

22

# THE ASEAN EXPERIENCE

---

## OF REGIONAL CO-OPERATION:

---

## SOME LESSONS FOR THE SAARC

---

by  
**Ariya Abeysinghe**

*Ariya Abeysinghe is a Development Economist, Working as Director of Agricultural Planning, at the Ministry of Lands, Irrigation and Mahaweli Development. He has post-graduate qualifications in Management, Economics, Land Settlement and International Affairs.*

The original five ASEAN countries were Indonesia, Malaysia, the Philippines, Singapore and Thailand. The newest member since 1984 is Brunei. ASEAN has come to be looked upon as a possible model for SAARC and other regional groupings like the Melanesian alliance in the Western Pacific because of the duration of this co-operative endeavour in the face of frequent predictions of its early demise and also because of the impressive achievements in the political, the economic and social and other fields. At a time when Sri Lanka is leading the SAARC it is worth examining both the success and failures of ASEAN in order to see whether any of these lessons could be applicable to SAARC.

### Historical Perspective

During the latter part of 1950's and the first half of the 1960's the prospective members of ASEAN were engaged in a number of conflicts with each other which threatened to destabilize the region. The main bilateral issues were.

1. Malaysia and the Philippine both claimed the northern part of Borneo, which is now part of Malaysia (Sabah). The respective arguments referred to the British claim inherited by Malaysia on the one hand and to the pre-British claim by the Philippine on the other.

2. Indonesia objected to the formation of the Federation of Malaysia because it was done by an imperialist power, Great Britain, and preserved an open policy of confrontation (Konfrontasi) against its northern neighbours since early 1963.
3. In 1965 Singapore broke away from the Malaysian Federation and became a fully independent state. Malaysian and Singaporean leaders had differed over ethnic and economic policies to be followed in the new federation, and the separation had racial connotations and overtones.
4. Malaysia and Thailand experienced friction at their common border in their attempt to stem the communist guerillas. The fishing of superior Thai Trawelers in Malaysian waters (poaching) gave rise to frequent disputes.

In addition to these bilateral issues, all ASEAN countries were facing significant internal problems.

1. Indonesia under Sukarno was fast approaching economic and political bankruptcy.
2. Malaysia was finding difficulties to redress the uneven distribution of

wealth between the indigeneous Malay population and its sizeable and economically strong Chinese population.

3. The Philippines was experiencing political and economic instability with a frightening deterioration in the law and order.
4. Singapore with its ethnic diversity was faced with the problem of economic and political survival after its separation from Malaysian Federation.
5. Thailand, had a chequered history of coups.

Events changed the scenario. An abortive coup in October 1965 saw the political demise of Sukarno and rise of General Soehartha, as the President. In November, 1965, Ferdinand Marcos became the leader of the Philippines. He publicly renounced the Philippine claim to Sabah. Thailand played the role of negotiator in the negotiations between Indonesian and Malaysian leaders. These events led to closer political co-operation leading to the formation of ASEAN through the ASEAN Declaration in early 1967. This is also called the Bangkok Declaration.

The first objective of the ASEAN Declaration is "to accelerate the economic growth, social progress and cultural development in the region". It is clear from the political background of ASEAN's formation that the peaceful resolution of existing conflicts and the creation of political stability was the overriding concern. This is a lesson SAARC countries learn from ASEAN experience. The second objective is "to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adhere to the principles of the United Nations Charter". The SAARC has a lot to learn from ASEAN especially in the Indo-Pakistani, Indo-Sri Lankan, Indo-Nepal and Indo-Bangladesh relationships. The proclaimed objective of the SAARC are to achieve "peace and stability, amity and progress in the region".

Activity in ASEAN in the early phase was restricted almost completely to regular annual meetings of the foreign Ministries. It was only in 1973 that trade

and commercial Ministers met, and 8 years after the formation of ASEAN that ASEAN labour Ministers got together for a two-day meeting. The South Asian Foreign Secretaries Meeting held in Colombo in April 1981; November 1981 at Kathmandu; Foreign Ministers meeting convened in 1982 at Kathmandu; the Islamabad Foreign Secretaries Meeting on 7-9 August 1982, Colombo Foreign Ministers Meeting in January 1983, the Dhaka Foreign Secretaries Meeting from 28-30 March 1983, Delhi Meeting of Foreign Ministers of August 1983 Male Foreign Ministers Meeting of July 1984, February 1985 preceded the formation of SAARC. Post-SAARC meetings included Foreign Ministers Meeting held in Thimpu in May, 1985, SAARC Council of Ministers Meeting in Dhaka held in August 1986, in New Delhi in June 1987, in Kathmandu in 1987, and August 1988, in Colombo in March 1989, in Islamabad in July 1989, and November, 1989 and in Male in July 1991. Unlike in the case of the ASEAN, in the SAARC there has been six Head of States and Government Meetings, 9 Foreign Ministers Meetings and numerous Foreign Secretaries meetings to bring better undertaking and co-operation.

The 1970's saw the withdrawal of the United States from Vietnam. According to the famous Domino Theory, South East Asian States were destined to go communist one by one. There was a fear that the People's Republic of China would move into the vacuum created by the exit of the United States. It was this fear psychosis and futuristic perception that brought the leaders of the South-East Asian market economies to the bargaining table. In February 1976 a meeting took place which later came to be called the Bali Summit. The professed objectives were to counter the communist threat, the elimination of poverty, hunger, disease and illiteracy among member countries. The region was to be developed into a "Zone of Peace, Freedom and Neutrality" and international recognition of ZOPFAN was to be sought. After several years of inactivity a concrete programme of action was agreed upon. This included:

- co-operation on the production of basic commodities, particularly food and energy;

- industrial co-operation.
- co-operation in-trade.
- joint approach in international commodity problems and other international economic problems.
- creation of machinery for economic co-operation, through regular Ministerial meetings.

An ASEAN Secretariat was established in Jakarta. In 1977, an agreement on ASEAN preferential trading arrangements was signed.

### The ASEAN Economic Co-operation the Philosophy

All the ASEAN member states, with the exception of Thailand, had to face the restructuring of their economies after gaining political independence from colonial domination. Similarity is found in SAARC where Nepal, like Thailand, escaped direct colonial rule. The prevailing philosophy in the post-independence period was that accelerated economic development required active intervention by the state. Thus, governments intervened to create the institutions and infra-structure within which economic activity would be undertaken by individuals and private enterprise. It also actively participated in production and marketing of goods and services. In order to free the country from the shackles of colonial domination, it was regarded necessary to engage in import substitution. All the ASEAN countries adopted a policy of import substitution approach to economic development. All of them in greater or lesser degree soon realized the importance of private enterprise and individual entrepreneurship in the creation of a dynamic economic system and regarded the domestic and foreign markets as important mechanisms for guiding economic decision making. For example, Singapore has a very large government involvement in the country's economy. But this involvement is quite different from that practised in India, Pakistan and Sri Lanka, in the sense that government operates in and through the market mechanism rather than creating state enterprises with civil service type of bureaucracies who run them as running Kachcheries, departments with a tunnel vision. In Singapore they were run by professionally qualified

managers who passed out from management schools. In Singapore, government owned enterprises were run to make profits. Distortions of the economy through excessive state intervention are avoided.

The import substitution, inward looking policy was gradually replaced by a market oriented economic policies where trade liberalization and export led strategies helped to earn foreign exchange to import required goods. In other words, the countries of the region could concentrate more on those industrial and other activities in which they had a comparative cost advantage rather than attempting to produce those things that other countries of the world are better at. The export promoting economic policies have been successful and region is considered to be one of the most dynamic regions in the world.

ASEAN's position in the United Nations and within the NAM is clear. While rhetorically ASEAN continued to go along with the NAM and with the group of 77 and supported moves for a New International Economic Order (NIEO), much of this support was nothing more than lip service. ASEAN believes that the current international economic order is unjust. However, they seem to think this cannot be changed by persuading the relatively strong to accommodate the relatively weak. Therefore, ASEAN have resigned themselves to operating in the given environment, to playing by the rules of the game and to adopt strategies that permit them to move up to ladder in the international market place. This undoubtedly require discipline at home, putting one's house in order, and ensuring that one's industries become competitive in the international market place, and are not screened from world market competition by excessive tariffs or import restrictions. It also implies an acceptance of direct foreign investment (DFI) in order to bring in technological know-how, foreign, exchange required for import of capital goods to develop domestic industries. Although there are wide differences within the member states of ASEAN regarding their political and economic philosophy, the general tendency is to accept the existence of the world economy as it is and adopt within that

system so as to further their national interest.

### The Political Dimension

Without the political dimension, ASEAN would have been a failure. In the political sphere, ASEAN has been able to get the international community to accept its view on the Cambodian issue that Vietnam's withdrawal from Cambodia would be a prerequisite for any solution to the Cambodian issue. The fact that over a long time of deliberations, the ASEAN view has come to be officially accepted, is an indication of the success that ASEAN has had politically.

ASEAN has also been able to discuss and put forward its view as a grouping regarding other international issues in world forums. The solidarity of the ASEAN countries is perhaps best illustrated by the New Zealand Singapore issue. When New Zealand decided to graduate Singapore from its system of tariff preferences, the ASEAN countries as a group protested to New Zealand on this issue. Though Singapore was the only country specially involved, the ASEAN spoke with one voice. The result was that, with the exception of one or two commodities, the New Zealand Government finally withdrew its earlier decision and Singapore now continues to benefit from New Zealand tariff preferences.

ASEAN co-operation and solidarity in the political field has not always been pure. In the negotiation of the Multi-Fibre Arrangement (MFA) sometime ago, the rich industrialized countries successfully isolated Thailand first and other countries in the negotiations and in subsequent agreement. Such lapses are exceptional. There is no doubt that the internal co-ordination of views before stepping into international platform has been one of the most successful aspects of ASEAN co-operation.

### ASEAN'S Economic Co-operation

The performance of individual ASEAN countries in terms of growth rates has been impressive over the last decade. However, it would be incorrect to attribute this success to the existence of ASEAN alone. Each ASEAN country has acted individually in the international economic arena.

These growth rates would have been the same even without the existence of the

ASEAN. ASEAN co-operation does hold promise for improved economic performance in the future, if the potential can be realised if inter-regional specialization can be achieved in the process of ASEAN's industrialization.

project and a copper purification plant. The idea of the ASEAN industrial projects is that the projects should be free of tariffs within the ASEAN region. Similar projects for SAARC could be production of tractors, motor cars, fish canning,

Profile of ASEAN — Economic Indicators

	Pop.(M)	Pop. growth rate	GNP per capita	GDP growth	Exports 12-mths	Sur/Def. cur. a/c	Foreign debt.	Inflation consumer price Index
Brunei	0.2	2.8%	\$ 17000	4.5%	\$ 1.9 b	N.A.	NIL	2.3%
Indonesia	180.2	1.8%	\$ 555	7.0%	\$ 26.8 b	—\$2400 m	\$ 65.7 b	9.9%
Malaysia	18.4	2.3%	\$ 2305	10.0%	\$ 29.1 b	—\$1740 m	\$ 15.5 b	5.1%
Philippines	63.0	2.3%	\$ 691	3.3%	\$ 8.2 b	—\$2695 m	\$ 28.8 b	19.0%
Singapore	3.0	1.1%	\$ 11575	8.3%	\$ 52.2 b	\$ 1898 m	Nil	3.4%
Thailand	56.3	1.4%	\$ 1418	10.0%	\$ 20.3 b	—\$3236 m	\$ 27.3 b	6.0%

Source: Asia Week Oct. 11, 1991.

There are three areas in which ASEAN economic co-operation has been attempted:

- the ASEAN Industrial Project (AIP)
- the ASEAN Industrial Complimentation Scheme (AIC) (never vertion MEAN Industrial Joint Venture Scheme (ALJV)
- the Preferential Trading Arrangements (PTA)

The ASEAN Industrial Projects were conceived as large scale enterprises to produce commodities generally required in the ASEAN region. Each member country was to establish one such project with equity participation from the other ASEAN countries. The funding was to be from a US \$ 1 billion loan provided by Japan. A large fertilizer complex came on stream in North Sumatra (Indonesia) and another in Sabah (Malaysia). Other industrial projects have been bogged down by many difficulties. Singapore proposed to produce diesel engines but withdrew temporarily from the scheme because Indonesia refused to renounce the production of diesel engines. Singapore participated with only 1% equity in other ASEAN projects. Singapore went into the production of Hepatitis vaccine. The equity participation of other ASEAN countries were limited to 1%. Thailand originally proposed soda ash project but dropped due to limited demand. The Philippines decided on a paper pulp

assembly plant, electronic industries, paper pulp, fertilizer plant, flour mills, cement plants and shipbuilding. Since these projects because of their size, have to be state enterprises, there could be mis-allocation of resources. Hence management and marketing could be privatised where necessary.

The ASEAN Industrial Complimentation Scheme (AIC) is geared towards the Private Sector. The concept is that private enterprises in the ASEAN countries should distribute amongst themselves products in an industrial sector to avoid unnecessary duplication of production. This was seen in the automotive industry. Individual items such as diesel engines, body panels, universal joints etc., were allocated amongst entrepreneurs in various ASEAN countries whilst the government agreed to reduce the tariffs on such products by 50%. The scheme relies heavily on the acceptance of the proposed complementation arrangements by the ASEAN machinery and on the support of the ASEAN governments. Since government takes time to take decisions and government action takes time, they are frequently out of date by the time production can be taken up. The ASEAN complementation scheme has suffered from the sluggishness of the decision making process needed for its implementation. The complementation in the automotive industry has been supplemented by the Brand-to-Brand complementation (BBC)

programme signed in October 1988, which permitted the exchange of parts of a particular brand within the region at a 50% reduced tariff rate.

*ASEAN Industrial Joint Ventures Scheme (ALJV)* was devised because of the difficulties encountered in the ASEAN Industrial complementation scheme. This permits private entrepreneurs in two or more member countries to undertake joint ventures, the products of which would be accorded preferential tariffs with the ASEAN region for a period of five years. This programme seems to bear more promise, because the degree of consensus required is far lower than in the case of the other schemes. A number of items are being produced under the scheme, and the private sector has become aware of the possibilities inherent in it. The margin of preferences is obviously a crucial variable in this strategy, and this was raised from 75 to 90% at the Manila Summit in 1987. The equity that can be held by foreign, that is non-ASEAN firms, was raised from 49 to 60%.

The success of ALJV was quite limited. Investors applying for ALJV projects encountered excessive delays in getting formal approval. ALJV products also have to compete with non-ASEAN suppliers. If the products produced are not supplied to the ASEAN market, the margin of preference (MOP) is of no use to the investors. There are in fact, many intra-ASEAN joint ventures but these investment projects have not entered into the ALJV scheme. The cumbersome procedure of applying for ALJV and the modest incentives granted to the investors could be the major reasons most ASEAN investors did not bother to enter into this scheme. Since ALJV has a provision for non-ASEAN participation, it open opportunity for TNS's to be involved. The provision for private sector and TNC input in ALJV enable a greater mobilization of resources and puts greater emphasis on international competitiveness. This is an important lesson for SAARC.

The role of private sector has become increasingly important in ASEAN over the years. The following developments are noteworthy:

1. *ASEAN-CCI* — founded Jakarta in 1972 to promote co-operation and

co-ordination among the private sector;

2. Establishment of the Group of Fourteen (G14) in 1986 to study and recommend measures for the advancement of ASEAN economic co-operation and integration.
3. The *ASEAN Economic Congress* in March 1987.
4. ASEAN business Councils with major trading partners:  
eg: ASEAN - US Business Council (ALJSB) established in 1979.  
US - ASEAN Centre for Technology Exchange.  
ASEAN - EEC Business Council (AEB) in 1984.  
ASEAN - Japan Economic Council (AJEC) in 1979.
5. ASEAN Finance Corporation (AFC) in 1981.
6. AFC - INTERACT Joint Committee of Public Development Finance Institutions.

Thus, the private sector has become an important component of ASEAN economic co-operation.

### **Intra - ASEAN Trade**

ASEAN endeavours to increase intra-ASEAN Trade have focussed mainly on providing the members of the group preferential access to each others markets. This is done by reducing the tariffs on items produced by an ASEAN member country. The Agreement on ASEAN preferential Trading Arrangement (PTA) was signed by the five ASEAN foreign Ministers in Manila on February 24, 1977. Within this system, the tariffs on a number of commodities have been reduced on a preferential basis for imports from the member countries. The number of items offered and exchanged in negotiations reached over 8,000. The economic Ministers of ASEAN in April 1980 agreed on across-the border tariff reductions on "lightly traded" items (i.e. on items with an annual import value of less than US \$ 50,000 in 1978 trade statistics. In May 1981, the cut-off ceiling was raised to US \$ 500,000 and in January 1982 to US \$ 1 million. In November 1982, the ceiling was raised again to US \$ 10 million and since February 1986, the ceiling has been completely removed. Simultaneously, 14,462 items are covered under ASEAN PTA. Nearly half of these items are accorded 20% to 29% margins of prefer-

ence. Malaysia, in addition offered full exemption for 29% of the 2,260 items covered. Singapore, which has a large number of zero duty items, 93% of the margins of preference granted were "bound at zero" which means Singapore will not charge ASEAN partners duties on currently duty-free items. The average preference margins under ASEAN PTA ranges from 2.3% in Singapore to 41.8% in Malaysia. In Indonesia the Philippines and Thailand, the margins are closer to 25%.

However, one cannot expect the actual economic effects of these achievements in terms of increasing intra-ASEAN trade to be very significant, because of the margins of preference (MDP) for ASEAN goods are generally low and the across-the-board tariff cuts have been limited to "non-sensitive" items.

As tariffs are successively reduced, non-tariff barriers tend to have an increasing effect on limiting trade expansion. The "one-step-at-a-time" approach in that uncertainty regarding future progress inhibits long term planning by the private sector or public sector. For this reason the effect of liberalization occur much later than would be the case if these measures are followed at a predetermined pattern.

### **Institutional Framework**

The institutional arrangements for ASEAN co-operation are meagre by the EEC standards but better than SAARC standards. It is quite elaborate when the non-governmental and private organizations are taken into account like the SAARC, in the ASEAN the supreme decision making body is the Heads of Governments Summit. But since it takes place sporadically in ASEAN unlike SAARC, the meetings of foreign ministers of ASEAN countries, the annual ministerial meeting (AMM) in effect have the function of taking the internationally binding decisions of the group.

In addition to the foreign ministers, regular meetings of other ministers (economic, labour, energy, agriculture etc.) take place but many decisions cannot be implemented until the foreign ministers have signed the respective agreements.

The ASEAN Economic Ministers are supported by a number of Committees

(Cont. from page 25)

of senior officials and administrators for specific areas of ASEAN co-operation. These are:

- Committee on Trade and Tourism (COTT)
- Committee on Industry Minerals and Energy (COIME)
- Committee on Finance and Banking (COFAB)
- Committee on Food, Agriculture and Forestry (COFAF)
- Committee on Transportation and Communications (COTAC).

Between the annual Ministerial meetings, a standing Committee of Ambassadors of ASEAN countries in the country holding the annually rotating Chairmanship of the group meets every month. There is an ASEAN Secretariat to look after day-to-day affairs, the preparation of meetings, the keeping of minutes and the archiving of records, but effectively it has no say in policy making and cannot be compared to the Commission of the European Community. Its staff is small—about a dozen senior officials—headed by the Secretary-General of the ASEAN Secretariat. In the light of the stated objectives of ASEAN, it would appear obvious that the ASEAN institutional framework is too weak to effectively perform the task expected of it.

### Socio-Physiological Dimension

Even if the hundreds of Meetings held in various ASEAN committees, working groups and private sector industry clubs do not achieve any apparent tangible results, they do bring together people to-people. ASEAN participants in international conferences keep together with their ASEAN partners. All ASEAN countries are multi-racial and multi-religious. The tolerance required domestically and the knowledge of other races, and religious groups makes it easier for a national of one country to understand the socio-cultural system of the other, in which the majority group may be composed of members of the minority group in his own country.

In addition, by virtue of fairly close proximity, the ASEAN countries have shared a common history, occupations, or at least the threat of occupation by the Japanese of solidarity in the region, in the face of the new Japanese economic offensive.

ASEAN togetherness is formalized at an international level. In all major capitals of the world, ASEAN country Ambassadors form regular working groups. The ASEAN Brussels Committee, the ASEAN Washington Committees and the ASEAN Tokyo Committees are examples.

### Conclusions

ASEAN has made negligible progress in economic integration despite many successes on paper. ASEAN's overall economic performance and co-operation only began seriously in 1977 with the signing of the agreement for Preferential Trading Agreements. Compared to pre-ASEAN period when the region was one of almost open strife and imminent danger of an armed conflict, the post-ASEAN period in one of peace and a stable but secure region. This is an achievement to be commended.

The creation of something approaching common Market in the ASEAN Region with a population of 270 million or more would attract investments from industrialised countries. ASEAN has taught that consensus and the majority decision that be accepted by all; that it is possible to proceed to the next item on the agenda on the basis of the decision that has been taken. ASEAN has taught that whenever an issue entails a conflict of interests, it is dropped from the agenda and not discussed further. At a later stage, when the inherent conflict has disappeared, the issue may be taken up again. This strategy of "conflict avoidance" rather than conflict resolution is the best lesson SAARC can learn from the ASEAN experience.