, this paper will explain the foundation of ASEAN and its first decade of political cooperation, which was the basis of intra-ASEAN economic cooperation. Section 2 will examine the report formulated by a United Nations team in 1972, which guided the Intra-ASEAN economic cooperation from 1976. Sections 3 and 4 will examine the factors leading to the beginning of the intra-ASEAN economic cooperation and the ASEAN's responses to the report, respectively. Section 5 will examine the adoption of the report in the “Declaration of ASEAN Concord” of the first ASEAN Summit in 1976. The concluding section will characterize and summarize this specified strategy “ASEAN's Strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries (ASEAN's Strategy of CISI).”

2. The Foundation of ASEAN and its First Decade of Political Cooperation

Before going into the analysis of intra-ASEAN economic cooperation, this section will examine how ASEAN was originally founded and what factors were involved in its founding and its development.³⁾ By clarifying the characteristics of ASEAN during the first decade from 1967 to 1976, the historical premises of intra-ASEAN economic cooperation can be understood.

ASEAN was founded by the five original member countries of Indonesia, Malaysia, the Philippines, Singapore and Thailand, based on the “ASEAN

2) Refer to Shimizu (1993, 1998a, 2003).

3) For the factors for founding ASEAN and political cooperation afterwards, refer to Yamakage (1991), Okabe (1987), and Matsumoto (1977).

Declaration (Bangkok Declaration)" of August 8, 1967. Brunei joined ASEAN in January 1984 and Vietnam joined in July 1995. Furthermore, Laos and Myanmar joined in July 1997 and Cambodia joined in January 1999. The "ASEAN Declaration" stated that "the aims and purposes of the Association shall be 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."⁴⁾ As it is easily recognizable, the purpose was to promote a gradual cooperative relationship in various non-political fields. Yet, in actuality, ASEAN was founded for political reasons such as the security of each of the member countries, and its character became more political.

Although the background of the foundation of ASEAN was the unstable Indochina situation, such as the Vietnam War and the Laos crisis, the more direct reason for its foundation was the process of easing tensions involving the founding of Malaysia. There had been conflicts between Malaysia and the Philippines, and Malaysia and Indonesia over the founding of a Malaysian federation in 1961 and the foundation of Malaysia in 1963. Armed conflict ensued between Malaysia and Indonesia. However, the tension was relaxed as political power in Indonesia shifted from founding President Sukarno to President Suharto, which was originated in the "9.30 movement," and with the consequent easing of Konfrontasi (the confrontation policy).⁵⁾

At that time, all ASEAN countries were trying to modernize their countries with an anti-communist policy. Thus, they had good reason to build and participate in a new regional cooperative system. Particularly for Indonesia, it was imperative to recover from international isolation and the chaotic domestic conditions that had taken place in the latter part of the Sukarno administration. Indonesia needed to improve its relationships with the neighboring countries as soon as possible, and thus, participation in a new regional cooperative organization was desirable. For Malaysia, the establishment of a friendly relationship with Indonesia was indispensable in terms of national security. Therefore, founding a new regional organization was ideal, considering its security after the withdrawal of the British military. Meanwhile, the Philippines also wanted to get involved in a regional cooperative organization to counterbalance their reliance upon the United States. Thailand felt the same for both of the above reasons. And, for Singapore, the motive was to be treated as an independent state and national security.⁶⁾ In other words, ASEAN

4) ASEAN Secretariat (1988), pp.27-28.

5) Yamakage (1991), Chapter 3.

6) Yamagage (1991)

countries needed to control intra-regional conflicts, but had difficulty signing bilateral treaties, hence the wish to establish a collective regional cooperative organization.

Also, it was imperative that they create a “new” regional organization completely separate from the previously existing organizations. There had been two organizations: The Association of Southeast Asia (ASA) comprised of the Federation of Malaya, the Philippines and Thailand, founded in July 1961, and MAPHILIND comprised of the Federation of Malaya, the Philippines and Indonesia, founded in August 1963. However, Indonesia was not an ASA member and MAPHILIND was bound by the narrow-minded goal of resolving the Malaysian issue.⁷⁾

ASEAN was founded based on internal factors such as the stabilization of the Southeast Asian island region. As well, there was the US presence in Southeast Asia. Thus, ASEAN countries avoided being viewed as an anti-communist international political organization such as the Southeast Asia Treaty Organization (SEATO)⁸⁾ and were very cautious about stressing their political personality. As stated previously, the “ASEAN Declaration” was promoted as a cooperative policy in nonpolitical aspects; Initially, political issues were discussed in informal meetings. Despite that, the political character of ASEAN was quite clear.

Okabe (1987b) summarized that ASEAN 1) had a political character from the beginning, 2) was loosely based on the declaration (the ASEAN Declaration) without any charter, and 3) had no restrictive capability whatsoever regarding the sovereignty and the policy decision-making of member countries.⁹⁾ Yamakage (1987b) also had a similar view: “ASEAN was a symbol to pursue security between the member countries”¹⁰⁾ and “a regional integration for national integration.”¹¹⁾ Those views well described the initial nature of ASEAN.

At first glance, the nature of ASEAN was different from that of the European Community (EC). First of all, the EC was founded for both political and economic reasons. There was political significance at the extension of the EC membership policy to block military resurgence in Germany, to establish West

7) *Ibid.*, Chapter 3. For more details about ASA and MAPHILIND, refer to *Ibid.*, Chapter 2-3.

8) Because of the power shift from the Sukarno government to the Suharto government in Indonesia, all ASEAN countries were in their anti-China political stance. However, since they lacked the capability of their own to go against China, and with the military influences of the U.S. and Great Britain declining, and since ASEAN was not originally founded to confront socialistic or Communist countries, ASEAN needed to avoid any protests from China or the Soviet Union (Okabe: 1987, pp. 16-17, Yamakage: 1991, pp. 14-15). However, China and the Soviet Union harshly criticized ASEAN as similarly anti-Communist organizations such as SEATO.

9) Okabe (1987b) pp. 15-18.

10) Yamakage (1987b) p. 191.

11) Yamakage (1987a).

Germany as an independent state, and to resolve the Ruhr-Saar issue in France. On the other hand, the EC was also defined by economic reasons.¹²⁾ : It was designed to unite the Europe, which had been broken up mosaic-like due to the exchange-rate control and trade restrictions between the First World War and the end of the Second World War, to create a broader market so they could achieve expanding equilibrium, and to develop competitive power to external forces (such as the United States). For these reasons, three economic organizations; The European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM) were established.

Second, unlike ASEAN, the EC was not loosely organized; The organization was based on the constitutional document, the “Treaty of Rome,” under which the entire community would be coordinated, developed and have closer internal ties through the “establishment of the common market” and the “gradual approximation of economic policies.”

Third, the EC possessed moments such as the restriction of each sovereignty and a certain degree of transfer of authority to the EC. Here, the integration was about partially transferring their sovereignty to a higher authority in order to eliminate conflicts between nation-states as an extension of an each national integration rather than regional integration for an each national integration.¹³⁾ Therefore, as Nakamura (1994) pointed out, the EC was equipped with a unique structure with both the “institutionalism” and the “inter-governmentalism” in existence.¹⁴⁾ The difference between ASEAN and EC was deeply evident in the political character, the loose systemic characteristics and the priority on the national integration.

Afterwards, ASEAN further implemented political cooperation and expanded its range, against the Vietnam War, with the British withdrawal from the Eastern Suez area and the U.S. withdrawal from continental Southeast Asia. In other words, together with intra-regional cooperation, ASEAN assumed an external joint approach: Extra-regional cooperation. This political character of ASEAN became further apparent as ASEAN resolved “the territorial dispute over Sabah” as part of intra-regional stabilization, as ASEAN adopted the “Zone of Peace, Freedom and Neutrality Declaration (the ZOPFAN Declaration: The Kuala Lumpur Declaration),” which was connected to the U.S. -China reconciliation, and as the Vietnam War came to an end.

This corresponded with the change in the character of ASEAN by the U.S. as a part of its Asia-Pacific strategy. Although, initially, the U.S. did not clearly

12) Sasaki (1994), pp. 10-19.

13) Ibid., pp. 20-21, Nakamura (1994) pp. 42-51.

14) Ibid., p. 46.

characterize ASEAN in terms of its strategy,¹⁵⁾ it did so gradually as an extension of the Guam doctrine.¹⁶⁾ Afterwards, the Ford administration clearly defined ASEAN in line with its security strategy by the “New Pacific Doctrine.”¹⁷⁾ That is, the U.S. characterized ASEAN as an actor with a key role in the U.S. security strategy with Indochina, the Soviet Union and China in the Cold War structure after the socialization of Indochina. Thus, ASEAN, founded for internal reasons namely the stabilization of the Southeast Asia island region, was characterized in the Cold War structure mainly with Indochina while being linked to the U.S. security strategy, and its political cooperation was further strengthened.

ASEAN’s political cooperation achieved its first results when it resolved the Malaysia-Philippines conflict, which had been rekindled over the occupancy of Sabah from 1968. In September 1968, Malaysia and the Philippines broke diplomatic relations. But in the 3rd AMM in December the next year, their relations were restored.

In November 1971, the ZOPFAN Declaration was stated in response to changes in international politics such as the U.S.-China reconciliation and the UN acknowledgment of the Beijing government. That was a declaration to external regions that, by making Southeast Asia a “Zone of Peace, Freedom, and Neutrality,” and “free from any form or manner of interference by outside Powers,” mainly the U.S., the Soviet Union and China.¹⁸⁾ At the same time, this was the first time ASEAN made an external joint policy. Before this, the AMM was an informal meeting. But after the Kuala Lumpur Meeting, which had introduced the ZOPFAN, it was incorporated into the ASEAN organization as a special foreign ministerial meeting.

Later on, while post-Vietnam War discussions on peace in Southeast Asia continued, the First ASEAN Summit was held in 1976. In this summit, the “Declaration of ASEAN Concord” was stated and the “Treaty of Amity and Cooperation in Southeast Asia” was signed simultaneously. In the “Declaration of ASEAN Concord,” an expansion of political and economic cooperation among ASEAN member countries was proclaimed.¹⁹⁾ In the “Treaty of Amity and Cooperation in Southeast Asia,” a promotion of regional peace and stability was pursued through the strengthening of regional resilience.²⁰⁾ Thus, political cooperation was officially acknowledged and was to be further imple-

15) *The Department of State Bulletin*, Vol. LXI No. 1567, July 7, 1969, p. 447.

16) *The Department of State Bulletin*, Vol. LXII No. 1593, January 7, 1970, pp. 381-387.

17) *The Department of State Bulletin*, Vol. LXXIII, No. 1880-1905, January 7-December 29, 1975, pp. 913-916.

18) ASEAN Secretariat (1988), pp. 34-35.

19) *Ibid.*, pp. 336-338.

20) ASEAN Secretariat (1988), pp. 39-42. This treaty was not an ASEAN treaty strictly. Yet, it was a part of the political cooperation among ASEAN countries (Yamakage : 1991a, p. 139).

mented.

The foundation of ASEAN was a ceremony confirming the intention of the member countries to mutually respect each sovereignty and commit to avoiding armed conflict, as Yamakage (1991) pointed out. Therefore, ASEAN was not a cooperative organization to carry out something, but a symbol to pursue peace in Southeast Asia and guarantee security among ASEAN countries.²¹⁾ The institutionalization centered on political cooperation was gradually implemented.

There is no doubt whatsoever that ASEAN was founded because of political factors, rather than economic factors, and that ASEAN activity was centered on political cooperation during the following decade, and the significance of political cooperation changed with the U.S. withdrawal from Vietnam and the socialization of Indochina as turning points. Therefore, ASEAN's role for the intra-regional economic cooperation was slight. This was an important role in comparison to the EC and the Latin American Free Trade Association (LAFTA).

The accumulated political cooperation described previously would require the intra-ASEAN economic cooperation. With the "Declaration of ASEAN Concord" in 1976 as the starting point, intra-ASEAN economic cooperation was begun, based on the United Nations Report of 1972.

3. The "Economic Cooperation of ASEAN Member Nations (UN Report)"

The Intra-ASEAN economic cooperation from 1976 was guided by a report entitled the "Economic Cooperation among Member Countries of the Association of Southeast Asian Nations (UN Report),"²²⁾ which was formulated by a United Nations team in 1972.

The "UN Report" was compiled by the UN, not by ASEAN. The reason was the UN activity because of the rise of the North-South problem. The background to this report will be examined next. In 1968, the UN Economic Committee for Asia and the Far East (ECAFE) proposed a research service about economic cooperation to ASEAN. After ASEAN accepted it,²³⁾ the UN Secretariat (the Center for Developing Planning, Projections and Policies of the De-

21) Yamakage (1991), pp.299-300.

22) United Nations (1974). This report was completed in 1972, and was included in *The Journal of Development Planning No.7*. The report consisted of six chapters: 1. Background of the ASEAN economies, 2. General issues and techniques of cooperation, 3. Applications of the proposed techniques of cooperation, 4. Financial and monetary co-operation, 5. Organizational and institutional arrangements for the administration of co-operation and 6. Summary of principal recommendations. There were other reports that had influenced intra-ASEAN economic cooperation: Economic Commission for Asia and the Far East (1973), Asian Development Bank (1970). However, the "UN Report" was the only report actually documented in AMMs.

partment of Economic and Social Affairs) set up a team of experts in January 1970, to research ASEAN economic cooperation, in cooperation with the secretariats of the ECAFE, the UN Conference on Trade and Development (UNCTAD), and the Food and Agricultural Organization of the UN (FAO).²⁴⁾ The team completed its assignment in June 1972 and its report was submitted to the Governments of the member countries of ASEAN.²⁵⁾ As the report stated in its preface, the need for economic cooperation among the developing countries as a means of accelerating their economic progress has been emphasized and recognized. This kind of economic cooperation among developing countries had been emphasized in various meetings since the 1960s. The UN also recommended this cooperation in the international development strategy for the Second UN development decade (1971-1980).²⁶⁾

The strategy of economic cooperation that the “UN Report” suggested was similar to the LAFTA-style economic integration. It featured regional market integration with only products from import substituting industries, based on the following theory: If a larger market is formed through the expansion of intra-regional trade of manufactured goods, profits from larger-scale production and specialization will ensue.²⁷⁾

After ASEAN countries began to promote import substituting industrialization in the 1960s, they faced problems in the 1970s. The main target of import substituting industrialization until then was light industry. Since they decided to switch to the heavy and chemical industries, including capital goods production, they needed a larger-scale market, in order to take advantage of its scale merit and reduce production costs.²⁸⁾

Also, it was difficult to establish various kinds of heavy and chemical industries in only one country due to resource allocation. Therefore, the “UN Report” suggested to ASEAN that by liberating trade they would create interdependent markets and that respective heavy and chemical industries would be established in each country with the cooperation of member countries.

Specifically, three interrelated policies (or techniques) were developed. The first policy was the “Selective Trade Liberalization” with which each coun-

23) The “Joint Communique” of the second ASEAN Ministerial Meeting in Jakarta August 1968 stated “they welcomed the officer of services made by ECAFE to carry out an economic Survey(ASEAN Secretariat: 1988, p. 69).”

24) United Nations (1974), p. 1. The leader of the team was Kansu, A. and the senior advisor was Robinson, E. A.G. (United Nations: 1974, p. 261).

25) *Ibid.*, p. iii.

26) *Ibid.*, p. i.

27) Refer to Nishimukai, Y. (1981). LAFTA was established in 1960 and commenced economic cooperation. However, due to conflicts of interest between member countries similar to the causes of failure of intra-ASEAN cooperation mentioned in this section, LAFTA stagnated in the 1970s.

28) United Nations (1974), p. 249.

try creates a list of individual items and cuts the tariffs in stages, while aiming towards a free trade area (FTA) as a long-term goal. The objective of this policy is to develop interdependent ASEAN markets through liberalization.²⁹⁾

The second policy stipulated that some ASEAN countries jointly allocate and implement several new larger-scale projects, which would be supported by the “Selective Trade Liberalization.” This policy was called the “Package Deal Agreements System” dealt with a combination of these larger-scale projects and trade liberalization. It was the central policy of these three policies. The “UN Report” recommended and examined 13 projects: Nitrogenous Fertilizer, Phosphate Fertilizer, Soda Ash, Caprolactam, Dimethyl Terephthalate, Ethylene Glycol, Newsprint, Sheet Glass, Small Internal Combustion Engines, Electrical Component: Hermetically Sealed Compressors, Typewriters and Steel Billets.³⁰⁾

The “UN Report” stated “the projects selected for examination were projects that were expected in advance to prove to be substantially more economic on an ASEAN than on a separate national scale,” “They were, in addition, those that at first sight seemed most likely to show the greatest advantages, and to be capable of bringing large and important savings of foreign exchange, both through economies of fixed capital investment and in annual net saving of imports.”³¹⁾ Also it stated that these projects might save in unit cost of production and save capital cost including foreign exchange.³²⁾

The third policy was the “Complementary Agreements System” in which each country specializes in its existing products. The “UN Report” recommended and examined 16 cases: Appliances and Apparatus including Sewing Machines and Electric Appliances, Rubber Products, Road Motor Vehicles and Other Vehicles including Motorcycle, etc.³³⁾

This intra-ASEAN economic cooperation strategy can be characterized to be the economic cooperation strategy to promote “collective import substituting industrialization, mainly for heavy and chemical industries.” Here, the heavy and chemical industries refer to a generic name for the industry that produce basic materials including chemical and steel, and capital goods. Consumer goods, however, were dropped from the package deal.

The “UN Report” mentioned about “collective import-substitution” regarding the Package Deal Agreement System: “the Team’s suggestion for setting up a number of relatively large-scale industries, in effect directed towards

29) United Nations (1974), pp. 53-57, 250-251.

30) *Ibid.*, pp. 57-63, 151-165, 250-252.

31) *Ibid.*, p. 107.

32) *Ibid.*, pp. 122-133.

33) *Ibid.*, pp. 63-68, 107-150, 250-253.

collective import-substitution, seems to be the only practicable way to industrialize without loss of efficiency.³⁴⁾ Furthermore, the “UN Report” mentioned “a variety of types of industry, ranging from chemicals and intermediate products, to light engineering,” about industry of Package Deal projects.³⁵⁾ Most of them were heavy and chemical industrial projects.

The establishment of heavy and chemical industries meant not only the import substitution of basic materials but also the establishment of key industries for development. In other words, it was necessary for ASEAN member countries to establish heavy and chemical industries, which had been recognized as key industries for development and growth in the 1950s and 1960s. The ASEAN countries had implemented import substituting industrialization centered on labor-intensive light manufacturing industry, and acknowledged that this industrialization could not be achieved by one country but through intra-regional cooperation. The “collective import substituting industrialization for heavy and chemical industries” is similar to Japan’s “heavy and chemical industrialization” by which it established its basic industrial productivity after World War II. We can assume ASEAN countries attempted to realize the same industrialization collectively.

As pointed out previously, this strategy for collective import substituting industrialization for heavy and chemical industries was related to the experience with LAFTA. Of the three main policies, the “Selective Trade Liberalization” and the “Complementary Agreement System” had already been implemented by LAFTA.³⁶⁾ The influence of LAFTA is frequently noted in the “UN Report.”³⁷⁾ However, LAFTA did not adopt the “Package Deal Agreement System,” a main policy recommended by the “UN Report.”³⁸⁾ Moreover, the target industries of LAFTA policies were not necessarily heavy and chemical industries. The main policy of the “Industrial Complementary Agreement” consisted of such a broad range of industrial items including consumer goods: Statistical appliances, electronic vacuum tubes, electrical home appliances, electronics, chemicals, petrochemicals, household appliances, glass, power generation and electric transmission, electric power distribution equipment, and office appli-

34) United Nations (1974) pp.48.

35) *Ibid.*, p. 107.

36) Refer to Nishimukai Y. (1981) and Hosono, A. (1980).

37) For example, the United Nations (1974), p. 2.

38) The Package Deal Agreement system shared similar aspects with the Central American Integrated Industry Scheme of the Central American Common Market (CACM). Under that scheme, the Integrated Industry was designated in the whole Central American market, considering the small size of each market. By giving special preferences, regional-wide industrialization would be promoted. Specifically, those industries were tires & tubes, caustic soda, insecticide, and plate glass (Nishimukai: 1981, pp. 28-29). Though the influence of LAFTA was frequently mentioned in the “UN Report,” it did not mention that of CACM. The report used LAFTA as a model for intra-ASEAN economic cooperation policies.

ances.³⁹⁾

Thus, viewing this difference with LAFTA, we can characterize the ASEAN industrialization strategy given in the “UN Report” as the “Collective Import Substituting Industrialization for Heavy and Chemical Industries.”

4. Factors Leading to the Beginning of Intra-ASEAN Economic Cooperation

The “UN Report” was adopted owing to several factors, but mainly economic factors. The first factor involves the search for growth of the ASEAN member countries. ASEAN adopted the “UN Report” against the background of the economic crisis in the early 1970s. The “Nixon shock” (the beginning of the floating-exchange rate system) in 1971, the oil crisis from 1973, and the subsequent world recession caused each country in the world to search for new avenues of growth through new policies and systems. Advanced countries sought international cooperation through Summits while developing countries as a whole tried to establish the New International Economic Order (NIEO). ASEAN countries could not avoid similar reorganization. ASEAN countries’ growth stagnated in the recession from 1974 and 1975, thus forcing them to face an intractable economic crisis. As a result, in the 7th AMM in 1974, ASEAN accepted the “UN Report” against the background of the changing world economy and agreed on establishing its three policies as well as the establishment of the Meeting of ASEAN Ministers responsible for National Planning.⁴⁰⁾ It would be AEM in 1975 which would meet to discuss the implementation of these policies. In July, 1975, the Philippines presented a specific proposal regarding a Free Trade Area (FTA) and Singapore supported the proposal. This reflects the circumstances at that time.

The second factor for the adoption of the “UN Report” was the influence of the rise of the North-South problem. The very fact that the “UN Report” was submitted to ASEAN by UN was a result of the rising North-South problem. From the first UNCTAD in 1964 and the second UNCTAD in 1968, economic co-operation or economic integration between developing countries became an important requirement for international development strategy. Furthermore, it was also taken up as “Collective Self-reliance” in the “Declaration and Program of Action of the New International Economic Order” in December 1974.⁴¹⁾ Thus, an implementation of economic cooperation or economic integra-

39) Hosono (1980) p.26.

40) ASEAN Secretariat (1988), p.75.

41) The purpose of NIEO was to establish a new international order in place of the existing IMF-GATT system in order to reorganize the inequality of income between advanced and developing countries.” At the same time, it strongly promoted the concept of “Collective Self-reliance.”

tion had been strongly required for developing countries including ASEAN.⁴²⁾

The third factor was the requirement from extra-regional economic cooperation. This is because extra-regional economic cooperation requires intra-regional economic cooperation. This third factor is closely connected to the second factor. NIEO and the “Collective Self-Reliance” required that developing countries implement intra-regional economic cooperation and economic integration as a premise of extra-regional cooperation. The “UN Report” was centered on the intra-regional economic cooperation. Regarding extra-regional economic cooperation, it was merely mentioned.⁴³⁾ Thus, its significance was not well acknowledged in this report. However, in the mid-1970s, ASEAN member countries had economic difficulties and needed the capital, technology and export markets for industrialization. Therefore, ASEAN strove to strongly promote extra-regional cooperation starting with the “External Joint Approach” in 1972. This policy was implemented due to the rise of the North-South problem, along with the individual experience in extra-regional economic cooperation. To show how the logic of this third factor went, Foreign Minister Rajaratnam of Singapore stated in the 7th AMM in 1974, “unless we consolidate ourselves in economic cooperation, it would be difficult for others to regard ASEAN seriously.”⁴⁴⁾

The fourth factor was that the “UN Report” was adopted for political cooperation. ASEAN had implemented political cooperation since its foundation. However, the 1975 socialization of Indochina made a huge impact upon ASEAN member countries. The countries were urged to strengthen ASEAN political cooperation and stabilize their economies by economic growth, which required intra-regional economic cooperation. This is reflected in the “Declaration of ASEAN Concord,” which stated the necessity of “economic cooperation” for “political stability.”⁴⁵⁾ In fact, the request for intra-regional economic cooperation involving the FTA (Free Trade Area) discussion became evident from mid-1975 after Indochina was socialized.

42) Economic cooperation or integration among developing countries was expressed by the concepts of “Joint Self-help” or “Collective Self-reliance.” “Joint self-help” meant to implement combined policy between aid from advanced countries and the self-help of developing countries. The further advanced concept, “Collective Self-reliance” included that developing countries depended on advanced industrial countries should strive to organize a regional group and, based on that, to break away from the dependency on advanced countries (especially their MNCs), i.e. to build a self-reliant economy. Refer to Twu (1980).

43) For example, it was recommended that taking cooperative measures to improve agricultural marketing and to improve ASEAN bargaining power in the markets for agricultural products in the cooperation in agriculture. *Ibid.*, pp. 73-74, 171-173, 254.

44) ASEAN Secretariat (1987), p. 178.

45) The “Declaration of ASEAN Concord” declared “ASEAN cooperation shall into account, among others, the following objectives and principles in the pursuit of political stability.” Of these 8 “objectives and principles”, from the 3rd to fifth were subject to economic cooperation.

Thus, the “UN Report” was adopted owing to several factors, in particular economic factors.

5. ASEAN’s Responses to the “UN Report”

In actuality, the “UN Report” was not easily adopted into the Declaration of ASEAN Concord.” In this section, we will examine the process prior to the adoption of the “UN Report.”⁴⁶⁾ It was adopted after negotiations between the member countries over their national interests. A dispute over intra-ASEAN economic cooperation began in the ASEAN Chamber of Commerce and Industry (ASEAN-CCI) on July 19-20, 1975 when the Philippines suggested the FTA and Singapore supported the idea. It was followed by Indonesia’s strong objection to the FTA and suggestion of the Package Deal Agreements System, the adoption of the Package Deal Agreement System and PTA as a result of the compromise between Singapore and Indonesia. In the end, they managed to come up with something very similar to the “UN Report.”

Since the 4th AMM in 1971, the implementation of economic cooperation based on the “UN Report” had been discussed in every AMM.⁴⁷⁾ In 1975, they began to specify intra-regional economic cooperation due to the various factors mentioned in the previous section.

The specific discussion on intra-ASEAN economic cooperation began in mid-1975. In the second ASEAN-CCI meeting on July 19-20, 1975, the Philippines proposed an across-the-board 10-15% tariff reduction.⁴⁸⁾ In a joint communiqué on July 24, 1975, the Philippine President Marcos and Thai Prime Minister Kukrit stated that they would “establish FTA, to begin with.” In the pre-Summit high official meeting on September 15-17, Singapore proposed a 10% tariff reduction.

Then, on November 26-27, 1975, the first AEM was held to discuss economic issues.⁴⁹⁾ At that time, ASEAN members thought they had reached a consensus on tariff reduction, but Indonesia President Suharto rejected the trade cooperation in the opening speech, insisting that they should implement “the easily-attainable and the short term” cooperation. In other words, this would be beneficial to Indonesia. The meeting ended with no results about economic cooperation. President Suharto contended that they should cooper-

46) For details of these disputes, refer to *F.E.E.R.*, January 23, 30, February, 6, 27, 1976, Suriyamongkol (1988).

47) Especially the joint communiqués in the 7th AMM in 1974 and the 8th AMM in 1975 clearly stated that ASEAN would implement three techniques in the “UN Report.” Refer to ASEAN Secretariat (1988), pp.75, 77.

48) *F.E.E.R.*, November 21, 1975. However, in the 2nd ASEAN-CCI Conference, the Indonesian representative was already negative about FTA.

49) Strictly speaking, this meeting was called the First ASEAN Economic Ministers Meeting, after the economic ministers meeting was established through the First ASEAN Summit and the “Declaration of ASEAN Concord.”

ate on food and energy and strongly objected to the idea of FTA. President Suharto said “the promotion of trade cooperation should be carried out carefully and seriously to prevent it from becoming disadvantageous to the economic interest of any of the member states. This is very important, due to the different development stages of each member state.”⁵⁰⁾ Indonesia regarded FTA as a disadvantageous policy. Indonesian technocrats felt that mutual tariff-slashing, an integral part of any progress towards free trade, would only further increase Singapore’s already large-scale trade with Indonesia. One Indonesian official asserted that Indonesia would not be interested in an ASEAN free-trade area “in 100 years.”⁵¹⁾

In response to this Indonesian objection, Singapore Prime Minister Lee presented compromise proposals to invest in industrial schemes of the ASEAN countries, to subscribe to funds of any future ASEAN financial institution, or to arrange long-term purchases at fixed prices of primary products from ASEAN countries in early February the next year.⁵²⁾ Then the Package Deal Systems emerged (the first and second proposals were related to the Package Deal). In the 2nd Pre-Summit AMM on February 21, Indonesia proposed the original idea concerning joint projects, and the next day, they finally reached a compromise over intra-regional economic cooperation in the informal meeting before the ASEAN Summit.⁵³⁾

Thus, the three policies based on the “UN Report” were adopted into the “Declaration of ASEAN Concord.”⁵⁴⁾

6. The Adoption of the “UN Report” into the “Declaration of ASEAN Concord”

The strategy of economic cooperation, outlined in the “UN Report,” was officially approved at the First ASEAN Summit in 1976.

The First ASEAN Summit was held on February 23-24, 1976 during the rapid changes in international politics and economies involving ASEAN, especially the socialization of Indochina. The political cooperation was officially acknowledged and decided to be further implemented through the “Declaration of ASEAN Concord” and the “Declaration of ZOPFAN,” which were signed at that summit. Meanwhile, it was also decided to implement intra-regional economic cooperation based on the “UN Report” with the “Declaration of ASEAN

50) *F.E.E.R.*, January 23, 1976.

51) *F.E.E.R.*, January 30, 1976.

52) *F.E.E.R.*, February 27, 1976.

53) Suriyamongkol (1988) pp. 104-105.

54) The main actors were the premiers of individual ASEAN countries. The ASEAN-CCI merely presented an arena of discussion. It was not an important actor.

Concord" as a starting point.

The "Declaration of ASEAN Concord"⁵⁵⁾ mentioned the three policies from the "UN Report" and agreed on establishing larger-scale industrial plants, realized later as the ASEAN Industrial Project (AIP), as well as the Preferential Trading Arrangements (PTA) which were extensions of Selective Trade Liberalization. The "Declaration of ASEAN Concord," stated "Member states shall cooperate to establish large-scale ASEAN industrial plants" in "2. Industrial Cooperation" of "Program of Action, B. Economic", and stated "Member states shall progress towards the establishment of preferential trading arrangements as a long term objective" in "3. Cooperation in Trade" of "Program of Action, B. Economic."⁵⁶⁾

With regard to "Industrial Cooperation," "larger-scale industrial plants" involved Indonesian's requests about cooperation of food and energy. It stated " i) Member states shall cooperate to establish large-scale ASEAN industrial plants particularly to meet regional requirements of essential commodities. ii) Priority shall be given to projects which utilize the available materials in the member states, contribute to the increase of food production, increase foreign exchange earnings or save foreign exchange and create employment."⁵⁷⁾

As for individual projects, the "Joint Communiqué," released at the same time, revealed the specifics. According to it, the target items for the point projects were urea (fertilizer), superphosphates, potash, petrochemicals, steel, soda ash, newsprint and rubber products.⁵⁸⁾ These were the same as the "UN Report" mentioned in the Package Deal Agreements System (with one exception: rubber products were included in the Complementary Agreement System).

About "Cooperation in Trade," the "Declaration of ASEAN Concord" stated " ii) Member states shall progress towards the establishment of preferential trading arrangements as a long term objective on a basis deemed to be at any particular time appropriate through rounds of negotiations subject to the

55) ASEAN Secretariat (1988), pp.36-38. The "Declaration of ASEAN Concord" consisted of the "Preamble" and "Program of Action." The "Program of Action" covered "A. Political, B. Economic, C. Social, D. Cultural and Information, E. Security and F. Improvement of ASEAN Machinery". The "B. Economic" consisted of "1. Cooperation on Basic Commodities, particularly Food and Energy, 2. Industrial Cooperation, 3. Cooperation in Trade, 4. Joint Approach to International Commodity Problems and Other World Economic Problems and 5. Machinery for Economic Cooperation." In the "Declaration of ASEAN Concord," they agreed that they would implement intra-regional economic cooperation, and announced and presented its guidelines. The specifics were entrusted to the 2nd AEM, which was held on March 8-9, 1976 and discussed the specific contents of intra-regional economic cooperation.

56) *Ibid.*, p. 37.

57) *Ibid.*, p. 37.

58) *Ibid.*, p. 52.

unanimous agreement of member states. iii) The expansion of trade among member states shall be facilitated through cooperation on basic commodities, particularly in food and energy and through cooperation in ASEAN industrial projects.”⁵⁹⁾

The Philippines and Singapore had been proposing an ASEAN FTA plan since 1975. However, due to Indonesia’s strong objection, members finally agreed that “Member states shall progress towards the establishment of preferential trading arrangements as a long term objective,” thus taking a more passive approach than that of the “UN Report.”⁶⁰⁾

The “Declaration of ASEAN Concord” involved other policies besides the three main policies of the “UN Report.” These were the External Joint Approach, Cooperation on Basic Commodities and Economic Machinery Cooperation. The External Joint Approach was addressed in “iv) Member states shall accelerate joint efforts to improve access to markets outside ASEAN for their raw material and finished products” of “3. Cooperation in Trade” and “4. Joint Approach to International Commodity Problems and Other World Economic Problems.”⁶¹⁾

The External Joint Approach was involved in this declaration as the extension of experiences of the 1972 trade negotiation with the EC and the 1973 synthetic rubber negotiation with Japan. At the same time, it was involved against the rise of the North-South problem.

The Cooperation on Basic Commodities particularly Food and Energy was involved in this declaration as the background of oil shock and food crisis, and especially by Indonesian request. The declaration stated “ i) Member states shall assist each other by according priority to the supply of the individual country’s needs in critical circumstances,” “ ii) Member states shall also intensify cooperation in the production of basic commodities particularly food and energy.”⁶²⁾

As for the economic machinery cooperation, the decralation stated “Ministerial meetings on economic matters shall be held regularly” in the “5. Machinery for Economic Cooperation.”⁶³⁾ This was materialized as the AEM. This cooperation would support the three main policies based on the “UN Report,” the core polices in intra-regional economic cooperation.

59) ASEAN Secretariat (1988), p.37.

60) The “Declaration of ASEAN Concord” almost totally accepted the “UN Report.” Then, the focus was put on industrial cooperation rather than trade cooperation. This was because it was easier to reach agreement and there were less conflicts of interests among member countries about industrial cooperation.

61) ASEAN Secretariat (1988), p.37.

62) *Ibid.*, p.37.

63) ASEAN Secretariat (1988) pp.36-38. As for the ASEAN organization as a whole, the “Agreement on the Establishment of the ASEAN Secretariat” to establish the ASEAN Secretariat was signed at the Summit.

Thus, the “Declaration of ASEAN Concord” adopted the intra-ASEAN economic cooperation strategy indicated in the “UN Report.”

7. Conclusion: “ASEAN’s Strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries”

ASEAN’s Strategy of economic cooperation implemented in the “Declaration of ASEAN Concord” was a far cry from the one the “UN Report” had suggested in two main ways. Generally, economic cooperation or economic integration has an aspect of collective approach towards the external world. EC had a similar aspect. This aspect is often ignored by the integration theory as it were such as Balassa (1961). But, this aspect creates an extremely important opportunity for integration, as Sasaki (1994) pointed out.⁶⁴⁾ ASEAN was no exception. If we focus only the aspect of cooperation centered on industrial cooperation and trade liberalization among member countries, the fundamental nature of intra-ASEAN economic cooperation will be misunderstood. This is obvious if one looks at the presence of the “External Joint Approach”, yet the same is also applicable to intra-regional economic cooperation. The major external problem with ASEAN was handling of foreign capital. Just as in other developing countries, ASEAN countries were faced with the shortage of savings and capital for industrialization. For this reason, they had to adopt a foreign capital policy collectively or individually. And in respect to this very aspect, ASEAN’s Strategy of economic cooperation was a far cry from the one the “UN Report” had suggested in two main ways.

First of all, they enforced regulations regarding FDI while trying to implement collective import substituting industrialization for heavy and chemical industries. Regulation for FDI in ASEAN’s Strategy for CISI indicates an important aspect characterizing ASEAN’s Strategy of economic cooperation from 1976. That was connected to regulated foreign capital policies of ASEAN countries. In the 1970s, the ASEAN countries, excluding Singapore, adopted regulated foreign capital policies. Of the ASEAN countries which took the growth policies of depending on advanced countries since the mid-1960s, Indonesia, Malaysia and Thailand chose to restrict FDI in the 1970s possibly because of rising nationalism against expanded FDI by mainly MNCs.⁶⁵⁾ As well, underlying this was the rise of the worldwide North-South problem.

We can see how FDI was regulated, in negotiations between the ASEAN countries before they adopted the strategy of collective substituting industrialization. In a dispute over the FTA from July, 1975, the Indonesian representative expressed an opinion in the Singaporean seminar that “the FTA will be

64) Sasaki (1994b), pp.10-14.

the Trojan horse of the multinational corporations (MNCs) in ASEAN,"⁶⁶⁾ thus revealing a warning against the FTA and MNCs. That was because the FTA was presumed to benefit from the export to other ASEAN countries from Singapore, which had industrialized with help from MNCs.

But the ASEAN countries' positions towards MNCs was not monolithic. Singapore, unlike Indonesia, was implementing FDI-dependent and export-oriented industrialization. This also demonstrates the difference between the two countries in the positions towards MNCs. Furthermore, Singapore insisted, in the First ASEAN Summit, that they designate a joint project with a Japanese MNC (Sumitomo Chemical Corporation), which the Singaporean government had been involved independently, as industrial project (Industrial Complementation Scheme at that time, later changed to AIP).⁶⁷⁾ In response to that, Indonesia maintained that a new project should be designated and its stocks should be owned only by the individual ASEAN countries.⁶⁸⁾ In other words, there had always been a tension between often-conflicting Singapore and Indonesia over such policies as export-oriented industrialization or import substituting industrialization, whether to favor or oppose to the FTA initiative, or whether to be for or against MNCs.

Yet, in the intra-regional economic cooperation, Singapore continued to compromise with other ASEAN countries, especially with Indonesia. As we examined the adoption of the "UN Report" in Section 4, though Singapore insisted the FTA initiative, it compromised after the strong objections from Indonesia, accepting the Package Deal Agreement System and Preferential Trade Arrangement, which were beneficial to Indonesia. In discussing AIP, the project for Singapore was rejected by other ASEAN countries, but Singapore agreed to participate in AIP as a formality. This flexible attitude of Singapore

65) In Indonesia, the Suharto government promoted to invite FDI from 1965. Under the 1967 Foreign Investment Act, 100% foreign capital was approved and many fields were opened to foreign capital. But, with the Malari incident (anti-Chinese and anti-Japanese riots) in January 1974 as a turning point, the restriction on FDI and the protection of domestic industries were strengthened. The factors for this shift in foreign capital policy were the rise of nationalism and the increase in export revenue and government revenue due to the rising oil price. This basically continued until 1986 when it was shifted in order to deal with the recession caused by the oil price decline. In the 1950s-60s Malaysia adopted a positive foreign capital policy. But Malaysia adopted the "Bumiputra policy" including the periods to restrict FDI and to promote ethnic capital, as a turning point of the 1969 race riot and the political power shift to Razak. Thailand also had a positive foreign capital policy for FDI in the 1960s. But the FDI regulation became strict in 1972, when an anti-Japanese riot occurred. Behind this change was the rise of nationalism. In the Philippines, slightly restricted foreign capital policies were consistently adopted during the era of President Marcos. For foreign capital policies of ASEAN countries, refer to Fujimori (1987, 1990), Igusa (1988) and *The JETRO White Paper on Investment*, respective years.

66) *F.E.E.R.*, February 6, 1976.

67) *F.E.E.R.*, February 27, 1976.

68) Suriyamongkol (1988) p. 118.

came from the fact that it was the most industrialized country in the region. It was also based on the security-related political reason that, as the only Chinese-descent state or small city state in the region, it had to survive while being sandwiched between larger countries of strong nationalism which sometimes included a backlash against ethnic Chinese people.

Secondly, ASEAN actively tried to receive aid from advanced countries and make it their financial base for implementing these projects. Specifically, the ASEAN countries, to carry out the AIP, jointly invested in a new AIP corporation, instead of entrusting it to MNCs of advanced countries. They tried to acquire financial aid for the AIP particularly from Japan, by taking advantage of the “External Joint Approach.”

As mentioned in Section 3, this External Joint Approach did not originate in the “UN Report”. Rather, it stemmed from the experience in individual extra-regional economic cooperation since 1972, and from the background of the rise of the North-South problem.

There was an example of AIP acquiring financial aid from a foreign country by the External Joint Approach: ASEAN obtained \$ 1billion aid from Japan in the ASEAN-Japan Summit after the 1977 2nd ASEAN Summit and that became the financial base for AIP. This signified that intra-regional economic cooperation could be implemented by combining with a capital-redistribution policy by the External Joint Approach.

In summary, the strategy of intra-ASEAN economic cooperation from 1976 consisted of the following points. First, this plan would lead to the collective import substituting industrialization for heavy and chemical industries by establishing large-scale heavy and chemical industries, creating large-scale markets for these industries and acquiring the funding for these industries, based on the FDI-regulated foreign capital policies of ASEAN countries since the 1970s. This would also create interdependent ASAN markets with the AIP as a nucleus. This would thus support the development and growth of individual ASEAN countries. Thus, intra-ASEAN economic cooperation, which started from 1976, could be called “ASEAN’s Strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries (ASEAN’s Strategy for CISI).”

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Notes

- (1) This paper is based on Shimizu, K. (1998a), *Political Economy of Intra-ASEAN Economic Cooperation*, Minerva Shobo, Chapter 1.
- (2) We examined the implementation of this first intra-ASEAN economic cooperation strategy “ASEAN’s Strategy for CISI” in Shimizu (1993), Shimizu (1998a) Chap. 2-3 and the switch in intra-ASEAN economic cooperation in the “Manila Declaration” at the 3rd ASEAN Summit in 1987 in Shimizu (1993), Shimizu (1998a) Chap. 4 and Shimizu (2003).

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