THAI JOURNAL OF DEVELOPMENT ADMINISTRATION VOL.34, NO.2, April-June 1994 (April,1999)

Intra-ASEAN Economic Cooperation and Its International Trade Negotiations

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1. Introduction

At present, the ASEAN countries are becoming more trade-oriented and are one of the fastest growing regions in the world. Thus, the driving force for future ASEAN cooperation must come from the economic area. Generally, the ASEAN states already represent a significant force in world trade and economy. The group is one of the most resource-rich regions in the world. Thus, one of the objectives of ASEAN is to collaborate more effectively for the greater utilisation of agriculture and industries, and the expansion of trade, as well as meet the problems of international trade. Therefore, ASEAN has applied regional cooperation as a valuable instrument for strengthening its bargaining position to advance its collective interests or those of individual members within an international system. The strength of the ASEAN economies is due to the availability of resources, land and minerals in five ASEAN countries, as well as the export-oriented strategy of all the six countries, particularly Singapore.

2. TRADE PATTERNS OF ASEAN COUNTRIES

2.1 THE SINGAPORE ECONOMY AND MANUFACTURING SECTOR

Singapore is small and possesses hardly any agriculture and her interests lie in manufacturing, trading and providing services (1). Besides, her location amidst other resource-rich ASEAN countries and across a major sea lane, together with a good harbour, has enabled her to develop into a major trading centre (2). Because of her favourable location, Singapore developed initially as an entrepôt, serving as a center for the collection and distribution of goods to her

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neighbouring countries (3). Industrialization, both labour and skill intensive, has continued to expand. Her service and manufacturing sectors are now entering into a more advanced stage (4). Thus, Singapore should function as a high technology and knowledge-intensive business hub for the region (5).

Furthermore, foreign firms were permitted to import workers with skills not available in Singapore. Her major sources of capital at present are the United States, Western Europe, and Japan. Compared with local enterprises, foreign establishments are characterized by larger size, higher value added and output per worker, and higher degree of export orientation. Foreign investments are emphasized in high capital-intensive industries like petroleum refineries or rapidly growing export-oriented industries like electrical machinery, electronics and appliances.

Nowadays, Singapore attracts investors by using in the main incentives such as the "pioneer" status (entitling relief for five to ten years from the 40% tax on profits) and the investment allowance incentive (with tax deduction equal to up to 50% of new fixed investment in plant, machinery, and factory buildings). Pioneer certificates are now principally awarded to projects manufacturing new and high-technology products, while the investment allowance incentive is increasingly being used to promote the upgrading and mechanization of existing operations. Tax incentives are also given to encourage manufacturers to undertake research and development activities. Projects believed to be of strategic importance to Singapore's industrial development can receive long-term fixed-rate loans at favourable interest rates under the Capital Assistance Scheme (CAS) administered by the Economic Development Board (6).

Regarding exports, several industries which are highly export oriented (e.g., petroleum products, electrical machinery, television, and radio) or have significantly increased their export orientation (e.g., oil rigs, transport equipment, professional and scientific equipment, calculators, and industrial machinery) have experienced high rates of growth and their shares of direct exports have increased. Contrarily, some industries that have increased their export orientation have experienced declines in shares (e.g. food and beverages) (7).

2.2 THAILAND TRADE PATTERNS

Up to the present, the Thai economy has been performing better, partly because of its non-reliance on oil export. She has suffered from a reduction of her main export, rice, which through curtailment of production and shutting down of many rich mills, has stagnated domestic demand. However, exports of agro-industrial products, toys, textiles, and shoes have been active, and their production has increased (8). The success of the Thai economy can be attributed to four important factors: (a) the availability of cheap raw materials and basic resources; (b) the supply of low-wage unskilled labour; (c) tax exemption on capital machinery imported into the country; and (d) the realization of managerial acumen.

Nowadays, Thai industrial workers must be paid their legal minimum wage. The labour market is one of free competition in which the wage rate is determined by market forces. The low wage attracts many foreign investors, especially the Japanese. The textile industry, founded in Thailand through Thai-Japanese joint ventures, has flourished because of the low wage bill. Generally, the low wage is a significant variable for industrial growth, which in turn has led to the economic growth of the country.

2.3 MALAYSIAN ECONOMY

Malaysia is one of the largest producers of several primary commodities. The process of production requires a variety of machinery and equipment. Some of this machinery and equipment is produced locally, and does not need a high level of skill or technology. In summary, with government encouragement and incentives, Malaysia can become a leader in the manufacture of agricultural machinery (10).

Her labour-intensive manufacturing sector was promoted in a big way, especially for export. Malaysia is now a net exporter of petroleum. Manufacturing activities have to move up to a higher level of technology (11). Four industries - textiles and clothing, wood products, rubber products, and electronics components and assembly - were responsible for nearly all the growth in manufactured exports. These four industries have two characteristics in common. Firstly, they are relatively labour-intensive. Secondly, they are non-resource based. Thus the rapid growth in these four industries has changed the composition of Malaysian exports from resource to non-resource based (12).

2.4 TRADE PATTERNS OF INDONESIA

Indonesia plays a significant role in the international trade of East and Southeast Asia and beyond. Because of oil, Indonesia's total exports in 1981 were approximately equal to those of Singapore, Korea and Hong Kong (13). Besides, she possesses large deposits of bauxite, nickel, tin, coal, etc., and is one of the major oil and gas producers in the world. Her forestry and fisheries are still considered abundant. Her economy has been greatly influenced by these basic resource characteristics (14). Then, she has long been an exporter of agricultural and mineral products (15).

Nowadays, Indonesia exports oil to Japan, while importing refined products and lower-quality crude to meet domestic needs. Moreover, she sells transistors, and other electrical apparatus to Singapore, presumably to be used as components in various electronic manufactures. Her plywood output is expanding rapidly and finding markets in Asia, the U.S., and Europe (16). Her industrial activities are predominantly in the import-substitution phase, sustained by restrictive tariffs and prolonged by a huge domestic market (17).

2.5 PATTERNS OF PHILIPPINES TRADE

The Philippines is a major producer of agricultural products such as coconuts and sugar. Her forestry and fishery resources have been considered to be over-exploited. Her long association with Western countries, especially Spain and the U.S., has created an entrepreneurial class which is one of the most modern in Southeast Asia. Commerce, banking and manufacturing are therefore major economic activities. But slow growth in the agricultural sector is subject to climatic and world market conditions. Her dependence on imported energy and other industrial goods is not offset by export earnings, even though the performance in manufactured exports has been impressive (18).

2.6 THE BRUNEI ECONOMY

The Brunei economy is almost entirely supported by income received from rents, royalties, taxes and dividends from the oil and gas industries (19). With four active oil wells producing 175,000 barrels a day and a large reserve in natural gas, Brunei has become one of the richest nations on the Pacific rim (20).

Firstly, Brunei Shell Petroleum (BSP) is responsible for the exploration and production of oil and natural gas, as well as oil refining and crude oil trading. Secondly, Brunei Liquefied Natural Gas (BLNG) is concerned with liquefying the gas which it buys from BSP and sells the liquefied gas in turn to a third company; Brunei Coldgas (BC). Thirdly, BC arranges its transportation and sells to Japanese customers. Fourthly, BST charters tankers to BC to transport the liquefied natural gas to Japan. Finally, BSM is responsible for marketing petroleum products in Brunei Darussalam, including gasoline, diesel, lubricants and jet fuel.

ASEAN is the biggest market for crude oil exported by Brunei Darussalam, purchasing a total of 33 percent in 1988, followed by Japan with 31 percent, Republic of Korea 22 percent and the U.S., as well as Australia, each purchasing 3 percent. Taiwan is also a major customer, buying 6 percent in the same period. All exported gas is sold to Japan (21).

However, her government has so far had only limited success in her plan to diversify the economy away from her present dependence on oil and gas. The major reasons for the slowness of the industrialisation process are the shortage of labour, disinterest on the part of local residents in investing in anything other than the smaller projects, the lack of incentives, and problems encountered by the overseas investor in setting up business (22).

3. ASEAN ISSUES, OPTIONS AND OPPORTUNITIES IN ECONOMIC COOPERATION

ASEAN cooperation and solidarity can improve economic growth for all (23). ASEAN is on its way to becoming a common market after duties on many goods traded within the region were slashed (24). Concerning ASEAN's internal economic motivations, two major structural changes in its individual countries can ease ASEAN's attempt to expand economic cooperation. Firstly, the success of the newly industrializing countries (NICs), and the low commodity prices have forced the ASEAN countries to reevaluate their development strategies. As a result, these countries have moved toward more outward-looking trade policies and have unilaterally decreased their tariff levels. Even the most protective country, Indonesia, has significantly lowered her tariffs. The overall lower level of protection means that domestic industries will become competitive in a global environment.

3.1 EXISTING ASEAN ECONOMIC COOPERATION

At the first ASEAN Summit in Bali in February 1976, the following agreements were important:

(a) To cooperate on the production of basic commodities, particularly food and energy, and also to assist one another;

(b) To cooperate in the establishment of large-scale ASEAN industrial plants;

(c) To promote intra-ASEAN trade and to have joint negotiation with other regional groups and economic powers; and

(d) To cooperate in an export and commodity agreement to increase export earnings (25).

3.1.1 INTRA-ASEAN TRADE COOPERATION

Notably, intra-ASEAN trade has been carried out through Singapore acting as an entrepôt trade center. In summary, intra-ASEAN trade is still quite small (26).

Koh Ai Tee and Toh Mun Heng (1987) have developed a technique to measure the effect of change in income of one country as a result of a change of autonomous expenditure in another country through trade linkages, in the ASEAN setting. The result is illustrated in Table 1. From the table, in 1987, figures in the U.S. row indicate that a US$1 change in autonomous expenditure in the U.S. will induce an income increase of 33 cents in Indonesia, 27 cents in Malaysia, 37 cents in the Philippines, and so on, whereas a US$1 change in autonomous spending in Singapore could only induce a small change of 0.3 cent in the U.S. Table 3. indicates that the ASEAN countries are still very much dependent on growth impulse from other countries to generate economic growth within each member country (27).

Later, six heads of the ASEAN countries' governments agreed upon several new initiatives. To enhance intra-ASEAN trade cooperation, the following measures were to be adopted in the following five years (1988-1992):

(1) To reduce the exclusion lists of individual member countries to not more than 10 percent of the number of traded items and to not more than 50 percent of the value of intra-ASEAN trade, while striving for a greater harmonisation of the exclusion lists;

(2) To phase in more items from the exclusion lists into the PTA, granting them a minimum MOP of 25 percent;

(3) To increase MOP to 50 percent for existing items in the PTA on an across-the-board basis of 5 percentage points per annum or on a product-by-product basis with 50 percent of MOP to be achieved at the end of the five years period or a combination thereof; and

(4) To reduce the ASEAN content requirement in the Rules of Origin from 50 percent to 35 percent on a case-by-case basis for a period of five years (28).

3.1.2 ASEAN INDUSTRIAL COOPERATION: ITS EFFORTS AND ISSUES

a. ASEAN INDUSTRIAL PROJECTS (AIP)

The program calls for joint investment, where the host country holds up to 60 percent of the total equity, with Singapore taking 1 percent and the rest shared equally by the three other ASEAN countries. As the AIP scheme is based on the regional market, an increased market access was expected from all member countries (29). Since 1980, five projects have been allocated: a urea project each for Indonesia and Malaysia, a copper fabrication project for the Philippines, a hepatitis B-vaccine project for Singapore, and a rock salt-soda ash project for Thailand.

AIPs are large-scale projects, involving an investment of about US$ 300-400 million each. They are basically government projects, although the private sector can join in.

b. ASEAN INDUSTRIAL COMPLEMENTATION (AIC)

In June 1981, five members agreed on the formation of the AIC scheme with the following main features:

- the package approach, requiring normally the participation of at least four ASEAN countries;
- competitive price and product quality of international standard;
- eligibility for both existing and/or new products in forming a package;
- initiation either by the private sector or an ASEAN government; and
- the treatment of the approved products under the Agreement on ASEAN PTA.

TABLE 1

Bilateral Income-Trade Multipliers*

	Income effects on							
	US	Japan	Thailand	Indonesia	Malaysia	Philippines	Singapore	EEC
US	--	0.2174	0.1859	0.3275	0.2748	0.3666	0.4129	0.4003
Japan	0.1574	--	0.2992	0.2247	0.2380	0.2357	0.4414	0.0947
Indonesia	0.0141	0.0464	0.0047	--	0.0100	0.0264	0.0130	0.0007
Malaysia	0.0046	0.0083	0.0189	0.0019	--	0.0124	0.0254	0.0007
Philippines	0.0109	0.0088	0.0017	0.0063	0.0117	--	0.0014	0.0006
Singapore	0.0033	0.0018	0.0176	0.0117	0.0487	0.0057	--	0.0002
Thailand	0.0047	0.0056	--	0.0129	0.0343	0.0221	0.0055	0.0008
EEC	0.2054	0.0299	0.1202	0.1078	0.1273	0.0941	0.0214	--

Note: * The effects on the income of the countries in columns due to changes in autonomous expenditure of countries in various rows

SOURCE: Koh Ai Tee and Toh Mun Heng, "ASEAN Cooperation in Trade", paper presented at **The 2th Annual Conference of the Federation of ASEAN Economic Association**, Bali, 3-5 September, 1987, pp. 39.

c. ASEAN INDUSTRIAL JOINT VENTURES (AIJV)

AIJV was initiated by the ASEAN Chamber of Commerce and Industry (ASEAN-CCI). Their major objective was to coordinate the activities of the public sector and private sector within the framework of ASEAN. The plan was approved by the Committee on Industry, Minerals and Energy (COIME). Besides, non-ASEAN nationals could participate in an AIJV project, and the 51 percent ASEAN ownership requirement could be waived in many cases. To be an AIJV project, only two ASEAN countries were required to have equity participation (30).

In order to substantially increase the flow of investment in the region by at least 10 percent, and to augment the manufacturing value added at a rate of 8 percent per year, the ASEAN leaders agreed that:

(a) The AIJV scheme would be improved in the following ways: firstly, a preapproved list of AIJV products would first be decided to facilitate the setting up of AIJVs. Secondly, non-ASEAN equity participation would be liberalized from 49 percent to 60 percent up to the end of 1990, subject only to a minimum 5 percent equity from each participating ASEAN country. Finally, investment incentives and privileges would be expanded and increased further, such as, MOP would be increased from a minimum of 75 percent to a minimum of 90 percent, and the waiver period for MOP would be extended from 4 years to 8 years for those non-participating countries which are unable to offer reciprocal MOPs. Besides, an AIJV product would be granted local content accreditation if it was a component for the manufacture of any product in the participating countries which have local content programs.

(b) An investment guarantee agreement would be concluded for the protection and promotion of intra-ASEAN investments.

(c) Appropriate measures would be taken to encourage the increased flow of technology, know-how, and investment into the ASEAN region.

(d) An organized system of exchange of information on national industrial policies and plans would be instituted.

Problems of intra-ASEAN industrial cooperation can be considered as follows: Firstly, a major issue concerning AIPs has been that there are no proper feasibility studies before the formal announcement of the projects. Besides, financial and technical support have been inadequate. In addition, some ASEAN members were still reluctant to push their designated projects forward (31). Moreover, another factor which delayed the implementation of the AIP projects was the time spent on marketing arrangements (32). Furthermore, the AIP program has not much of a future for at least two reasons. Firstly, government-to-government projects of this type are generally difficult to negotiate between all ASEAN countries. Secondly, AIPs can be detrimental to private sector development. These projects are inherently inconsistent with the current privatization trend in ASEAN (33).

Finally, the AIJV should become even more attractive for inter-regional investment activities. There are certain merits in cooperative industrial efforts such as the AIJV. Firstly, the existing ASEAN industrial cooperation schemes provide the opportunity for a greater mobilization of resources within the region which eventually could lead to improved competitiveness of goods produced in ASEAN. Secondly, despite the present difficulties, the AIP and AIC schemes propose opportunities for the public sector in ASEAN, either alone or in cooperation with the private sector, to initiate or get involved in industrial projects which could be beneficial to the country. Where the private sector could play an important role in helping the economic development of member countries, the AIJV schemes readily provide an opportunity for such an effort (34). Thus, ASEAN should encourage its private sector to invest within the region as such investments will create and ensure stable growth (35).

3.1.3 ASEAN MANUFACTURING SECTOR

Most ASEAN countries are now pursuing resource-based industrialization, converting local resources into goods in processed form for export and domestic use (as mentioned in section two of this chapter). Finally, the following strategies are important to ASEAN trade and production:

(a) Resource-based industrialization:

- Market access in the more advanced countries for products in processed form;
- Competition from existing industries in the more advanced countries;
- Technological and financial constraints.

(b) Import substitution of intermediate products:

- Production scale;
- Competition from imports of the more advanced countries in the domestic market;
- Technological constraints.

(c) Labour-intensive exports:

- Market access in countries more advanced than ASEAN;
- Competition with countries and areas like the Republic of Korea, Hong Kong, and Taiwan, and a province of the People's Republic of China (36).

3.2 POSSIBLE OBSTRUCTION OF INTRA-ASEAN ECONOMIC COOPERATION

The major obstacle to increased intra-regional trade through preferential tariffs is the fact that the economic structures of most of the ASEAN countries are competitive rather than complementary (37). ASEAN member countries produce similar commodities. Its members are competing for world trade.

Except Singapore, other ASEAN countries are predominantly primary producers, specializing in the export of food, raw materials and minerals. Their major markets are in advanced industrialized countries. Even where several ASEAN members are specialized in the export of the same commodity, there is scope for cooperation in various aspects of marketing. In the face of indifference by consuming nations, the rubber producing nations of Malaysia, Indonesia and Thailand have seized the initiative of forming the Association of Natural Rubber Producers. Similarly, they have been the prime mover behind the International Tin Agreement (38).

Preferential tariff agreements have had very little impact on intra-ASEAN trade, because member states have attempted to protect their domestic producers from competition (39). Besides, its members also expect equitable benefit in negotiations. Thus, they try to maximize the gains and minimize the losses expected to result from expanding trade (40).

Other constraints to ASEAN economic cooperation are intra-ASEAN national problems. A major problem among ASEAN members relates to the national protectionist policies which each nation pursues by giving priority to national interests and neglecting regional interests. Each member looks only to her short-run national benefits, while ignoring her long-run regional prospects. So, each has established her own tariff policy, especially in import substitution, to promote her domestic industries. Thus, negotiation on agreements on issues affecting sensitive commodities is prolonged and sometimes terminated without any gains. Besides, domestic political problems have also obstructed a cooperative effort. Some ASEAN members are faced with domestic political instabilities and violence, while others face problems related to race and religion. Thus not much attention has been paid to fostering economic cooperation within the region.

In addition, the lack of support in pursuing ASEAN objectives on large national industrial projects is also a barrier to ASEAN cooperation. The varying degrees of national policies and economic development is another problem area impeding ASEAN cooperation programmes. Singapore is a small country, lacking natural resources. But she is the most highly developed country in the region, with a very high per capita income, which is maintained through a high level of competition in domestic trade and strong support of multinational corporations. Thus, she is able to trade or expand her market all over the region and the world. As for Indonesia, she is a large country and has plentiful resources, but her economic development is low. Her domestic market is also highly protected with high import tariffs, and this has delayed agreement on ASEAN PTAs.

Another constraint on cooperation is the member states' lack of interest in ASEAN goods. Each member seems to prefer goods made in developed countries, like the U.S. and those in Europe, rather than goods made by other ASEAN countries (41).

4. TRADING PARTNERS OF ASEAN

ASEAN members are likely to become even more important economic partners than in the past. Undoubtedly, economic ties with the U.S. and Japan will continue to develop and will remain dominant. However, the EC nations are not strangers to ASEAN. Nowadays, even though the EC as a whole ranks the third behind Japan and the U.S. in terms of overall economic relations with ASEAN, European countries are still major economic partners with considerable potential for expansion. ASEAN can continue to examine its economic cooperation agreements with its trading partners, based on the concept of open regionalism, e.g., agreements which do not cement ASEAN into various trade blocs.

4.1 CURRENT MAJOR TRADING PARTNERS OF ASEAN

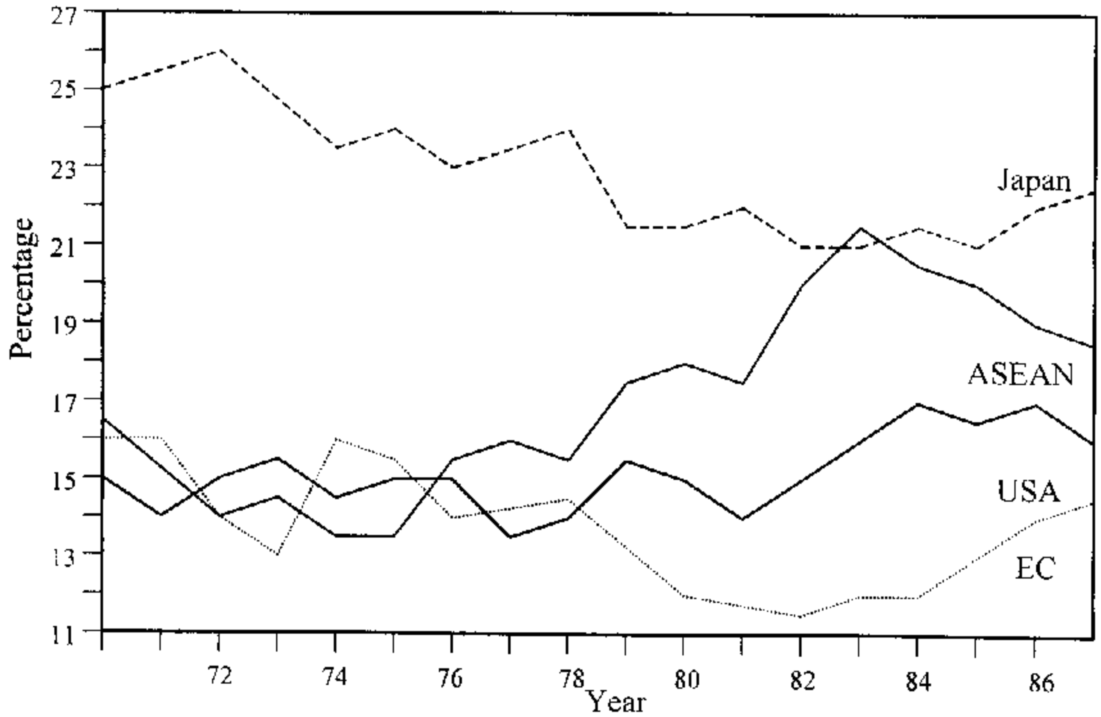
The following details concentrate on ASEAN international trade. Its direction is given in Figure 1. From the figure, intra-ASEAN trade has an important share of ASEAN's total imports and exports. If we see Table 1, in 1988, 18 percent of total regional exports were sold to ASEAN markets; if Singapore is excluded, the share falls to 4 percent. Remarkably, the corresponding shares for 1970 were 21 percent and 6 percent, respectively. So, while the total value of ASEAN exports has increased rapidly from US$ 6 billion in 1970 to US$ 106 billion in 1988, the share going to markets within the region has declined (42).

Exports to the U.S. and Japan have been larger than ASEAN exports to the EC (as shown in the Figure 1). In 1988, the U.S. became ASEAN's largest export market, for example, accounting for 21 percent of the total in this year. But, Japan and the EC accounted for 19 percent and 14 percent of total ASEAN exports, respectively. Furthermore, the significance of the U.S. market to ASEAN is particularly striking for manufactured exports, which are the key to the outward looking industrialization strategies of the ASEAN countries. The U.S. market is the destination of 25-38 percent of ASEAN members' manufactured exports, compared to 8-11 percent for Japan and 13-21 percent for the EC.

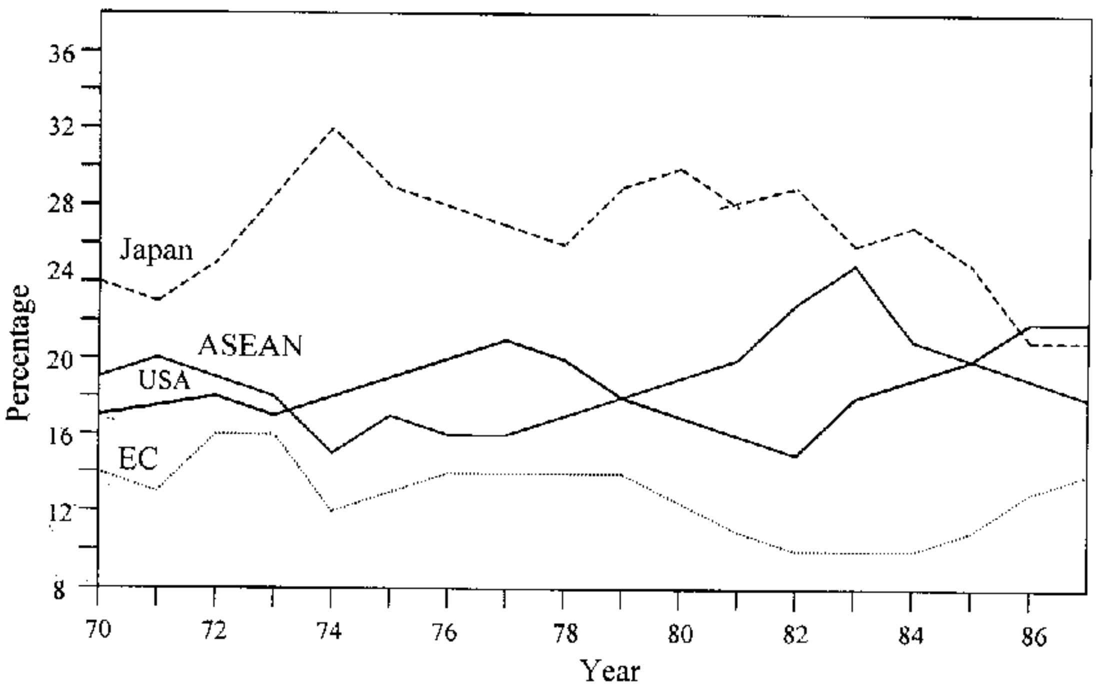
Therefore, it is not surprising that ASEAN has been fearful about a current surge in protectionism and bilateralism in the developed world. While ASEAN exports to the U.S. have been growing at a healthy pace, the increased use of nontariff barriers in the manufacturing product sector (i.e. voluntary export restraints, quotas and orderly marketing arrangements) as well as agricultural subsidies, antidumping measures, and countervailing duties have affected some export categories. Besides, certain other features of the American "get-tough" approach to commercial policy, such as the Omnibus Trade and Competitiveness Act of 1988 and the heightened pressure to protect intellectual property rights, serve to increase uncertainty about the future (43).

Figure 4: DIRECTION OF ASEAN INTERNATIONAL TRADE

A. Imports



B. Exports



Source : The International Monetary Fund. *Direction of Trade Statistics*, 1988.

TABLE 2 ASEAN Export Matrix (percentage of total exports)

	ASEAN	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore	ASEAN[a]
1987								
World (US$m)	6,254	710	101	1,108	1,687	1,043	1,605	4,649
Asia-Pacific	72.0	67.5	100.0	80.5	68.0	89.8	58.8	63.9
Japan	23.7	25.5	1.0	40.8	18.3	40.1	7.4	29.3
Australia	2.4	0.5	11.9	3.6	2.2	0.5	3.3	2.1
Canada	0.9	0.1	n.a.	0.0	1.9	0.3	1.2	0.8
New Zealand	0.3	0.1	4.0	0.0	0.5	0.0	0.4	0.3
United States	17.0	13.4	0.0	13.0	13.0	41.6	10.7	19.2
NIE[b]S	5.6	13.0	1.0	2.0	5.4	6.1	5.0	5.8
ASEAN	21.4	14.9	83.2	21.1	25.4	1.2	29.4	--
Thailand	1.1	--	0.0	0.0	0.9	0.3	3.2	0.4
Brunei	0.6	n.a.	--	0.0	0.6	n.a.	1.6	0.2
Indonesia	1.3	2.3	0.0	--	0.6	0.2	3.2	0.6
Malaysia	8.0	5.6	82.2	3.3	--	0.0	21.2	3.4
Philippines	1.0	0.1	n.a.	2.3	1.7	--	0.3	1.2
Singapore	9.5	6.9	1.0	15.5	21.6	0.7	--	12.8
ASEAN[a]	--	8.0	82.2	5.6	3.8	0.5	29.4	5.9
China	0.7	0.0	n.a.	0.0	1.3	0.0	1.4	0.5
EC		13.8	19.3	0.0	14.9	20.3	8.0	10.7
1988								
World (US$m)	105,65	15,992	1,987	19,376	21,125	7,034	40,137	65,514
Asia-Pacific	1	62.2	86.2	83.1	75.0	76.9	72.4	63.7
Japan	74.0	15.9	51.9	41.7	16.9	20.1	8.5	25.4
Australia	19.0	1.9	0.6	1.5	2.4	1.6	2.7	1.9
Canada	2.2	1.8	n.a.	0.5	0.7	1.5	0.9	1.0
New Zealand	1.0	0.2	n.a.	0.2	0.2	0.2	0.3	0.2
United States	0.2	20.0	1.4	16.2	17.3	35.7	23.3	19.1
NIE[b]S	20.7	7.8	17.5	9.8	11.1	10.0	10.8	10.0
ASEAN	10.3	11.6	14.5	10.7	24.4	6.9	23.0	--
Thailand	18.1	--	7.7	0.8	2.0	1.8	5.3	1.3
Brunei	2.8	0.1	--	0.0	0.3	0.0	1.0	0.1
Indonesia	0.5	0.5	0.1	--	3.1	0.4	2.0	0.6
Malaysia	1.1	3.0	0.1	0.9	--	1.7	13.3	1.2
Philippines	5.8	0.4	1.6	0.4	1.5	--	1.5	0.8
Singapore	1.0	7.7	5.1	8.5	19.3	3.1	--	11.1
ASEAN[a]	6.9	4.0	9.4	2.2	5.1	3.8	23.0	3.9
China	--	3.0	0.3	2.5	2.0	0.9	2.9	2.2
EC	2.5	14.3	20.7	11.7	11.1	14.4	17.7	18.3

Notes: -- = Not applicable
n.a. = Not available
a = Not including Singapore
b = Includes Hong Kong, Korea, and Taiwan

SOURCES: International Monetary Fund, **Direction of Trade Statistics**, Annual 1970-76, Yearbook 1989, and computer data.

Republic of China, Ministry of Finance, Department of Statistics, **Monthly Statistics of Exports and Imports, The Republic of China**, No.157 (Sept 1982) and mimeo.

Seiji Naya and Michael G. Plummer, "ASEAN Economic Cooperation in the New International Economic Environment", **ASEAN Economic Bulletin**, Vol.7, No. 3, March 1991, pp. 267.

Before proceeding to describe another point concerning the external economic environment facing ASEAN, it is important to elaborate the role of the U.S. in some ASEAN countries. Firstly, the U.S. has been the largest market for Singapore and the Philippines. America's interests in the Philippines comes from the fact that the U.S. accounts for approximately one-third of total Philippines exports and approximately one-quarter of its imports (44). In addition, the U.S. has signed a bilateral trade and investment agreement with the Philippines, has approved forming one with Thailand, as well as considering and negotiating a bilateral agreement with ASEAN itself (45).

Secondly, in the case of Thailand, the U.S. has been an extremely significant market for Thai exports and a supplier of imports. In the early 1980s, Thai exports to the U.S. represented between 10 and 20 percent of her overall exports, surpassing the share of Japan. In comparison, Thai imports from the U.S. have remained quite stable, within the narrow range of between 13 and 15 percent throughout the 1970s and 1980s.

Finally, as for Malaysia, the U.S. is her second largest trading partner after Japan (accounting for 17.5 percent of Malaysia's global trade) in 1987. In the same year, 16.6 percent of Malaysia's total exports was destined for the U.S., while 18.7 percent of her total imports originated in the U.S. (46).

Another point of the external economic environment facing ASEAN is its relationship with the newly industrializing economies (NIEs). ASEAN has often been a major supplier of raw materials to the NIEs. Recently, the NIEs have been liberalizing manufactured imports and ASEAN has, therefore, been able to diversify its exports to the region. Furthermore, the NIEs have been increasing their investment in ASEAN at a very rapid pace. Though ASEAN exports to Korea, Taiwan, and Hong Kong still account for a relatively small share of the total, they are significantly higher than two decades ago, constituting 10 percent of the total in 1988 up from 6 percent in 1970.

Without doubt, the movement toward trade blocs in the international economic milieu is of great concern to ASEAN. In January 1989, the U.S.-Canada Free Trade Area had already gone into effect. However, the significance of this agreement is more important to ASEAN in symbolic terms than it is in actual practice. Firstly, about 75 percent of trade between Canada and the U.S.

was already duty-free on the eve of the agreement. Moreover, many of the effectively liberalized products are not competitive with ASEAN exports. To the extent that liberalized investment and trade lead to greater dynamism and economic growth in North America, ASEAN will benefit.

Regarding ASEAN's manufactured exports, it has not looked to Japan as a booming market for its goods. In 1986, Japan ceased to be ASEAN's largest export market (losing out to the United States). The share of manufactures in total exports to Japan, although increasing in recent years, is much smaller than to the U.S. or the EC. If all exports and imports are included, Japan is ASEAN largest trading partner, and the largest source of official development assistance to the ASEAN countries, as well as ASEAN's largest direct investor. Generally, from an economic perspective, Japan is ASEAN's most important economic partner. Besides, although Japan is the largest investor in ASEAN in terms of direct foreign investment (DFI), her DFI position in ASEAN is smaller than it is in other developing regions outside her geographical proximity (47). For example, her DFI in ASEAN is 60 percent that in Latin America (48).

Moreover, Japan has been changing in many ways. First, she has been increasing her imports of manufactured goods; particularly from Asia. Second, she is continuing to encourage joint ventures between ASEAN and Japanese firms, and has created a large ASEAN-Japan Development Fund to assist in financing these projects, which will expand investment and trade links. Finally, she has been increasingly "untying" her official development assistance and is making an effort to enhance her effectiveness, including cooperative schemes such as the Multilateral Aid Initiative with the Philippines. Although these are improvements, the Japanese market will likely remain relatively limited in its ability to absorb ASEAN's manufactured exports in the near future. So, it is somewhat limited as a significant prospective market for ASEAN manufactured exports (49).

Thus, the ASEAN members have consistently asked for greater access to the Japanese market and for assurances of stable export of their primary products to Japan, and recently of semi-processed products from ASEAN and manufactured goods. It is understandable that, because of Japan's heavy dependence on ASEAN for her imports of primary products, she would be interested in keeping the political and economic stability of the ASEAN countries. Thus, in 1983, Japan complied with these requests by reducing tariffs on many products and expanded import quotas for manufactured goods (50).

Concerning the EC, in spite of ASEAN's rapid economic development and its growing political cohesion, the community has been slow to appreciate the opportunities for more intense economic exchanges with the region. ASEAN's share in global community trade remains low, but it is interesting to remark that the proportion of community exports to ASEAN is tending to grow (51).

Despite it having kept a lower profile, the EC also increased its use of nontariff and other trade-distorting measures in the 1980s, and in many ways became more aggressive in the use of nontariff protectionist policies, particularly in agriculture. For example, while the Treaty of Rome prohibits quantitative restrictions on intra-EC trade, it allows for national quantitative restrictions on extra-EC trade. The EC Multi-Fibre Agreement consist of national quotas for textiles and clothing. Other products where quotas are important include vehicles, electronic equipment, toys, and footwear, products which are all significant to ASEAN (52).

4.2 ASEAN EXTRA-REGIONAL TRADING INTENSIFICATION

Therefore, ASEAN should intensify bilateral dialogue relations with its principal trading partners. Particularly, it should:

(a) Negotiate preferential trading arrangements, especially with Japan, the U.S. and the EC, like the arrangements that now exist between the EC and the Mediterranean countries, and the EC and EFTA, the U.S. and the Caribbean, as well as the U.S. and Israel;

(b) Improve the GSPs extended to the ASEAN nations. ASEAN ought to press for a lower percentage to qualify under the Rules of Origin, the removal of the "competitive need" clause that effectively erodes the benefit of the GSP in the American market, and prevent the arbitrary use of voluntary export restraint (VER);

(c) Shift its concentration on development cooperation to large projects and allow the private sector to play a role in development cooperation;

(d) Institute ASEAN lobby groups in Japan, the U.S., and the EC, in order to promote the utilization of ASEAN products, counter non-tariff barriers (NTBs) and unfair practices, as well as provide market intelligence to enable proactive policies; and

(e) Integrate the private sector into the official ASEAN dialogue conferences and meetings (53).

4.3 POTENTIAL TRADING PARTNERS OF ASEAN

ASEAN should diversify its external economic relations with the European Free Trade Association (EFTA), the East European Countries, the Republic of Korea, India, the People's Republic of China, and former Soviet Union countries, because they have the potential to become significant trading partners. Moreover, the establishment of dialogue relations with these countries could also enhance the bargaining power of ASEAN vis-a-vis the current dialogue partners. As a general rule, ASEAN should examine all possible markets and tailor its dialogue relations accordingly.

Furthermore, South Korea has indicated her desire to engage in official dialogue relations with ASEAN. The private sectors in the ASEAN members already have links with their counterparts in Seoul. Such private sectors should now progress one step further to establish a regular ASEAN level dialogue session similar to the U.S.-ASEAN, Canada-ASEAN, and Japan-ASEAN fora to provide for regular interaction, so this can be followed by official dialogue between ASEAN and South Korea.

In addition, the former Soviet Union countries have also indicated their desire to engage in formal dialogue with ASEAN. This must be carefully considered from both political and economic viewpoints. In addition, ASEAN states individually are taking measures to improve trade relations with China. A collective effort by ASEAN will be more effective and it could add weight to individual members' bilateral efforts. Besides, ASEAN should also consider reviving its dialogue with India.

In brief, China, the former Soviet Union countries, Japan and India are likely to become increasingly more important actors in relation to Southeast Asia. So, it is in ASEAN's interests to engage in full constructive relations with these countries (54).

5. FOREIGN INVESTMENT IN ASEAN

There are many reasons that ASEAN has not developed a common approach to foreign investment, as follows: (a) competition among its members for investment; (b) the different stages of its members development, especially differences in the level and efficiency of industrialization; and (c) differences in foreign investment laws and incentives. Thus, the task of developing a common approach to foreign investment can be undertaken by the collective examination of the feasibility of rationalizing the various incentive schemes in the member states. This would minimize undue competition among the member countries thus increasing their bargaining power vis-a-vis foreign investors (55).

In order to approach the ASEAN region successfully, either individually or collectively, the ASEAN members ought to create positive investment conditions to convince potential investors from other countries to invest in the region.

5.1 FACTORS AFFECTING INVESTMENT CLIMATE IN ASEAN STATES

The following elements are important to promoting conditions for foreign investment in the ASEAN countries:

(a) External and internal political stability;
(b) General government policies: economic and social;
(c) Government policies on trade, foreign exchange and land ownership;
(d) Economic and social infrastructure;
(e) Government restrictions on equity participation and controls;
(f) Government tax and tariff incentives;
(g) Availability of required economic data and information;
(h) Availability of reliable joint venture partners;
(i) Labour costs and labour productivity;
(j) General costs of production;
(k) Worker attitudes and stability of labour force;
(l) Supply of skilled labour and technicians;
(m) Existing market size and market growth; and
(n) Industrial expertise and supporting facilities (56).

5.2 AREAS OF FOREIGN INVESTMENT IN ASEAN COUNTRIES

Foreign investors have the following channels of investment in ASEAN nations:

(a) Processed materials: metals, lumber, vegetable oils, textiles;
(b) Electrical equipment: electronics, appliances, electric machines;
(c) Light manufactures: garments, footwear, furniture;
(d) Services: banking, insurance, trading;
(e) Mineral fuels: petroleum, gas and coal;
(f) Non-electrical equipment: construction, agricultural and mining equipment;
(g) Transport equipment: finished vehicles, vessels, etc., and parts;
(h) Raw materials: ores, wood, oil seeds, crude rubber, fibres;
(i) Chemicals: fertilizers, pharmaceuticals, plastics;
(j) Food: processed and unprocessed; and
(k) Others (57).

5.3 DIRECT FOREIGN INVESTMENT AS AN AGENT OF ECONOMIC DEVELOPMENT IN THE ASEAN NATIONS

Thus, we detail firstly foreign investment in Singapore.

5.3.1 FOREIGN INVESTMENT IN SINGAPORE

Singapore's economic strategy in the 1970s had an intention to transform her island into an industrial centre and a base for regional and international services. She must rely heavily on foreign investment and expatriate capital in order to develop her export-oriented manufacturing sector and to create her regional role in petroleum refining, shipping and financing. Thus, capital and technology intensive industries tend to be more significant, reflecting her nation's more advanced stage of industrial development.

Since 1975, she has been fully convinced that foreign investment has been and will continue to be a vital catalyst to the Republic's programme for rapid economic development through export-oriented industrialization (62). Singapore has therefore emphasized much of her effort in providing ideal conditions to attract foreign investment. For example, a large portion of incentives, the provision of physical infrastructure, a well-developed communications and transport network, well established free monetary movement and financial structure, efficient administration and domestic political stability, as well as availability of skilled and peaceful labour.

Notably, a critical factor that has attracted foreign investment in Singapore is her favourable geographical position astride major global trade routes and her strategic location in one of the fastest growing regions in the world in terms of GDP and oil prospecting. This has especially stimulated the petroleum refining industry which has contributed sizeable foreign capital (59). Finally, her prospects of attracting foreign investment and technology appear bright despite the cautious economic policies of the industrialized nations.

At present, Singapore provides essential services and supplies the region with capital goods, and thus contributes to her own as well as to ASEAN's economic growth. In this respect, she is poised to play a significant role in accelerating ASEAN's economic growth.

5.3.2 THAILAND'S FOREIGN INVESTMENT

The Thai government has stimulated foreign investment by granting incentives to investment projects according to the type of activity and the size of the investment. Incentives given by the Board of Investment to selected "promoted firms" are classified as either general incentives or additional special incentives. Besides, Thailand has also imposed certain restrictions on equity participation, and employment of foreign nationals in certain occupations through the Alien Business Regulation Laws 1972 and the Alien Occupation Law 1972 (revised as Alien Occupation Bill 1977). Restrictions and regulations regarding foreign investment in Thailand are shown in Table 3.

Recently, foreign investment in Thailand has gone mainly into textiles, electronics and electrical products, chemicals and food industries. The investment contributes to accelerated industrialization and stimulates the expansion of the manufactured export sector.

Notably, the crucial factors that contribute to attract foreign investors are a greater domestic stability, the streamlining of procedures and regulations pertaining to foreign investment, and a more attractive package of industrial incentives offered to promote firms (60).

TABLE 3
Restrictions and Regulations on Foreign Investment in Four ASEAN Countries

Country	Regulations on Entry of Foreign Direct Investment	Regulations on Entry of Portfolio Investment	Regulations on Repatriation of Profits and Capital	Regulations on Degree of Foreign Ownership	Other Restrictions or Regulations
Thailand	Certain economic activities are reserved for Thai nationals.		No restrictions on profit remittances. Foreign investments under the Investment Promotion Act are given a guarantee of capital repatriation. The repatriation of other capital is considered on the merits of each case, but approval is normally granted if it can be shown that the funds originated abroad.		There are also limits on the degree of foreign equity participation allowed in various activities eligible for incentives under the Investment Promotion Act. Local-content requirements exist in the automobile industry.
Malaysia	Foreign investment requires prior approval, but most industries are open to such investment.		No restrictions.	Under the New Economic Policy (NEP) targets have been set for minimum percentages of local ethnic (bumiputra) and non-ethnic Malay ownership of total corporate assets by 1990, but these percentages do not necessarily apply to	The Industrial Coordination Act of 1975 requires all firms (whether domestic or foreign-owned) to obtain a license for each product manufactured. Granting of the license may be subject to various performance criteria, including dilution of foreign ownership.

TABLE 3 (continued)

Restrictions and Regulations on Foreign Investment in Four ASEAN Countries

Country	Regulations on Entry of Foreign Direct Investment	Regulations on Entry of Portfolio Investment	Regulations on Repatriation of Profits and Capital	Regulations on Degree of Foreign Ownership	Other Restrictions or Regulations
Malaysia (continued)				each individual company. Guidelines set targets for local ownership in manufacturing industry, on a sliding scale based on exports.	
Indonesia	All investments require the approval of the President on the recommendation of the Investment Coordinating Board. The operating permit for foreign investment is usually valid for a maximum of 30 years.		No restrictions on profit remittances. The law provides that no transfer permit shall be issued for capital repatriation as long as investments benefit from tax relief. At present, however, foreign payments do not require a transfer permit.	In principle, investments may be undertaken only through a joint venture with an Indonesian partner.	A debt/investment conversion scheme exists, allowing foreign creditors holding non-guaranteed claims against Indonesia to use these claims to make investments under the Foreign Capital Investment Law.
Philippines	All investment is subject to the prior approval of the Central Bank. Preference is given to projects approved by the Board of		Profit remittances are permitted in full, provided they are not financed from domestic borrowing. Full repatriation is guaranteed	New enterprises where investment by non-Filipinos exceeds 30 percent, and which are not covered by the Investment Incentives	Foreign companies can borrow locally provided they have a debt-equity ratio of no more than 60:40 in high priority sectors. 55:45

Restrictions a ... **:AN Countries**

Country	Regulations on Entry of Foreign Direct Investment	Regul Entry Invest	n Degree of rship	Other Restrictions or Regulations
Philippines (continued)	Investments (BOI), and to other industries not utilizing domestic credit resources.	certified by the Central Bank and traded on the Manila and Makati stock exchanges. Securities must be held for a minimum of 90 days. Non-cash investments and cash investments made before March 1973 can be repatriated in a number of annual installments, according to the category of the investment and its net foreign exchange earnings.	ır approval ırchases of n nationals ilippine ... a firm to less than 70 percent, then permission from BOI is required. There are different arrangements for "pioneer" and "preferred" investments. Normally, enterprises owned or controlled by foreigners are allowed only in "pioneer areas of investment" and at least 60 percent of outstanding voting capital stock of enterprises in "preferred areas of investment" must be owned by Philippine nationals.	in medium priority sectors, and 50:50 in low priority sectors. Rules specifying a minimum local content have been established in various industries.

SOURCE: **Foreign Private Investment in Developing Countries**, The International Monetary Fund (IMF), Occasional Paper 33, January 1985.

5.3.3 FOREIGN INVESTMENT IN MALAYSIA

Direct foreign investment was assigned a prominent role in the Third Malaysia Development Plan, which called for an annual economic growth rate of 8.5 percent. Towards this end, she offered a package of incentives and other facilities, i.e. provision of infrastructural facilities and industrial estates to stimulate foreign investment, as well as guidelines for equity participation to ensure that the nation also benefits from the fruits of foreign investment.

If afterwards there is adverse interaction between the NEP and the foreign investment climate, her government has a number of alternatives: (a) to reassure foreign investors that it will allow mainly foreign control in certain industrial ventures, where foreign capital technology and management expertise are required for the accelerated growth of the industry concerned; (b) to take special care to avoid a slow-down in economic expansion; and (c) to be more flexible in applying its equity participation rules so that such regulations will not affect the success and profitability of foreign owned enterprises. These measures will reassure foreign owners and accelerate foreign investment (61). Her restrictions and regulations on foreign investment are illustrated in Table 5.

Until now, an interesting domain of foreign investment in Malaysia has concentrated on textiles and textile products, electronics and electrical products, food manufacture, and chemical products.

5.3.4 INDONESIA'S FOREIGN INVESTMENT

In Indonesia, foreign investment also plays an important role in national economic development. The investment, especially in the manufacturing sector, is also expected to act as a major catalyst for industrial expansion, for example, textiles and leather goods, basic metals, chemical and metal products, rubber products, as well as non-metallic mineral products.

Foreign investment in Indonesia has an important role in providing sources of growth for the nation. Multinational participation in oil exploration and production, mainly in cooperation with Pertamina, is largely responsible for the rapid development of the oil industry, which is the most significant source of funds for development. International investment in the non-oil sector also plays an important role in terms of employment generation and diversification of export earnings. But the high concentration on the capital intensive oil and gas sectors has led to the relative neglect of both the manufacturing and agricultural sectors (62), which are a major source of employment and income for a vast number of Indonesians (63). Her restrictions and regulations on foreign investment are give in Table 5.

5.3.5 FOREIGN INVESTMENT IN THE PHILIPPINES

Foreign investment in the country has not only generated employment opportunities and facilitated the penetration of complicated overseas markets, but also enabled the Philippines to manufacture goods of an internationally acceptable standard. In the Philippines, foreign investment is largely concentrated on chemicals and chemical products, the automobile industry, basic and fabricated metals, machinery and transport equipment, electrical machinery, textiles, apparatus and applicances, as well as leather and paper products.

The Philippines' industrial strategy is mainly towards the development of labour intensive, small and medium scale industries and industries which apply domestic resources. These industrial strategies are expected to generate employment opportunities and alter the distribution of income and wealth by increasing development of rural areas (64).

Regarding her export development, her government has created the Philippines Export Development Corporation to stimulate the growth of her export sector mainly through the provision of refinancing facilities for export bills at preferential interest rates. She also supplies credit for export promotion activities, apart from financing the development and diversification of export products.

Despite her efforts to strengthen her export sector, the overall prospects for the Philippines are not bright. Her attempts to cover her trade deficit in the continuing adverse international economic and domestic political scene do little to brighten the future. Petroleum rationalization measures and the further development of native energy resources like hydro- and geo-thermal power could help to alleviate the nation's trade deficit burden, but these steps will not be sufficient to bring about substantial cuts in the nation's import bill, particularly in view of the Government's endeavours to accelerate development (65).

Another foreign investment restriction in the Philippines is the limitation of foreign-owned firms' access to local capital markets as a part of wider controls on capital movements. She imposes the condition that they should not be financed from domestic borrowing. Both restrictions may create substantial disincentives to foreign investment in high technology industries. Her restrictions and regulations on foreign investment are elaborated in Table 5.

5.3.6 BRUNEI'S FOREIGN INVESTMENT

One objective of the National Plan of Brunei (1986-1990) was to develop new export oriented industry as well as import substitution industries. Besides, she is committed to the free market economy, which is reflected in that the Plan aimed to boost private sector involvement, particularly in manufacturing, agriculture and service industries (66).

Accordingly foreign investment was encouraged as an important part of the Five-Year Plan. Companies receive assistance in setting up joint ventures with Brunei businesses (67) with the Brunei partner holding a 51 percent stake (68). Brunei's government has always welcomed foreign investment, and is willing to look at suggestions from would-be investors, as well as welcome participation by major multinational companies in her economic activity. Such participation would have to be on the basis of sharing the benefits equally (69). There are only two industries that have been designated as not open to foreign investment: forestry products and deep sea fishing within Brunei territorial waters.

However, her Ministry of Development has a flexible attitude towards foreign investment. Her government establishes the general thrust of policy, which is to welcome the innovation, expertise and links that foreign investment brings. Moreover, economic incentives are available under the Investment Incentive Act, 1975. The status of the industry and the tax benefits to be given to the business are decided by the level of benefit that the project is expected to give to the nation. In addition, local businessmen are able to receive loans of up to B$ 500,000 from the Economic Development Board. Besides, investment is encouraged in areas such as chemicals, pharmaceuticals, aluminium, building materials and steel. There is also a general approval for expanding the sector of financial services.

It is obvious that a number of successful joint ventures have been set up in Brunei. They include a soft drink franchise operation involving two local entrepreneurs, and two garment companies, one a joint venture between Malaysian, Singapore, and Bruneian interests; the other involving a joint venture between Hong Kong and Bruneian entrepreneurs. Foreign investment opportunities in Brunei remain considerable, with special emphasis on the higher value-added industries and the services that the Sultanate believes are crucial for her future development (70).

5.4 EXTERNAL INVESTORS IN ASEAN MEMBER COUNTRIES

In 1990, securities research firm Merrill Lynch reported that there was substantial growth in the investments made by Japan and the Asian NIEs in four ASEAN countries, compared to that by investors from the U.S. and Europe (as given in Table 4).

Its publication, Asian Economic Commentary, said that, based on official figures, investment commitments by the Asian investors in the Philippines, Thailand, Malaysia and Indonesia grew 37 percent, 47 percent, 105 percent and 119 percent respectively in 1990. This meant that, on average, roughly 65 percent of the total foreign investment in the four ASEAN countries came from Japan, Singapore, Hong Kong, South Korea and Taiwan - up from the 63 percent figure in 1989. On the contrary, investors from Europe and the U.S. together accounted for only 14 percent of the total investment in the four ASEAN countries.

In terms of investment sources, Japan continued to be the top investor in Southeast Asia with total commitments of US$ 3.6 billion in 1990. This represented 27 percent of the total investment in the four ASEAN countries and was 92 percent more than in 1989 (71). However, there is a tendency among Japanese investors to divert their attention to America and Europe as a means of maintaining access to these enormous, but increasingly protected, markets. Moreover, the global nature of Japan's economic interest is likely to lead to a stronger engagement in China than in ASEAN, bearing in mind the vast opportunity for a high growth of manufacture in China (72).

But the Asian newly industrializing economies (NIEs), collectively responsible for US$ 4.6 billion worth of commitments in the four ASEAN countries, have proved to be an even more important investment source than Japan. Together, Singapore, South Korea, Hong Kong and Taiwan accounted for 35 percent of the foreign investment in the four countries in 1990, a 95 percent

TABLE 4

Foreign Investment in the ASEAN Countries in 1990

To	Indonesia		Philippines		Malaysia		Thailand	
From	US$ million	% change	US$ million	% change	US$ million	% change	US$ million	% change
Japan	2,234	+143%	306	+94%	657	+67%	364	-6%
Hong Kong	993	+164%	208	+57%	50	+20%	395	+493%
South Korea	721	+50%	21	+21%	61	+109%	42	+55%
Singapore	217	+19%	14	-42%	119	+19%	62	+51%
Taiwan	616	+224%	141	-5%	870	+133%	141	-8%
Europe	1,170	+57%	45	-39%	190	+9%	101	+69%
US	153	-8%	60	-55%	69	+47%	89	-125%

SOURCE: Asian Economic Commentary.

increase from 1989. Nowadays, all four ASEAN countries face some bottlenecks in varying degrees - in areas like electricity, transport and communications - with perhaps only Malaysia marginally better off at this stage (73).

Concerning EC investment in the ASEAN countries, its position varies from country to country. In the two most developed ASEAN countries, Singapore and Malaysia, the Community is the principal foreign investor, followed by the U.S. and Japan in the first case, and ASEAN as well as Japan in the second (74). But, Japan is the leading investor in Thailand and Indonesia, with the Community in second place ahead of the U.S. The Community is also the second largest foreign investor in the Philippines, where the leading foreign investor is the U.S. (75). Therefore, the EC would be well advised to step up its investment activity in the ASEAN countries, the region with the world's fastest economic growth at present.

In sum, the ASEAN nations still need and welcome foreign investment from industrialized countries. They need the technology, industrial experience, management know-how and international marketing network facilities of advanced states to jointly develop their natural resources and industries, especially those oriented for export. There will definitely be no lack of investment opportunities and eager partners in the region (76).

5.5 ATTRACTIVE POLICIES FOR FOREIGN INVESTMENT

In order to convince foreign investors, the ASEAN countries should strive individually to adopt national domestic policies and programmes which promote the development and growth of their private sectors. Policies should be constantly revised with the aim of reducing the cost of doing business in the ASEAN states and making producers internationally competitive. In addition, the ASEAN nations can unite their collective efforts to create a favourable international economic environment only if their individual national economies are internationally competitive. Therefore they should promote policies that encourage private initiative, reduce dependence on governments and minimize the investment cost in the region. For example, policies on taxation, utilities and other service charges, wages and regulations should be revised and suitably modified to ensure internationally competitive industries. Finally, their governments should be restricted to providing a favourable environment for foreign entrepreneurs to play their role in economic development (77).

6. ASEAN AND ITS INTERNATIONAL TRADE NEGOTIATIONS

6.1 ASEAN INTERNATIONAL TRADE ISSUES

As mentioned previously, the ASEAN states, being highly dependent on international trade, have been particularly concerned with the issue of market access, not only for their traditional exports of primary commodities, but increasingly for their non-traditional exports of manufactures and services. Especially on ASEAN exports to the U.S., ASEAN has been concerned over American imposition of non-tariff barriers in food and in textiles. Quantitative restrictions as well as Food and Drug Administration (FDA) regulations have impeded the exports of canned tuna fish, Malaysian canned pineapples, and Thai canned shrimp. Regarding textiles, the second Multi-Fibre Agreement has been much more restrictive than the first. Besides, the American imposition of countervailing duties (CVD) on ASEAN exports of garments and textiles, as well as a number of other products, has created trade friction. Although, in many cases, the ASEAN members have successfully defended themselves against CVD petitions, time and resources have been wasted (78).

A significant area of ASEAN concern has been the growing restrictions placed on the U.S. GSP. For instance, we will elaborate the extreme case of Singapore's GSP status. The problem of the Thai GSP will be described in detail in the final section of this article. Therefore, we move to more detail on Singapore's case, as follows:

In 1988, the six countries of ASEAN accused the U.S. of violating an understanding with Singapore for duty-free treatment of her exports. The accusation was contained in a letter sent to U.S. Secretary of State, George Shultz. The ASEAN letter said President Ronald Reagan's "administration has failed to abide by its understanding with Singapore" on the Generalised System of Preferences, the U.S. duty-free concession granted to developing countries. In addition, Singapore's per capita income is about US$ 7,000 a year, the letter noted - under the US$ 8,500 mandatory ceiling for graduation from GSP. While 96 percent of U.S. exports to Singapore enter duty-free, the loss of GSP would reduce from 76 to 45 percent the percentage of Singapore goods enjoying U.S. duty-free treatment.

Afterwards, Mr. Gary Holmes, a spokesman of the U.S. Trade Representative's Office, said that he did not think any promise was made that GSP would remain indefinitely as a result of Singapore's tightening of her copyright laws (79).

6.2 ASEAN EXTERNAL TRADE NEGOTIATIONS

Nowadays, the greater internationalization of the ASEAN economies has rendered them more sensitive to changes in international economic policies and trends. Rising protectionism in developed countries, or impediments to the expansion of world trade, and the increment in bilateral trading blocs, as well as the outcome of the Uruguay Round of GATT, have had important implications for the economic growth prospects of ASEAN. For example, the unemployment problem in the industrialized nations has further emphasized the protectionist sentiment, and new tariff as well as non-tariff barriers have been introduced to curb imports of goods and services. The ASEAN economies have begun to feel these adverse effects. For instance, the ASEAN members must now prepare to engage in greater balance negotiations with their main trading partners. As a consequence, a certain degree of reciprocity and acceptance of the principle of counterpart funding in development cooperation would allow ASEAN to promise more meaningful cooperation with its trading partners.

In July 1988, the Foreign Ministers of the ASEAN nations called on all participants in negotiations to make a concerted effort to overcome international trade problems through trade liberalization and the strengthening of the multilateral trade system (80). Concerning external negotiation, ASEAN can apply different approaches. Negotiation presents dual aspects: of national and regional policy. In the event of negotiating with third parties, ASEAN must defend its dual interests (national and regional) in a different atmosphere. But during its intra-regional negotiations, there are also national interests to maintain. In this subsection, we will present the example of ASEAN-U.S. international trade negotiation. This case deals with a major country rather than a regional bloc, like the EC, as follows:

The United States and ASEAN should consider negotiating an umbrella economic cooperation agreement, which could ultimately include an ASEAN-U.S. free trade area agreement. This was recommended by a joint study by the Institute of Southeast Asian Studies in Singapore and the East-West Centre in Honolulu, on 12 April 1989 (81). The recommendation for a free trade zone appears to conflict with a study done in March 1989 by the U.S. International Trade Commission (USITC), which concluded that a free trade pact between the U.S. and ASEAN might not be workable because of the diversity of the ASEAN economics, cultures and political systems. The USITC study, however, did concede that a U.S. agreement with Singapore might be workable as the Republic was a free trade nation (82).

The study on 12 April 1989 determined that trade in goods between the U.S. and ASEAN was strong but that opportunities could be increased by liberalizing trade barriers, promoting efficient production, providing greater information on export opportunities in each other's markets and expanding participation in the Uruguay Round of multilateral trade negotiations. It found the United States continued to be dissatisfied with ASEAN protection of pharmaceuticals and computer software, although considerable progress had been made to improve intellectual property rights protection. It also noted the United States should concentrate her efforts on developing broader international standards and continue to improve its own system of enforcing intellectual property rights (83).

6.3 MANAGERIAL PROSPECTS OF ASEAN'S EXTERNAL ECONOMIC RELATIONS

There are several means by which ASEAN can develop its negotiating power. The following are suggestions:

(a) ASEAN ought to ensure concerted and effective participation in world trade negotiations. Its participation should be guided by the need to establish a favourable climate for economic growth in the developing countries and to protect the special and differential treatment formerly accorded to them under Part IV of GATT. Especially, ASEAN ought to negotiate for:

- Return of textiles to former GATT rules since the expiration of the Multi-Fibre Agreement in 1991, and
- Phased decrement of subsidized agricultural exports (84).

(b) ASEAN's ability to support growth will very much depend on the openness of external markets to its exports. This prospect will rely on efforts to strengthen international institutions and policies - the WTO in particular - aimed to promote an open international system.

(c) There are interesting strategies to deal with protectionist pressures which are likely to remain strong for the future. The first one is a political approach either in a bilateral context (i.e., the application of the "security" argument by some Thai quarters in diplomacy with the U.S.), or in a regional context (Singapore's utilization of ASEAN to confront the GSP graduation issues raised by the U.S. and New Zealand). The final strategy is based on the assumption that protectionism will be less successful if the exporting country continuously increasess its competitive boundary. In response to unfavourable developments externally, all ASEAN members' should give their efforts to strengthen their export competitiveness. Besides, of importance to ASEAN itself may be its ability to focus on outward-looking policies, which may also strengthen ASEAN's bargaining position (85).

7. PROTECTIONISM IN ASEAN: ISSUES AND OPTIONS

Recently, protectionism and obstructions to free trade have frustrated ASEAN efforts to develop and modernize its economy. It is well known that the growth of the ASEAN countries has been based largely on foreign trade. But as the ASEAN members realized this advantage, it came as a serious disappointment and a serious threat to ASEAN's further progress that protectionism and trade intervention have become important features of the industrial nations. As a result, the ASEAN states are giving a high priority to trade problems in the conduct of their foreign policies. The six countries have been working closely on international economic issues, particularly against protectionist measures (86). Examples of these measures are: (i) the frequency of quantitative restrictions (e.g., quotas and prohibition, as well as restrictive licensing); (ii) the rate of total import duties (e.g., tariffs); and (iii) the frequency of non-tariff measures (NTMs) in general (87).

Besides, in the 1970s and until the present, the ASEAN nations have faced the most difficult economic challenges, as follows:

(a) a sharp drop in oil and commodity prices;

(b) the increasing tide of protectionism in developed countries;

(c) the quickening pace of technological change; and

(d) the increasing load of foreign debt.

These problems are being pushed to employ a wide-ranging package of measures for boosting economic cooperation by lowering tariff barriers.

7.1 PROTECTION STRUCTURES OF THE ASEAN COUNTRIES

These structures are as follows:

(a) Indonesia. Her protection measures comprise quantitative restrictions, tariffs, advance sales taxes and state trading monopolies. Her import sales taxes are imposed with uniform frequency. However, there are lower frequencies against imports of food, tobacco and beverages, chemicals and miscellaneous manufactures. On the other hand, quantitative restrictions and state trading monopolies impose significant restrictions on import of food, machinery and manufactures.

(b) The Philippines. Her protection measures include some of the most complicated, because of the specially large number of elements. Tariffs are entailed with nearly uniform frequency on all categories of imports. Special taxes are enforced on imports of tobacco and beverages, as well as petroleum. In addition, quantitative restrictions affect imports of food, tobacco and beverages, as well as petroleum. Also foreign exchange controls discriminate against imports of beverages and tobacco. Finally, state trading monopolies influence imports of many foodstuffs.

(c) Malaysia. Her protection measures concentrate mainly on tariff and quantitative restrictions. Import taxes are uniform in their frequency across trade categories. Contrarily, tariffs and quantitative restrictions occur with the greatest frequency against imports of food, tobacco, and beverages, machinery and raw materials.

(d) Thailand. She possess a rather complex pattern of protection measures. A number of taxes are imposed on imports with nearly uniform frequency. Her tariffs have a distinct pattern of higher than average frequency against import of beverages and tobacco, crude oil and machinery. Finally, quantitative restrictions are directed principally against imports of beverages and tobacco, as well as miscellaneous manufactures.

(e) Singapore. Her protection measures comprise tariffs, a local stamp tax and quantitative restrictions. The frequencies of taxes and tariffs against imports are very uniform across trade categories, although her tariffs are generally levied at very low average duty rates. Finally, quantitative restrictions are enforced with the greatest frequency against the import of food, beverages and tobacco, chemicals and miscellaneous manufactures (88).

7.2 THE THREAT OF PROTECTIONISM TO THE ASEAN NATIONS

The augmentation in protectionist tendencies may limit the growth of exports of the ASEAN members to the rest of the world. The enlargement of non-tariff measures (e.g., voluntary export restraints, quotas, etc.) threatens to restrict the flow of goods in the world. Therefore, the ASEAN nations must deal with the increment in protectionism in order to follow the development strategy of Japan and the NICs. When Japan initially started her export drive with exports of labour-intensive products, her phenomenal export success took the world by surprise. Then, the NICs pursued Japan. When Japan began to shift towards more technology- and skill-intensive exports, the NICs were ultimately able to replace Japan as the major exporter of light manufactured goods. But as the NICs' exports commenced to grow, they became immediately visible. They were always regarded as little Japans, and the negative response to their export success was sudden. Pressure on them to open their markets, protect intellectual property rights and ameliorate domestic patent laws occurred at a much earlier stage of their development than happened for Japan.

For the ASEAN states, a rapid negative response to expanded exports is also likely. The ASEAN members have generally not been subject to the protectionist sentiments faced by the NICs and Japan, because they have not possessed the same kind of export success. However, Malaysia and Thailand have recently been perceived as the third tier of export-led economies and correspondingly, these two countries have had several trade-related confrontations, especially with the U.S. The problems of intellectual property right protection in Thailand is a case in point (89).

Recently the U.S. has been urging Thailand to review her patent and copyright laws in line with the U.S. laws so as to grant protection to foreign interests. In this circumstance, the Americans and Thais are not on the same wavelength. As an example, the Thai pharmaceutical industry holds the view that it has paid the full price for the intellectual property when it has bought the equipment used in drug processing. Thus, it is free to use any close substitutes or generic ingredients, while the American R&D industry's standpoint specifies their ingredients are part and parcel of the processing. Critical changes in the patent and copyright laws of Thailand are unlikely under the present situation. It is interesting to note that a recent attempt to table an amendment bill in the Thai Parliament faced such severe opposition that it was quietly withdrawn (90). (As will be described its detail in the final article of this series.)

Concerning Malaysian exports, more export items from Malaysia will soon be removed from the U.S. Generalised System of Preference (GSP) scheme. Her items include radio broadcast receivers, telephone sets, stearic acid, glucose and glucose synthetics, vulcanised rubber, thread and safety pins. Exporters of these items must, therefore, prepare themselves for open competition once their GSP privileges are withdrawn. Malaysia is the third largest beneficiary of the U.S. GSP. These exports accounted for some 11 percent of Malaysia's total exports to the U.S. in 1989. Of total Malaysian GSP exports in 1989, the EC accounted for 50.0 percent, the U.S. 23.6 percent and Japan 17.7 percent (91).

The protection of intellectual property rights represents a burning problem in developed countries, particularly the U.S. She has claimed that she has lost billions of dollars in foregone income due to the lack of such rights, in the form of counterfeits, imitations, and piracy in less developed countries (LDCs). For the ASEAN countries, protection of intellectual property rights implies an increment in outflow of payments. On the centrary, the absense of protection of intellectual property rights will not encourage its own R&D activities, because multinationals will hesitate to transfer their technology and technical know-how.

Recently, both the U.S. and the EC have stepped up their efforts to impose the protection of intellectual property rights. Especially, the U.S. has been quite successful in pressuring many countries, such as Taiwan and South Korea, to apply protective measures. The U.S. has been linking her GSP concessions to assure the beneficiaries on the protection of intellectual property rights. For instance, it appears that the recent generous revisions in the U.S. GSP scheme offered to Singapore was in no small measure a reward for Singapore's Copyright Law, though the U.S. announced seven months afterwards that it was gradually phasing Singapore out of the U.S. GSP scheme (92).

7.3 RESPONSE OF THE ASEAN STATES TO THE INCREMENT IN PROTECTION

The following alternatives can be applied by the ASEAN countries in order to respond to the foreign increment in protection:

(a) Reduce imports by creating trade barriers;

(b) Negotiate for a roll-back by recognizing copyright and patents; and

(c) Encourage economic integration among the ASEAN members, as proposed by H.C. Rieger, economist at Singapore's Institute of Southeast Asian Studies (ISEAS) as follows:

ASEAN now practices modest preferential trading arrangements, reducing by a margin tariffs on intra-regional trade of selected non-sensitive items. It would become a free-trade area if it eliminated all intra-ASEAN tariffs, but allowed members to maintain their own external tariff levels. ASEAN could further become a customs union when, in addition to cutting internal tariffs to zero, it equalised members' external tariffs. Free intra-ASEAN mobility of capital and labour, in addition to zero internal tariffs and common external tariffs, would create an ASEAN common market.

To protect domestic production and employment in the higher tariff members, rules of origin, setting ASEAN domestic content requirements, must be introduced. But a high local content requirement would again stifle intraregional trade. More importantly, rules of origin, which already exist under the PTA, are difficult to administer. Besides, a customs union encompassing all six members is unrealistic because of the wide disparity of tariff rates. The high tariff countries would resist lowering protection. For Singapore, which depends on entrepôt trade and duty-free entry of imports, raising the tariff wall would be suicidal (93).

8. SUMMARY

Nowadays, the change in the international economic environment, comprising opposition stemming from the increment of globalization and interdependence on the one side, and the current trend towards bilateralism and protectionism on the other, make ASEAN economic cooperation more obligatory. Economic cooperation should continue to be one of the most essential aspects of ASEAN cooperation, particularly in the light of the new economic developments, that pose an extremely competitive world market. As a consequence, ASEAN cooperation is a key factor in its economic development system. Economic cooperation includes both intra-ASEAN cooperation among its members and extra-ASEAN cooperation with third countries as well as international organizations. The ASEAN countries must work more closely together as a "negotiating block" in international bargaining. In brief, ASEAN's success increasingly depends on the economic performance of industrial nations and the further expansion of world trade. Moreover, the growing competition posed by export products from developing countries has raised protective sentiments.

The report from the Economist Intelligence Unit (EIU), on 28 February 1989, mentioned that the six member states of ASEAN needed to cooperate more closely in the economic sphere if they were to sustain strong economic growth. Their development strategies, which are now increasingly based on the export of manufactures to the West, have left them competing with each other in world export markets and for investment from the developed world. It showed that ASEAN members are particularly dependent on U.S. import demand, a dependence which left them dangerously exposed to changes in U.S. economic policy. For each of them, it predicted manufactured exports would be the most dynamic sector.

But ASEAN in the 1990s identifies the following currents which could jeopardize projected growth rates if its members fail to adjust their economic policies.

- The international economic environment will be less favourable. As the U.S. trade deficit is curbed, world trade growth will slow. Therefore, the ASEAN countries must increase their market share in a highly competitive trading climate.

- Protectionism may gather force in North America and Europe, reinforced by the emergence of large trading blocs. Already, Singapore has lost her U.S. GSP privileges and other ASEAN countries are coming under more intense U.S. scrutiny. A more protectionist North America and a fortress Europe would hit Japan hard, curbing import growth in a market on which ASEAN states are pinning high hopes.

- Building a more cost efficient export base in the ASEAN nations will require large scale investment, much of which will have to come from abroad. There is increasingly strong competition, especially for Japanese investment, not just from the developing world but from North America and Europe, as Japan seeks to protect her markets there.

ASEAN is not, the EIU Report said, likely to become a fully fledged common market in the near future. But a greater degree of economic, as well as political coordination, at least in trade and joint investment, is now seen as necessary. This in turn would encourage foreign investors and traders to become increasingly aware of ASEAN - not only its constituent members - as a force to be reckoned with in negotiation (94).

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