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## **Intra-ASEAN Economic Cooperation in the 1990's\***

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This paper examines the phase of Intra-ASEAN Economic Cooperation in the 1990's, in particular the pre-Asian-Economic Crisis in 1997. The ASEAN's strategy for Collective FDI-dependent and Export-oriented Industrialization (ASEAN's strategy for CFEI) was evaluated. Next we examined whether ASEAN could be used as an integration model for developing countries. Finally, this paper pointed out that ASEAN stood at a crossroads in the 1990's. This was because the political, economic, and historical structure involving ASEAN underwent a drastic change since 1991, and the framework of ASEAN had changed drastically.

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Economic Integration, FTA

### **1. Introduction**

The Association of Southeast Asian Nations (ASEAN), founded in 1967, began intra-ASEAN economic cooperation at the 1<sup>st</sup> ASEAN Summit in 1976. This economic cooperation was carried out according to "ASEAN's strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries (ASEAN's strategy for CISI)".<sup>1)</sup> However, at the 3<sup>rd</sup> 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)".<sup>2)</sup> This was because the former strategy ended in failure and there were some changes in economic conditions both inside and outside the ASEAN region. The main part of this strategy was the Brand-to-Brand Complementation (BBC) Scheme.<sup>3)</sup>

We have so far examined intra-ASEAN economic cooperation from the beginning with the "Declaration of ASEAN Accord" in 1976, in the following previous works: Shimizu (1998a) chapters 1 - 5 and Shimizu (1998b, 1999, 2002 b, 2003, 2004). We pursued the ASEAN-type economic integration among developing countries answering these questions: What historical conditions did ASEAN respond to? What strategies were adopted for intra-ASEAN economic cooperation and integration? What economic rationale were those strategies based on? How were these strategies implemented or not implemented? If implemented, what kind of economic rationale did they reflect? Or if the strate-

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\*This paper is based on Shimizu (1998a), *Political Economy of Intra-ASEAN Economic Cooperation*, Minerva Shobo, Kyoto, Final Chapter. Please refer to Shimizu (1999, 2000) about Intra-ASEAN economic cooperation in Asian Economic Crisis, Shimizu (2002, 2003) in English about Intra-ASEAN economic cooperation and monetary financial cooperation after Asian Economic Crisis, and Shimizu (2004, 2005) about Issues and Tasks of Intra-ASEAN economic cooperation in the post-Asian Economic Crisis.

gies failed, what were the problems?

This paper will examine the phase of Intra-ASEAN Economic Cooperation in the 1990's, in particular in the pre-Asian-Economic Crisis in 1997. Specifically, we will evaluate ASEAN's strategy for CFEI. Next we will examine whether ASEAN could be used as an integration model for developing countries. Finally, this paper will point out that ASEAN stood at a crossroads in the 1990's. This was because the political, economic, and historical structure involving ASEAN underwent a drastic change between 1991 and 1994, and since then, the framework of ASEAN had changed drastically. This examination will be inevitable to define the current phase and issues of Intra-ASEAN Economic Cooperation after the Asian-Economic Crisis.

## 2. Achievement of the Strategy of Collective FDI-Dependent Export-Oriented Industrialization.

A new strategy of intra-ASEAN economic cooperation "ASEAN's strategy for CFEI" clarified in the "Manila Declaration" achieved its goals in certain aspects such as the BBC scheme in Shimizu (1998a) chapter 5 and Shimizu (1999). Because of the BBC scheme, ASEAN and ASEAN countries were able to support the development of the automobile industry in ASEAN and individual ASEAN countries. At the same time, with the BBC scheme as leverage, ASEAN could also attract large investments, which would lead to the formation of production bases. That formation also attracted FDI in the supporting industries.

Furthermore, several new policies were tried as extensions of the BBC scheme. First, there was the ASEAN Free Trade Area (AFTA). AFTA was approved in the 4th ASEAN Summit in January, 1992 in Singapore. Under AFTA, as a major means of Common Effect Privileged Tariff (CEPT), tariffs for industrial products and processed agricultural products in the ASEAN region was planned to be reduced by 0 - 5 % by 2008.<sup>4)</sup>

It was evident that the logic of "ASEAN's strategy for CFEI" was applied to AFTA. For instance, Singaporean Prime Minister Goh proclaimed in the opening speech of the 4th ASEAN Summit that ASEAN would combine AFTA and FDI by multinational corporations (MNCs), saying that "Unless ASEAN can match the other regions in attractiveness both as a base for investments as well as a market for their products, investments by multinational companies are likely to flow away from our part of the world to the Single European Market (SEM) and the North American Free Trade Agreement (NAFTA). If we do not synergise our strengths, ASEAN will risk missing the boat. We will be stranded as we watch others sail by. This is the compelling reason for the ASEAN Free Trade Area," and "ASEAN economic cooperation through the modality of the CEPT and AFTA will increase the flow of investments to the region. Investors can lower their costs of production by utilizing the different strengths of each ASEAN economy."<sup>5)</sup>

The joint communique in the 26th AMM in July, 1993 stated "The Foreign Ministers expressed the common desire to see the smooth and swift implemen-

tation of AFTA to further promote economic cooperation within ASEAN and to facilitate investments in ASEAN by third countries”<sup>6)</sup> regarding AFTA.

In fact, the ASEAN content requirement of AFTA was set at 40%, lower than the 50% level for the ASEAN Preferential Trading Agreement (PTA),<sup>7)</sup> giving an advantage to MNCs which had actively explored division of labor in the ASEAN region.<sup>8)</sup>

Second, meetings to promote foreign investment such as the “Consultative Meeting for the Promotion of Foreign Direct Investment” were held. This first meeting was convened in February, 1993. It was literally a meeting to promote foreign investment in the ASEAN region. This meeting was organized by investment-promotion bodies related to investment promotion from individual ASEAN countries. The purpose of this meeting was to raise the image of ASEAN as an economic area more attractive for foreign investment and to promote not only intra-regional investment but also extra-regional foreign investment.<sup>9)</sup>

Third, there was the “Growth Triangle of Singapore-Johore-Riau (SIJORI).” SIJORI consisted of Indonesia, Singapore and Malaysia, which was originally proposed by Singapore in 1989. The joint plan was designed to attract foreign investment and to build an export base in the Indonesian province of Riau (Batam Island, etc.). In 1990, the agreement on Riau Province between Singapore and Indonesia was signed and joint development was conducted.<sup>10)</sup> Although this sub-regional economic agreement was not an ASEAN policy strictly, it was approved by ASEAN as a policy to complement intra-ASEAN economic cooperation.<sup>11)</sup>

Without doubt, “ASEAN’s strategy for CFEI” had been implemented. The task of promoting and attracting foreign investment was considered significant in the next policies, the ASEAN Investment Area (AIA) and the ASEAN Industrial Cooperation (AICO) Scheme as well.

However, one cannot absolutely claim that “ASEAN’s strategy for CFEI” was successful. The first reason was that few among the initial ASEAN policies were successful except for the BBC scheme.

The second reason was that though it was considered successful, the BBC scheme actually had not an export-oriented but import-substituting character. In another sense, the BBC scheme had a character of what could be called the “Collective FDI-Dependent and Import-Substituting Industrialization”. With the exception of the aspect of extra-regional cooperation to secure export markets, the BBC scheme was centered on the automobile industry, an import-substituting industry (though the export of complete automobiles and parts began partially), which had been protected as a strategic industry by regulations such as the import prohibitions and the local content requirement. It was possible, of course, that the BBC scheme would help establish production bases in ASEAN countries, and attract FDI in the supporting industries would increase, and consequently, automobile industries in ASEAN countries would gain international competitiveness, and cars and auto parts exports would dramatically grow from ASEAN countries such as Thailand. In that respect, BBC scheme had a long-term plan to create an export industry. Yet, that re-

mained in the realm of possibility at this stage, in the mid-1990's. By comparison, in the case of corporations in the electric and electronics industry, which led the FDI-Dependent and Export-Oriented Industrialization in individual ASEAN countries (especially, MNCs in such as free-trade zones for export), they could utilize the preferential treatment for exporting industries such as tariff refunds by each ASEAN country. Therefore, they did not need the intraregional economic cooperation scheme. That was why intra-ASEAN cooperation did not make progress in this industry.

Thus, "ASEAN's strategy for CFEI" achieved its goals in certain aspects but it can't be regarded as a total success.

### 3. Constraints on Intra-ASEAN Economic Cooperation and Economic Integration

What were the reasons for those disappointing results? First, there was difficulty when the regional integration for nation building or the nationalism-based integration was sought by nation states with competing goals. It was certainly true that there were centripetal forces such as the easing of tense relations in the island region and the stabilization between Singapore and Indonesia as well as between Singapore and Malaysia. Yet, we cannot ignore centrifugal forces. In particular, we need to understand that there was an economic centrifugal force acting in obtaining a strategic industry. These problems had become increasingly divisive in deepening intraregional economic cooperation against the background of increased incomes in individual ASEAN countries where FDI was aimed at intraregional demands.

The second reason was the large degree of ASEAN's external dependence or lack of autonomy. As happened with the EC/EU, integration took place when the internal conflict was resolved while being led by a common external profit. That was exactly what happened with ASEAN. The Asian Cold War helped define the integration politically, and Japan's cooperation in aid, investment and trade was the main part of the common profit. The External Joint Approach was one of the most successful examples of ASEAN cooperation. However, whether a certain common profit could be secured for extra-regional cooperation or not would depend on the relationship between that region and the extra-regional entity. It was not always possible to convert internal tension into extra-regional cooperation.

This fact was historically evident though the integration theory has seldom focused on it. The EC/EU initially competed with the United States and the Soviet Union. Later on, they proceeded with their economic integration while competing with the United States and Japan. Then the EC/EU was equipped with an internal foundation to be able to oppose the United States and Japan. It was because of the economic ties that had been historically formed in Europe. Because of that internal foundation, the customs union (CU) was completed ahead of schedule and intra-regional trade share increased beyond 50% of the total trade. But, any political integration without such a foundation ended in failure or stagnation. From the initial stage in

terms of security, "Western bloc" or NATO included the EC countries. In the area of "high politics", Europe's independence was not possible. Even though the joint defense vision might be possible, that must be premised on the U.S. nuclear strategy.

The same situation could be applied to intra-ASEAN economic cooperation. Beginning with the "Manila Declaration" in intra-ASEAN economic cooperation, ASEAN countries deviated away from the course of the new international economic order (NIEO) and, in response to the structural change in the world economy, pursued their industrial product markets in advanced countries, mainly the United States, while being dependent on FDI. That reflected the inclination of the Asian NIES-type development and growth. On the other hand, this reflected the rationality of great dependence on extra-regional markets and the reality of the intra-regional markets dependence on the international division of labor by MNCs.

Thus, it was possible for ASEAN, which was strongly defined by the world economic structure, especially the presence of capital provider Japan and the market provider United States, to realize its own intra-regional economic cooperation. If the extra-regional dependency was far greater than the intra-regional dependency, the integration would be greatly influenced by extra-regional forces. At the same time, it would be possible that individual nation states would be regulated by their relationship with extra-regional powers. This would generate the centrifugal effect for intra-regional cooperation. This means ASEAN had a problem or a weakness in the aspect of economic integration, similar to that in the case of EC/EU security and diplomatic policies. Therefore, there was no foundation on which ASEAN could build a certain independent economic relationship.

Furthermore, this problem would be the problem generally observed through economic cooperation and integration among developing countries. Therefore, African countries were tied to Europe via the Rome Convention while Mexico was tied to America via NAFTA.

The third reason was the lack of a mechanism in ASEAN that would control the centrifugal forces and fix the framework of integration when economic centrifugal forces acted due to the above problems. There was neither the common policies: "methods for the redistribution of income or the reallocation of capital". Nor were there bodies such as the EC/EU Committees which were relatively independent from member countries and capable of coordinating conflicts among member countries. After the 1992 "Singapore Declaration", structural reforms of the ASEAN Secretariat were carried out.<sup>12)</sup> Yet, ASEAN was still not equipped with any bodies that were relatively independent from individual member countries and capable of coordinating conflicts among member countries. By comparison, as the history of the EC clearly showed, the EC Common Policies supported the EC Customs Union.<sup>13)</sup> Therefore, any naive integration theory that a customs union gave a foundation to a common policy should be criticized.<sup>14)</sup> In terms of the structural aspect, ASEAN could be regarded as an organization similar to the EC/EU with only the ministerial council institutionalized. However, if there were no Commission, European

Parliament and European Court of Justice, the realization of European economic integration, even the negative integration of the EC/EU blessed with potential interdependency, would have been difficult. We should not forget that the Commission by the Monnet method,<sup>15)</sup> the Parliament by the Spinelli initiative,<sup>16)</sup> and the Court by a number of cases<sup>17)</sup> all had decisive effects upon European integration.

Considering all those restrictions, it should be clear that, generally, economic integration in developing countries was extremely difficult. By contrast, the case of the EC/EU was particularly blessed with historical conditions for integration. ASEAN's limited success in regional cooperation could be attributed, politically, to the Asian Cold War structure after the Vietnam War, and, economically, to Japan's "unlimited supply of capital".<sup>18)</sup> Based on these conditions, ASEAN member countries could develop in a "flying-geese formation".<sup>19)</sup> Therefore, on the one hand, ASEAN was free from tensions emanating from economic stagnation, and on the other hand, the foundation for intraregional economic cooperation was partially in place. Needless to say, those conditions were historically very special cases and lacked universality. Thus, it was difficult to model ASEAN's economic cooperation and economic integration among developing countries.

However, it can't be said that all ASEAN's experiences were not historically special cases and did not have any universality. The most successful result of the ASEAN experiences was the External Joint Approach. ASEAN needed to gain collective bargaining power to go against extra-regional powers such as Japan and the United States, which were the hub or axis of the "Big Triangle",<sup>20)</sup> as well as the potential major threats outside the region such as China and Vietnam. ASEAN's economic bargaining powers also supported intra and extra-political cooperation in ASEAN. In particular, were the establishment of the ASEAN Post-Ministerial Conference (PMC), the ASEAN Post Summit and the ASEAN Regional Forum (ARF), which all included extra-regional major powers. Those bodies functioned as a mechanism to make up for the lack of bargaining power of individual ASEAN member countries in the bilateral relationship with powers. Those bodies also functioned as a mechanism to elicit intra-regional cooperation from ASEAN member countries and the cooperation with ASEAN on the mutual supervision among extra-regional powers. Thus, the presence of those bodies and conferences open to the extra-region could possibly demonstrate an ideal for integration among developing countries, which were dependent on the extra-region. Furthermore, this ASEAN experience could also show a certain universality as a model of integration among developing countries.

#### 4. Historical Changes in the 1990's and ASEAN

ASEAN was at a turning point due to multiple internal and external factors, which occurred since 1991. The historical and fundamental changes in the ASEAN framework, including the membership will be examined. The primary changes were changes in the Asian Cold War structure since 1991 and re-

lated economic changes since 1992.

#### **4-1. Historical changes in the political and economical structure surrounding ASEAN**

First of all, a historical change that questioned the meaning of ASEAN took place. It was the change in the Asian Cold War structure. This change fundamentally altered the very framework of ASEAN which had existed from its inception in 1967. The Asian Cold War structure change was influenced by the East European revolution and the collapse of the Soviet Union. Compared to Europe, though, the structure in Asia was multilayered, thus the course of that change was very unique.<sup>21)</sup> In China where conservatism had risen after the crackdown on pro-democracy demonstrators at Tiananmen Square, the government resumed its reform and open policy since the 4th Conference in the 7th National People's Congress in 1991. The growth rate jumped to around 13% in 1992-93 and over 10% in 1994-95. In addition, the Indochina situation, which used to define the Southeast Asian Cold War structure, also changed drastically. The ultimate withdrawal by the Vietnamese army from Cambodia, the peace in Cambodia, and the establishment of Vietnam's Doi Moi policy quickly changed the contentious relationship between ASEAN and Vietnam.

In 1992, Vietnam and Laos signed the Treaty of Amity and Cooperation in Southeast Asia (TAC). In July, 1994, the foreign ministers of Vietnam, Laos, Cambodia, and Myanmar attended the 27th AMM as observers and released a joint statement that they would promote the "Southeast Asian Community" including 10 countries. In July of 1995, ASEAN finally admitted Vietnam as an official member.

This revealed that when the historical conditions of integration no longer existed, the integration including its membership had to change. Thus, ASEAN, which had been politically supported by the Asian Cold War structure, had to find its *raison d'être* elsewhere. After the Paris Peace Conference in November 1991, ASEAN set the new goal of security cooperation, referred to the establishment of AFTA, and declared the intention of further strengthening political and economic cooperation in the 4th ASEAN Summit in January 1992.<sup>22)</sup> This was the beginning of the accommodation to the post-Asian Cold War structure.

The change in the Cold War structure required a new framework of stable international relations in Asia. This framework was defined by the cooperative relationship or balance of power between the United States, Japan and China. The key was how they would manage to have cooperation or equilibrium between ASEAN and China with its Spratly Islands being in a tense situation, in relation to the diplomatic policy of Japan and the United States. In addition, the potential tensions between Thailand and Vietnam, Singapore and Malaysia or Indonesia, and Malaysia and Indonesia were keys to the stability within ASEAN. With the exception of potential tensions in the ASEAN region, ASEAN would compete against China as a direct threat and have a voice in regional relations influenced by the United States, China and Japan, by strengthening intra-ASEAN relations. The historical conditions and *raison*

d'être of ASEAN political cooperation had changed dramatically.

In the meantime, economically, huge changes became apparent after 1992 in relation to the change in the Cold War structure.

The first change was that of ASEAN member countries. The growth rate of ASEAN member countries consistently surpassed that of NIES since 1992. The 1992 scale of the nominal dollar-based exports and imports corresponded to that of NIES in 1985 even after classifying Singapore not as an ASEAN but as an Asian NIES. Moreover, ASEAN member countries had risen as an investors to China and Vietnam with Chinese capital as the primary investors. Therefore, on the one hand, the interdependent relations, a rapid expansion of the intra-Asian trade between the markets grew. On the other hand, FDI in ASEAN countries by Japan, with a purpose of not only establishing export bases but also securing growing domestic markets, grew.<sup>23)</sup>

The second economic change was the rise in the economic presence of Asian NIES. Regarding Asian intraregional trade and investment, Asian NIES built a base on the same level as Japan in the region. If Singapore was added to this group of Asian NIES, this trend was further evident.<sup>24)</sup>

The third change was the growth of China. The "Hong-Kongization and Taiwanization"<sup>25)</sup> in the coastal area of China due to the influx of Chinese capital quickly led China's growth and dragged China out of its isolated state into international division of labor in the Asia-Pacific region.<sup>26)</sup> FDI into China had rapidly expanded and China grew as a competitor to ASEAN as a receiver of FDI.

The fourth change was the change in the interests of Japan and the United States in the Asia-Pacific region. Japan was interested in the region because of the appreciating yen in the 1990's. The United States was willing to resolve the trade imbalance in the Asia-Pacific region including "Greater China".<sup>27)</sup> Both countries were interested in making a profit in a "Growing Asia". The United States supported APEC based on a proposal by Australia, and implemented it to establish the free trade area of the Asia-Pacific region by leading the first unofficial Asia-Pacific Economic Cooperation (APEC) Summit in 1993. This led to the "Bogor Declaration" in 1994.

The fifth change was the organization of APEC and the liberalization of trade and investment by APEC. In 1989 when it was launched, APEC was just an arena to discuss economies of the participating countries. However, it agreed to the establishment of a secretariat and contributing to the management fund in the Bangkok Conference in 1992. In the 1993 Seattle Conference, an unofficial APEC Summit was held, and APEC developed as a regional body for economic cooperation. In the 2nd Summit in 1994, APEC announced the "Bogor Declaration" which stated that it would liberalize trade and investment in the Asia-Pacific region by 2010 and 2020 for advanced and developing countries, respectively. The organization of APEC destabilised ASEAN as an intraregional economic cooperation body and the "Bogor Declaration" hurried up ASEAN's trade liberalization.

#### **4-2. Impacts of historical changes upon Intra-ASEAN economic cooperation**

The intra-ASEAN economic cooperation and integration stood at a turning point due to those changes. I will examine the impact upon ASEAN based on the previous discussions.

The change in the political environment helped bring a new meaning to ASEAN. At the same time, these changes solidified ASEAN cooperation and integration. The position of ASEAN, which used to monopolize the “unlimited supply of capital”, was decreasing due to the evolution of China. ASEAN countries, having enjoyed the FDI-dependent progress, had to reorganize themselves with intraregional markets as their foundation. Also, the trade liberalization in the wider region than ASEAN by APEC and the World Trade Organization (WTO) hurried up the trade liberalization in ASEAN. On the other hand, it would be possible to carry out a different type of intraregional economic cooperation based on the productivity and the domestic markets of developed member countries. The acquisition of a new significance necessary for political purposes could be secured for the first time by ASEAN’s collective development.

Those moves would be represented by the widening and deepening of ASEAN, for example the accession of Indochina countries including Vietnam as a new frontier and the progress of AFTA, which was supposed to implement tariff reductions by 2003 ahead of schedule.

Firstly, regarding the widening ASEAN, the accession of Vietnam was officially approved in the AMM in July 1995. It came after the 1992 signing of TAC by Vietnam and Laos, the attendance by foreign ministers of Vietnam, Laos, Cambodia and Myanmar and the announcement to promote the “South-east Asian Community” in the 27th AMM in July 1994. In the 5th ASEAN Summit in December 1995, Laos, Cambodia and Myanmar were invited. This was the first time that leaders of all ten Southeast Asian countries convened. In the same meeting, the Treaty on the Southeast Asia Nuclear Weapon-Free Zone (SEANWFZ) was signed by those ten countries. Also adopted in the same meeting was the “Bangkok Declaration 1995”,<sup>28)</sup> which proposed an early realization of ASEAN with all the countries of Southeast Asia.<sup>29)</sup> In the 29th AMM in July 1996, ASEAN accepted the official application of the accession by Cambodia and Laos. At the same time, ASEAN admitted Myanmar as an observer country, which was the qualification prior to becoming an official ASEAN member. The realization of a wider ASEAN including 10 countries was close. Subsequently, Laos and Myanmar were officially admitted to ASEAN in July 1997. Cambodia was officially admitted to ASEAN in 1999 after the Asian Economic Crisis.

Secondly, AFTA was approved in the 4th ASEAN Summit in January 1992. Yet, only Singapore reduced tariffs from January the following year on schedule. Another five members joined Singapore in January of 1994 and tariff reduction was gradually implemented. In the 26th AEM in September 1994, they decided to accelerate the implementation of AFTA from the initial target of 2008 to the year 2003.<sup>30)</sup> At the same time, the 26th AEM had agreed to phase

in all products in unprocessed agricultural products and products in the Temporary Exclusion List (TEL) would be incorporated into the Inclusion List (IL) of the CEPT Scheme, which was to be done in equal installments beginning 1 January 1996 to 1 January 2000.<sup>31)</sup> Furthermore, they declared in the 5th ASEAN Summit in December 1995 that ASEAN shall move towards enhancing cooperation and freer trade in services through the implementation of the ASEAN Framework Agreement on Services and ASEAN shall work towards establishing an ASEAN investment region.<sup>32)</sup> Also it was agreed in this summit that the BBC scheme and ASEAN Industrial Joint Venture (AIJV) would be integrated into the new industrial cooperation scheme: the ASEAN Industrial Cooperation (AICO) scheme. Later, the agreement was signed in the unofficial AEM in April of 1996.<sup>33)</sup> Automobiles and auto parts were also planned to be integrated into AICO and AFTA.<sup>34)</sup>

After the trial-and-error period of strategies such as the ASEAN's strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries (ASEAN's Strategy for CISI) and the ASEAN's strategy for Collective FDI-dependent and Exported-oriented Industrialization (ASEAN's strategy for CFEI), ASEAN was about to launch full-fledged intraregional economic cooperation.

The logic of the Collective FDI-Dependent and Export-Oriented Industrialization was also consistent with not only AFTA, but also AIA and AICO. The main role of AIA was to promote FDI from outside the ASEAN region. The attraction of FDI remained an important requirement. Thus, the promotion of FDI was expected in AICO as well. In the ASEAN Convention of Investment Attraction Body Representatives in July 1996, the Malaysian Minister of International Trade and Industry, Rafidah Aziz, addressed the AIA and AICO schemes, saying, "ASEAN must be an attractive area for FDI".<sup>35)</sup>

However, there were not only centripetal forces discussed in the above but also centrifugal forces. It was apparent that the deepening of interdependency in the Asia-Pacific region, the dependency of ASEAN countries on such external markets as the United States and the EU, the MNCs' activities in the wider region and the subsequent establishment of APEC in the Asia-Pacific stage, would all act against the autonomous integration of ASEAN.

Considering the structure of the world economy, it was also apparent that one specific area of Asia cannot be integrated in a self-absorbed manner. The development of ASEAN countries was possible by the formation of a "greater triangle" including Japan and the United States.<sup>36)</sup> Even if China gets its economy on a growth path, the intra-Asian interdependency would have to grow first in connection with the formation of a "super triangle" that included China, rather than an autonomous "Great Chinese Economic Zone".

The MNCs that defined those moves on the deepest level embodied the world wide universality of capital. When capital movement could be freer, the regions with the restrictions of MNC's activities would be more disadvantageous in terms of FDI promoting and capital accumulation. For MNCs, the wider free trade and investment area would be the more economically rational in its activity. Thus, in this kind of orientation, intra-ASEAN economic coop-

eration tended to be absorbed in the wider economic cooperation such as APEC. With the establishment of APEC, ASEAN was placed in an extremely unstable position. This was because the external capital and the external market were inevitable for ASEAN. Moreover, there was a problem that MNCs expanded their parts complementing areas, in pursuit of efficient and rational production, thus extending beyond the ASEAN region. This would become a greater constraint for Intra-ASEAN economic cooperation, with the establishment of APEC.

On the one hand, ASEAN maintained a certain important position at APEC as a positive actor: it lured the APEC Secretariat to Singapore and decided that APEC summits would be held at ASEAN every other year. On the other hand, ASEAN's position declined through the increasing U.S. initiative and the widening of APEC.

Any regional integration could be theoretically, only the "second-best" solution. This was discussed in Shimizu (1994) and Shimizu (1998a), in the supplementary chapter.<sup>37)</sup> To summarize, if economically rational regional economic cooperation and integration increased, conventional cooperation and integration such as ASEAN would be severely affected, and this might be replaced by new regional economic cooperation and integration. ASEAN received both centripetal and centrifugal forces, or both driving and adverse forces in a new dimension in the 1990's.

## 5. Concluding Remarks: ASEAN at a Crossroads in the 1990's

In response to the changes in historical conditions, mainly structural changes in the world economy, ASEAN switched its strategy with the "Manila Declaration" of the 3rd ASEAN Summit in 1987 as a turning point to ASEAN's strategy for CFEI from ASEAN's Strategy for CISI. However, due to multiple factors inside and outside the region occurring between 1991 and 1994, ASEAN's own framework had to change. Thus, ASEAN or intra-ASEAN economic cooperation was faced with an important turning point. Intra-ASEAN economic cooperation had aspects of ASEAN's strategy for CFEI. But, furthermore, with the addition of the change in its own framework, ASEAN stood at a serious crossroads in the 1990's.

Intra-ASEAN economic cooperation, while linking itself to its own change in framework, would continue to advance with the aforementioned two sets of centripetal and centrifugal forces. The future discussion on intra-ASEAN economic cooperation must be conducted realistically with an objective understanding of both sets of centripetal and centrifugal forces. One will misread the direction of intra-ASEAN economic cooperation by focusing on one set only. Also, we should not forget that many of those centripetal or centrifugal forces in intra-ASEAN economic cooperation were generated in the historical structures in the extra-ASEAN region, not from within the ASEAN region. Thus, it is important that we examine intra-ASEAN economic cooperation after having grasped the multilayered historical structure involving ASEAN. That is be-

cause intra-ASEAN economic cooperation has historical roots and was defined by the structure of the world economy and politics.

In the future, ASEAN will function towards the establishment of a collective cooperation system in Southeast Asia while promoting an intra and extra-cooperation. The possibility that the deepening and widening of ASEAN cooperation and integration would be further implemented in the case of the widening to Indochina countries and the establishment of AFTA, while involving tense relations can't be denied. I previously stressed the restrictions to the autonomy of ASEAN in the 1990's. That does not immediately mean the elimination of ASEAN's *raison d'être*. It is because ASEAN countries could avoid the binding in the bilateralism of major powers, and secure the bargaining power and secure its own position only by implementing cooperation and competition among Southeast Asian countries, in the Asian-Pacific region, where the U.S., China, Japan and Asian NIES competed.

ASEAN was in the middle of reorganizing intraregional cooperation in the 1990's, in the extension of the widening to Indochina and the deepening of the intraregional economic cooperation policies such as AFTA, AICO and AIA. It was possible for ASEAN to establish common policies: "methods for the redistribution of income or the reallocation of capital".

However, the direction of changes generated from around 1992 and 1993 was not expected to last. First of all, the continuity of development itself was a problem. Even if the development continued, if its speed was too fast, sociopolitical uncertainties would emerge. China's structural transition had yet to become stable, and in relation to this, tensions over Taiwan, Hong Kong, and the Spratly Islands could possibly be too conspicuous to ignore. In addition, as a result of development, individual ASEAN countries were about to enter the transitional period towards democracy from "developmental dictatorship". Also, even if one was economically liberalized, they were required to protect the political and cultural identity of each country against the United States, Japan and China. There had been requests to establish and reproduce national identity. No doubt, the East Asian Economic Caucus (EAEC) concept advocated by Prime Minister Mahathir of Malaysia had those various problems in mind.

This paper clarified where intra-ASEAN economic cooperation and integration originated and where it stood in the mid-1990's. Further examination of intra-ASEAN economic cooperation should be explored from the combined perspective of political analysis and economic analysis.

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## Notes

- 1 Shimizu (1998a), Chapters 1-3 and Shimizu (1993, 1998b).
- 2 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. Refer to Shimizu (1998a), Chapter 4 and Shimizu (1993, 1998b).
- 3 Refer to Shimizu (1998a), Chapter 5 and Shimizu (1995, 1999).
  - 4 The "Singapore Declaration of 1992" declared that "ASEAN shall establish the ASEAN Free Trade Area using the Common Effective Preferential Tariff (CEPT) Scheme as the main mechanism within a time frame of 15 years beginning 1 January 1993 with the ultimate effective tariffs ranging from 0% to 5%". In this Summit, the "Framework Agreement On Enhancing ASEAN Economic Cooperation" and the "Agreement on The Common Effective Preferential Tariff (CEPT) Scheme For The ASEAN Free Trade Area" were "signed by ASEAN leaders and ASEAN Economic Ministers, respectively (*Meeting of the ASEAN Heads of Government: Singapore, 27-28 January 1992*, pp.44-57). AFTA is the free trade area program agreed upon at the 4<sup>th</sup> ASEAN Summit in January 1992. Under AFTA, as a major means of Common Effect Privileged Tariff (CEPT), tariffs for industrial products and processed agricultural products in the ASEAN region should be reduced by 0-5% by 2008. At the 6<sup>th</sup> ASEAN Economic Ministers Meeting, they agreed the implementation of tariff reduction would be moved up by 5 years to the year 2003, and this would be applied to non-processed agricultural products. At the 6<sup>th</sup> ASEAN Summit in December 1998, they agreed this implementation would be moved up by another one year to the year 2002. A product shall be deemed to be originating from ASEAN Member States, if at least 40% of its content originates from any Member State ("Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area", *Meeting of the ASEAN Heads of Government: Singapore, 27-28 January 1992*, pp.48-51). As for AFTA, refer to AFTA Reader and ASEAN Update published by the ASEAN Secretariat, as well as Imada and Naya (1992), Itoga (1994), Widyahartono and Igusa (1994).
  - 5 *Meeting of the ASEAN Heads of Government: Singapore, 27-28 January 1992*, p. 31.
  - 6 *ASEAN Documents Series 1992-1994*, p. 14.
  - 7 *Meeting of the ASEAN Heads of Government: Singapore, 27-28 January 1992*, p. 49.
  - 8 In regards to AFTA, *Nippon Keizai Shimbun* reported, "Japanese corporations, which are known as 'the back-room kingmaker of AFTA', made agile moves. For example, Siam Nissan Automobile Co., Ltd. claimed, 'With AFTA as leverage, we would like to accelerate horizontal division of labor in ASEAN by consolidating auto parts production in individual countries'", January 11, 1993, *Nippon Keizai Shimbun*.
  - 9 "First Consultative Meeting for the Promotion of Foreign Direct Investment: Memorandum of Understanding among Authorities of ASEAN Countries Responsible for Investment Promotion: Jakarta, 8-9 February 1993", *ASEAN Economic Bulletin*, 10, pp.98-101. Afterwards, SEOM agreed to the establishment of a working group regarding the Promotion of Foreign Direct Investment, *Annual Report of the ASEAN Standing Committee 1994-1995*, p. 15. Furthermore, the ASEAN Secretariat organized an expert seminar to promote FDI regarding the ASEAN Investment Area (AIA) in March 1996, *ASEAN Update*, May-June 1996, p. 6.
  - 10 As for "The Growth Triangle Singapore-Johore-Riau (SIJORI)", refer to Lee (1991), Kitamura (1994) and Kakazu, (1995). Other similar concepts such as the "Growth Triangle of Indonesia, Malaysia and Thailand (INT-GT)" and the "Triangle of the East ASEAN Growth (BIMP EAGA)" had been proposed since 1993.
  - 11 It was approved in the 23rd AEM in October 1991. It was also mentioned in the "Singapore Declaration of 1992" and Article 4 of the "Framework Agreement on Enhancing ASEAN Eco-

- conomic Cooperation”, *Meeting of the ASEAN Heads of Government: Singapore, 27-28 January 1992*, pp. 45, 54.
- 12 *Meeting of the ASEAN Heads of Government: Singapore, 27-28 January 1992*, pp. 56.
- 13 MiIward(1984), pp. 421-435.
- 14 As for the denial of the spillover from market integration to policy integration, refer to Shimizu(1998), Supplement Chapter, pp. 181-186 and Shimizu(1994), pp. 243-248.
- 15 The Monnet method means to implement a certain acceptable vision by gradually persuading key leaders. For details, refer to Featherstone(1994).
- 16 The draft of the treaty on European Union was approved in the European Parliament in 1984, under the leadership of Spinelli. As for the Spinelli initiative, refer to Capotorti, Hilf and Jean-Paul Jacue(1986).
- 17 The Cassis de Dijon verdict had helped implement the 1992 integration. Refer to Tanaka(1991), p. 88.
- 18 Refer to Kim(1988).
- 19 The development of individual countries in the “flying-geese formation” will be possible in the structural change of world economy. Thus the perspectives in the world economy will be inevitable.
- 20 Twu(1991), p. 84.
- 21 Unlike the change in the Cold War structure in the Soviet Union and East Europe, the change in Asia took a different course for various reasons: China was the major power other than the Soviet Union and United States; thus, there was a conflict of a different kind between China and other Asian socialist countries and Western countries; there were complicated multilayered factors involved such as the enrichment of Asian countries, the democratization of Korea and the subsequent restoration of Chinese-Korean relations, and all the changes involving Cambodia. It will be important to grasp the origin of the Asian Cold War to understand the Asian Cold War structure. As for the origin of the Asian Cold War structure, refer to Nagai(1978), Yano(1986) and Sakamoto(1967).
- 22 *Meeting of the ASEAN Heads of Government: Singapore, 27-28 January 1992*, pp. 53-57.
- 23 *International Financial Statistics, JETRO White Paper on Trade*, 1994, pp. 15-28, *JETRO White Paper on Investment*, 1994, pp. 10-15, 27-30.
- 24 *JETRO White Paper on Trade*, 1994, pp. 15-28, *JETRO White Paper on Investment*, 1994, pp. 10-15, 26-27.
- 25 Watanabe(1994), p. 5.
- 26 Refer to *JETRO White Paper on Investment*, 1994, pp. 10-15, Watanabe(1994).
- 27 *Economic Report of the President*, 1994, p. 221.
- 28 *ASEAN Update*, January-February, 1996, pp. 1-3.
- 29 *Nippon Keizai Shimbun*, July 22, 1996.
- 30 They decided that normal track products with tariff rates above 20% would have their rates reduced to 20% by 1 January 1998 and subsequently from 20% to 0 - 5 % 1 January, and that Fast Track products with tariff rates above 20% would have their rates reduced to 0 - 5 % by 1 January 2000(*ASEAN Update*, October 1994, pp. 1-2, *AFTA Reader*, 3, p. 1).
- 31 *ASEAN Update*, October 1994, pp. 1-2, *AFTA Reader*, 3, pp. 4-5.
- 32 “Bangkok Summit Declaration of 1995”, *ASEAN Update*, January-February 1996, p. 2, *ASEAN Update*, March-April 1996, p. 1.
- 33 *ASEAN Update*, March-April 1996, p. 1. Although ASEAN debated the abolishment of the BBC scheme, Japanese companies requested that they could enjoy the privileges of the exist-

ing BBC-scheme as a temporary measure until its integration into AFTA (for example, in the SEOM public hearing in June 1995). Afterwards, it was suggested that the BBC scheme would be integrated into the AICO with the existing privileges intact, after an examination by ASEAN-CCI (Source: the hearings at individual firms). The application of the AICO scheme began in individual countries from November 1, 1996, after the "Basic Agreement on the AICO Scheme" was signed in the unofficial AEM on April 27, 1996.

This was a scheme precedent to the establishment of AFTA. "The Basic Agreement on the AICO Scheme" stipulated the following: " 'AICO Arrangement' shall mean a cooperative arrangement consisting of a minimum of two Participating Countries and one Participating Company in each Participating Country". " 'Participating Countries' shall mean ASEAN Member Countries which agree to participate in an AICO Arrangement by granting the specified privileges to the Participating Companies".

" 'Participating Companies' shall mean companies incorporated and operating in ASEAN Member Countries meeting the criteria under Article 2 (1) and Article 3 of this Agreement. " Thus, "Companies wishing to benefit from the privileges of the AICO Scheme shall fulfill the following criteria: a. be incorporated and operating in an ASEAN Member Country; b. have a minimum of 30% national equity. The equity condition may be waived after consultation by the Participating Countries in cases where the proposing companies meet the other criteria of this Article; and c. undertake resource sharing, industrial complementation or industrial co-operation activities".

" 'AICO Products' refer to the following: a. AICO Final Products shall be the final output which does not undergo any further processing within the specific AICO arrangement; or b. AICO Intermediate Products shall be products used within the AICO arrangement as an input to the AICO Final Product; or c. AICO Raw Materials shall be used as input to an intermediate product or as direct input to the AICO Final Product; which shall be reflected in the Certificate of Eligibility (COE) issued to the Participating Companies".

"ARTICLE 4 PRODUCT COVERAGE AND ELIGIBILITY" defined "All products, other than products listed in Article 9 (General Exception) of the Agreement of the CEPT Scheme, shall be eligible for the AICO Scheme".

"ARTICLE 5 PRIVILEGES" defined "1. A Participating Company shall be entitled to the following privileges under the AICO Scheme: a. approved AICO Products traded between Participating Companies shall enjoy preferential tariff rates of 0% - 5%, the actual rate of which shall be determined by each Participating Country. The preferential tariff shall cease when the tariff rate of the product reaches the final CEPT rate; b. local content accreditation shall be accorded, where applicable, to products manufactured by Participating Companies; and c. non-tariff incentives offered by the respective National Authorities. The granting of these incentives shall be based on the fulfillment of the requirements of the respective Participating Country".

As for the BBC scheme, "that existing BBC companies shall continue to enjoy the margin of preference and the local content accreditation for products approved to this date until the expiry of the current car model previously approved".

The AICO scheme was the precedent stage of AFTA. Its privileges were much greater than the BBC scheme, in line with AFTA and CEPT. Many problems with the BBC scheme were resolved. However, there was the possibility that a new tense relation could arise among ASEAN member countries and between those countries and automobile manufacturers. For details, refer to Shimizu (1996, 1997).

34 In mid-1990s, the structure of the ASEAN automobile market and industry were in the middle of a dramatic change. The ASEAN auto market expanded from 1,370,000 cars in 1995 to 1,430,000 in 1996. Furthermore, the market share of Japanese cars remained great. In the protection of the auto industry, auto makers expanded their production by pursuing scale merit while avoiding double investment. Japanese auto makers increased common auto parts by producing Asian Cars and expanded their concentrated parts production and intra-regional complementation. A more efficient auto production utilizing scale merit had been practiced as seen in the centralized engine parts production and three-company complementary supply system by Toyota, Nissan, and Isuzu in Thailand (Source: the hearings at the individual firms). Meanwhile, individual ASEAN countries were faced with the task of eliminating such protective measures as the tariff reduction to establish AFTA, the demand by advanced countries to open the market, and the demand of abolishment of local content requirements in ASEAN countries by WTO and APEC. Under those circumstances, ASEAN countries responded to these demands in many measures. On one hand, they deregulated as seen in the example of reducing its tariff reduction on auto parts in Indonesia, in May of 1995. On the other hand, they tried to further protect their auto industry by planning to raise the local content requirement rate in Thailand and Malaysia, and by planning the National Car Project by Indonesia in 1996. Thus, ASEAN countries were in a rush to establish an automobile industry including parts industry within the granted time.

Under the above conditions, a number of tense relations were generated between ASEAN, ASEAN countries, APEC and individual auto makers. With those tense relations, the integration of automobiles and auto parts into AFTA was focused on the ASEAN auto industry. For the details, refer to Shimizu (1996, 1997).

35 *Business Times*, July 5, 1996.

36 *ASEAN Update*, March-April 1996, pp. 1-2.

37 Refer to Shimizu (1998a), supplementary chapter, pp. 174-175, Shimizu (1994), pp. 236-237.

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