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Author(s)	SHIMIZU, Kazushi
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The Asian Economic Crisis and Intra-ASEAN Economic Cooperation

Kazushi SHIMIZU

Cambodia became a member country of the Association of Southeast Asian Nations (ASEAN) in 1999. ASEAN has promoted deepening and widening of its regional cooperation and integration since its founding in1967. But ASEAN countries have been mired in the Asian economic crisis, which began in Thailand in 1997. ASEAN countries are facing serious problems including negative economic growth, demand decline and stagnant foreign direct investment (FDI). ASEAN has sought various measures to cope with this economic crisis. Intra-ASEAN economic cooperation reoriented itself during the Asian economic crisis due to rapid changes in the factors surrounding ASEAN, and questions regarding its raison d'etre. This paper will discuss current intra-ASEAN economic cooperation during the Asian economic crisis and the future of this economic cooperation.

1. Introduction

Cambodia became a member country of the Association of Southeast Asian Nations (ASEAN) in 1999. This established the framework, consisting of ten ASEAN countries, which had been sought by ASEAN for many years. ASEAN, since its founding in 1967, has promoted deepening and widening of its regional cooperation and integration. ASEAN has deepened its political and economic cooperation as well as other types of cooperation. ASEAN, whose original members in 1967 were five countries : Indonesia, Malaysia, the Philippines, Singapore and Thailand, grew to include Brunei in 1984, Vietnam in 1995, and Myanmar and Laos in 1997. Finally in 1999, ASEAN established a framework of ten member countries including Cambodia, covering the entire Southeast Asian region.

But ASEAN countries have become mired in the Asian economic crisis. This crisis began in Thailand with its currency crisis in 1997, which immediately had a great impact on other ASEAN countries, and eventually on its neighboring countries such as South Korea and Hong Kong. Thus, ASEAN countries are facing serious problems including negative economic growth, demand decline and stagnant foreign direct investment (FDI).

ASEAN has sought various measures to cope with this economic crisis at

a series of conferences such as the Informal ASEAN Summit in December 1997, the ASEAN Ministerial Meeting (AMM) and the ASEAN Economic Ministers Meeting (AEM) in October 1998. At the 6th ASEAN Summit in December 1998, ASEAN hammered out several concrete measures to cope with the crisis.

This paper will discuss current intra-ASEAN economic cooperation during the Asian economic crisis and the future of this economic cooperation. This paper will explain the background of intra-ASEAN economic cooperation in Section 2. Next, Section 3 will examine the political and economic structural changes surrounding ASEAN and the crisis preparation in the 1990s. Section 4 will examine characteristics of ASEAN regionalism as the backbone of intra-ASEAN economic cooperation. Section 5 will examine the impact of the Asian economic Crisis on intra-ASEAN economic cooperation. Section 6 will examine the 6th ASEAN Summit and "Statement on Bold Measures" in December 1998. The concluding section will summarize the intra-ASEAN economic cooperation during the Asian economic crisis and discuss the future of intra-ASEAN economic cooperation.

2. Intra-ASEAN Economic Cooperation: Past Experiences

First of all, I will explain the background of intra-ASEAN economic cooperation. 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"), was carried out according to "ASEAN's strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries (ASEAN's strategy for CISI)". This strategy was designed under the restricted FDI, and conducted by the collective self-reliance policies. However, this strategy suffered a setback due to failure in the implementation of the following three policies: the ASEAN Industrial Projects (AIP), the ASEAN Industrial Complementation (AIC) and the Preferential Trading Arrangement (PTA) (furthermore, the ASEAN Industrial Joint Venture : AIJV also started in 1983), and due to the failure in the creation of interdependent market within ASEAN. What mainly caused these failures was the conflicts of economic interest among the ASEAN countries, and their inability to overcome them.[1]

1 Shimizu, K. (1993), "The Strategy and Its Results of Intra-ASEAN Economic Cooperation, 1976-1987," *Monthly Journal of Institute of Developing Economies (IDE)*, 34(8), (in Japanese), Shimizu, K. (1998a), *Political Economy of Intra-ASEAN Economic Cooperation*, Mineruva Shobo, Kyoto, (in Japanese), Chap. 1-3, Shimizu, K. (1998b), "Intra-ASEAN Economic Cooperation, 1976-1987—Setbacks and Changes in ASEAN's Strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries—," *Economic Journal of Hokkaido University (Hokkaido University)*, 27, 1998.

However, at the 3rd ASEAN Summit in 1987, this Strategy (ASEAN's strategy for CISI) was switched to a new strategy "ASEAN's strategy for Collective FDI-dependent and Export-oriented Industrialization (ASEAN's strategy for CFEI)." This was because the former strategy ended in failure and there were some changes in economic conditions both inside and outside the ASEAN region. Some changes were notable changes in the bases of intra-regional cooperation, which were the formation of interdependent market within the ASEAN region by Multinational Corporations (MNCs) and the switch of foreign capital policies of each ASEAN country from FDI-regulated ones to FDI-attractive ones.

This was a new model strategy for intra-economic cooperation or economic integration among developing countries, which was the strategy to support ASEAN countries' FDI-dependent and Export-oriented Industrialization collectively. Specifically, "ASEAN's strategy for CFEI" has been trying to 1) invite foreign capital (especially, FDI) as a whole, instead of on an individual national basis, 2) promote economic activities supported by foreign capital, 3) form an integrated intra-regional market, and 4) create exportable industries within.[2]

At the heart of this strategy was the Brand-to-Brand Complementation Scheme (the BBC Scheme).[3] The BBC Scheme was related to the establishment of this strategy, and only this scheme had been steadily implemented. An extension of this strategy are the current ASEAN Free Trade Area (AFTA), the ASEAN Industrial Cooperation (the AICO Scheme: the BBC Scheme and the AIJV combined), and the ASEAN Investment Area (AIA).

However, it was questionable as to whether the "ASEAN's strategy for CFEI" completely succeeded. This was because the initial programs (PTA and AIJV) other than the BBC Scheme failed to produce the expected results due to the inability to overcome the conflicts of economic interest among member countries, and the main field of the success was the import substituting industry, namely the automotive industry.

Furthermore, there was a problem that MNCs expanded their parts com-

2 Refer to Shimizu, K. (1998a), Chap. 4.

3 "Memorandum of Understanding (MOU), Brand to Brand Complementation on the Automotive Industry under the Basic Agreement on ASEAN Industrial Complementation" was signed at the 20th ASEAN Economic Ministers Meeting on October 18, 1988. According to this MOU, "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 Motors 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 content 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."

plementing areas, in pursuit of efficient and rational production, thus extending beyond the ASEAN region. For example, Nissan Motor Co., Ltd., since the beginning of auto parts distribution for AD Resort in 1993, has complemented a large amount of auto parts distribution between ASEAN and Taiwan, compared to within ASEAN, showing higher priority of auto parts distribution between ASEAN and Taiwan than only within ASEAN, thus clearly indicating that Nissan has pursued a greater region for complementation beyond the ASEAN region. Further more, not only these countries but also Japan could be included in this extended area, considering the supply of the Knock Down (KD) parts, a great portion of which, e.g. 30 to 50%, has been imported from Japan.[4] Japanese automakers regarded ASEAN and its neighboring countries including Japan as a more rational region to complement their parts.

This problem calls into question ASEAN's raison d'être, along with the organizing of Asia-Pacific Economic Cooperation (APEC), an economic cooperation organization covering a larger area than ASEAN. Thus, to solve this problem, a new task, which is to further accelerate the integration of the ASEAN's internal market, seems to have arisen.

3. Structural Changes and Crisis Preparation in the 1990s

Although intra-ASEAN economic cooperation was an extension of ASEAN's strategy for CFEI, which was initiated in 1987, it reached a significant turning point and new phase, along with historical structural changes in the political and economic framework surrounding ASEAN, starting in 1991. These changes can be summarized into the following six points.[5]

First, due to the changes in the cold war framework in Asia, ASEAN saw the loss of a factor, tension in Indochina, which had a political impact on ASEAN since its founding and thus ASEAN expanded into Indochina. As a result, ASEAN added Vietnam in 1995, and Laos and Myanmar in 1997.

Second, there had been economic changes in ASEAN countries. ASEAN countries achieved rapid economic growth and turned themselves into investing countries and financial centers in the Asia-Pacific region.

Third, there had been the growing economic presence of Asian Newly Industrializing Economies (NIES). Asian NIES shaped some centers in trade and investment in the Asia Pacific region.

4 Refer to Shimizu, K. (1998a), op. cit. , Chap. 5 , Shimizu, K. (1999b), "The Proposal and Implementation of the Brand to Brand Complementation Scheme—Intra-ASEAN Economic Cooperation, 1987-1995; An Analysis about Relations between Foreign Direct Investment, Multinationals and Intra-Economic Cooperation —," *Economic Journal of Hokkaido University* (*Hokkaido University*), 28, and Shimizu, K. (1994), "Intra -ASEAN Economic Cooperation and BBC Scheme," Sekaikeizai Hyoron, Sekaikeizai Kenkyu Kyokai, Vol. 38, No. 12, Vol. 39, No.1 (in Japanese).

5 Refer to Shimizu, K. (1998a), Final Chap.

Fourth, China achieved the rapid economic growth and growing FDI based on "the Reform and Open Policy." Due to the economic growth along coastal areas in China, China swiftly changed its global position from an isolated actor to a cooperative actor in the international division of labor. Thus, China has become a rival of ASEAN as a recipient of FDI.

Fifth, the U. S. A. and Japan had a growing interest in the Asia-Pacific region. The U. S. A. played a leading role in the first informal APEC Summit in 1993, aimed at implementing the New Pacific Doctrine, and had promoted the creation of free trade zone in the Asia-Pacific region.

Sixth, there were further changes to APEC and its resulting trade and investment liberalization. With the "Bogor Declaration" in 1994, advanced countries in APEC must achieve liberalization of trade and investment by 2010 and developing countries must do so by 2020.

These changes promoted the deepening and the widening of intra-regional cooperation. In other words, AFTA,[6] AICO[7] and AIA[8] have been promoted as an extension of ASEAN's strategy for CFEI, and the widening of ASEAN to include Indochina countries have been promoted.

On one hand, however, there was the deployment of "East Asian Fusion Bubble" (growing mutual interdependence in East Asia and economic growth and its related bubble phenomenon). On the other hand, conflicts existed over the industrial location within the ASEAN region, and the deepening of intra-ASEAN economic cooperation was not successfully promoted. In reality, dependence on exports to the countries outside ASEAN continued, compared to

6 AFTA is the free trade area concept agreed upon the 4 th ASEAN Summit in January 1992. By the Common Effective Preferential Tariff (CEPT) to establish AFTA, tariffs for industrial products and processed agricultural products in the ASEAN region should be reduced by 0 - 5 % by 2008. At the 6 th ASEAN Economic Ministers Meeting, the implementation of tariff reduction would be moved up by 5 years to the year 2003 was adopted, and this would be applied to non-processed agricultural products. As described later, at the 6 th ASEAN Summit in December 1998, this implementation was moved up by another one year to the year 2002 was adopted. Refer to Shimizu, K. (1998a), Final Chapter.

7 The BBC Scheme was integrated into the AICO Scheme, which was agreed upon at the informal ASEAN Economic Ministers Meeting in April 1996 and came into effect in November 1996 in each ASEAN country. According to "The Basic Agreement on the ASEAN Industrial Cooperation Scheme," "AICO Arrangement" shall mean a cooperative arrangement consisting of a minimum of two Participating Countries and one Participating Company in each Participating Country. "Participating Companies" shall mean companies incorporated and operating in ASEAN Member Countries meeting the criteria (they are required to have minimum 30% national equity). The approved AICO products shall enjoy a preferential tariff rate of 0 - 5 % and a local content accreditation. Furthermore, this agreement stipulates that the application shall be swiftly implemented compared to the BBC Scheme. Refer to Shimizu, K. (1998a), Final Chap., Shimizu, K. (1997), "From the BBC Scheme to the AICO Scheme," Institute for International Trade and Investment (1997), *The Survey on the Economic Integration and Foreign Direct Inrestment,* Institute for International Trade and Investment.

8 The AIA was agreed at the 5 th ASEAN Summit in December 1995. As mentioned later, "The Framework Agreement on the AIA" was signed at the ASEAN Economic Ministers Meeting in October 1998.

within ASEAN. For example, the export ratio within ASEAN, constituting the original member countries and Brunei, was only 23.3% in 1994, while it reached only 24.1% in 1996.[9]

Thus, while economic interdependence in the Asia-Pacific region was growing with economic growth, there was a large shift of foreign investment by advanced countries from ASEAN countries to China. As a result, the growing dependence on foreign indirect investments and short-term investments, and growing bad loans had progressed. Also, maintaining the pegging system to the U. S. A. dollar in ASEAN countries created the appreciation of their currencies to other currencies, resulting in weaker international competitiveness of their goods. Furthermore, although ASEAN countries produced excessive capacity of production, they failed to improve the stagnant productivity and reform the similarity of export structure among ASEAN countries (as well as the similarity to the export structure of China).

These background factors would underlie the Asian economic crisis, triggered by the Thai baht crisis in 1997.

4. Characteristics of ASEAN Regionalism as the Backbone of Intra-ASEAN Economic Cooperation

I will provide a listing of several characteristics of ASEAN regionalism in a more global perspective, before analyzing the Asian economic crisis and intra-ASEAN economic cooperation. This is because ASEAN's raison d'être and difficulties with intra-ASEAN economic cooperation can be drawn from these characteristics.

First, ASEAN has played a role in functioning only as a cooperative body constituting various countries but with no common values. For example, the European Community (EC) and the European Union (EU) share common roots of Latin and Christianity, and the North Atlantic Treaty Organization (NATO) shares the values of Western democracies. However, ASEAN do not share such values.

Second, a collective security framework has not been established. Namely, ASEAN has possessed no organizations such as NATO in the EU. ASEAN's integration has been pursued based on not high politics but low politics.

Third, as observed in the External Joint Approach, the role of ASEAN as a bargaining organization with the external world has been an important focus of its cooperation. By taking advantage of this role, ASEAN has obtained economic assistance from advanced countries such as Japan, and secured export markets.

9 ASEAN Secretariat.

Fourth, as seen at the ASEAN Post-Ministerial Meeting or the ASEAN Regional Forum (ARF), ASEAN has offered negotiating tables for multilateral meetings including major powers outside ASEAN, and notably taken the initiative in those meetings.

Fifth, as seen in the ratios of export and import, the interdependence in the ASEAN market has been low, while the dependence of trade and investment on major powers outside ASEAN has been high. The export ratio in ASEAN region was less than 25% even in the 1990s, and the ratios of export to countries outside ASEAN, including the U. S. A. and Japan, were generally large.

Sixth, the Asia Pacific Triangle framework and the shaping of interdependence by MNCs have been bases for economic cooperation. The Asia-Pacific Triangle framework has consisted of the following flows: the export of machine and parts to Asian NIES and ASEAN countries from Japan, and the export of products to the U. S. A. from Asian NIES and ASEAN countries. Furthermore, the participation of other countries, China and Indochina countries, in this triangle, have shaped the extended reproduction of this structure. Furthermore, behind the triangle, there have been the international division of labor based on FDI by Japanese and U. S. A. MNCs. This international division of labor has been also a strong base.

Seventh, an important aim of ASEAN cooperation has not been to achieve integration based on the transfer of sovereignty to supernational organizations, but to achieve the shaping and fostering of nation-states for individual ASEAN countries.

Eighth, there has been numerous intra-regional political and economic tensions (e.g. territorial disputes and conflicts of economic interest among ASEAN countries). This is also a problem in EC and EU, however, in ASEAN, such a problem is likely to emerge, because of the diversities and differences among ASEAN countries and the absence of a nucleus like the Bonn-Paris Axis in Europe.

Ninth, ASEAN does not have policies or organizations to solve conflicts among member countries. For example, ASEAN has not had common policies: "methods for the redistribution of income or the reallocation of capital" for countries suffering disadvantages arising from economic cooperation (e.g. common policies, such as Common Agricultural Policy: CAP or Common Regional Policy in EC or EU). Also, ASEAN has not had any organization to supervise "methods for the redistribution of income or the reallocation of capital" for total ASEAN profits (e.g. organizations, such as Commission and European Court of Justice in Europe).[10]

10 Refer to Shimizu, K. (1998a), Chap. 2.

Tenth, ASEAN Regionalism has been a loose regional cooperation or integration. In other words, decisions in ASEAN have been made through consensus and institutionalization has been gradual.

The following conclusion can obviously be drawn from the above points. For security ASEAN has been depending on the security system in the entire Asia-Pacific region, primarily arranged by the U. S. A. On the economic and political sides, ASEAN has eased some tension within the ASEAN region, in which there has been the economic and political powers with strong influences outside the region, through consensus building, and ASEAN has obtained economic assistance from advanced countries and secured export markets by collective external economic cooperative approaches.

This means that ASEAN basically includes many tense relations and centrifugal forces as it proceeds in its intra-regional cooperation. In terms of ASEAN regional cooperation, conflicts of economic interest are likely to come into being among member countries, and if so, it is not easy to solve them. Also, ASEAN's momentum to integrate its intra-regional market is fundamentally weak.

5. The Impact of the Asian Economic Crisis on Intra-ASEAN Economic Cooperation

5.1 Asian Economic Crisis and ASEAN Economy

The Asian Economic Crisis began in Thailand in 1997 and immediately spread to neighboring countries. The economic growth in ASEAN countries, which saw rapid growth in the 1990s, dropped, and eventually reached minus growth. In 1998, Indonesia, Malaysia, the Philippines and Thailand recorded minus economic growth.[11] In addition, there has been a remarkable demand decline in ASEAN countries. For example, automobile sales in the following four ASEAN countries, Indonesia, Malaysia, the Philippines and Thailand combined decreased by 0.3% in 1997, and by 65.5% in 1998 over the previous year (see **Table 1**).[12] And in terms of the 1998 demand for these four countries, the sales of color TVs and air conditioners decreased by 30% and 20% over the previous year, respectively.[13]

In Thailand, FDI decreased by 10.2% in 1997 over the previous year, while it decreased by 35.0% in the first half of 1998 on a year-over-year basis. In In-

11 The real GDP growth rates in 1997 and 1998 were 4.6% and -13.7% in Indonesia, 7.8% and -6.7% in Malaysia, 5.1% and -0.5% in the Philippines, 7.8% and 1.5% in Singapore, -0.4% and -8.0% in Thailand (IMF, *World Economic Outlook*).

12 FOURIN, *FUORIN's Monthly Report on the Global Automotive Industry,* March 1999, p. 4.

13 JETRO (1999), *JETRO White Paper on Investment 1999*, p. 45.

donesia, the amount increased by 13.0% in 1997 over the previous year, but it decreased by 48.0% in the first half of 1998 on a year-over-year basis. Also, Malaysia saw FDI drop by 39.5% in 1997 over the previous year and by 32.6% in the first half of 1998 on a year-over-year basis (approved base and in terms of U. S. A. dollars, see **Table 2**).[14] When it comes to FDI (approved base and in terms of U. S. A. dollars) in 1998, the total amount of ASEAN five original member countries, Indonesia, Malaysia, Singapore, the Philippines and Thailand, decreased by 48.3% over the previous year.[15]

The amount of export also greatly decreased, especially in intra-ASEAN export. For example, the export amount from seven ASEAN member countries constituting the five original members plus Brunei and Vietnam, decreased from $ 19.2 billion in the first quarter of 1997 to $ 15.5 billion in the first quarter of 1998, down approximately 19% on a year-over-year basis. At the same time, the ratio of intra-ASEAN exports dropped from 27.4% to 21.1%.[16]

5.2 The Impact of the Asian Economic Crisis on Intra-ASEAN Economic Cooperation

5.2.1 Growing Centripetal Forces

How will these economic crises influence intra-ASEAN economic cooperation? On one hand, the Asian economic crisis will promote collective efforts by ASEAN countries for economic problems which individual ASEAN country cannot cope with, and take steps towards fostering economic cooperation. In fact, against the background of the crisis, the further promotion of economic cooperation was designed, in the extension of ASEAN's strategy for CFEI.

As seen in the promotion of AFTA, AICO and AIA, intra-ASEAN economic cooperation strategy itself is not changing. In other words, the major common target of these projects is to attract FDI. In addition, at such meetings as the ASEAN Ministerial Meeting (AMM), ASEAN Economic Ministers Meeting (AEM) and ASEAN Investment Agency Meeting, further promotion of intra-ASEAN economic cooperation and its resulting attraction of FDI to ASEAN region was reiterated. Excessive dependence on indirect investment and short-term investment caused the economic crisis, and this fact was reflected during those meetings. That is, FDI has been increasingly recognized as a last resort to economic growth. While China has become a rival of ASEAN as a recipient

14 JETRO (1999), *JETRO White Paper on Investment, 1999*, pp. 14-15.

15 The total amount of FDI (approved base) in the five countries was approximately $ 31.1 billion. The rate by country over the previous year was -59% in Indonesia, -17% in Malaysia, -51% in the Philippines, -22% in Singapore, and -34% in Thailand (*Nippon Keizai Shinbun*, April 13, 1999).

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of FDI, it has become a pressing issue to establish an ASEAN wide economic area to attract FDI.

Let me show some concrete examples of intra-ASEAN economic cooperation. Under the AICO Scheme, each AICO was not approved for more than one year since it was initiated in November 1996. This was attributable to the time-consuming transactions necessary for unification of standards and the conflicts of economic interest among ASEAN member countries. However, it came to be approved in 1998, following the approval of Volvo and Sanden.[17]

As for AIA, at the AEM held on October 7-8, 1998, the "Framework Agreement on the AIA" was signed. This agreement stated the following two aims: to encourage greater investment flows into the ASEAN region, and to establish a competitive ASEAN Investment Area. Specifically, it stipulated that it would liberalize intra-ASEAN investment by 2010, and extra-ASEAN investment by 2020.[18]

Regarding AFTA, the AFTA Council, which was held prior to the AEM in October 1998, reached the conclusion that it would deepen and accelerate the realization of AFTA, such as increasing more items with no tariffs.

5.2.2 Growing Centrifugal Forces

The Economic crisis, however, has caused protectionism for domestic industries in each country, and is likely to become a centrifugal force for intra-ASEAN economic cooperation. This can be understood from the following cases. The Philippines and Thailand raised some tariffs in 1998 (this was needless to say, an adverse action against the AFTA establishment). In addition, Thailand saw the postponement of deregulation of local contents of auto parts (as major measures for import restriction following the currency crisis, see **Table** 3).

As mentioned earlier, viewing the characteristics of intra-ASEAN economic cooperation, it is obvious that centrifugal forces constantly exist and there are insufficient factors to curb the function of the forces.

Most importantly is that these centrifugal forces and tense relations among ASEAN countries was not rapidly created, due to the economic crisis. Tension, which was originally included in intra-ASEAN economic cooperation, and the centrifugal forces, which were pointed out in the previous chapter, have become obvious, triggered by the political and economic structural

17 ASEAN Secretariat, *ASEAN Update*, 1st Quarter of 1998, p. 4. As of March 1999, 18 cases were approved. Among them, 14 cases were related to auto parts (Source : ASEAN Secretariat).

18 "Framework Agreement on the ASEAN Investment Area."

changes surrounding ASEAN, for example, China's Reform and Open Policy, the APEC institutionalization and the economic crisis starting in mid 1997.

In other words, tensions originally underlying the intra-ASEAN economic cooperation, emerged triggered by these structural changes. ASEAN countries have been heavily dependent on the U. S. A. and Japan, it has not provided insufficient interdependence. Against this backdrop, interdependence of the Asia-Pacific region has been deepened and there has been a growing international division of labor by MNCs in this area. Also, there have been several factors that cause conflicts of economic interest among ASEAN member countries. This is stemming from the fact that cooperation and integration to achieve the shaping and fostering of nation-states for individual ASEAN countries, are pursued by competitive nation-states. And there has been no policies or organizations that eliminate those factors

It is assumed that the centrifugal forces of intra-regional cooperation have become obvious from the above factors. However, the setback in the intra-ASEAN economic cooperation causes not only decreasing economic growth in ASEAN countries, but also weaker bargaining power toward external countries, and is likely to lose the meaning of its regionalism. Intra-regional economic cooperation is essential for ASEAN regional cooperation and integration.

6. The 6th ASEAN Summit and "Statement on Bold Measures"

The 6 th ASEAN Summit was held on 15-16 December 1998. This summit was held for the first time in three years, following the previous formal summit in December 1995. The major focus of this summit was on how to cope with the Asian economic crisis, along with the joining of Cambodia into ASEAN.

Welcome remarks by Vietnamese Prime Minister, Mr. Phan Van Khai and opening remarks of the leaders of other ASEAN countries discussed the economic crisis and stated necessary measures to curb the crisis. Mr. Phan Van Khai stated "at the moment, our region of Southeast Asia is facing great challenges brought about by the economic and financial crisis. At this Meeting, in the spirit of cooperation and mutual assistance in the interests of individual countries the whole association, we will jointly exchange views on and look for measures to bring back the regions sustained development."[19]

The "Hanoi Declaration of 1998," "Hanoi Plan of Action" and "Statement on Bold Measures," which were adopted at the 6 th ASEAN Summit, addressed the economic crisis and the necessary actions by ASEAN. For example, The

19 "Welcoming Remarks by H. E. Prime Minister Phan Van Khai at the Opening Ceremony of the 6 th ASEAN Summit."

"Hanoi Declaration of 1998," in paragragh 4 , stated "we recognize that the economic and financial upheaval that currently afflicts our economies and societies has severely set back many of the gains that our nations and our Association have achieved." It further continues, "We shall overcome those economic and social difficulties by working together in ever closer cooperation and ever stronger solidarity."[20] And many other paragraghs addressed ways to cope with the economic crisis.

The "Hanoi Plan of Action" also states "ASEAN shall implement initiatives to hasten economic recovery," and provide many suggestions to foster economic cooperation.[21]

Above all, in the "Statement on Bold Measures," which was directly linked to the economic policies, ASEAN's urgent and concrete economic steps were drawn up.

The "Statement on Bold Measures" constituted the following three parts: "Acceleration of AFTA," "Short-Term Measures to Enhance ASEAN Investment Climate" and "ASEAN Industrial Cooperation (AICO) Scheme." As for AFTA in the "Acceleration of AFTA," "Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand would advance the implementation of AFTA by one year from 2003 to 2002. They also agreed to achieve a minimum of 90% of their total tariff lines with tariffs of 0 - 5 % by the year 2000." Also, "Vietnam, Laos and Myanmar shall maximize their tariff lines between 0 - 5 % by 2003, and by 2005 respectively."[22]

Incentives for attracting FDI were emphasized in "Short-Term Measures to Enhance ASEAN Investment Climate," by allocating most parts in the "Statement on Bold Measures." The "Acceleration of AFTA" concluded that each ASEAN country had agreed to extend additional special privileges to qualified ASEAN and non-ASEAN investors in the manufacturing sector, for applications received from 1 January 1999 to 31 December 2000, and approved thereafter. These incentives covered the following areas which were approved: i. minimum three year corporate income tax exemption or a minimum 30% corporate investment tax allowance; ii. 100% foreign equity ownership ; iii. duty-free imports of capital goods etc. Furthermore, new incentives for FDI for each ASEAN country were listed.[23]

Implementing the realization of AIA ahead of schedule was stated in "Short-Term Measures to Enhance ASEAN Investment Climate." For example, for ASEAN investors in the manufacturing sector, implementing the national

20 "Hanoi Declaration of 1998."

21 "Hanoi Plan of Action."

22 "Statement on Bold Measures."

23 Ibid.

treatment would be progressively phased out by the year 2003 instead of waiting until 2010 as initially agreed.[24]

As for the AICO Scheme, ASEAN member countries agreed to waive the 30% national equity requirement during the period 1999-2000.[25]

The "Hanoi Plan of Action" also stated the promotion of financial and monetary cooperation, along with strengthening the ASEAN Surveillance Process[26] introduced at the ASEAN Finance Ministers Meeting in December 1997 and studying the feasibility of establishing an ASEAN currency and monetary rate system.[27]

Following the 1999 Summit, as an extension of the previous measures, further incentives on FDI were established. First, as for the AICO Scheme, the ASEAN Working Group on Industrial Cooperation, which was held on February 22-23, 1999, reached an agreement that further relaxation of its terms would be achieved. This created the possibility for "the exchange of AICO Final Products" among the participating companies, under "an intra-firm AICO agreement."[28] Second, as for AIA, the AIA Council, which was held on March 5, 1999, concluded that national treatment would be provided for investments from non-ASEAN countries and the implementation of AIA would be carried out ahead of schedule.[29]

7. Conclusion
—Intra-ASEAN Economic Cooperation at the Crossroads—

Against the background of proceeding economic crisis and stagnant FDI, which should be used as a last resort for economic growth, ASEAN is inevitably achieving rapid deepening of intra-regional economic cooperation. At the same time, these measures are an extension of the "ASEAN's strategy for Collective FDI-dependent and Export-oriented Industrialization (ASEAN's strategy for CFEI) and this strategy has been increasingly emphasized under the economic crisis.

However, the centrifugal forces and tension of the intra-regional coopera-

24 "Statement on Bold Measures."

25 Ibid.

26 This is the system to mutually check the economic policies of individual ASEAN countries. This was adopted at the ASEAN Finance Ministers Meeting in December 1997, in order to prevent currencies from rapidly fluctuating. At the 3rd ASEAN Finance Ministers Meeting in March 19-20, 1999, the fostering of this system was discussed (*Nippon Keizai Shinbun*, March 20, 1999).

27 "Hanoi Plan of Action."

28 This was applied from March 15. Furthermore, the shortening of the period from AICO processing to effecting AICO was agreed. Refer to "A More Attractive AICO Scheme: Intra-Firm Transaction Allowed," ASEAN Secretariat Information & Publications Division.

29 "ASEAN Ministers Open Region to Foreign Investments," ASEAN Secretariat Information & Publications Division, and *Nippon Keizai Shinbun*, March 6, 1999.

tion, as mentioned earlier, have not been solved yet. The problem is whether the measures adopted at the 6th ASEAN Summit and "Statement on Bold Measures" will be actually implemented, in other words, whether individual ASEAN countries can overcome the conflicts of economic interest in the process of implementing those measures. If examined from the previous experiences of intra-ASEAN economic cooperation with previous centrifugal forces , stagnant intra-regional economic cooperation cannot be ruled out despite manifestation of bold and concrete policies.

Furthermore, the factors surrounding intra-ASEAN economic cooperation have been changing, along with the economic crisis. Some of these changes will have adverse effects on the changes in the 1990s, but any of them could become new centrifugal forces toward promoting intra-regional economic cooperation.

First, the dependence of ASEAN countries on external countries, mainly the U. S. A., has been increasing, partly due to the influence of the economic crisis. For example, as for exports, individual ASEAN countries have become more and more dependent on the U. S. A. In Thailand, the 1998 ratio of export to the U. S. A. reached 22. 3%, the highest level since 1992. While the total exports decreased by 6 %, the ratio of export to the U. S. A. rose by 7 %. While the export from Thailand to ASEAN countries exceeded exports to the U. S. A. in 1995 and 1996, this was reversed and the ratio of ASEAN export on the U. S. A. market has been growing due to the decline in intra-regional demand. Even in Malaysia, the export ratio to U. S. A. increased from 18. 6% in 1997 to 21. 7% in 1998, a high level that was equivalent to the 1994 level.[30]

Individual ASEAN countries came to realize FDI as a last resort to economic growth, and immediately relaxed the regulations for FDI. In terms of the strategy for intra-ASEAN economic cooperation, "ASEAN's strategy for CFEI" has been fostered. Although attracting FDI into the ASEAN region is regarded as a last resort to economic growth, it also will become a factor to enhance dependence toward external countries.

Second, U. S. A. interests for ASEAN countries and the centripetal force of APEC has been lowered. These are linked to the Asian economic crisis and the decreasing economic growth in these countries.

Third, ASEAN member countries have increased. Cambodia joined ASEAN, following Laos and Myanmar in ASEAN. Increasing member countries is likely to create obstacles to the deepening of cooperation and integration including intra-regional economic cooperation. This is because the widening and deepening of cooperation and integration cannot easily go together.

30 *Nippon Keizai Shinbun*, March 6 , 1999.

The centrifugal forces and tension regarding intra-regional economic cooperation have been discussed. However, stagnant intra-regional economic cooperation will call into question the raison d'être of ASEAN regional cooperation. In other words, it weakens not only ASEAN's bargaining power against external partners, but also ASEAN's political raison d'etre. This is based on the background reality that in recent years, the factor of Indochina tension has disappeared, and the ASEAN tactics of utilizing tense relations among big powers and gaining initiatives, which were conventionally adopted at the ASEAN Post-Ministerial Conference or ARF, have been deadlocked. This is the reason for stating that intra-regional economic cooperation is a key to the regional cooperation and integration.

Intra-ASEAN economic cooperation reoriented itself during the Asian economic crisis due to rapid changes in the factors surrounding ASEAN, and calls into question its raison d'être. The raison d'être of intra-regional economic cooperation, namely, ASEAN's raison d'être, is obviously dependent on the creation of the interdependence of ASEAN market, and on deepening of intra-regional cooperation covering trade and macro economic policies, etc.

Will intra-ASEAN economic cooperation play a central role in creating interdependence in the internal market and deepening intra-regional cooperation? Or, will it end up in a breakdown of cooperation due to the action of conventional centrifugal forces? Now, ASEAN is at an important crossroads.

Associate Professor, Graduate School of Economics
Kyushu University

Notes

This paper is based on Shimizu, K. (1999a), "Asian Economic Crisis and Intra-ASEAN Economic Cooperation," *Sekaikeizai Hyoron*, Sekaikeizai Kenkyu Kyokai, 43 (5), (in Japanese).

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Table 1. Automobile Sales in ASEAN Countries

	1995	1996	1997	1998
Indonesia	378,694	332,035	386,691	58,321
Malaysia	285,792	364,788	404,837	163,851
The Philippines	128,829	162,001	144,435	80,231
Thailand	571,580	589,126	363,156	144,065
Total (Rate of change on a year-over-year basis)	1,364,895 (22.8%)	1,447,950 (6.1%)	1,299,119 (−10.3%)	446,468 (−65.6%)

Source : FOURIN, *FUORIN's Monthly Report on the Global Automotive Industry*, March 1999, p. 8

Table 2. Foreign Direct Investment (FDI) to ASEAN Countries (approved base)

(Unit : US $ million, %)

	1996	First half of 1997	Second half of 1997	1997		First half of 1998	
					Rate of change		Rate of change
Indonesia	29,931.4	16,038	17,092	33,833	13.0	8,344	−48.0
Malaysia	6,779	2,150	1,950	4,101	−39.5	1,450	−32.6
Philippines	967	721	1,219	1,940	100.6	672	−6.7
Thailand	13,124	4,532	7,251	11,784	−10.2	2,945	−35.0

1. Note : Rate of change is on a year-over-year basis.
2. Source : JETRO (1999), *JETRO White Paper on Investment 1999*, pp. 14-15.

Table 3. Major Import Restriction Measures after the Currency Crisis

	Item	Remark
Thailand	○Tariff raising for completed cars and luxury goods (11 fields) (October 14, 1997)	○Completed cars under 2,400cc., 42%→80% over 2,400cc. 68.5%→80% ○Perfumes, cosmetic articles, leather bags, etc. 20%→30% ○Cameras, watches, glasses, cigarette lighters, etc. 5%→30%
	○Tariff raising for luxury goods (8 fields) (February 24, 1998)	○Perfumes, cosmetic articles, leather bags, etc. 30%→40% ○Ties, underwear, etc. 30%→60%
	○Tariff raising for steel and its products (May 6, 1998)	○Hot-rolled sheet steel, steel bar, etc. 0.4 barts/kg→10% Cold-rolled sheet steel, steel bar, etc. 0.4 barts/kg→12% ○Treated sheet steel, steel pipe 10%→15% ○Chain, etc. 12%→20%
Malaysia	○Introduction of Approval of Import (AP) System for heavy machinery (October 17, 1997) ○Promotion of local products, Import restriction of large products including aircraft and ship (December 5, 1997)	
	○Tariff raising for construction machinery, building materials, automobile, motorcycle, etc. (October 17, 1997)	○Construction machine, building materials, etc. 5～25%→0～40% ○Completed cars 140～200%→140～300%
The Philippines	○Tariff raising for textile goods, auto parts, etc. (January 22, 1998)	○Textile goods 10%→15% ○Auto parts (in1999) 3%→7%→10% (1999)

Source : JETRO (1998), *JETRO White Paper on Investment 1998*, p. 86.