

ASEAN : POLITICAL AND DIPLOMATIC
ROLE TOWARDS THE NEW INTERNATIONAL
ECONOMIC ORDER.

BY

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This thesis contains no material which has been accepted for the award of any other higher degree or graduate diploma in any university, and to the best of my knowledge and belief, the thesis contains no material previously published or written by another person, except where due reference is made in the text of the thesis.

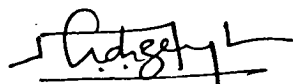

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LIST OF ABBREVIATIONS

ABC	-	ASEAN Brussels Committee
AJFSR	-	ASEAN-Japan Forum on Synthetic Rubber
ANPRC	-	<u>Association of Natural Rubber Producing Countries</u>
APTA	-	Agreement on Preferential Trading Arrangements
ASA	-	Association of Southeast Asia
ASEAN	-	Association of South-East Asian Nations
ASEAN-CCI	-	ASEAN Chamber of Commerce and Industry
ASTP	-	Australian System of Tariff Preferences
AWGIC	-	ASEAN Working Group on Industrial Complementation
CIPEC	-	Inter-governmental Council of Copper Exporting Countries
CPT	-	Communist Party, Thailand
CTT	-	Committee on Trade and Tourism
ECAFE	-	Economic Commission for Asia and Far East
EEC	-	European Economic Community
FAO	-	Food and Agricultural Organization
GATT	-	General Agreement on Tariffs and Trade
GDP	-	Gross Domestic Product
GSP	-	Generalised System of Preferences
IBA	-	International Bauxite Association
IBRD	-	International Bank for Reconstruction and Development
ICP	-	Integrated Commodity Policy
IMF	-	International Monetary Fund
ITA	-	International Tin Agreement
ITC	-	International Tin Council

JETRO - Japan External Trade Organization
 JDI - Joint Declaration of Intent
 LDC's - Less Developed Countries
 L-NCP - Liberal-National Country Party
 MAPHILINDO - Malaysia, Philippines and Indonesia
 MCP - Malayan Communist Party
 NIEO - New International Economic Order
 ODA - Official Development Assistance
 OECD - Organization for Economic Co-operation and Development
 OPEC - Organization of Petroleum Exporting Countries
 PKI - Indonesian Communist Party (Partai Kommunis Indonesia)
 SCCAN - Special Co-ordination Committee of ASEAN
 SEATO - South-East Asian Treaty Organization
 STABEX - Stabilization of Exports prices of Commodities
 UNCTAD - United Nations Conference on Trade and Development
 UNIDO - United Nations Industrial Development Organization
 UNO - United Nations Organization

INTRODUCTION

The Association of South East Asian Nations (ASEAN) was established in 1967, with the signing of the Bangkok Declaration (ASEAN Declaration) by Indonesia, Malaysia, the Philippines, Singapore and Thailand. When ASEAN was established, it was conventional wisdom that the new organization would be short-lived and many observers thought that ASEAN would probably be destroyed by disputes between the member countries. Despite these early speculations on its long-term viability, ASEAN has gradually grown as an important regional grouping, with increased recognition from the outside world, and has played a very significant role in the promotion of regional co-operation in political and economic affairs during the last twelve years.

The promotion of regional economic co-operation was the principal objective of ASEAN at its founding in 1967. However, an analysis of the factors accounting for the formation of ASEAN suggests that it was not established primarily as a vehicle for economic development in the member countries. The five countries grouped themselves together in 1967 mainly for political and security reasons. The political objectives of the five countries were two-fold. The first objective was to build up regional political cohesion as a counter-weight to the great powers who appeared to be competing with each other in regional political affairs. The second objective was to strengthen the national stability of the five countries in the face of the growing communist threat which was perceived to be of two kinds - an internal threat from communist

subversion and insurgency and an external threat from China. However, because of the sensitive nature of international and regional political environment, ASEAN was initially formally limited to activities such as the promotion of regional co-operation in economic, social, cultural, educational, scientific and administrative fields. These were areas of a non-controversial nature.

The early 1970's marked the beginning of a new era in the Southeast Asian political environment. The U.S.A. was gradually withdrawing from the Vietnam war while developing friendly relations with China. The relations between the U.S.A. and the Soviet Union had also entered into a new era and the word 'detente' became a watchword in the Soviet-American relations. The Great Cultural Revolution in China came to an end and China appeared to have changed its aggressive policy towards the ASEAN countries since the end of the Cultural Revolution. The Indo-Chinese war came to an end in 1975 with the fall of South Vietnam, Cambodia and Laos into the communist hands and the new Indo-Chinese communist states were predominantly occupied with the re-construction of their economies. All these factors combined to bring a relatively stable political environment into Southeast Asia in the mid-1970's at least for a short period.

These political developments have had a profound impact on ASEAN. In particular, the changing attitudes of China towards ASEAN countries have considerably reduced the fear of external communist threat to them. That, in turn, has caused the ASEAN countries to place greater emphasis on internal political stability. As a consequence, such issues as economic development and regional economic

co-operation have begun to gradually overshadow the previous regional preoccupation with security and defence. The ASEAN has realised that economic and social progress in the member countries is the best weapon to combat internal communist subversion and insurgency.

As ASEAN economies are export-led economies, international trade plays an important role in the economic development of these countries. Except in the case of Singapore, the economies of the ASEAN countries are based on agriculture and mining industry. They produce raw materials and commodities which have been the main sources of foreign exchange for these countries. In recent years, most of the international commodity markets have been characterised by such features as deteriorating terms of trade, fluctuating prices and demand and increased use of substitution in consumer countries. The instability in the commodity markets has resulted in the instability of export earnings which in turn has considerably weakened the economic development of the ASEAN countries in recent years. One adverse consequence of this heavy dependency on the export of primary products has been the growing international indebtedness of the ASEAN countries as their export earnings have always been exceeded by their import expenditures.

The recent efforts of the ASEAN countries to diversify exports through a process of industrialization have been weakened by a number of factors of which the marketing of manufactured products is the most important. The internal markets of the ASEAN countries cannot provide adequate outlets for goods manufactured in these countries due to the low level of the purchasing power of the people.

Access to the markets of developed countries has been weakened by the growing protectionism of developed countries against the manufactured products from developing countries. On the other hand, ASEAN efforts to expand intra-regional trade on manufactured goods have met with only a limited success mainly due to the economic nationalism of the member countries.

In recent years, ASEAN countries have increasingly seen their current economic problems, such as instability in the international commodity markets, the growing international indebtedness and the protectionism of developed countries, as issues which required an integrated approach to achieve desired solutions. In this regard ASEAN countries strongly support the demand for a new international economic order and clearly stand to benefit if the proposed NIEO demands are brought into effect.

Among the extra-regional political and economic forces which have influenced the ASEAN countries to further their regional integration process, the new international economic order holds an important place as it has provoked a considerable amount of policy consultation and co-ordination among the five member countries. The promotion of NIEO goals has been the key objective of ASEAN in its extra-regional economic policy formulation, ever since the demand for a new international order was put forward by developing countries in 1974. Apart from the active participation in the activities of the group of 77, the five countries have increasingly worked together in recent years to present themselves as a united group not only in the international forums such as the UNO, UNCTAD, World Bank, IMF, etc., but also when they approach the developed

countries to deal with trade and other economic issues. The NIEO demands, in particular the Integrated Commodity Policy and its cornerstone the Common Fund, have been the focal points of ASEAN's dialogues with the U.S.A., EEC, Japan, Australia, New Zealand and Canada in recent years.

Based on the theme elaborated in the preceding discussion, this study attempts to investigate the growth and development of ASEAN since its inception in 1967 with particular reference to its policy formulation towards extra-regional economic issues. This study, however, does not examine the overall strategic balance in the region or detailed politics and economics of individual ASEAN countries, though these have a bearing on ASEAN's policy formulation. This study attempts basically to investigate the aims and objectives of ASEAN in its extra-regional economic policy formulation, the steps that have been taken by ASEAN to achieve its goals, and finally, the success and failures of ASEAN in its attempts to realise its aims and objectives.

This study consists of five chapters and a concluding chapter. The first chapter deals with the growth and development of ASEAN since its inception in 1967 focusing mainly on the following aspects: co-operation in intra-ASEAN politics including defence and security, ASEAN's relations with China and the other Indo-Chinese communist states, neutralization of Southeast Asia and the growing importance of its economic aspect.

The second chapter examines the role of ASEAN with regard to the promotion of regional economic co-operation, in particular in the area of intra-regional trade and industrial development. This chapter gives a particular attention to the proposals put forward

by the Kansu report (or the Austin Robinson report) for ASEAN to promote regional economic co-operation and the steps that have been taken by ASEAN to implement these proposals. The chapter also discusses the problems that ASEAN has confronted in connection with the promotion of intra-regional trade and industrial development.

The third chapter is devoted to examining ASEAN's role regarding the promotion of the new international economic order goals. This chapter consists of two parts. The first part is concerned with the basic issues of the new international economic order and their implication for the ASEAN economies. In this regard three issues - the Integrated Commodity Policy, foreign indebtedness of the ASEAN countries and access to the markets of developed countries are given particular attention. The second part focuses on ASEAN's political and diplomatic role regarding the promotion of the new international economic order with particular reference to the commodity producer organizations and the extent to which ASEAN can exercise its producer power to strengthen its international bargaining power.

The fourth chapter deals with ASEAN's economic relations with the U.S.A., EEC and Japan. This chapter also consists of two parts. The first part deals with the origin and development of ASEAN's trade diplomacy and its main techniques such as collective bargaining power. The second part is sub-divided into three sections. Each section deals with ASEAN's economic relations with the three economic powers mentioned above, on the following basis : problems and issues, the basic demands of ASEAN, the response and reaction of the country concerned and finally the achievements and failures of ASEAN.

The final chapter discusses recent developments of ASEAN's economic relations with Australia. It focuses mainly on two issues - Australian Protectionism and the new International Civil Aviation Policy (ICAP). This chapter attempts to identify the essential interests of ASEAN in its economic relations with Australia, the steps that have been taken by ASEAN to promote its economic interests and the response of the Australian Government.

CHAPTER I.

ASEAN : GROWTH AND DEVELOPMENT SINCE 1967

This chapter outlines the growth and development of ASEAN since 1967 with particular reference to four areas such as internal political co-operation, ASEAN's relations with neighbouring communist countries, in particular with China and Vietnam, neutralization of Southeast Asia and the growing importance of its economic aspect.

The Association of South East Asian Nations (ASEAN) was founded on 8th August, 1967, with the signing of the Bangkok Declaration (or the ASEAN Declaration) by five Southeast Asian countries, namely, Indonesia, Malaysia, the Philippines, Singapore and Thailand. ASEAN represents about 72 per cent of the total population and about 68 per cent of the total land area of the Southeast Asian region.¹ Prior to the formation of ASEAN, there were the Association of Southeast Asia (ASA) and MAPHILINDO but neither could survive as a viable regional organization. ASA was established in 1961 by Malaysia, the Philippines and Thailand² but collapsed mainly due to the conflict between Malaysia and the Philippines over rival territorial claims to Sabah.³ Another reason for the failure of ASA was that it did not become a true regional organization as it did not represent all the countries of the region, in particular Indonesia, whose participation was regarded as absolutely essential for the formation of any viable regional organization.⁴ The idea of MAPHILINDO was put forward in 1963, by the then President of the Philippines, Marcapagal, but it was never institutionalised, mainly due to the confrontation between Indonesia and Malaysia. As Thunku Abdul Rahaman, the then Prime

Minister of Malaysia, noted "MAPHILINDO was a concept founded on a racial idea and on the supremacy of the larger elements dominating the smaller ones".⁵

The initiating forces for the formation of ASEAN were twofold - political and economic. Principal political motivation was the common desire of the five countries to strengthen their national stability through the promotion of regional political co-operation. During the 1960's, the political stability of the five countries was seriously threatened by the growing communist activities which were carried out by internal communist insurgents either under the form of direct military confrontation or through other means such as the infiltration of trade unions, student groups, political parties and armed forces.⁶

In Malaysia, the Malayan Communist Party (MCP) continued to expand its subversive and insurgent activities, thus creating serious internal security problems to the government, while in Thailand, the government had to deploy armed forces to keep under control the rising guerilla activities carried out by the Communist Party Thailand (CPT), in particular, in the North Eastern areas. In the Philippines, a new impetus was added to communist activities with the establishment of a Maoist guerilla group called "The New People's Army", while in Indonesia, even though the Indonesian Communist Party (PKI) had experienced a severe set back in 1965, it appeared to be attempting to regain its strength. Compared to the other four countries, Singapore had the lesser communist threat mainly due to the heavy suppressive activities of the government, but Singapore was very much concerned with the Malayan Communist Party as it appeared to be the main threat to the internal security of Singapore.⁷

The problem of security of the five countries was further

complicated by the changing attitudes of great powers which appeared to be competing with each other in regional affairs. Malaysia and Singapore were considerably affected by Great Britain's decision to withdraw its troops from the region by the early 1970's under the east of Suez policy. In order to cope with mounting local opposition to U.S. involvement in the Vietnam War, under the administration of President Lyndon B. Johnson, the U.S. government also appeared to have changed its policy towards Southeast Asia. The new policy indicated the U.S. intention to disengage gradually from regional military affairs by withdrawing the major U.S. military installations. The U.S. decision affected, in particular, the Philippines and Thailand of which latter was always regarded as the next target of the communists after South Vietnam.

Unlike the U.S. and Britain, the Soviet Union appeared to have increased its involvement in the region, mainly due to the escalating Vietnam war and because of the worsening Sino-Soviet dispute. Conditions in China were in turmoil; it was the time during which the Cultural Revolution had reached its climax. One of the main objectives of the Cultural Revolution was to support actively all the progressive and revolutionary movements in other countries of which non-communist Southeast Asian countries always ranked first.

Within this overall framework, it was felt that some kind of co-operation in political affairs was necessary in order to lessen the vulnerability of the five countries to the communist threat, as well as to build up regional cohesion as a counter weight to the great powers. As insisted by the then Foreign Minister of Thailand, Thanat Khoman, "I feel the need for cohesive political co-operation among the nations in the area of Southeast Asia and Pacific region.

... if we cannot work together, if we don't succeed in creating a Southeast Asian or Asian solidarity, we shall always be dominated by one power or another, by Peking, by Moscow or by Western powers."⁸

In the economic front, the principal motivation for the formation of ASEAN was the common desire to increase economic potentials of the five countries. Economic and social progress were seen as a principal means of strengthening national stability. As noted by Ferdinand A. Marcos, the President of the Philippines, "... on the question of security we have concentrated on economic problems. Of course, the tool against subversion happens to coincidewith the solution to our economic crisis. Social or economic development when utilised as an instrument of social justice will answer these two questions and thus the concentration on our economic problems. It is quite obvious that the most accepted and most effective instruments against subversion and insurgency is, and will always be economic development and social justice."⁹

ASEAN : Co-operation in Politics

To begin with, the first task confronted by the ASEAN countries was to solve their internal political problems in order to make ASEAN a viable regional organization. As in the case of ASA and MAPHILINDO, conflicting political interests appeared to be threatening to destroy the newly formed ASEAN. There was no better political understanding among the member countries when ASEAN was formed and each one knew only a little about each other's aspirations, interests and problems. As a result, even after the formation of ASEAN, the five countries seemed to be rivals rather than friends.

Indonesia and Malaysia seemed not to be friendly, even though

the confrontation between the two countries was officially settled more than a year before the formation of ASEAN, and each one appeared to be nursing suspicion, mistrust and illfeelings towards the other in their relations.¹⁰ Singapore, the smallest member of ASEAN, had strained relations with her two immediate neighbours - Malaysia and Indonesia. Malaysia had been hostile to Singapore since it seceded from the Malaysian Federation in 1965, while Indonesia was hostile because of the role which Singapore played against Indonesia during and after the confrontation. The relationship between the two countries became more hostile just three months after the formation of ASEAN, when Singapore implemented the death sentence on two Indonesian marines who were captured during the confrontation, despite several personal appeals made by the Indonesian President Suharto to pardon them. The incident caused a chain of reactions in Indonesia. Irate students attacked the Singapore Embassy in Jakarta and the Singapore Ambassador was placed under protective custody. In response to mounting internal opposition and demand for more stern action against Singapore, President Suharto took steps immediately to place various limitations on trade with Singapore and Indonesian citizens were discouraged from going to Singapore. The two marines were immediately declared national heroes and buried with full military honours.¹¹

In addition to these obvious conflicts, both Malaysia and Indonesia appeared to be uneasy and jealous over the growing economic prosperity of Singapore while Singapore was consistently afraid and suspicious of her two giant neighbours because of its relative smallness in land size, the nature of the ethnic origin of its population and its important geopolitical location in the Malacca Strait.¹²

The most prominent bilateral dispute in ASEAN was the territorial conflict between Malaysia and the Philippines over the possession of Sabah. The Sabah question had a long history dating from 1878, but the dispute did not affect the formation of ASEAN as neither Malaysia nor the Philippines was actively involved with the dispute. However, just six months after the establishment of ASEAN, the five members found themselves embroiled in the quarrel between Malaysia and the Philippines. The dispute was started with the Philippines claim to Sabah which was regarded historically as a part of Malaysia. The dispute came to a peak in November 1968 with the break in diplomatic relations between Malaysia and the Philippines. In retrospect, the Sabah dispute not only had weakened ASEAN unity to some extent, but also was responsible for the suspension of all ASEAN activities for almost two years until the Philippines gave up its claim on Sabah in 1969.¹³

Apart from these obvious conflicts, the aspiration of Indonesia to be a regional leader, unresolved border problems between Malaysia and Thailand, and the activities of Muslim secessionist movements in the Philippines and Thailand remained as sources of irritation, friction and suspicion among the five member countries.

The first few years of ASEAN could be regarded as a period during which the member countries were predominantly occupied with building up a political consensus by mending political fences, learning to live together politically and getting a better understanding of each other's political, economic, social and cultural aspirations. Through the growing adherence to the cause of regionalism and readiness and willingness to solve their problems by peaceful means, over the years, the ASEAN countries have been able to develop what has

been described by the Foreign Minister of Singapore, S. Rajaratnam, "a habit of regional co-operation thinking, ... which barely existed before the setting up of ASEAN".¹⁴

As a result, the conflicts and disputes such as mentioned above have gradually abated over the years. The most serious dispute - the Sabah question - came to an end with the Philippines' unilateral decision to withdraw its claim over Sabah in favour of Malaysian sovereignty. The two countries normalised diplomatic relations at the end of 1969, and in general Malaysian-Philippines relations after 1970 have never been better. The relationship between Indonesia and Singapore has also gradually improved over the years. Within several weeks, the commotion over the execution of two mariners had died down and Indonesia lifted its trade restrictions imposed on Singapore. The growing relationship was further strengthened by the first official visit of the Prime Minister of Singapore, Lee Kuan Yew, in 1973. The visit had a profound impact on recent Indonesian-Singapore relations. As one commentator has described it "More than all trade, investment and official government contacts, even at ministerial level, this visit changed the political climate between the two countries. And perhaps the single most important act of Lee on this occasion was, when on his own volition and in a gesture of conciliation, he sprinkled flower petals on the graves of the two executed marines during a visit to the national cemetery for war heroes outside Jakarta".¹⁵

In concluding, it can be said that, especially in the years after 1970, ASEAN has achieved marked progress in the sphere of internal political co-operation. During this period almost all the major internal political problems among the member countries have been

solved, relations among themselves have markedly improved, and finally ASEAN has manifested itself as a viable regional organization. The growing political consensus was further strengthened by the summit meeting of ASEAN heads of governments held in 1976 in Bali. The Bali summit, for the first time in the ASEAN history, provided a platform for the political leaders to meet each other and discuss ways and means of achieving political togetherness by solving their internal problems. These discussions resulted in the signing of the Treat of Amity and Co-operation which marked the formal achievement of a degree of political togetherness. By signing the Treaty, the member countries have, in principle, agreed to solve their internal problems on the basis of the Pacific Settlement of Disputes. It was further agreed that future relations among them should be maintained on the following principles¹⁶:

- (a) Mutual respect for the independence, sovereignty, equality, territorial integrity and national identity of all nations;
- (b) The right of every state to lead its national existence free from external interference, subversion or coercion;
- (c) Non-interference in the internal affairs of one another;
- (d) Settlement of differences or disputes by peaceful means;
- (e) Renunciation of the threat or use of force;
- (f) Effective co-operation among themselves.

Co-operation in Defence and Security Affairs

The establishment of a direct military alliance is not a declared objective of ASEAN; nevertheless, co-operation in defence and security has been given considerable emphasis since the very beginning of ASEAN. It has been argued, in particular by Indonesia,

that if the ASEAN wanted to anticipate and treat realistically the security problems faced by the member countries, consideration should also be given to developing the defence role of ASEAN itself.¹⁷

Divergent opinions of the member countries have prevented them so far from coming to a common stance over defence and security issues. In general, all the ASEAN countries have agreed to the idea that ASEAN should not turn itself into a direct military alliance which gives the Indo-Chinese communist states the impression that ASEAN countries once again are ganging up against them as some ASEAN members did before under the American umbrella during the Vietnam war.¹⁸ However, some ASEAN countries, in particular Indonesia, the Philippines and Thailand have emphasised, from time to time, the necessity to increase co-operation in security and defence affairs in order to prevent the neighbouring communist countries from exploiting internal weaknesses of the ASEAN countries. The perception of Malaysia and Singapore is that security could be brought to South-east Asia by a modus vivendi with China and the other Indo-Chinese states on the basis of peaceful co-existence and the recognition of and respect for the independence of Southeast Asia as a zone of peace, freedom and neutrality.¹⁹

Indonesia, in principle, supports the diplomatic drive of Malaysia and Singapore to reach a modus vivendi with the Indo-Chinese communist states, but at the same time it wants this diplomatic drive to be strengthened by a strong fabric of regional resilience not only based on economic co-operation but also based on military co-operation.²⁰ This is mainly due to the fact that, Indonesia strongly believes that the Indo-Chinese communist states will exploit the internal weaknesses of the ASEAN countries by extending their

support for local insurgent movements. As noted by the President of Indonesia, General Suharto, "Even if the new Indo-China regimes did decide to limit their application of communism to national development and re-construction this would not mean their decision would have no effect on nearby non-communist nations. In my view such influence on neighbouring countries could take the form of communist solidarity - a manifestation of communist solidarity towards the communist parties and groups in neighbouring communist countries, which of course would certainly encourage the communist elements in these countries".²¹

It seems that Indonesia's emphasis on military co-operation has mainly been motivated by self-interests as the Indonesian government finds it very difficult to organize an effective security network from Java over its huge territory which includes more than a thousand islands. Since Indonesia cannot do this job alone, Jakarta would like the co-operation of its fellow partners in formulating an effective regional security network. Similar views are held by the Philippines and Thailand.²²

In conclusion, a jointly instigated ASEAN common policy on security and defence matters is yet to be formulated, but military co-operation between individual ASEAN countries on a bilateral basis is already a living reality. Indonesia and Malaysia have co-operated in the security operations against communist insurgents along the Kalimantan border while Thailand and Malaysia have also launched joint operations against communist guerillas along their common borders. An agreement has been reached between Indonesia and the Philippines to stage joint military exercises as a first step toward closer military co-operation between the two countries. Malaysia

and Singapore are also working hand in hand to curb the threat posed by the Malaysian Communist Party. The five countries have also extended their co-operation to some extent in the area of exchanging security and military information with each other.²³

ASEAN : Relations with China and The People's Republic of Vietnam

As Arnfinn Jorgensen-Dahl suggests, one important factor which has considerably influenced the ASEAN members to develop political cohesion among themselves is "... their perceived intentions of extra-organizational and extra-regional governments and interests". He further continues "... these extra-organizational forces made themselves felt in a manner which led the members to search increasingly for a common stand on several important foreign policy issues".²⁴

The formulation of an ASEAN common policy with respect to relations with neighbouring communist countries, in particular with China and Vietnam, has been the most important among these foreign policy issues, and has provoked a considerable degree of policy co-ordination and consultation among ASEAN countries.

The formation of ASEAN was perceived by China and Vietnam (then North Vietnam) as the foundation for another anti-communist military organization in Southeast Asia in addition to the already existing South-East Asian Treaty Organization (SEATO).²⁵ There were good enough reasons for communist neighbours to believe that ASEAN was established against them. Internally in every ASEAN country, communist parties were outlawed, engagement in any kind of communist activities were made illegal and all the countries were heavily involved in suppressing the internal communist movements. For example, in Indonesia, after the abortive coup of Indonesian Communist Party

(PKI) in September 1965, something like half a million communists or supposed communists were killed by the army in a counter coup led by General Suharto.²⁶

In their external relations, two ASEAN members, the Philippines and Thailand, were directly involved in the Vietnam war against Vietnam while the other three members also appeared to be supporting overtly and covertly the U.S. intervention in Indo-China. In addition to their membership in SEATO, the Philippines and Thailand had bilateral military and security agreements with the U.S.A., and under these agreements the U.S. had agreed to provide military assistance to these two countries in case of direct communist attack or internal communist subversion. Both Thailand and the Philippines had permitted the U.S.A. to use their lands for naval and military bases and these bases were directly used by the U.S.A. to carry out its military activities against Vietnam during the war. Malaysia and Singapore allowed their territories for Commonwealth armed forces which were also mobilised against Vietnam in co-operation with the U.S. military troops. Moreover, ASEAN was established just two years after the U.S. President Lyndon B. Johnson had disclosed the new U.S. policy towards Southeast Asia; one objective of it was to encourage the non-communist countries, in particular, those bordering on or near China, to organise their own security system through the promotion of co-operation in economic and political spheres.²⁷

As anticipated, the initial response of China and North Vietnam to the formation of ASEAN was very hostile and reactive. In the wake of the formation of ASEAN, the *People's Daily of China* described the new organization as "... an out and out counter revolutionary alliance against China, communism and the People".²⁸ *The*

Peking Review commented on ASEAN:

"... an important link in the chain of the US-Soviet campaign against China is to actively rig up an encirclement of China. With this in mind the Soviet revisionist ruling clique has been fraternizing with the followers and lackeys of US imperialism in Asia - the reactionaries in India, Japan, Indonesia and other countries - and working out criminal designs against China with them. Jointly instigated by the Soviet revisionist and the US imperialists, Indonesia, the Philippines, Thailand and Malaysia formed an Association of Southeast Asian nations as part of the US-Soviet anti-Chinese ring." ²⁹

During the period between 1967-1970, ASEAN-Chinese relations were very hostile. China had repeatedly accused ASEAN of being an anti-Chinese military clique, while ASEAN responded to China's claim with repeated denials that it was an anti-communist military organization.³⁰ During this period, neither ASEAN nor China made any effort to develop friendly relations with each other. Two factors have combined to bring ASEAN-Chinese relations into a new era in the period after 1970. First was the changing U.S. policy towards Southeast Asia initiated by the President, Richard M. Nixon. The second factor was the changing attitudes of China toward ASEAN since the end of the Cultural Revolution.

In November 1969, with a view to lessening the U.S. overseas burden, in particular the U.S. involvement in the Vietnam war, the U.S. President, Richard M. Nixon, enunciated the "Guam Doctrine" indicating the future U.S. role with respect to its world wide military commitments. The Guam Doctrine outlined three principles as follows. First, the U.S. would keep treaty commitments. Second, the U.S. would continue to provide a shield if a nuclear power threatened the freedom of its allies vital to the U.S. security. Third, in other types of aggression the U.S. would limit its involvement to

providing economic and military assistance, while leaving the nation threatened to assume the primary responsibility of providing the manpower for its defence.³¹

One principal objective of Nixon's doctrine was to provide a more responsible role for Asian nations in their own defence. Thus, the Guam Doctrine gave notice to the non-communist Southeast Asian countries that they would have to rely more on their own efforts and not depend too much on the U.S. in connection with security and defence matters.³²

Another important development of changing U.S. policy was the rapprochement between the U.S.A. and China. This indicated the U.S. departure from its traditional policy towards China based on the principle of containment of Chinese expansion and influences in the region. In other words, the new U.S. policy indicated that it would no longer consider China either as expansionist or as a serious threat to the international community.³³ In February, 1972, President Nixon himself paid an official visit to Peking and met Chinese leaders including Mao Tse Tung and Chou En Lai. They discussed various matters of mutual interest and during the discussions it was reported that the U.S. had agreed to accept the one China concept.³⁴

There have been several factors for the changing attitudes of China towards ASEAN after 1970. First, in the post Cultural Revolution era, China has predominantly been concerned with the construction of its underdeveloped economy aiming at a rapid economic development. This encouraged China to develop economic ties with outside countries whatever their political ideologies might be. Second,

the worsening Sino-Soviet dispute has compelled China to change its hard line toward ASEAN, because China would like to see ASEAN developing as a buffer zone shielding her against possible Soviet domination in the region.³⁵ Third, China's nuclear development has also contributed to the moderation of her policies. This is mainly due to the belief that as a nuclear power she should behave much more cautiously in international affairs. Final factor is the changing perception of China on communist revolution in the ASEAN countries. As one commentator has described,

"If the US is prepared to withdraw its navy, air force, army bases and subversive agents from Southeast Asia, then Peking has every reason to be quite relaxed about terminating her material support for revolutionaries. She can afford to do this because she is confident the present ruling elite in this region will not be able, over the long run, to maintain themselves in power even with the aid of American, Japanese, or Soviet patrons. In the Chinese view the more the position of the local elite becomes dependent on alien advisors, technology, and capital, the sharper the resulting class inequalities and economic conflict will become. Eventually the breakdown of traditional communities, classes, and relationships which occurs when the disruptive processes of the free market hit a neo-colonial country will create its own recruits for revolution. There will be no need for external Chinese stimulation." ³⁶

As a result of the considerations mentioned above, China's attitude toward ASEAN has changed from "one of strong disapproval to one of outright endorsement of ASEAN".³⁷ The first significant manifestation in the changing attitudes of China occurred in 1972, when China extended its qualified support for the proposal for the neutralization of Southeast Asia initiated by ASEAN in May 1971, with a view to bringing peace and stability to Southeast Asia.³⁸ In subsequent years, China continued to make numerous statements supporting ASEAN's attempts to achieve economic and social progress in the

member countries, and in May 1976, on the occasion of the Singapore Prime Minister Lew Kuan Yew's visit to Peking, ASEAN was endorsed by the Chinese Prime Minister, Hua Kuo-feng with the following words:

"The first ASEAN summit conference held not long ago reaffirmed its positive proposal for the establishment of a zone of peace and neutrality in Southeast Asia and achieved significant results in strengthening regional economic co-operation. We feel sure that so long as the peoples of the Southeast Asian countries uphold independence and strengthen their unity, they will steadily win new victories in the struggle against imperialism and hegemonism." ³⁹

The ASEAN countries have quickly sensed the need for accommodation with China under these new political developments in Southeast Asia. A common policy to maintain relation with China is yet to be formulated, but relations between China and individual ASEAN countries appeared to have gradually improved since 1970.

Malaysia has been the first country of ASEAN to develop relations with China. The Malaysian move started in 1971 with support for the Albanian resolution to admit China to the United Nations.⁴⁰ In subsequent years, with the consent of China, Malaysia sent several trade delegations and sporting teams to China and the growing relationship between the two countries reached its highest level in 1974 when Malaysia extended formal recognition to China by establishing diplomatic relations. The Philippines and Thailand were the next to develop relations with China by following in Malaysia's footsteps. The Philippines normalised diplomatic relations with China in June 1975 and was followed by Thailand which established diplomatic relations with China in July of the same year.

In May 1976, the Singapore Prime Minister Lee Kuan Yew paid an official visit to Peking and discussed with Chinese leaders various matters of mutual interest including the expansion of trade between

the two countries. During the discussions, it was reported that China had assured Lee Kuan Yew that China would not interfere in the internal matters of Singapore, in particular with the way in which the Singapore government deals with its internal communist insurgents.⁴¹ However, Singapore has yet to normalise diplomatic relations with China. As Arnfinn Jorgensen-Dahl suggests, the apparent reluctance of Singapore to normalise diplomatic relations appears to be due to "... what she thinks will be the reaction in Indonesia to a Peking Embassy in Singapore".⁴¹ As a result, Singapore appears to be waiting until Indonesia normalises diplomatic relations with China.

Indonesia is the only member of ASEAN which is still following a cautious, wait-and-see policy toward China. Indonesia broke diplomatic relations with China after the alleged China's participation in the abortive communist coup of 1965. In subsequent years the relationship between the two countries rapidly deteriorated as a result of Peking's alleged backing for the banned Indonesian Communist Party (PKI) and because of Peking's continued espousal of an armed struggle against Suharto's military government. With the changing attitudes of China toward ASEAN, Indonesia came under some pressure to re-establish relations with China, but Indonesia appeared to have considerable reservations about the resumption of diplomatic relations.⁴³ Before the resumption of diplomatic relations, Indonesia wants China to meet certain conditions such as, that China should totally refrain from supporting the internal communist insurgents in ASEAN countries, that China should cease relations with the overseas Chinese living in Indonesia, and that China should abandon its "party to party" and "people to people" policies under

which China claims to have the right to support revolutionary movements in other countries.⁴⁴

The first significant change in the normalisation of relations occurred in February 1974, when the Indonesian Foreign Minister, Adam Malik, met informally his Chinese counterpart Chi-Peng-fei in Paris at the Paris Conference on the Vietnam Cease-fire Agreement. During the three hours long discussions, it was reported that China had assured Adam Malik that China would close its overseas Chinese Affairs Commission, that overseas Chinese should be loyal to the host government, and that China would not support communist insurgents in Indonesia.⁴⁵

After this meeting Adam Malik attempted to push the Indonesian government to re-establish diplomatic relations with China but his attempts failed because of the strong opposition of the leading army officials and the more conservative elements in the government circle.⁴⁶ However, Indonesian tough attitudes towards China seem to have changed in recent years. These mellowing attitudes were reflected in the speech given by President Suharto on the independence day of 1977. Referring to the normalisation of relations with China, President Suharto declared that:

"if ever our relations with other countries became cold or frozen, it was simply because of our determination not to tag behind any other country or be dictated to by any other country, regardless of its size or strength. Indonesia's suspended relations with the People's Republic of China should be seen in this light. If the two could respect and recognise each other's sovereignty and their respective internal affairs, and considered bilateral relations beneficial, and then there would not be any obstruction to their reconciliation and to normalization of relations." ⁴⁷

In concluding, it can be said that the normalisation of relations

between Indonesia and China is only a matter of time and there is considerable speculation that it will occur in the near future.

ASEAN : Relations with the People's Republic of Vietnam

Like China, Vietnam was a great rival of ASEAN until recently. There were two reasons for the Vietnam's opposition. First, until recently Vietnam believed that ASEAN was an imperial product designed against communism and the communist countries. Second, it was the antagonistic role played by the ASEAN countries against Vietnam during the war.

The fall of South Vietnam, Cambodia and Laos into communist hands in April 1975 was the main compelling factor for ASEAN to seek friendly relations with the new Indo-Chinese communist states, in particular with Vietnam. All the ASEAN countries feared that Vietnam would soon pose a serious threat to their national stability by encouraging internal communist insurgents. They were particularly concerned with the large amount of military hardware which was captured by Vietnam with the fall of Saigon, and it was widely believed that Vietnam would soon spill over its military weapons to insurgents.⁴⁸ As anticipated, just after the fall of Saigon, Vietnam called on underground communist movements throughout Southeast Asia to step up the fight to overthrow non-communist governments. Extending its fully pledged support for insurgent movements, Vietnam went further saying, "Communist victories in Indo-China and United States setbacks in the region had combined to the point where the prospects for revolt had never been so good".⁴⁹

The ASEAN countries soon realized the necessity to come to terms with the new developments in Vietnam. Immediate steps were taken

to recognize the new communist governments in Indo-China and at their eighth meeting held in May 1975, the Foreign Ministers of ASEAN expressed their readiness and desire to enter into friendly and harmonious relations with the Indo-Chinese states.⁵⁰ In the subsequent year Vietnam was invited to send observers to the Bali Summit of 1976. The invitation was invariably turned down and Vietnam charged the summit conference, "... ASEAN's extraordinary summit conference this time is actively prompted by the U.S. with a view to speedy realisation of new schemes of intervention and aggression of the U.S. in Southeast Asia. Obviously, the U.S. imperialists and the pro-reactionary forces in Indonesia and other countries in Southeast Asia have continued using ASEAN to carry out the U.S. neo-colonialist policy and to oppose patriotic and progressive movements in Southeast Asia".⁵¹

The Vietnamese claim was unanimously condemned by the heads of ASEAN at the Bali summit. At the same time, they reaffirmed their readiness to develop friendly relations with Vietnam. Urging Vietnam to refrain from calling ASEAN an anti-communist military organization, the Philippines President Marcos declared that, "... ASEAN has no intention of provoking its communist neighbours and I hope the communist states would maintain a climate of peace and friendship. I certainly appeal to them to eliminate these biases that ASEAN is an initiative on the part of any Western powers like the U.S."⁵² However, up to the mid-1976, ASEAN's diplomatic drive to develop relations with Vietnam met with only a little success as Vietnam responded to ASEAN overtures suspiciously and cautiously.

The initial change in the Vietnam's policy occurred in July 1976, with the official visit to four ASEAN countries - Indonesia,

Malaysia, the Philippines and Singapore - by the Deputy Foreign Minister, Phan Hien. During his tour, he was reported to have said that Vietnam no longer regarded ASEAN as an imperialist venture.⁵³ The eruption of military clashes with Cambodia along with the worsening antagonism between Hanoi and Peking were the main reasons for the change. Under the new political climate, Vietnam felt the need for friends in Southeast Asia and not enemies which might ally themselves with China against her. As one commentator has put it: "No power feels comfortable being outflanked. And Vietnamese reckoning is that if it has to live with an unfriendly neighbour to the North and hostile one on its west, it simply cannot afford to antagonise those living to the south and southeast."⁵⁴

From mid-1976 to the present day, Vietnam's policy toward ASEAN has gone through two stages. During the first stage which covered the years 1976-1978, Vietnam's policy was basically aimed at developing bilateral relations with individual ASEAN countries while withholding recognition of ASEAN. During this period, three official visits were made by the senior political leaders of Vietnam - Phan Hien, Deputy Foreign Minister in 1976, Nguyen Duy Trinh, Foreign Minister in 1977, and Pam Van Dong, Prime Minister in 1978 - but each time they carefully avoided visiting all the ASEAN countries at one time as Vietnam wanted to avoid calling those visits ASEAN tours.⁵⁵ For example, during his tour in 1976, Phan Hien openly stated that his tour was not an ASEAN tour. He went further saying, "It is not our point to visit the ASEAN organization. What we are seeking is strengthening of bilateral relations".⁵⁶ During this period, Vietnam's relations with all the ASEAN countries appeared to have gradually developed except with Thailand. Trade relations

with Singapore continued to grow, despite some ill-feeling which arose in connection with the Singapore's refusal to return to Vietnam the Vietnamese hijackers of a Vietnamese aeroplane. Vietnam accepted the offer made by Malaysia to provide technical assistance to the rubber industry. A Philippines' television team was permitted to make a film in Vietnam, while proper relations were maintained with Indonesia.⁵⁷

However, Vietnam's attitudes toward Thailand appeared to be somewhat hostile. The progress made in the early 1976 towards developing friendly relations between the two countries was considerably disturbed by the October 1976 coup in Bangkok which was seen by Vietnam as the re-emergence of reactionary elite responsible for bringing Thailand into the Vietnam war on America's side. The deteriorating relations between the two countries had been characterised by numerous accusations made by Thailand as well as by Vietnam towards each other. Vietnam accused Bangkok of persecuting the Vietnamese people - estimated 40,000 - living in Thailand, seeking to restore the U.S. military presence, and supporting anti-communist refugee groups to organize their counter-revolutionary activities.⁵⁸ On the other hand, Thailand accused Vietnam of training and supplying communist guerillas in Thailand.

Thailand's relations with Vietnam turned into a new era after the October 1977 coup in Bangkok that ousted the anti-Vietnamese government led by Tanin Kraivixien. General Kriangsak Chamanand was appointed as the Prime Minister and under his rule Thailand changed its attitudes towards Vietnam and aimed at developing friendly relations. In December 1977, at a meeting held in Vientiane, Thai and Vietnamese representatives agreed to take immediate steps to

normalise relations between the two countries.⁵⁹

In the second period starting from January 1979, Vietnam appeared to have changed its policy from ardent opposition to a progressively more accommodating attitude toward ASEAN. It made various diplomatic overtures which included an offer to recognise ASEAN. Vietnam also pledged support for the implementation of the proposal for the neutralization of Southeast Asia.⁶⁰ The new peace offensive was launched in the wake of mounting opposition by ASEAN to the Vietnamese invasion of Cambodia and Vietnam's attitudes toward the refugee problem. ASEAN members jointly denounced the Vietnam's action and strongly demanded the withdrawal of Vietnamese troops from Cambodia. ASEAN brought to Vietnam's notice the promises given by the Prime Minister Pam Van Dong, during his tour in ASEAN countries in 1978. It asked that these promises, which included the respect for each other's independence, sovereignty and territorial integrity, be kept.⁶¹ In reply to the ASEAN request, in a statement issued by the Vietnamese Ambassador to Indonesia, Tran My stated that Cambodia was a special case and that Vietnam would abide by the policy of peaceful co-existence and non-intervention, the policy stated by the Prime Minister to the ASEAN countries.⁶²

The Vietnamese refugee problem has been another concern of ASEAN in its relations with Vietnam. The five ASEAN countries are the first place of asylum for most Indo-Chinese displaced by war, or what they see as deliberate oppression of ethnic Chinese in Vietnam. The total number of refugees in the ASEAN region is estimated at about 300,000⁶³ and the five countries have a vital interest in getting the problem under control. On numerous occasions ASEAN expressed its deep concern over the problem and urged the

Vietnamese government to take steps to prevent people from leaving Vietnam. However, no concerted effort was made to solve the problem. The numbers of the boat people continued to grow. The apparent failure of Vietnam to co-operate actively caused ASEAN countries to seek an international solution to the problem and in this regard, ASEAN took steps to convene a Multilateral Conference on the "boat people" in Jakarta, in May 1979. Vietnam was invited to participate, and during the discussions, it was asked to co-operate actively with other countries to seek prompt solutions to the problem. Vietnam's delegation led by Tran My promised to do its utmost to lessen difficulties caused for other countries in the region.⁶⁴

At this meeting, Indonesia proposed to establish a temporary processing centre for refugees, and for this purpose Indonesia agreed to give one of its islands, "Galang Island", off Singapore. Indonesia had further agreed to give a second one, if necessary. The proposed processing centre was estimated to cost U.S.\$ 17 million, and would accommodate 10,000 refugees. It was expected to complete the centre within five months.

Despite these differences remaining between ASEAN and Vietnam over the invasion of Cambodia and the refugee problem, in general, since the beginning of 1979, relations between the two partners appear to be gradually improving. Malaysia has improved relations with Vietnam more rapidly than any other ASEAN country.

Neutralisation of Southeast Asia

The establishment of a neutral Southeast Asia is another important foreign policy issue which has generated a considerable amount

of policy co-ordination and consultation among the ASEAN countries. The original plan was put forward by the then Prime Minister of Malaysia, Thunku Abdul Rahaman, at the Sixth Ministerial Conference for Economic Development held in May 1971, and it was re-presented to the Ministerial Meeting of ASEAN held in November of the same year. The Foreign Ministers accepted Rahaman's proposal in principle, and the Declaration of Peace and Neutrality (Kuala Lumpur Declaration) was drawn up. The aims stated in the Declaration are:

- I. To restore and establish the peace and stability of the region free from international tension and to endorse the political sovereignty and territorial integrity of the Southeast Asian countries on the principles of abstention from the threat or use of force, peaceful settlement of internal disputes, equal rights and self-determination and non-interferences by outside powers.
- II. To convert Southeast Asia to a "Zone of Peace, Freedom and Neutrality" free from any form or manner of interferences by outside powers. ⁶⁵

The fully pledged commitment of the members to bring a neutral Southeast Asia into being has been reaffirmed at every ministerial meeting and at the two summit conferences held since 1971, and it was embodied as a principle in the Declaration of ASEAN Concord issued at the Bali summit of 1976. Concerned mainly with security of the member countries, the proposal was founded on the belief that the only possible way to restore national as well as regional stability was to keep the region free from the intervention by great powers in regional affairs because they are the ones, as the Malaysian Prime Minister, Datuk Hussein Onn insisted "... who cause the tidal waves of instability in the region". ⁶⁶

As far as the neutralisation proposal is concerned, two shortcomings are immediately discerned. Firstly, the vagueness in the meaning and content of the declaration. Secondly, lack of common understanding among the member countries on the question of how neutralised Southeast Asia can be made a reality.

Except for the simple identification that a neutral Southeast Asia was a 'desirable objective', and that the member countries should explore ways and means of bringing this desirable objective into realization, the Kuala Lumpur Declaration neither provides a clear definition of the proposal, nor indicates how ASEAN is going to achieve its desirable objective. In 1971, the Foreign Ministers appointed a committee comprising senior officials of the ASEAN countries to study and consider what steps should be taken to bring the proposal into a reality, and to reach a common understanding on the interpretation of a "Zone of Peace, Freedom and Neutrality" in the context of Southeast Asia.⁶⁷ Nine years have already elapsed since the Declaration was made public, but ASEAN has yet to make a common interpretation which can be accepted by countries outside ASEAN, in particular by the U.S.A., the U.S.S.R. and China whose participation is regarded as essential, if the proposal is to be implemented effectively.

In 1971, the then Prime Minister of Malaysia, Tun Abdul Razak, outlined three possible ways of bringing the proposal into reality. Firstly, to show ASEAN members themselves that they are sovereign free states free from external interferences. Secondly, to make an approach to other countries in Southeast Asia to commit themselves to the principle of neutrality. Thirdly, to make an approach to the big powers, especially China, the U.S. and the Soviet Union to

guarantee the neutrality.⁶⁸

When the proposal was put forward, China expressed its readiness to respect it but on the condition that all military alliances, bilateral as well as multilateral, in which ASEAN countries were involved must first be abolished, that all military bases be abandoned, and that American influences and engagements in Southeast Asia be brought to an end.⁶⁹ However, in the wake of China's deteriorating relations with Vietnam and the U.S.S.R., China appears to have changed its attitudes and in recent years, various statements have been issued expressing its fully pledged support for the implementation of the proposal. China seems to have believed that the neutralization of Southeast Asia under the ASEAN umbrella will be the best means of containing growing Russian and Vietnamese influences in the region.

Vietnam has also welcomed the idea, yet at the same time she insisted that "... the first thing to do to make Southeast Asia a zone of peace, was to end U.S. interference and aggression, withdraw all U.S. troops, and dismantle U.S. controlled military blocs in the region".⁷⁰ However, in the wake of the worsening Sino-Vietnam dispute, Vietnam also appeared to have changed its initial stand and in June 1978, Vietnam put forward its own plan to ASEAN to make Southeast Asia a zone of peace, independence and neutrality.⁷¹ As suggested by Vietnam, Southeast Asia was to be declared a zone of peace, independence and neutrality and such a declaration should be subscribed to by ASEAN as well as by Vietnam, Laos and Burma on the following principles:

- (a) Respect for the independence, sovereignty of each country and non-interference in their affairs;

- (b) Rejection of all foreign bases;
- (c) Establishment of mutually advantageous relations;
- (d) Regional co-operation for the benefit of true independence.

The Vietnamese plan was closely reviewed by the Foreign Ministers at their meeting held in June 1978, but no agreement was reached on the question of how to respond to the Vietnamese proposal.

The willingness and readiness of the Soviet Union to support the proposal was revealed by a Soviet good-will mission to the Philippines in 1976, but the Soviet Union did not disclose how it would extend its support.⁷² The only great power which has rejected the proposal is the United States and a State Department spokesman said that the U.S. had agreed in principle not to support the proposal.⁷³

The reconciliation of current differences between ASEAN and communist countries over the present defence arrangements, seems to be the main impediment to the implementation of the proposal for a neutralised Southeast Asia. As stated by the late Prime Minister of Malaysia, Tun Abdul Razak "...the superpowers cannot expect to guarantee the neutralization of Southeast Asia, as long as there are foreign military bases in the region".⁷⁴ With respect to the existing military bases and defence arrangements, Razak said "... all countries in the region must ensure that they would not be used in any conflict. Ultimately when the big powers had accepted neutralization, the question of bases and treaties would be phased out. If we get outside powers to respect us, then we do not need any security arrangement."⁷⁵

In conclusion, the proposal for the establishment of a neutralised Southeast Asia still remains as a talking point rather than a commonly accepted objective. ASEAN has so far failed to formulate

a common approach to bring the proposal into a reality while communist countries have increasingly used the issue to woo ASEAN to fulfil their individual interests.

ASEAN : The Growing Importance of Its Economic Aspect

The promotion of regional economic co-operation was the principal aim of ASEAN at its founding. The first objective of ASEAN, according to the Bangkok Declaration, is "To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community in Southeast Asian Nations".⁷⁶ Economic and social progress was seen as a principal means of strengthening national stability of the member countries, as it provided more resources for the ruling class "... to ameliorate poverty and other problems arising from the existing social systems, to defuse the explosive social and racial tensions inherent in these societies and to enhance the credibility of the present political leadership to govern more effectively without having any political upheavals".⁷⁷

As a result of these high expectations placed on the practical advantages of economic and social development, economic factors have played a very significant role in promoting intra-ASEAN relations as well as extra-ASEAN relations, since its inception in 1967. The growth and development of ASEAN's economic role can be divided into two stages, from 1967 to 1976, and from 1976 onwards. During the first period, ASEAN made only a little progress either in intra-regional or extra-regional economic co-operation. This slow progress was due to a number of reasons.

Firstly, the idea of regional co-operation was a new phenomenon to the ASEAN countries as they did not have any previous experience of such co-operation. Added to this was economic nationalism which caused the member countries to be more concerned with their national economies. As a result, they appeared to be reluctant to take any step which was incompatible with domestic economic policies.

Secondly, in spite of the simple identification of seven areas, namely, economic, social, cultural, technical, scientific and administrative, and the indication that the member countries desired to promote their co-operation in such areas, the ASEAN Declaration, which was the sole constitutional basis of ASEAN up to 1976, did not provide any specific or planned economic programme for members to carry out over a definite period. Therefore, it took some time for ASEAN to work out appropriate areas on which they could promote regional co-operation.

The third factor was the structural weakness which prevented ASEAN from developing its own bureaucratic system that was essential for effective policy formulation and implementation. National Secretariats were established in each member country and their task was to make recommendations to the Standing Committee consisting of the Foreign Minister of the host country and the accredited ambassadors of the other four members. The Standing Committee was created to provide with continuity in between the meetings of the Foreign Ministers whose annual meeting was the highest decision making body. In addition, there were various permanent and ad hoc committees, whose task was to make recommendations to the national secretariats. This was certainly a very complicated system which consistently consumed a considerable amount of time in between the period of making

decisions and implementing them.

The first nine years could be regarded as a period during which ASEAN was predominantly engaged in explorative activities by establishing various committees. These committees were assigned to seek ways and means of promoting regional economic co-operation. During this period the following committees were established:

- | | |
|---|--------|
| 1. Food Production and Supply | - 1968 |
| 2. Civil Air Transportation | - 1968 |
| 3. Communications, Air Traffic Services and Meteorology | - 1968 |
| 4. Shipping | - 1968 |
| 5. Tourism | - 1969 |
| 6. Finance | - 1969 |
| 7. Commerce and Industry | - 1969 |
| 8. Mass Media | - 1969 |

With regard to the promotion of intra-regional trade and industrial development, no satisfactory progress was achieved during this period. However, ASEAN participated in a study carried out by the United Nations' experts group on ASEAN economies. The study group produced in 1972 a report that suggested three main techniques for the promotion of intra-regional trade and industrial development. But until 1976, ASEAN did not take any steps regarding the implementation of the proposed techniques. During the first nine years, ASEAN efforts were basically limited to the promotion of co-operation in non-controversial areas like tourism, cultural affairs, mass media and so on.

With regard to extra-ASEAN economic relations, a number of steps were taken to develop economic relations with the EEC and Australia.

The Special Co-ordinating Committee of ASEAN (SCCAN) and the ASEAN Brussels Committee (ABC) were established in 1971 to conduct trade and economic relations with the EEC, while the ASEAN-Australian Dialogue was founded in 1974. The ASEAN-Geneva Committee was formed in 1971 to formulate an ASEAN joint approach to the Multilateral Trade Negotiations of GATT. However, taken as a whole, progress made by ASEAN in the sphere of extra-regional economic co-operation, during the first period, remained far from satisfactory.

The second period, starting after the Bali summit of 1976, has been more important. During this period ASEAN has made modest progress both in terms of its internal economic activities and in terms of its bargaining with external parties. At the Bali summit, a decision was taken to re-structure the administrative machinery of ASEAN. Accordingly, in 1976, an agreement was reached to establish an ASEAN Central Secretariat consisting of a Secretary General, three bureau directors (economic, science and technology, social and cultural), four additional administrative officers and clerical staff. What authority the Secretariat can exercise has not been fully defined, but it is responsible for planning and co-ordinating the work of ASEAN.

The heads of ASEAN also agreed to allow the other Ministers Meetings in their respective fields, when required or considered necessary, to discuss or lay out the programmes for co-operation in such fields. After the Bali summit, five other Ministerial Meetings have been set up as follows: Economic, Labour, Social Welfare, Education and Information. Of these, ASEAN Economic Ministers have acquired a place essentially equal to the Foreign Ministers and they have dominated in policy formulation and implementation in the

economic sphere since the Bali summit. In March 1976, the Economic Ministers decided to re-structure the existing committees on economic matters, and set up their own committees as follows:

1. Committee on Trade and Tourism,
2. Committee on Industry, Energy and Minerals,
3. Committee on Food, Agriculture and Forestry,
4. Committee on Transportation and Communication,
5. Committee on Finance and Banking.

The old committees have been merged into these new committees which are responsible to the Economic Ministers who in turn can communicate directly with the heads of state.

The Declaration of ASEAN Concord signed at the Bali summit provided a fairly detailed 'Programme of Action' on the economic front thus filling the lacuna left by the ASEAN Declaration. The Programme has identified four major areas - basic commodities, industrial development, trade and international commodity problems and other world economic problems - in which the member countries can promote their active co-operation.⁷⁸

Thus in the period after the Bali summit ASEAN economic activities have spanned over a wide range of areas of which three areas are particularly important. They are: the promotion of intra-regional trade and industrial development, an increasing participation in the promotion of the new international economic order goals, and co-operation in extra-regional trade. ASEAN's performances in these three areas are discussed in detail in the next four chapters.

FOOTNOTES - CHAPTER 1.

1. The term Southeast Asia is used to describe the countries which lie between India, China, Australia and the open expanse of the Pacific Ocean. Source for the statistics: Arnfinn Jorgensen-Dahl, "Policy Externalisation in Regional Integration with Special Reference to ASEAN". Paper presented to Australian Political Studies Association Conference, Armidale, N.S.W., August 24-26, 1977. p. 2.
2. For a brief account on the factors accounting for the formation of ASA, see Charles E. Morrison & Astri Suhrke, *Strategies of Survival: The Foreign Policy Dilemmas of Smaller States*, University of Queensland Press, Queensland, 1978, pp. 266-268.
3. Shee Poon Kim, "ASEAN : Politics of Regional Co-operation", Occasional Paper Series, No. 21, Nanyang University, Singapore, p. 3.
4. *Australian Foreign Affairs Record*, December 1974, p. 280.
5. Dick Wilson, *Asia Awakes*, Pelican, 1970, p. 280.
6. Shee Poon Kim, *op.cit.*, p.13.
7. *Ibid.*
8. Interview given by Foreign Minister Thanat Khoman to Peter Kumpa of *The Baltimore Sun*, Ian Wright of *The Guardian*, (London) and John Sterling of *The London Observer*, Bangkok, 10 February 1969. Permanent Mission of Thailand to the U.N., Press Release, 25th February, 1969.
9. *10 Years ASEAN*, ASEAN Secretariat, Jakarta, 1978, p. 98.
10. Arnfinn Jorgensen-Dahl.
11. Barbara F. Pace, K. Yong, K. Rafferty and Bernard K. Gordon, "Regional Co-operation in Southeast Asia : The First Two Years of ASEAN 1967-1969", Strategic Department Report, RAC-R.98.2, October, 1970, p. 39.
12. Arnfinn Jorgensen-Dahl, *op.cit.*, p. 4.
13. *Ibid.*, p. 5.
14. Quoted in Arnfinn Jorgensen-Dahl, *op.cit.*, p. 6.
15. *Ibid.*, p. 5.
16. Article II, Treaty of Amity and Co-operation. For the full text of the Treaty, see, Appendix no.3.
17. Barbara F. Pace & Others, *op.cit.*, pp. 9-10.

18. *The Times of India*, 3.2.76, p. 8.
19. *Ibid.* Also see Shee Poon Kim, *op.cit.*, p. 8.
20. *The Melbourne Age*, 10.10.75, p. 8.
21. *Ibid.*
22. *The Times of India*, 3.2.76
23. *Djakarta Times*, 25.4.72, p. 2. Also see Malcolm Caldwell, "Asianization", *Journal of Contemporary Asia*, Vol. 4, No. 1, 1974, p. 41.
24. Arnfinn Jorgensen-Dahl, *op.cit.*,
25. SEATO was founded in 1954 with the signing of a collective defence treaty by Australia, New Zealand, France, the United Kingdom, the United States, Pakistan, the Philippines and Thailand following the defeat of the French military troops in Indo-China. An agreement was reached by the member countries to phase out the organization with effect from 30 June, 1977. See Justus M. Vander-kroef, "The lives of SEATO", Occasional Paper No. 45, ISEAS, Singapore, 1976.
26. Peter Calvocoressi, *World Politics Since 1945*, Longman, London, 1971, p. 297; also see Herbert Feith, "Growth and Development in Asia : Some Criticisms of Conventional Approaches", Lecture to the Asian Leadership Development Centre of World Student Christian Federation, Tosanzo, Japan, October 1972, pp. 2-3.
27. Arnfinn Jorgensen-Dahl, "Extra-Regional Influences on Regional Co-operation in Southeast Asia", *Pacific Community*, Vol.8. No. 3, April 1977, p. 414. Also see his, *Southeast Asia and Theories of Regional Integration*, Unpublished Ph.D. Thesis, Research School of Pacific Studies, Australian National University, May 1975. Also see Barbara F. Pace and Others, *op.cit.* pp. 11-12.
28. Quoted in *The Strait Times*, 14.8.67.
29. *Peking Review*, December 1967, p. 41.
30. See *The Strait Times*, 30.9.67, p.1; 17.12.69, p.8; 18.12.69, p.1. *Bangkok World*, 21.3.68, p.3; 13.8.67, p.3; 17.12.69, p.25. *Manila Bulletin*, 13.8.67, p.1. *Djakarta Times*, 16.3.72 p.1. *The Times of India*, 31.8.67, p.3.
31. See Richard M. Nixon, *U.S. Foreign Policy for the 1970's: A New Strategy for Peace*, Presidential Report to the Congress, February 1970, pp. 53-70. Also see Lau Teik Soon (ed.) *New Directions in the International Relations in Southeast-Asia*, Singapore University Press, Singapore, 1973.
32. Lau Teik Soon (ed.), *op.cit.*, p. 49.

33. *Ibid.*, pp. 100-101.
34. *Ibid.*
45. *Ibid.*, pp. 46-54.
36. *Ibid.*, p. 49.
37. Arnfinn Jorgensen-Dahl, "Policy Externalisation in Regional Integration with Special Reference to ASEAN", *op.cit.*, p. 7.
38. *Ibid.*, p. 7.
39. *Ibid.*, p. 7.
40. When the Albanian Resolution was adopted Malaysia and Singapore voted for it. Thailand and Indonesia abstained and the Philippines voted against. The apparent disagreement of Indonesia, Thailand and the Philippines was not about the desirability of China's membership in the U.N. but about the question of whether Taiwan (the Republic of China) should be excluded from the U.N. on the admission of Peking. See *Asian Almanac*, 8.1.72.
41. *Far Eastern Economic Review*, Year Book, 1977, p. 283.
42. Arnfinn Jorgensen-Dahl, *op.cit.*, p. 7.
43. Charles E. Morrison & Astri Suhrke, *op.cit.*, p. 221.
44. Arnfinn Jorgensen-Dahl, *op.cit.*, p. 7.
45. Charles E. Morrison & Astri Suhrke, *op.cit.*, p. 221.
46. *Ibid.*, p. 221.
47. *Far Eastern Economic Review*, Year Book, 1977, p. 190.
48. The Pentagon has calculated that the North Vietnam acquired about US\$ 2 billion worth of serviceable American-made planes, tanks, artillery pieces, ammunition and other equipment when South Vietnam fell in April 1975. *The Strait Times*, 26.6.75.
49. *The Melbourne Age*, 6.3.76, p. 17.
50. *Asian Almanac*, 10.10.76, p. 7879.
51. *Ibid.*
52. *Ibid.*, p. 7878.
53. *Asian Research Bulletin*, Supplement, 6.7.76, pp. 224-225.
54. *The Strait Times*, 5.1.78, p. 12.

55. For example, during the first tour Thailand was excluded. During the second and third tours Singapore was excluded.
56. *Far Eastern Economic Review*, 23.7.76, p. 8.
57. Harold Crouch, "Southeast Asia in 1977" in *Southeast Asian Affairs*, ISEAS, Singapore, 1978, p. 4.
58. *Ibid.*
59. *Ibid.*
60. *Asian Wall Street Journal*, 26.1.79; pp. 1 & 10.
61. *Ibid.*
62. *The Indonesian Times*, 19.1.79, p. 1.
63. *Mercury* (Tasmania), 16.5.79, p. 3.
64. *Ibid.*
65. The Kuala Lumpur Declaration signed by the ASEAN Foreign Ministers in Kuala Lumpur in 1971. For the full text of the Declaration see Appendix No.4.
66. *Asian Almanac*, 10.10.66, p. 7878.
67. J. Soedjati Djiwandono, "Neutralization: A New Hope of Southeast Asia", *The Indonesian Quarterly*, Vol. 1, No.2, January 1973, p. 76.
68. *Asian Almanac*, , p. 4981.
69. J.S. Djiwandono, *op.cit.*, p. 68.
70. *Asian Almanac*, p. 4981.
71. *The Strait Times*, 17.5.78, p. 1.
72. *Asian Almanac*, p. 7996.
73. *Ibid.*, p. 4982.
74. J.S. Djiwandono, *op.cit.*, p. 69.
75. *Asian Almanac*, p. 4981.
76. The Bangkok Declaration, Part II, Aims and Objectives. For the full text of the Declaration see Appendix No.1.
77. John Wong, "The ASEAN Economies", ERC Occasional Paper Series, No.1, Singapore, 1977, pp. 7-9.
78. The Declaration of ASEAN Concord, Part II, Programme of Action. For the full text of the Declaration see Appendix No.2.

CHAPTER II.

ASEAN: ROLE TOWARDS THE PROMOTION OF INTRA-REGIONAL ECONOMIC CO-OPERATION.

This chapter investigates the role of ASEAN towards the promotion of regional economic co-operation with special reference to intra-regional trade and industrial development. These two areas have been the focal points of ASEAN's economic co-operation since its establishment in 1967.

The Structure of ASEAN Economies

The ASEAN economies have many differences, but also much in common. They are not only different in the size of economies, but also in their level or degree of economic development. Singapore is the most developed country of ASEAN with a per capita income of US\$ 2594 per year, while Indonesia is the least developed country with a per capita income of US\$ 267 per year. Table 2.1 provides basic data of total and per capita Gross Domestic Product.

Table 2.1
Total and Per Capita Gross Domestic
Product of ASEAN Countries - 1977

Country	Total GDP. in US\$m.	Per Capita GDP US\$
Indonesia	37269	267
Malaysia	11020	896
Philippines	17795	407
Singapore	5915	2594
Thailand	16283	379

Source : *UNO National Account Statistics, 1977.*

Table 2.2 provides data relating to the percentage value of sectoral contribution to the GDP of ASEAN countries.

Table 2.2

Percentage Distribution of GDP at Constant Prices. By Industrial Origin, 1976.

	Indonesia	Malaysia	Philip- pines	Singapore	Thailand
1. Agriculture Forestry & Fishing	36.1	29.9	26.4	1.6	26.4
2. Mining & Quarrying	11.6	4.3	2.0	0.4	1.0
3. Manufacturing	11.1	15.9	24.1	20.1	20.3
4. Electricity,gas & water supply	0.6	2.6	0.9	2.7	3.3
5. Construction	4.7	4.5	6.8	6.1	4.0
6. Transport & Communication	4.2	7.0	4.8	14.1	6.7
7. Wholesale &) Retail Trade)		13.4	21.8	27.9	16.5
8. Banking &) Finance)	31.7			11.0	5.1
9. Ownership of) Dwelling)		22.4		3.9	1.6
10. Public Admini-) stration &) defence)			13.1	3.8	4.3
11. Services)				8.4	10.8

Source : *Far Eastern Economic Review Year Book, 1978, p. 72.*
Data based on *ADB Key Indicators 1977*

As the table indicates, the agricultural sector still remains a major contributor to the Gross Domestic Product of ASEAN countries,

except in Singapore where the major contributor is wholesale and retail trade. Indonesia has the biggest agricultural sector which in 1977, accounted for 36 per cent of the Gross Domestic Product. In the same year, the contribution of the agricultural sector to Malaysian Gross Domestic Product was 30 per cent, while in the Philippines and Thailand, the amount was 26 per cent. The agricultural sector of each country consists of two sections - the small scale rural agricultural and the large scale commercial plantation sector. The products of commercial plantation sector, such as rubber, coconut, palm oil and sugar are the main sources of foreign exchange for these four countries.

The second most important sector of the Indonesian economy is mining. The contribution of this sector to the Gross Domestic Product in 1977, was about 12 per cent. In Malaysia too, the mining sector is important, but it is not as important as in Indonesia, and the contribution to GDP in 1977 was only 4.3 per cent.

The second most important sector of the economies in the Philippines, Malaysia, Singapore and Thailand is the manufacturing sector. The contribution of this sector to the GDP was 16 per cent in Malaysia, 24 per cent in the Philippines, 20 per cent in Singapore and Thailand. In Indonesia, the contribution was only 11 per cent. The manufacturing sector mainly consists of labour intensive industries except in Singapore, where the manufacturing sector is relatively diversified compared to the other four countries.

All the ASEAN countries are open market economies. Hence international trade plays an essential and important role in the economic development of these countries. In other words, all of them are "export-led" economies. With regard to international trade, two important features can be seen. The first one is the heavy dependency of

ASEAN countries (excluding Singapore) on the export of primary products. The second one is their heavy reliance on industrialised market economies for their trade.

ASEAN countries export mainly raw materials and commodities. The export of manufactured products appears to have increased in recent years, yet, traditional exports - raw materials and commodities - still dominate the export sector of Indonesia, Malaysia, the Philippines and Thailand accounting for 60-70 per cent of their total foreign exchange earnings.¹ In recent years most of the international commodity markets have been characterised by a number of problems such as frequent fluctuations in prices and demand, increased use of substitutes and deteriorating terms of trade. Instability of the commodity markets has resulted in the instability of export earnings which in turn has adversely affected economic development in most of the ASEAN countries.

As mentioned before, another important feature in the trade relations of ASEAN countries, is their heavy dependence on the markets of the industrialised countries, particularly those of Japan, U.S.A., and EEC. For example, in 1964, 70 per cent of the region's total exports went to industrialised countries which in turn supplied 66 per cent of the region's total imports.² In 1977, 64 per cent of ASEAN's total exports went to industrialised countries, while ASEAN obtained 57 per cent of its total imports from industrialised countries.³ These figures clearly indicate the degree of dependence of ASEAN countries on industrialised countries for their trade. This high degree of dependence can be regarded as a direct result of the heavy reliance on the export of primary products. The industrialised countries of the West and Japan happen to be major consumers of these primary products. As a consequence of this heavy dependence, ASEAN

economies appear to be always vulnerable to adverse developments in industrialised countries. That in turn, hinders them from more self-reliant economic development.

Table 2.3 provides data relating to intra-ASEAN trade.

Table 2.3
Intra-ASEAN trade

Year	Total ASEAN Foreign Trade (US\$m.)	Total Intra-ASEAN Trade (US\$m.)	Intra-ASEAN trade as Per Cent of Total Foreign Trade of ASEAN
1968	10,981	1,952	17.8
1969	12,250	2,215	18.1
1970	13,700	2,325	17.0
1971	14,807	2,461	16.6
1972	17,473	2,780	15.9
1973	28,047	4,399	15.7
1974	46,378	6,542	14.1
1976	52,823	7,029	13.3

Source: Amado. A. Castro, "Economic Co-operation in ASEAN", Paper presented to the Tenth Pacific Trade and Development Conference, A.N.U., Canberra, March 19-23, 1979, p. 14.

As the figures indicate, not only does intra-ASEAN trade remain at a very low level, but also it is gradually declining. During the period concerned, intra-ASEAN trade fell by 4.5 per cent from 17.8 per cent in 1968 to 13.3 per cent in 1976. This low level of trade among ASEAN countries can be regarded as another result of their heavy dependence on industrialised countries.⁴

Motivations for Regional Co-operation

Though ASEAN countries have long been regarded as "export led countries", it seems that the existing pattern of international trade, based mainly on the export of primary products (excluding Singapore), will not be able to lead ASEAN economies into a real take-off either in the short-run or in the long-run. The most effective way to reduce the current over-dependency on primary products is the export diversification which involves further attempts to expand the manufacturing sector.

Recent efforts of ASEAN countries to diversify exports through re-directing resources into manufacturing sector have been weakened by a number of problems, the most important being the marketing of manufactured products. The marketing problem can be viewed from two angles. Firstly, the internal markets for manufactured products are very limited mainly because of the low level of purchasing power of the people. This is clearly evident from the fact that the existing markets have failed even to absorb the current industrial output produced by the five countries at their current production capacity. Therefore, until per capita incomes rise significantly, it is difficult for ASEAN countries to adopt new industrialization policies aimed at the local markets. Secondly, access to foreign markets, in particular OECD markets, also seems to be limited, because of the various protectionist policies imposed on the manufactured products of developing countries. As UNCTAD reported, "... the barriers to manufactured export from the developing countries are much more restrictive on the whole than those for manufactured exports from the developed countries".⁵ International competition is another factor which limits ASEAN's manufactured products entering into developed

countries markets.

It is quite obvious that the current problems and obstacles faced by ASEAN countries with regard to industrialization, may not be easily overcome by unilateral efforts. Therefore, the most effective and well accepted way to overcome these problems is regional economic co-operation, because such co-operation would provide the basis for ASEAN countries to⁶:

- (a) achieve incremental industrialization - to set up industries on a regional market basis, that cannot be economically set up on a national market basis;
- (b) rationalize existing high-cost national-market-based industries - to improve manufacturing economies through converting such industries into regional market-based industries;
- (c) Improve production economies by eventually regionalising the market for all products where significant production economies can be gained through increasing the scale of production.

Techniques for Regional Co-operation : The Kansu Proposals

The Kansu report (also known as the Austin Robinson Report) is a result of an economic survey carried out on ASEAN economies during the period of 1970-1972, by the Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations in co-operation with the ECAFE, UNCTAD and FAO.

The Kansu report suggests three possible alternative ways and means for ASEAN to promote regional co-operation on trade and industrial development. The first is the selective trade liberalization in selected commodities to be implemented through inter-governmental

negotiations. This approach aims at providing an approximately balanced expansion of trade among the ASEAN countries. The long-term objective of this recommendation is to create a "free trade zone" in the ASEAN region by removing all tariffs and quantitative restrictions.

Secondly, the report advocates Industrial Complementarity Agreements. These kinds of agreement, according to the Kansu report, can be negotiated by representatives of the private sector in a specific industry so that they may work out together proposals for specialization and an exchange of products within the industry. As the Kansu report indicates, "... the complementarity approach permits an ad hoc approach to trade liberalization; it can be implemented progressively, it is highly flexible with the possibility of a different combination of commitments for each industry as well as freedom for any country to accept or decline membership of any particular industrial agreement, it involves a minimum of initial expected risk and at the outside it commits governments only to a process of negotiation, rather than to outright obligations".⁷

The recommended product areas to be brought under the complementarity agreements covered: the production of appliances and apparatus, rubber products, motor vehicles, agricultural machinery, electrical and non-electrical power generating equipment, building materials, chemicals and petrochemicals, processed foodstuffs and drycell batteries.

Thirdly, the report suggests package deal arrangements in the form of joint industrial projects. Under this approach, certain large-scale industrial projects are allocated to each member country for an agreed and limited period of time. Member countries should grant

unconditional trade liberalization measures and other necessary incentives to imports of the manufactured goods from the particular country to which the project has been allocated.

The Kansu report has outlined thirteen possible joint industrial projects which can be brought under the package deal arrangements. They are: nitrogenous and phosphate fertiliser, carbon black, demethyl terephthalate, newsprints, combustion engines, compressors, typewriters, heavy-duty rubber tyres, metal working machine tools, electronic tin plating, TV picture tubes, fisheries and potash. In addition, the Kansu report has further shown several other areas such as agriculture, forestry, shipping, monetary, finance and insurance in which ASEAN can actively promote regional co-operation.

Implementation of the Kansu Proposals.

Even though the Kansu report was put forward in 1972, prior to 1976, only a little progress was accomplished with regard to the implementation of the Kansu proposals.

In the period after 1976, there have been numerous efforts to implement all the three techniques suggested by the Kansu report. Initial steps were taken at the Bali summit meeting in February 1976 and the second meeting of the ASEAN Economic Ministers held in March in the same year. At the Bali summit, the heads of ASEAN states unanimously accepted that rapid economic progress in the member countries was essential if they were to deal actively both with internal and regional political problems. The heads of states strongly emphasised the necessity to increase economic co-operation between their states and it was agreed to assign the Economic Ministers the task of seeking ways and means of promoting regional economic

co-operation in such areas as basic commodities, in particular food and energy, industrial development, intra-regional trade and international trade. They were also to consider an ASEAN joint approach to international commodity problems and the other world economic problems. The Heads of States also outlined the basic guidelines of future co-operation in intra-regional trade and industrial development. These guidelines were embodied in the Declaration of ASEAN Concord. According to the Declaration, co-operation among the member countries on industrial development should be based on the following principles⁸:

- I. Member states shall co-operate to establish large-scale ASEAN industrial plants, particularly to meet regional requirements of essential commodities.
- II. Priority shall be given to projects which utilize the available materials in the member states, contribute to the increase of food production, increase foreign exchange and create employment.

Referring to the promotion of intra-regional trade, the Declaration states⁹:

- I. Member states shall co-operate in the fields of trade in order to promote development and growth of new production and trade, and to improve further development and to safeguard and increase their foreign exchange earnings and reserves.
- II. Member states shall progress towards the establishment of preferential trading arrangements as a long-term objective on a basis deemed to be at any particular time, appropriate through rounds of negotiations subject to the unanimous agreement of member states.
- III. The expansion of trade among member states shall

be facilitated through co-operation on basic commodities, particularly in food and energy and through co-operation in ASEAN industrial projects.

Major Developments in ASEAN Economic Co-operation Since the Bali Summit of 1976.

(a) Liberalization of Trade

One important development in this area has been the introduction of preferential trading arrangements which came into effect in January 1978, with the signing of the 'Agreement on Preferential Trading Arrangements' (APTA) by the ASEAN Economic Ministers at their third meeting held in February 1977.

Under the Agreement, the five member countries have agreed in principle to "... co-operate through mutual assistance in respect of basic commodities, particularly food and energy, provision of market support for the products of the ASEAN trade and increase in the utilization of raw materials available in the Contracting States".¹⁰ The Agreement suggests five techniques for the introduction of preferential trading arrangements. They are:

- I. Long-term quantity contracts.
- II. Purchase of financial support at preferential interest rates.
- III. Preference in procurement by government entities.
- IV. Extension of tariff preferences.
- V. Liberalization of non-tariff measures on a preferential basis.

According to the Agreement, long-term quantity contracts shall apply to selected products subject to specific agreements negotiated

by the member countries. The negotiated contracts shall be for a period of three years to five years, depending on the products and quantities to be agreed upon, and subject to annual review where appropriate. The second technique may be applied to either exports or imports from the member states of selected products of ASEAN domestic origin to be covered by the preferential trading arrangements. As regards the third technique, the member countries agreed to send pre-tender notices for international tenders to the Missions of the member states in the relevant ASEAN capital. In this regard, the member countries have further agreed: "Subject to such provisions as may be embodied in supplementary agreement on Government procurement and to the rules of origin to be subsequently decided, Contracting States shall accord each other a preferential margin of $2\frac{1}{2}\%$ which should not exceed US\$ 40,000 worth of preferences per tender in respect of international tenders for Government procurement of goods and auxiliary services from united loans submitted by ASEAN countries vis-a-vis non-ASEAN countries".¹¹ With regard to the last two techniques, the member countries have agreed to accord an ASEAN margin of tariff preferences which may be decided through negotiations on a product by product basis.

The Committee on Trade and Tourism (CTT) is responsible for the conduct of negotiations on products which are eligible for tariff preferences. The trade preferences negotiations take place every quarter and the member countries have agreed that each member will present 100 items for preferences at each round of discussions. Under the first agreement which came into effect on 1 January 1978, preferential trading arrangements were made on 71 products, and subsequently were extended to cover a further 753 products, bringing the total number

to 824. At their seventh meeting held in December 1978, the Economic Ministers approved 500 additional items to be implemented with effect from 15 March 1979, thus bringing to 1324 the total number eligible for tariff preferences. These products are accorded reduced tariffs which range between 10 per cent and 30 per cent.

At present, much emphasis has been placed on primary products. The member countries have reached an agreement to assist each other in the trade and marketing of rice and oil. Through preferential trading arrangements, member countries will accord each other priority to supply and priority of purchase in critical circumstances, in times of shortage and excess supply. For rice, ASEAN exporting countries will in time of shortage, give the ASEAN importing countries the option of first refusal on available supplies. In return, in time of excess supply, the ASEAN importing countries will give the option of first refusal on their commercial requirements to the ASEAN exporting countries.

In the case of oil and oil products, an emergency-sharing scheme in circumstances of shortage and excess supply has been adopted. According to the scheme, in the case of critical shortage, oil exporting members of ASEAN will assist any member affected by an oil shortage while in the reverse case of excess supply, the exporting member countries will be assisted by others in preventing the effects of over-supply from causing disruption in their economies.

The current preferential trading arrangements do not provide tariff reductions for manufactured products. However, the five members have agreed to hold discussions continually on manufactured products on a product by product basis. Thus at the present stage, tariff preferences for manufactured products will be granted on the basis of offers

and requests. Such negotiations have already been undertaken, but no agreement has been reached to date on a collective basis. However, as a result of the efforts by Singapore, two bilateral agreements on manufactured goods were concluded in the early 1977, one between Singapore and the Philippines, and the other between the former and Thailand. By these agreements, the Philippines agreed to reduce tariffs on all the manufactured goods by 10 per cent, while Thailand agreed to cut tariffs by the same amount but on selected groups of manufactured goods.

II. Co-operation in Industrial Development

(a) Package Deal Arrangements

At the Bali summit, it was decided to assign the Economic Ministers to formulate appropriate measures for initiating co-operative action towards the establishment of ASEAN large-scale industrial projects as recommended by the Kansu report under the package deal industrial arrangements. The Economic Ministers were further instructed to give special consideration to the establishment of such industries as urea, superphosphates, potash, petro-chemicals, steel, soda-ash, newsprint, and rubber products.

Just one month after the Bali summit, in March 1976, the Economic Ministers met in Kuala Lumpur to review the Bali proposals relating to the establishment of ASEAN joint industrial projects, and decided to appoint an Experts Group with the following terms of reference¹²:

- (i) Examine the feasibility of immediately establishing the following projects as ASEAN industrial plants:-

Indonesia	- Urea
Malaysia	- Urea
Philippines	- Superphosphates
Singapore	- Diesel Engines
Thailand	- Soda-ash

- (ii) Investigate the technical and economic feasibility of establishing additional manufacturing capacity within the region to supply regional requirements for newsprint and potash.
- (iii) Consult with one another on national programmes for development of integrated steel and basic petrochemical industries with a view to co-ordinating these programmes, avoiding unnecessary duplication and competition, so as to achieve maximum benefits for the ASEAN region as a whole, and
- (iv) Exchange information on various sectors of national industrial development programme with a view to identifying possibilities for complementation among the existing industries in the region.

The Economic Ministers also agreed to invite member countries to propose other industrial projects for adoption as ASEAN industrial projects to be established and operated within a reasonable period. In this regard, they further agreed that the Experts Group should also carry out feasibility studies on the following projects:-

- (i) Metalworking Machine Tools
- (ii) Fisheries
- (iii) Electrolytic tin plating
- (iv) Heavy-duty rubber tyres, and
- (v) Electronic components.

It was agreed that the five proposed industrial projects would be established as joint ventures, with all the member countries participating in the equity and sharing in the profits and risks. Each project was expected to cost about US\$ 200-300 million, and would be built on a scale large enough to supply the entire ASEAN market. It was further agreed that the equity investment would be shared by the five countries in the following manner - 60 per cent by the host country and 40 per cent by the other four countries, each contributing 10 per cent.

The five projects were launched with a view to speeding up the region's food production. Four projects - two urea plants, super-phosphate and soda-ash - were mainly concerned with the region's fertilizer requirements while diesel engine plant aimed at supplying the region's agricultural machinery.

To date, three feasibility studies - Malaysian and Indonesian urea projects, and Thailand's soda-ash project - have been completed and all of them have been approved by the Foreign Ministers. The Philippines have yet to complete the feasibility study. It has been reported that, if the allocated phosphate project be found not feasible, the Philippines will propose a newsprint project.¹³ Singapore has withdrawn its diesel engine plant as the member countries could not come to an agreement over the preferential trading arrangements for Singapore's diesel engine products.

(b) Industrial Complementarity Agreements

ASEAN Chamber of Commerce and Industry (ASEAN - CCI) was organized in Jakarta on April 28, 1972, in keeping with the objectives of ASEAN. One objective of the ASEAN-CCI is to create regional industry

clubs as the principal vehicles for implementing industrial complementation as suggested by the Kansu report. The following regional industry clubs have been formed under the auspices of the ASEAN-CCI.

ASEAN-CCI Industry Clubs

Product Line	Founding Date	Areas under Consideration
1. Agricultural machinery	n/a	n/a
2. Automotive products	June 1976	parts complementarity proposal
3. Cement	March 1977	preferences, standards, joint research
4. Chemicals	April 1977	joint project, preferences, training
5. Electrical and electronic	July 1977	complementation, standards, preferences
6. Food processing	April 1978	joint storage, marketing, new processing projects, and preferences
7. Furniture	Nov. 1978	materials exchanges, joint marketing, parts complementation
8. Glass	July 1977	complementation, preferences, materials
9. Iron and Steel	April 1978	complementation of products, joint materials supply
10. Pulp and paper	April 1978	standards, complementation
11. Rubber products	May 1977	tyres preferences and customs standardisation
12. Textiles	Nov. 1978	n/a

Source: H. Edward English, "ASEAN's Quest for Allocative Efficiency in Manufacturing - Some Preliminary Perspectives on the Role of Complementation and Trade Policies". Paper presented to the Tenth Pacific Trade and Development Conference, A.N.U., Canberra, March 19-23, 1979, p.9.

Apart from these, six other industrial clubs are in the formative stages - those concerned with leather products, ceramics, cord ropes, twine and net, non-electrical machinery, shipbuilding and ship repair, and non-ferrous metals.

The regional industry clubs are private sector organizations composed of associations or federations representing one particular industry. Each regional industry club is a self-contained organization with its own operational and administrative structure. However, they must work under the supervision of the ASEAN Working Group on Industrial Complementmentation (AWGIC). For the formation of a regional industry club, at least three national industry clubs must have formed and consolidated into an organization. The organization must be recognized by the AWGIC and the ASEAN-CCI. Before a national industry club can join a regional industry club, it must get recognition and endorsement from its national chamber of commerce. The basic objective of the industry clubs is to achieve industrial complementmentation within particular industries within ASEAN.

The original guidelines for ASEAN industrial complementmentation were adopted at the eighth meeting of the ASEAN Foreign Ministers held in May 1976, and subsequently they were further developed and expanded by the ASEAN-CCI. The new guidelines are yet to be approved by the Foreign Ministers. However, on the recommendation of the ASEAN-CCI, the ASEAN governments have agreed to formulate a comprehensive guideline scheme to be used at the government level and for this purpose a team of experts has been appointed.

According to the ASEAN-CCI guidelines, the industrial complementmentation activities should be carried out on the following principles¹⁴:

1. That a Complementmentation Project is a programme for

exchanging products, parts or components among the ASEAN enterprises, or other entities, accredited by the Committee of Industry of the ASEAN Economic Ministers.

2. That ASEAN governments shall determine the value added percentage that must be the ASEAN content (i.e., exclusive or non-ASEAN materials and components) in order that the product of the complementation project can constitute an "ASEAN product".
3. That the ASEAN governments shall also have the power to determine "accredited capacity" covered by the complementation project that will satisfy "the needs of the ASEAN market at reasonable prices".

With regard to ownership, the following arrangements have been adopted. Firstly, all the member countries are encouraged to participate in the equity, with the major part of each project to be held by ASEAN nationals. Secondly, non-ASEAN participants are allowed to join industrial projects, but the membership should be approved by all members. In special circumstances control by foreigners is not precluded. Thirdly, avoidance of any discrimination against ASEAN countries controlling property in a complementation project is assured by basic rights such as compensation for nationalization and access to capital and earnings.

The guidelines provide the following protective and incentive measures in support of ASEAN national investors and duly accredited ASEAN industrial complementation projects.¹⁵

1. Access to all ASEAN markets is to be provided on a bilateral or multilateral basis.
2. Preferential access relative to non-ASEAN products shall be established.

3. Assurance of continuity of access to relevant raw materials is to be provided by whole or partial exemption of such products from national taxes and import duties and appropriate use of long term contracts.
4. Utilisation of ASEAN technology is favoured where possible.
5. Preferences for ASEAN products shall be granted only where ASEAN content is sufficient, and governments are called upon themselves to adopt purchasing policies favouring ASEAN products.

Other supports and incentives include control over competing productive capacity, liberal loan financing, special tax incentives, support services and infrastructure conducive to the success of complementation projects.

The industries covered by the industrial clubs can be categorized into four. First, resources based processing and manufacturing industries with some world market potential. Second, resources based industries with regional markets only. Third, relatively labour intensive manufacture with some world market potential, and finally, capital and skill-intensive industries with mainly regional market potential. The following table provides a summary by country of principal manufacturing development opportunities in sectors covered by industry clubs.¹⁶

Indonesia	- Wood products, including rattan and other furniture; Petrochemicals and products; Textiles and Consumer durable components.
Malaysia	- Rubber products, processed foods - oils, spices, electrical and other producer equipment.

- Philippines - Industrial chemicals, Forest products, including furniture and pulp, Textiles and Clothing, Industrial electrical equipment, Consumer durables components.
- Singapore - Basic petrochemicals, Electronic products, Engineering, especially precision products.
- Thailand - Wood and rattan products, Processed foods - oils, livestock products, Specialised textiles.

Conclusion

Taken as a whole, ASEAN's performances in the promotion of intra-regional trade and industrial development, even after the Bali summit, remain far from satisfactory. Though recent developments indicate that the five countries are fully aware of the advantages that may accrue from regional co-operation, there are many differences and disagreements among them over the form and pace of regional economic co-operation.

One important area where many differences can be seen, is the regional specialization of industries. Since primary products constitute only a very small fraction of total intra-ASEAN trade, the main scope for expansion of trade lies in manufactured goods. However, ASEAN has so far failed to reach consensus on a comprehensive trade liberalization programme based on the establishment of a free trade zone. The principal reason is economic nationalism resulting from existing differences in the level of industrial development and industrial efficiency among the member countries. Though the establishment of a free trade area will result in a more efficient resources allocation, as well as accelerated investments, at this stage free trade seems to be politically not feasible because of the fear of an

unequal distribution of welfare gains. A comprehensive trade liberalization programme may give unequal advantage to some ASEAN members who have more efficient industries so that industrial growth in the less developed members is adversely affected.¹⁷

At present only two members - Singapore and the Philippines - are interested in the establishment of a free trade area. The reason is obvious; they are the most industrialised countries of ASEAN. Malaysia and Thailand support the idea, but their attitudes are quite different from those of Singapore and the Philippines. Indonesia at present is not keen at all on a free trade area. When the proposal for the establishment of a free trade area was put forward by Singapore, the then Foreign Minister of Indonesia, Adam Malik, was reported to have said, "Singapore is a capital of shops. Lee Kuan Yew wants the business side of ASEAN to be the dominant of the organization. And if this is so, of course his dream will be to have a free trade zone, so that all his goods can enter Indonesia, with its population of 130 million people. Free trade will be the last objective for the progress of ASEAN. It was not trade, but industries that should be developed."¹⁸

Owing to these conflicting economic interests, the establishment of a free trade area has not been accepted by ASEAN even as a near term objective. Instead, ASEAN opted trade liberalization through preferential trading arrangements which involves, "...rounds and rounds of meetings of Government official haggling and bargaining over most items, if not over all items, many of which may feature very insignificantly in current or potential intra-ASEAN trade".¹⁹

The proposed five industrial plants have also been surrounded by a number of problems. Singapore has already abandoned its diesel

engine plant. There are many doubts about the viability of industrial plants allocated to the Philippines. Thailand and Malaysia, and all the governments have indicated that they will undertake the regional industrial plants only if they are economically viable. Indonesian urea plant is the only one which appears itself certain to come on stream in the foreseeable future.²⁰

However, ASEAN has achieved somewhat satisfactory progress in such areas as science and technology, food production, shipping, tourism, civil aviation, communication and cultural affairs. All these are non-controversial areas so that there is no reason for member countries to have conflicting interests. However, as far as the ASEAN's achievements in relation to its two main objectives - promotion of intra-regional trade and industrial development - are concerned, it can be said that, "... ASEAN economic co-operation to date has been characterised more by rhetoric and plethora of meetings than by concrete achievements. Underlying all the difficulties is the fear of an unequal distribution of benefits and burdens of co-operation and the reluctance to subjugate economic nationalism to regionalism".²¹

FOOTNOTES - CHAPTER II.

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2. *Ibid.*, p. 15.
3. Chia Siow Yue, "Singapore's Trade Strategy and Industrial Development with Special Reference to the ASEAN Common Approach to Foreign Economic Policy". Paper presented to the Tenth Pacific Trade and Development Conference, A.N.U., March 19-23, 1979, p. 63.
4. John Wong, *op.cit.*, p. 15.
5. *Ibid.*, p. 23.
6. David Sycip, "Industrial Development and Regional Co-operation in the ASEAN Context", *UMBC - Economic Review*, (Malaysia), Vol. XIV, No.1, 1978, p. 25.
7. Pang Eng Fong & Chow Kit Boey (eds.). *The New International Economic Order, UNCTAD IV & Singapore*, Stamford College Press (Pte) Ltd., Singapore, 1976, p. 94. For the full text of the Kansu report - see *Journal of Development Planning*, No.7, United Nations, N.Y., 1974.
8. Declaration of ASEAN Concord, Programme of Action - Industrial Co-operation. For the full text of the Declaration see Appendix No.2.
9. *10 Years Asian*. Published by Central Secretariat of ASEAN, Jakarta, 1978.
10. *Ibid.*, p. 44.
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12. *Ibid.*, p. 297.
13. Amado A. Castro, "Economic Co-operation in ASEAN", Paper presented to the Tenth Pacific Trade and Development Conference, A.N.U., Canberra, March 19-23, 1979, p. 8.
14. H. Edward English, "ASEAN's Quest for Allocative Efficiency in Manufacturing - Some Preliminary Perspectives on the Role of Complementarity and Trade Policies", Paper presented to the Tenth Pacific Trade and Development Conference, A.N.U., Canberra, March 19-23, 1979, p. 10.
15. *Ibid.*
16. *Ibid.*

17. See Chia Siow Yue, *op.cit.*, pp. 26-30. Also see his article "Economic Development in the Region", in *Southeast Asian Affairs - 1978*, ISEAS, Singapore, 1978, pp. 13-34.
18. *New Nation*, (Singapore), 9.2.1976.
19. Lim Chong Yah, "ASEAN : Economic Co-operation and Economic Reality", *UMBC - Economic Review*, (Malaysia), Vol. XIV, No. 1, 1978, p. 10.
20. Mohamed Ariff, Fong Chan Onn & R. Thillainathan (eds.), *ASEAN Co-operation in Industrial Projects*, ISEAS, Singapore, 1977, pp. 3-12.
21. Chia Siow Yue, "Economic Development in the Region", *Southeast Asian Affairs - 1978*, ISEAS, Singapore, p.25.

CHAPTER III

ASEAN AND THE NEW INTERNATIONAL

ECONOMIC ORDER

This chapter focuses on the political and diplomatic role of ASEAN regarding the promotion of the new international economic order. Part one of this chapter deals with the basic issues of the new international economic order and their implications for the ASEAN economies. The second part investigates the role of ASEAN regarding the promotion of the NIEO goals including the factors weakening the effectiveness of ASEAN resources diplomacy.

Since 1974, the Third World countries have been demanding the establishment of what is called a "new international economic order" to provide them with a more just share of the world's prosperity. The basic elements of the proposed new international economic order have been set out in three documents, namely;

1. The Declaration and Programme of Action on the Establishment of a New International Economic Order adopted by the United Nations General Assembly at its Sixth Special Session held in May 1974.
2. The Lima Declaration and Plan of Action on Industrial Development Co-operation. Originally this was adopted at the United Nations Industrial Development Organization (UNIDO) General Conference held in March 1975. It was subsequently approved by the United Nations General Assembly at its Seventh Special Session.
3. The Charter of Economic Rights and Duties of States

adopted by the United Nations General Assembly
in December, 1974.

The first two documents contain various proposals put forward by the Third World countries with regard to the establishment of a new international economic order. The Charter of Economic Rights and Duties of States attempts to obtain from developed countries certain legally binding economic and political commitments which would enable the realization of the objectives embodied in the first two documents. The Charter insists that every member country of the United Nations should strive to promote the establishment of a new international economic order based on "... equity, sovereignty, equality, interdependence, common interests and co-operation among all states irrespective of their domestic and social systems".¹

The proposed new international economic order deals with several key economic issues which are of great importance to developing countries. These issues can be summarised as follows:

- (i) Stabilization of export earnings of developing countries including the improvement of terms of trade through the application of price stabilization mechanism for primary products.
- (ii) Reorganization of the international monetary system in order to finance more effectively the needs of developing countries.
- (iii) Acceleration of industrialization of developing countries through the transfer of technology to developing countries from advanced industrialized countries.
- (iv) Free and improved access to the markets of developed countries for manufactured products of developing countries.

- (v) Right to regulate and control natural resources of developing countries including the activities of transnational corporations.

All these issues are of great importance to ASEAN countries as they all deal with vital economic problems facing them currently. However, three issues - commodity price stabilization, the debt problem and access to the markets of developed countries - are of particular importance to ASEAN. Therefore, these areas must be further discussed in order to understand their impact on the ASEAN economies.

The principal objective of the new international economic order is to raise prices of commodities and raw materials exported by developing countries. In this regard UNCTAD had designed the so-called "Integrated Commodity Policy" with the following elements:

- (i) The establishment of international stocking arrangements for a wide range of commodities.
- (ii) A Common Fund to finance the stocking arrangements.
- (iii) A network of medium to long-term arrangements between purchasers and suppliers.
- (iv) A system of adequate compensatory financing when export earnings fall off.
- (v) The creation of processing industries for primary products in the developing countries.
- (vi) The maintenance of a link between the prices of the exports of developing countries and the price of their imports from developed countries.

International stocking arrangements or the so-called "buffer stock-system" can be regarded as the cornerstone of the Integrated Commodity Policy. The main purpose of the international stocking arrangements is to buy primary products when they are over-supplied in the world market and release the stock in times of shortage in

supply. At the beginning, it was proposed to arrange buffer stocks for 18 commodities, namely, wheat, maize, rice, sugar, coffee, cocoa, tea, cotton, jute and manufactured wool, hard fibres, rubber, copper, lead, zinc, tin, bauxite, alumina and iron ore.²

The proposed Common Fund aims at financing the buffer stock arrangements. In March 1979, an agreement was reached by developing and developed countries to establish a US\$ 750 million buffer stock fund with each nation participating in the fund contributing a minimum of US\$ 1 million. The rest will be contributed by negotiating groups as follows: Group B countries 68 per cent, Group D or socialist countries 17 per cent, Group of 77 countries 10 per cent and China 5 per cent.³

Multilateral commitments between purchasers and suppliers have been proposed as an alternative means of stabilizing the export earnings of developing countries. Such commitments may be made by signing mutual agreements to sell and buy a certain quantity of a commodity throughout the committed period. According to the UNCTAD, the multilateral commitments could be beneficial to developing countries "... in view of the importance of commodities to developing countries and particularly to those who depend on only one or two staple products for their livelihood, it can be seen that a predictable volume of sales would be a boom to planners".⁴

The proposed compensation scheme aims at providing compensatory finance to developing countries when they are facing a short-fall of export earnings and when those exports are not covered by the price stabilization arrangements such as buffer stocks and multilateral commitments. It has been suggested that the compensatory finance would be made either as a loan or a grant, and that it should be

repaid when the countries' export earnings exceed the normal earning level. According to UNCTAD, "Compensatory financing system should be considered only as a last resort, when all other stabilizing measures have failed or, in some instance, are not feasible. They must thus be regarded not as a substitute for but as a complement to other stabilizing elements of the integrated approach".⁵

The fourth element of the Integrated Commodity Policy concerns the establishment of processing industries for raw materials and commodities in developing countries. As the developing countries argue, the expansion of processing industry would enable them to increase the volume of export earnings, in particular, by selling value-added by-products instead of selling just unprocessed raw materials.

The last element of the Integrated Commodity Policy focuses on the price indexation system which has been proposed to link the prices of developing countries' commodity exports to the prices they have to pay for essential imports from the developed countries, in order to maintain the purchasing power of their exports.

ASEAN and the Integrated Commodity Policy

As noted in the second chapter, international trade has been the engine for economic development in the ASEAN countries. The export sector of ASEAN is still largely dominated by primary products. The figures given in Table 3.1 show the major commodity exports of the ASEAN countries and their percentage of total world exports in 1975.

As the table indicates, ASEAN countries are the major producers of several agricultural and mineral raw materials in the world. They together account for nearly 83 per cent of the world total

Table 3.1

Major Commodity Exports of the ASEAN
Countries in 1975.

(US\$ 1000)			Total	As % of Total World Exports
<u>Natural Rubber</u>				
	Malaysia	782,254		
	Indonesia	261,996		
	Thailand	<u>175,000</u>	1,319,250	82.92
<u>Palm Oil</u>				
	Malaysia	594,524		
	Indonesia	151,639		
	Singapore	<u>73,362</u>	819,525	83.57
<u>Tin Metal (tons)</u>				
	Malaysia	77,635		
	Thailand	16,552		
	Indonesia	<u>14,488</u>	108,675	71.77
<u>Coconut, Copra & Coconut Oil</u>				
	Philippines	402,666		
	Malaysia	27,511		
	Singapore	<u>16,708</u>	446,485	63.62
<u>Rice</u>				
	Thailand	<u>293,000</u>	293,000	9.21
<u>Spices</u>				
	Malaysia	43,662		
	Indonesia	22,867		
	Singapore	<u>45,769</u>	122,298	57.16
<u>Sugar</u>				
	Philippines	580,736		
	Thailand	<u>281,122</u>	861,858	7.26
<u>Forest Products</u>				
	Indonesia	679,064		
	Malaysia	662,952		
	Philippines	<u>246,775</u>	1,588,791	15.09

Table 3.1 (continued)

(US\$ 1000)		Total	As % of Total World Exports
<u>Petroleum</u>			
	Indonesia	<u>54,450</u>	54,450 3.93
<u>Copper</u>			
	Philippines	<u>397,433</u>	397,433 3.10 (17.79*)

Note: * As a percentage of world trade in copper ores (i.e., excluding trade in metal).

Source: *Far Eastern Economic Review, Year Book 1978*, p. 70.

natural rubber production, 84 per cent of palm oil, 72 per cent of tin, 64 per cent of coconut products and 58 per cent of spices.

Commodity and raw material trade has been the main source of foreign exchange for ASEAN countries and it still accounts for nearly 70-75 per cent of their total foreign exchange earnings. Tabulated below are figures relating to their principal exports and the percentage contribution of these to the total foreign exchange earnings of the ASEAN countries.

As the figures indicate, ASEAN countries are still largely dependent on few commodities to earn foreign exchange with the notable exception of Singapore. In 1974, Indonesia obtained about 87 per cent of its total foreign exchange earnings from three primary products - petroleum, rubber and timber. Three commodities - rubber,

Table 3.2

Principal Exports and their Percentage Contribution to the Total Foreign Exchange Earnings of the ASEAN Countries in 1964 and 1974.

	1964	1974
<u>Indonesia:</u>		
Petroleum	38.5	70.2
Rubber	32.0	6.5
Coffee	3.6	-
Tin	2.8	1.5
Timber	-	9.8
Others	23.1	12.0
Total	100.0	100.0
<u>Malaysia:</u>		
Rubber	41.3	30.1
Tin	21.4	14.7
Saw Logs	6.0	8.8
Saw Timber	2.7	4.5
Palm Oil	2.4	10.7
Others	26.2	31.2
Total	100.0	100.0
<u>Philippines:</u>		
Copra	21.4	5.1
Sugar	19.9	27.0
Copper	4.6	14.4
Logs & Rimber	19.3	9.0
Coconut Oil	8.1	14.0
Others	27.1	30.5
Total	100.0	100.0
<u>Singapore:</u>		
Petroleum Products	13.1	25.8
Crude Rubber	23.3	14.3
Clothing	1.6	2.2
Fixed Vegetable Oil	1.6	2.5
Machinery & Equipment	4.7	16.2
Others	51.0	38.0
Total	100.0	100.0
<u>Thailand:</u>		
Rice	35.9	19.4
Rubber	16.7	10.0
Tin	7.8	6.2
Maize	11.4	12.1
Tapioca	5.3	7.6
Others	23.0	44.7
Total	100.0	100.0

Source: John Wong, *The ASEAN Economies: Development Outlook for the 1980's*, Chopman Enterprise, Singapore, 1977, p. 16.

tin and palm oil - accounted for about 55 per cent of total foreign exchange earnings of Malaysia, while four commodities - copra, sugar, copper and logs & timber - jointly earned 68 per cent of the total foreign exchange earnings of the Philippines. In the same year, Thailand earned 48 per cent of its total foreign exchange earnings from four commodities - rubber, rice, tin and maize.

One important conclusion that can be drawn from the figures given in Table 3.2 is the over-dependency of ASEAN countries on the export of primary products for earning foreign exchange. This over-dependency has adversely affected their economic performance in two ways.⁶ Firstly, the short-term instability of the commodity markets is reflected in wide year-to-year fluctuations in prices and export earnings. This can be seen by examining the figures given in Table 3.3.

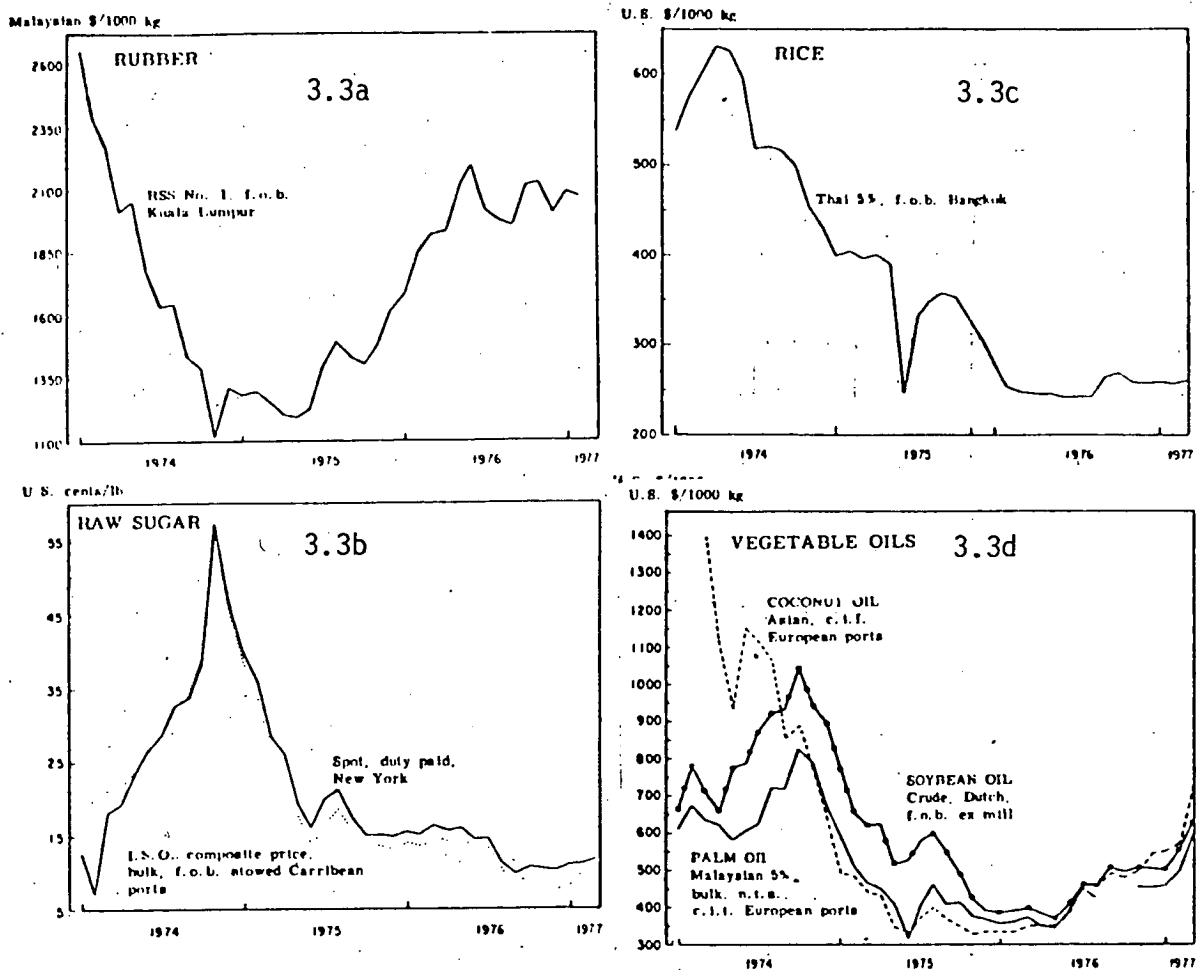
As the table indicates, none of the five commodities - i.e., rubber, sugar, rice, palm oil and coconut oil has had stable price conditions in the international commodity market in recent years. All these commodities have been characterised by the problem of wide-spread price instability which has been a major feature of most commodity markets since 1972.

Secondly, the adverse long-term trends in commodity markets are reflected in the deteriorating terms of trade which has further slowed down the growth of export earnings. Table 3.4 provides relating indices of the terms of trade for developing countries of primary products.

The preceding discussion has outlined the close relationship that remains between the export of primary products and economic development of ASEAN countries. It has also outlined the extent to

Table 3.3

International Commodity Prices of
Some Selected Primary Products
Exported by ASEAN



Source: FAO *Commodity Review and Outlook*,
1978.

Table 3.4

Terms of Trade of Developing
Countries.

(excluding Petroleum)

1960	98
1965	95
1970	100
1971	95
1972	93
1973	101
1974	94
1975	84
1976	87

Source: UN- *Monthly Bulletin of Statistics*.

which the market instability has adversely affected their economic performances. The discussion further suggests that the ASEAN countries are most likely to remain on the current pattern of exports for the foreseeable future until they diversify their exports on a broad basis. If this is so, then what would be the future demand and price conditions in the world market for ASEAN's primary products? It is true that most of the primary products exported by ASEAN have been blessed by recent commodity boom, but the World Bank predicts that the recent upward trend in the commodity prices is only a temporary phenomenon and the prices of major commodity groups are most likely to fall to the average price level of the 1960's by 1980 except in the case of petroleum, bauxite, timber, sugar, beef and fishmeal.⁷ If the World Bank forecasts are correct, then only three commodities that are currently exported by ASEAN will have better

market potentials in the next decade. These three commodities are sugar, timber and oil but they constitute only a very small fraction of ASEAN's total exports.

Thus, price stabilization of commodities as suggested by the Integrated Commodity Programme will definitely have far reaching beneficial effects on ASEAN economies. ASEAN has therefore lent strong support to the UNCTAD Integrated Programme for Commodities and to the Common Fund conceived as an integral part of that Programme. ASEAN has a vital stake in the programme as its member countries appear to be the most affected ones among the Third World countries if the Programme is brought into effect. According to UNCTAD predictions "... if world trade in the 18 commodities (first list prepared by UNCTAD in 1975) proposed to be included in the Common Fund should be added up, ASEAN is the most affected region in the world. The ranking of individual countries trading in the 18 commodities shows Brazil first, Malaysia second, the Philippines third, Indonesia seventh and Thailand nineteenth".⁸

ASEAN and the International Indebtedness

The growing debt problem of developing countries and the problems it poses for their economic development is another important issue to which developing countries seek solutions under the proposed new international economic order. Describing the factors accounting for the growing indebtedness of developing countries UNCTAD reports, "the traditional view has also been to look upon debt problems as having their origins in financial mismanagement and laxity in the use of borrowed resources; but the present context belies this view. Many developing countries today are in a position in which their

difficulties in shouldering the burden of debt-service obligations have little to do with their own actions but are the result of a concentration of external forces that has reduced their foreign exchange earnings and raised their import costs".⁹

Two reasons can be cited for the growing foreign indebtedness of the ASEAN countries. Firstly, as the UNCTAD indicates, it is a direct result of the concentration on external forces, because all the ASEAN countries have consistently had to depend heavily on foreign loans to cover the year-to-year widening deficit in the current account as their export earnings have always been exceeded by import expenditure. Secondly, inadequacy of local capital formation has caused them to depend heavily on foreign finance for the implementation of their various economic development programmes.¹⁰ Owing to these two reasons, over the years, all the ASEAN countries have been trapped in an ever widening international indebtedness and servicing of these loans has become a real problem in the sense that it has significantly impaired their ability to sustain a level of imports adequate to meet their economic development requirements.

As the figures indicate, of ASEAN members, Indonesia is the country most affected by foreign indebtedness. Current estimations indicate that in 1980, Indonesia will have to allocate 18.5 per cent of its total foreign exchange earnings to service the foreign debt.¹¹ The total foreign indebtedness of Indonesia is now estimated to exceed US\$ 10 billion and the World Bank predicts that the actual debt service ratio in Indonesia will exceed the current estimate of 18.5 per cent by the end of this decade and it will be about 20 per cent.¹²

In terms of debt service ratio, Malaysia ranks second while

Table 3.5
Foreign Indebtedness of ASEAN Countries - 1977
 (US\$ million)

	Debt Outstanding ¹	Service Payments ²	Debt Service ³ Ratio (%)
Indonesia	11408.7	1299.4	11.9
Malaysia	2053.0	442.4	6.5
Philippines	2985.1	267.2	6.4
Singapore	994.0	81.6	0.8
Thailand	1050.6	126.5	3.4

- Note:
1. Disbursed only : data refer to debt outstanding at end of year.
 2. Service payments consist of principal and interest payments made in foreign currencies; data refer to transactions during the year.
 3. Service payments as percentage of exports of goods and services.

Source: Asian Development Bank, *Annual Report - 1978*.

the Philippines is third. In these two countries, in 1977, the debt service ratio was 6.5 per cent and 6.4 per cent respectively. Singapore and Thailand, compared to the other three countries have the smallest debt service ratio - in 1977, 0.8 per cent and 3.0 per cent respectively. International indebtedness is one of the acute problems which face the majority of ASEAN countries currently. Therefore, there is an imperative need for a moratorium on official debts because many anti-poverty programmes in these countries are being postponed as export earnings are switched to pay debts on existing loans.

ASEAN and the Access to the Markets of Developed Countries

The protectionist policies of developed countries against manufactured products of developing countries have not only debilitated their (developing countries) industrialization efforts, but also have weakened their efforts to diversify exports. Referring to various tariffs that have been imposed by developed countries on manufactured goods of developing countries, UNCTAD reports, "Despite most-favoured nation tariff reductions in the post-war period as a result of trade negotiations in GATT, tariff protection in the post-war period remains one of the major obstacles to expansion and diversification of exports from developing countries. According to estimates, tariff facing developing countries in these markets are, on average, about 50 per cent higher than those levied on imports from other developed countries".¹³

Apart from direct import tax, the manufactured products of developing countries are confronted with various non-tariff barriers such as health regulations, quota ceilings, discretionary licensing, other variable levies, labelling and certificate of origin regulations. These non-tariff barriers have further limited the entry of manufactured products of developing countries to the markets of developed countries.

In order to ensure free and improved access to the markets of developed countries for manufactured products of developing countries, the following proposals have been put forward under the proposed new international economic order.¹⁴

1. Developed countries to take effective steps to remove tariff and non-tariff barriers on a preferential basis on products of export interest

to developing countries.

2. The Generalised Scheme of Preferences to be recognized as a permanent feature of international trading system and improved to include all products of interest to developing countries, at zero rates of duty and without quotas or ceilings or any other non-tariff barriers.
3. Developing countries have a right to use export incentives to improve competitiveness of their manufactured exports; developed countries should recognize the need for a preferential treatment for the former in any new set of rules on subsidies.
4. In Multilateral Trade Negotiations priority should be given, through special procedures for negotiations between developed and developing countries, to the elimination of all kinds of barriers to the exports of developing countries, on a preferential and non-reciprocal basis, to the maintenance and improvement of GSP, and to the granting of preferential treatment in all the different areas of the negotiations so as to ensure net additional benefits for the international trade of developing countries.

These proposals were closely reviewed at the recently concluded Tokyo Round of GATT negotiations but no substantial trade concessions were offered to developing countries. As reported by the *Far Eastern Economic Review*, "The developing countries had hoped to take advantage of the Tokyo Round to make the 30-year-old agreement more responsive to their development needs. A legal framework group was set up with the task of updating certain of its provisions, but by the end of January, developing countries were convinced it was unlikely to achieve anything of substance. Its main achievement, from their view point, will be the so-called enabling act, which should provide a

legal basis for both the tariff preferences extended by industrialised countries to the developing and for the preferences the latter may extend to each other."¹⁵

The issue of free access to markets is of great importance to ASEAN countries as the expansion of manufactured export is becoming an increasingly important characteristic of their economic development.

The process of industrialization in any country tends to go through two phases. The first stage is import substitution after which industries may become export oriented. During the first phase industries are set up to produce import substitution consumer goods. These industries are supported by the ready-made internal market created through the imposition of high tariffs to protect the infant industries from foreign competition. Once the easy first stage is over, these industries face a number of problems, one of which is the limitation of the internal market. Thus at the second stage, for the continuation of the industrialization process, it is necessary to convert these industries from import substitution to an export oriented basis. Thus free access to foreign markets is necessary if the industrialization process is to expand smoothly at the second stage.

This principle applies equally to the ASEAN countries. When they began to adopt industrialization policies in the early 1950's, major emphasis was given to the establishment of small scale import substitution industries. At the beginning these industries seemed to be inefficient with an excessive cost level. However, over the years, they have been able to develop a number of highly competitive labour intensive industries such as clothing, textiles, footwear,

leather goods, rubber products and beverages. Apart from this, since the early 1960's almost all the ASEAN countries have adopted policies to encourage the establishment of export oriented industries such as electronic products and more sophisticated consumer goods. Singapore, the most industrialised country of ASEAN, has now placed greater emphasis on the production of heavy manufactured goods like steel and metal products, automobiles, petrochemicals, computers, office machines, precision instrument, ship building, aircrafts and rapid transit systems.

Expansion in the export of manufactured products in the ASEAN countries is not a temporary phenomenon but a constant development. A study carried out by the Centre for Research and Communications in Manila suggests that the consumer industries of the ASEAN countries are projected to grow by more than 6 per cent a year in real terms between 1973-2000.¹⁶ The report further shows that among the consumer industries clothing, footwear and beverage industries would post annual growth rates of more than the average rates at 8.5 per cent, 7.7 per cent and 7.2 per cent respectively. Among other industries, the fastest rising are industries in the field of electrical machinery, transport equipment, other machinery and chemicals all of which might grow by about 8.5 per cent per year or even slightly higher.¹⁷

Tabulated below are data relating to the growth of manufactured exports from the ASEAN countries between 1965-1976.

As the figures indicate, the recent growth in the export of manufactured products by ASEAN countries has been very rapid, except in the case of Indonesia. However, during the same period, the share of ASEAN in the markets of developed countries declined from 63 per

Table 3.6

Growth of Manufactured Exports from
ASEAN Countries - 1965-1976

(US\$ million)

	1965	1970	1975	1976
Indonesia	10.9	11.9	75.0	119.0
Malaysia	67.8	151.7	664.4	798.5
Philippines	65.8	78.4	258.9	396.8
Singapore	300.4	427.6	2232.6	2920.3
Thailand	12.1	38.6	332.0	510.6

Source : Helen Hughes, "The Prospects of ASEAN Countries in Industrialised Country Markets". Paper presented to the Tenth Pacific Trade and Development Conference, A.N.U., Canberra, March 19-23, 1979, p. 25.

Table 3.7

ASEAN Countries' Exports by Destination
1960 and 1976

	(% of total exports)	
	1960	1976
United States and Canada	30	16
Japan	10	23
Market economy Europe	19	17
Australia and New Zealand	4	4
Total, industrialised market economy countries	63	60
European Centrally planned countries	2	3
ASEAN countries	26	16
Other developing countries	9	21
Total developing countries	35	37
Total	100	100

Source : Helen Hughes, *op.cit.*, p. 27.

cent in 1960 to 60 per cent in 1976. This is evident, when the exports of ASEAN are analysed on the basis of destination.

As Table 3.7 indicates, during the period 1960-1976, ASEAN's share in the North American and non-communist European markets declined by 14 per cent and 2 per cent respectively, while the share of the Australian and New Zealand markets remained stagnant. During the same period ASEAN's share in the Japanese market increased by 13 per cent from 10 per cent in 1960 to 23 per cent in 1976. But overall, the share of ASEAN in the markets of developed countries fell by 3 per cent during this period.

The principal reason for the decline of ASEAN's share in the markets of developed countries, from ASEAN's point of view, is the protectionism of developed countries. This explanation, as Helen Hughes argues, is grossly exaggerated, but one cannot simply overlook the high tariff imposed by developed countries on certain industrial products like clothing, textiles, footwear and electronic products which are the main manufacturing products currently exported by the ASEAN countries.¹⁸ Falling tariffs, according to Helen Hughes, "... were critical to the developing countries' expansion of manufactured products exports at some 15 per cent a year from the early 1960's to the mid 1970's".¹⁹ This was particularly critical to ASEAN countries where the potential for export of manufactured goods as a vehicle of economic development appeared to be much more substantial than most other developing countries in Asia, Africa and Latin America.

ASEAN: Political and Diplomatic Role Towards the New International Economic Order

Though, the demand for the establishment of a new international

economic order was publicly aired in 1974, the foundation for the demand of 1974 was laid with the resolutions presented by the developing countries at the first meeting of the United Nations Conference on Trade and Development (UNCTAD) held in 1964, seeking a new pattern of international trade, the stabilization of commodity prices at higher levels and more foreign aid for developing nations.

In 1967, just three years after the first UNCTAD meeting, the Association of South East Asian Nations was formed and one of the declared aims of the new organization was, according to the Bangkok Declaration, "To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communication facilities and the raising of the living standards of their peoples".²⁰

Between 1967 and 1976, ASEAN's activities with regard to international economic and commodity problems were limited mainly to work carried out by non-aligned countries and the Group of 77. Three ASEAN members - Indonesia, Malaysia and Singapore - had actively participated in the discussions of the 4th Summit Meeting of Non-aligned Countries held in September 1973, in Algeria. This conference is considered the first step towards setting up diplomatic and institutional machinery to promote the demand for a new international economic order. At the meeting, the heads of the non-aligned countries expressed their disillusionment with international co-operation for economic development in the developing countries and called for a Special Session of the United Nations General Assembly to be devoted exclusively to problems of development co-operation. (This

ultimately became known as the Sixth Special Session.) In the Economic Declaration issued at the end of the meeting, the heads of states outlined the conceptual framework for a new international economic order.²¹

Subsequently, the ASEAN members played an active role in the Dakar Conference on Raw Materials held in February 1975. The Conference carried out a detailed analysis of the fundamental problems relating to trade in primary products and other world economic problems. At the end of the Conference, the delegates issued the Dakar Declaration which is considered the second important step in the move towards the demand for a new international economic order.²²

In August 1975, the ASEAN members participated in the formulation of the Lima Declaration, the third important document produced by developing countries with regard to the establishment of a new international economic order.²³ In February 1976, the Philippines was the host country to the Ministerial Meeting of the Group of 77. At this meeting, the Philippines' President, Marcos, brought to the attention of delegates the establishment of a Third World Economic System in order to overcome the current restrictive trade practices of developed countries. According to Marcos, "A final and necessary component of a programme to build a Third World Economic Order is the expansion of trade and technological exchange among Third World countries themselves. This process can begin with such sub-regional groups as the ASEAN, later to expand into a regional group like the Latin American Free Trade Association and eventually into an inter-regional groups comprehending Africa, Asia and Latin America".²⁴

In the Manila Declaration, issued at the end of the meeting,

the Ministers of the Group of 77 again expressed their disappointment with the poor support given by developed countries for measures to solve the economic problems facing developing countries and strongly urged the developed countries to take effective steps to implement the solutions embodied in the Algiers and Lima Declarations.²⁵

Obviously, since 1967, ASEAN has played a key role in the group of 77 in promoting the NIEO goals. As Professor Amado A. Castro notes, "In the Group of 77, ASEAN is perceived as a moderate grouping and now both the Group of 77 and the Group B (developed) countries are looking to ASEAN for leadership in bridging various positions and bringing the Common Fund to fruition and the concerns of the LDC's with regard to the New International Economic Order to realization. There are already signs and there will be even more action showing that ASEAN desires positive results".²⁶

The Bali Summit of 1976 marked the beginning of a new era of ASEAN's political and diplomatic role towards the new international economic order. The realization of NIEO goals, in particular, the Integrated Commodity Policy and the Common Fund, was given a special emphasis at the Summit meeting and it was urged that the member countries should seek every possible means to bring the Integrated Commodity Policy into effect. The heads of states outlined the basic guidelines of future ASEAN diplomacy concerning the realization of the NIEO goals. These guidelines were included in the Declaration of ASEAN Concord, according to which, the future role of ASEAN towards the NIEO should be based on the following two principles.²⁷

1. The principle of ASEAN co-operation on trade shall

also be reflected on a priority basis in joint approaches to international commodity problems and other world economic problems such as the reform of international monetary system and the transfer of real resources, in the United Nations and other relevant multilateral forums, with a view to contributing to the establishment of the new international economic order.

2. Member states shall give priority to the stabilization and increase of export earning of those commodities produced and exported by them through commodity agreements including buffer stock schemes and other means.

At the second Summit meeting held in Kuala Lumpur in August 1977, the ASEAN heads of states once again noted that the ICP was fundamental to the developing countries' efforts to overcome commodity problems and urged the developed countries to take steps for the early conclusion of negotiations on specific commodity arrangements and for the early establishment of the Common Fund.²⁸

Thus in the period after 1976, the realization of NIEO goals, in particular, the ICP, has become one of the key objectives of ASEAN in its external economic policy formulation. During this period ASEAN has emerged as a strong collective bargaining force and the five members have increasingly worked together to present themselves as a united group, not only when they deal with developed countries, but also at the other international forums such as the UNO, UNCTAD, GATT, IBRD, IMF and so on. The NIEO demands have been the main subject of trade dialogues held with the U.S.A., EEC, Japan, Australia, New Zealand and Canada.

ASEAN and the Commodity Producers Organizations

In recent years, ASEAN members have increasingly participated in the establishment of various commodity producers organizations as part of its overall diplomacy towards the new international economic order. The principal objective of these organizations is to stabilize prices of commodities through the conclusion of agreements between the producer and consumer countries. Some of these organizations have been initiated by ASEAN itself, while in the establishment of others ASEAN has played an important role. So far the following organizations have been established.

The Association of Natural Rubber Producing Countries (ANPRC)

The ANPRC was established in 1967 by Indonesia, Malaysia, Thailand, Singapore, Sri Lanka and South Vietnam at the Conference of Natural Rubber Producing Countries held in Kuala Lumpur. The Conference was convened by Malaysia to discuss the possibility of formulating a joint approach of rubber producing countries to stabilize the price of natural rubber.²⁹ The main objective of the ANPRC is to map out a price stabilization programme for natural rubber through the formulation of an international rubber agreement between producer and consumer countries.

As a result of the efforts made by the ANPRC, in 1978, the major rubber producer and consumer countries met in Kuala Lumpur to discuss the possibility of formulating a price stabilization scheme for natural rubber. At this meeting, the producer countries put forward a proposal to establish an international rubber agreement based on the following elements.³⁰

1. The establishment of a 4,000,000 tonnes buffer stock

with 3,000,000 tonnes to be provided by the producer and consumer countries and 1,000,000 tonnes to be derived from the UNCTAD Common Fund.

2. The establishment of an International Rubber Council to operate the scheme, with votes in the Council shared equally by exporting and importing members.
3. The Council would be permitted to borrow from the capital markets to increase the buffer stock beyond the agreed level if necessary.
4. The exporting and importing groups, each would contribute 100,000 tonnes of rubber or its equivalent in cash, the allocation of contributions among the countries would be in proportion to their voting power. The remaining 100,000 tonnes would be contributed in equal shares by all member countries.
5. The agreement would be for a period of five years.

No agreement was reached on the proposed scheme, but the participants agreed to use the above suggestions as the basis for the forthcoming rubber talks due to be convened by the UNCTAD. Discussions are already underway at UNCTAD on the formulation of an international rubber agreement and there is a strong possibility of concluding such an agreement in the near future.

International Tin Agreement

The first tin agreement was concluded in 1953,³¹ well before the establishment of ASEAN, but it had played a key role in signing the fifth International Tin Agreement which came into being on 1 July 1976. Basically, the Agreement seeks to stabilize tin prices within agreed price limits. This is done mainly through a buffer stock

which buys tin to defend a ceiling. In addition, the Agreement permits the imposition of export controls in defending the floor price.

According to the Agreement the buffer stock is financed through compulsory contributions by producer-members to a total equivalent of 20,000 tonnes of tin metal and through voluntary contributions by consumer-members to a total equivalent of an additional 20,000 tonnes of tin metal. Cash contribution must be made at the floor price prevailing at the time when the fifth Agreement came into being.

Decisions on price ranges, export controls, and other matters are made by the International Tin Council (ITC). Producers and consumers share voting power equally, with each group holding 1,000 votes. All decisions require at least a majority of both groups voting separately. The three ASEAN members, Malaysia, Indonesia and Thailand hold a commanding position in the Tin Agreement as their voting power accounts for about 73 per cent of the total voting rights held by producer-members.³²

The Asian Coconut Community

The Asian Coconut Community was established by an agreement reached by India, Indonesia, the Philippines, Singapore, Sri Lanka and Thailand in October 1968. The member countries agreed to promote co-operation in such areas as the exchange of information on marketing, research activities, quality control, land productivity technology, pest control and price stabilization of coconut products.³³

The Pepper Community

The Pepper Community was established in 1970 with Malaysia,

Indonesia and India as founder members. They, together, account for nearly 80 per cent of world total pepper production. The other pepper producing countries - Sri Lanka, Brazil, Cambodia and Thailand - have been invited to join the community. It was agreed that the member countries would co-ordinate research activities on the technical and economic aspect of the pepper production. It was further agreed that the member countries should co-operate in such matters as the promotion of increased consumption, enlargement of markets and price stabilization.³⁴

Inter-governmental Council of Copper Exporting Countries (CIPEC)

CIPEC members are Indonesia, Chile, Peru, Zaire and Zambia and two associates - Australia and Papua New Guinea. CIPEC accounts for about 72 per cent of internationally traded copper or 45 per cent of free world mine production. On the eve of recent wide fluctuations in the copper market, in November 1975, CIPEC called for a dialogue between producer and consumer countries which eventually took place in Geneva in March 1976. Some 30 major producer and consumer countries participated in the discussions which resulted in an agreement to :

- (a) Establish a permanent producer-consumer forum for copper;
- (b) Set up an interim committee to facilitate its establishment; and
- (c) Accept a tentative list of studies to be carried out by the new organization.

Discussions are underway at present at the UNCTAD seeking a possible price stabilization mechanism for copper.³⁵

International Bauxite Association (IBA)

IBA was established in 1974 by seven major producers to deal with what they saw as common problems facing the bauxite industry. The IBA now has 11 members: Australia, Indonesia, the Dominican Republic, Ghana, Guyana, Haiti, Jamaica, Sierra Leone, Surinam and Yugoslavia. (Greece, India and Trinidad and Tobago are observers.)

At present IBA works as a clearing house for the exchange of economic and technical information that will assist members in co-ordinating development of their bauxite industries. IBA has denied any intention to introduce a price stabilization mechanism for bauxite, but studies are underway to introduce a formula to "index" the price of bauxite to the price of finished aluminium. This could affect the operations of the current Bauxite market.³⁶

ASEAN and the "Commodity Producer Power"

Another important aspect of ASEAN's resources diplomacy is the growing determination of ASEAN to use its "commodity producer power" in order to strengthen its international bargaining power. In this regard an important question immediately arises. To what extent can ASEAN exercise the "producer power" (as OPEC does) to control future supplies so as to create artificial scarcities and raise export prices above the competitive market level? In other words, is oil a special case, or can effective producer power be exercised also for natural rubber, palm oil, tin, copper, bauxite and other primary products?

In his article "The Threat from the Third World", Fred Bergsten states, "Four countries control more than 80 per cent of the

exportable supply of world copper, have already organized, and have already begun to use their oligopoly power. Two countries account for more than 70 per cent of world tin exports, and four countries raise the total close to 95 per cent. Four countries combine for more than 50 per cent of the world supply of natural rubber. Four countries possess over one-half the world supply of bauxite ...

A wide range of Third World countries thus have sizeable potential for strategic market power. They could use that power against all buyers, or in a discriminatory way through differential pricing or supply conditions - for example, to avoid higher costs to other LDC's or against the United States alone to favour Europe or Japan."³⁷

Referring to the argument that oil and OPEC represent a unique case which cannot be duplicated, Bergsten states that, "It is very doubtful that oil is different in any qualitative sense. Indeed, many other OPECs look much easier to organize and maintain. OPEC had to pool twelve countries to control 80 per cent of world oil exports, but fewer countries are usually involved in production of other primary products. Most OPEC countries are heavily dependent on oil, and cartelization was especially risky for them. Other commodity producers are more diversified. ... And economic and political differences among OPEC countries seem much sharper than those among other potential cartelizers. So new OPECs seem at least as likely as OPEC itself."³⁸

In contrast with Bergsten's arguments a report produced by 15 economists from Japan, EEC and North America indicates that, "... the frequent portrayal of a future world of primary commodities divided up into cartels of developing country producers, as in the OPEC countries, dictating prices and turning the supply on and off

to achieve political and other ends, is vastly overdrawn. Primary products are produced by many countries, imports are not everywhere a major proportion of total consumption, and industrial rather than developing countries are the leading suppliers of many internationally traded commodities. Furthermore, many primary commodities can be substituted for each other, depending on price and availability."³⁹

The arguments mentioned above represent two different views on the ability of developing countries to intervene in export markets by employing their commodity producer power. One argument suggests that OPEC example can be duplicated while the other suggests it cannot. However, in a broad sense, the ability of developing countries, who produce primary products other than oil, to carry out any successful market intervention either by cartelization or any other form (e.g., one producer acting as a price leader with others following, imposition of quantitative limitations or export taxes), will depend essentially on the existence of three conditions which are⁴⁰:

- (a) a dominant position by a producer country in export markets or the capacity for effective collusion by a group of producer nations;
- (b) an inelastic demand for the product in consumer countries;
- (c) a low elasticity of supply of alternative materials for consumer countries.

When these conditions are taken into consideration in the context of ASEAN, it seems that ASEAN's ability to exercise "producer power" to intervene in export markets is very limited. It is true that ASEAN holds a commanding position in the world market in the trade of several agricultural and mineral products such as

natural rubber, tin, palm oil, coconut products and spices, but none of them has an inelastic demand in consumer countries. On the other hand, almost all the primary products exported by ASEAN are confronted with the problem of availability of various substitutes in major consumer countries. In short, it can be said that none of the ASEAN's primary products (excluding Indonesian oil) is of sufficient importance to acquire for ASEAN a very special position in international trade as none of them can be considered as essential for the functioning of the economies of consumer countries.

The conflicting economic interests of the member countries is another factor which limits the capacity of ASEAN to use its commodity producer power. There are many differences and disagreements among the member countries, in particular, between Singapore and the other four members, over the various issues of NIEO.⁴¹ Singapore as a resources poor industrialised country has no direct interest in the Integrated Commodity Policy or any market intervention aiming at raising commodity prices, but the Integrated Commodity Policy has been the main concern of the other four countries. Singapore, as a resources consumer, wishes to buy commodities where they are cheapest and on the other hand, as a relatively industrialised country, would like to sell its manufactured goods in the best markets available. Thus Singapore's main concern is access to the markets of developed countries, but this issue is of less importance to the other four members than the Integrated Commodity Policy. As a result of these conflicting economic interests ASEAN has not been able to adopt a common policy with regard to international commodity problems.

FOOTNOTES . . . CHAPTER III.

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21. For the full text of the Declaration, see, *Non-Aligned Conferences: Basic Documents 1961-1975*, Bandaranayake Centre for International Studies, Colombo, Sri Lanka, 1975.
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25. For the full text of the Manila Declaration, see *Non-Aligned Conferences*, *op.cit.*
26. Amado A. Castro, *op.cit.*, p. 18.
27. Declaration of ASEAN Concord, see Appendix No. II.
28. *10 Years ASEAN*, ASEAN Central Secretariat, Jakarta, 1978, p. 197.
29. *Asian Almanac*, pp. 2447-2449.
30. *Asia Research Bulletin*, 31.7.78, p. 464.
31. Though the first International Tin Agreement was concluded in 1953, it did not become effective until 1956.
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CHAPTER IV.

ASEAN : ECONOMIC RELATIONS WITH THE U.S.A.,

THE EEC AND JAPAN.

This chapter deals with ASEAN's economic relations with the U.S.A., the EEC and Japan. The chapter is composed of two parts. The first part investigates the factors leading ASEAN to seek more effective economic relations with developed countries, the origin and development of ASEAN's trade diplomacy and the techniques of ASEAN's trade diplomacy such as collective bargaining power. The second part is sub-divided into three parts; each one deals with ASEAN's economic relations with the U.S.A., EEC and Japan separately, focusing mainly on emerging problems and issues, the principal demands of ASEAN, the response and reactions of the country concerned and finally, the achievements and failures of ASEAN in its relations with these three countries.

The necessity for ASEAN to seek more effective trade and economic relations with developed countries, in recent years, has been generated by three factors. First, the ASEAN countries are urgently in need of an increasing inflow of capital investment, technology and expertise from developed countries for developing their natural resources in order to accelerate their industrialization. Second, the ASEAN countries will continue to need extra-regional markets for their primary products, because their limited industrial capacity cannot possibly absorb the current raw material output. Third, until per capita income rises significantly in the ASEAN countries, their manufactured goods will need extra-regional markets for optimal development.

International trade, as discussed in the previous chapters, is a

fundamental element of economic progress of the ASEAN countries. However, except for the simple provision that ASEAN should "... maintain close and beneficial co-operation with existing international and regional organizations with similar aims and purposes and explore all avenues for even closer co-operation among themselves",¹ the Bangkok Declaration of 1967 did not put much emphasis on the conduct of ASEAN's economic relations with a third country or a group of countries. A gradual development of ASEAN's economic relations with three major economic powers - the U.S.A., EEC and Japan and with the other developed countries, such as Australia, New Zealand and Canada, can be seen in the years after 1970.

At the Bali summit of 1976, the ASEAN heads of state took steps to scrutinize the basic guidelines on the conduct of ASEAN's external economic relations with developed countries. These guidelines were embodied in the Declaration of ASEAN Concord issued at the end of the summit. According to the Declaration, "ASEAN member states shall accelerate joint efforts to improve access to markets outside ASEAN for their raw materials and finished products by seeking the elimination of all trade barriers in those markets, developing a new usage for these products and in adopting common approaches and actions in dealing with regional groupings and individual economic powers."²

The Declaration further states that "such efforts shall also lead to co-operation in the field of technology and production and to improve the quality of export products, as well as to develop new export products with a view to diversifying exports."³

It was further agreed that future ASEAN's economic relations with a third country or a group of countries or any other international organization should be conducted on the following principles⁴:

- (a) Co-operation with ASEAN as a group should not be at the expense of existing bilateral arrangements;
- (b) Co-operation should serve to complement ASEAN's capabilities and not supplant them;
- (c) Co-operation should be for projects conceived by ASEAN which are of regional character and for the benefit of all the ASEAN countries.

In the period after 1976 it can be said that ASEAN has made modest progress in terms of its bargaining with external parties. Highlights have been: the top level trade 'dialogues; with the EEC (April, 1977), Japan, Australia and New Zealand (August, 1977), and the U.S.A. (September, 1977 and July, 1978). The role of ASEAN as an emerging bargaining force in recent years has probably made more headlines than any of its other forms of economic co-operation, i.e., the promotion of intra-regional trade and industrial development.

As far as the role of ASEAN as a collective bargaining force is concerned, one important question immediately arises. How much collective leverage can ASEAN exercise against developed countries to win its legitimate demands - i.e., price stabilization of commodities, free and improved access to the markets of developed countries for its manufactured goods and an increased inflow of capital investment, expertise and technology from advanced countries? It can be assumed that the five countries have more bargaining power when functioning together than when acting separately. In addition, there are a number of economic and political sources which provide a strong basis for ASEAN to employ its collective bargaining power effectively and forcefully.

Firstly, as mentioned in the second chapter, ASEAN countries are

major producers of several agricultural and mineral raw materials and in the trade of these commodities ASEAN holds a commanding position in the world market. Although ASEAN's primary products have various substitutes, commodities like natural rubber and tin are still very much needed by developed countries for their industrial activities. For example, in several respects, such as resistance of heat accumulation, low-crack growth to temperature and allround versatility, natural rubber still remains a better elastomer than synthetic rubber while for tin the ability to use substitutes is very limited. ASEAN accounts for nearly 83 per cent and 72 per cent of the world total production of natural rubber and tin respectively. For these two commodities, ASEAN can use its 'producer power' to a large extent to strengthen its international bargaining power.

Secondly, the ASEAN countries are among the fastest growing developing countries and they together represent a big market of nearly 250 million people for industrial goods of developed countries. Moreover, the ASEAN countries have a vast amount of unexploited natural resources which are of great importance to developed countries.

A third factor is the oil power of ASEAN. Indonesia is already a member of the Organization of Petroleum Exporting Countries (OPEC). The current estimation indicates that Indonesia has 2.5 per cent of the world's total petroleum reserves with a life spanning from 22 to 25 years.⁵ Malaysia's oil production has recently surpassed its domestic requirements and it has planned to expand production from the present level of 100,000 barrels per day to 500,000 barrels per day by 1980, enabling the country to be the second member of ASEAN exporting oil.⁶ Thailand has made its first significant offshore oil discovery recently, while the Philippines have also launched an extensive

exploration for oil in recent years.

Fourthly, the strategic location of the ASEAN countries is excellent and crucial for almost all the developed countries. As described by a commentator "... it is both a sort of bridge between Asia and Australia and compulsory passage between China and Europe, and also Japan and the Middle East, Africa and Europe and also between China and Australia".⁷ As a result, ASEAN is in control of strategically important air and sea routes in the world.

All these factors discussed above have made ASEAN an important collective bargaining force vis-a-vis developed countries in recent years. Another important question arises in this context. Does ASEAN have the necessary 'political will' to use its collective bargaining power effectively and forcefully? How much collective leverage ASEAN can exercise obviously depends on the extent to which the five countries are willing to work together when they deal with developed countries. Despite their conflicting economic interests, it can be said that, in recent years, the five countries have increasingly worked together to represent a common stand over the main demands of ASEAN when they have approached developed countries.

In general, it can be said that the role of ASEAN as an emerging bargaining force in recent years, has certainly made it quite difficult for developed countries to avoid giving due consideration to ASEAN demands. This is evident from the top-level trade dialogues that have been held by ASEAN with the U.S.A., the EEC and Japan in the years after 1976.

ASEAN and the United States of America.

In January 1975, the diplomatic representatives of the U.S.A.

to the ASEAN countries met ASEAN's officials to discuss the establishment of formal links between the U.S.A. and ASEAN on the matters which were of mutual interest to the two parties.⁸ The decision to approach the U.S.A. was taken at the second meeting of ASEAN Economic Ministers held in March 1976 and at their fifth meeting held in September 1977. It was decided to convene an ASEAN-U.S. dialogue on trade and economic co-operation as soon as possible. The Economic Ministers drafted an eleven point joint memorandum to be put forward at the dialogue. The memorandum included, among other things, North-South trade issues, commodity price stabilization, promotion of co-operation between ASEAN and the U.S.A. in trade and the industrial development in the ASEAN countries, and improvement in the flow of U.S. capital investment into the region.

The first ASEAN-U.S. dialogue took place on 8-10 September 1977, in Manila. The discussion between the two parties centred mainly on four areas which were:

- (i) Liberalization of U.S. protectionist policies ensuring free and improved access to the U.S. market for ASEAN's primary products and manufactured goods.
- (ii) The U.S. refusal to provide preferential trade treatments to Indonesia under the Trade Reform Act of 1974.
- (iii) Price stabilization of commodities exported by ASEAN including the implementation of the Integrated Commodity Policy.
- (iv) Increased participation by the U.S.A. in the industrial development of the ASEAN countries.

I. Liberalization of Trade

The U.S.A. is the second largest export market for ASEAN after

Japan. The total value of ASEAN's exports to the U.S. market rose from US\$ 787 million in 1965 to US\$ 1105 million in 1970 and US\$ 7141 million in 1977. Table 4.1 represents data relating to the value of ASEAN's exports to the U.S. market and ASEAN's share of U.S. imports.

Table 4.1
Value of ASEAN's Exports and its Share
of U.S. Imports.
(US\$ Million)

Year	Value of ASEAN's Total Exports to U.S. Market	Value of total U.S. Imports.	ASEAN's Share of U.S. Imports
	(1)	(2)	(3=1÷ 2x100)
1965	787	21366	3.68
1970	1105	39952	2.77
1973	2223	69476	3.20
1974	4298	100997	4.25
1975	4501	96902	4.64
1976	5798	120678	4.84
1977	7141	146817	4.86

Source : *Statistical Abstract of the United States, 1978, National Data Book and Guide to Sources.*
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Though a dramatic increase in the value of ASEAN's exports to the United States market can be seen in recent years, ASEAN's share of U.S. imports is still very small and rate of increase is negligible. As the figures indicate, during the last twelve years, ASEAN's share increased only by 1.18 from 3.68 in 1965 to 4.86 in 1977. The apparent increase in the share of ASEAN is mainly due to increased imports of petroleum products by the U.S.A. from Indonesia in recent years. In 1970, the value of Indonesian exports to the U.S.A. was US\$ 182

million or about 17 per cent of the total ASEAN's exports. In 1977, the Indonesian share rose to nearly 49 per cent of total ASEAN's exports amounting to US\$ 3491 million. Table 4.2 provides statistics relating to the individual trade relations of the ASEAN countries with the U.S.A.

According to the Table, the value of the total exports of ASEAN to the U.S.A. in 1977 was US\$ 714 million while the value of imports amounted to US\$ 3882 million. Thus in 1977, ASEAN had an overall trade surplus worth of US\$ 3259 million. However, of the ASEAN countries, Singapore and Thailand have never had a trade surplus in their trade with the U.S.A. In 1977, Singapore had a huge trade deficit of US\$ 365 million, while Thailand also had a trade deficit worth of US\$ 160 million.

The figures given in Tables 4.1 and 4.2 indicate that trade between ASEAN and the U.S.A. has gradually improved during the last decade but overall performances of ASEAN with regard to the access to the U.S. market are far from satisfactory. This sluggish improvement, from the ASEAN countries' point of view, is mainly due to the various protectionist policies of the U.S.A. that have limited entry of ASEAN's primary products (excluding oil) and manufactured goods into the U.S. market.

Thus, at the first ASEAN-U.S. trade dialogue, the ASEAN countries expressed their deep concern over two devices used by the U.S.A. to limit imports from developing countries, the quota system and countervailing duties. The quota system, as the ASEAN delegates had argued, would disadvantage newcomers to the U.S. market because of the use of past export performances to determine the size of quotas on certain products. On the other hand, the countervailing duty system is used when the governments of exporting countries are deemed to be unfairly

Table 4.2
Individual Trade Relations of the ASEAN countries
with the U.S.A.

(US\$ million)

	Indonesia		Malaysia		Philippines		Singapore		Thailand	
	Im.	Ex.	Im.	Ex.	Im.	Ex.	Im.	Ex.	Im.	Ex.
1965	42	165	91	212	349	369	-	-	107	41
1970	266	182	67	270	373	472	240	81	150	100
1973	442	505	157	440	495	670	684	467	256	141
1974	531	1693	377	775	747	1091	988	553	369	186
1975	810	2222	393	772	832	756	994	534	357	217
1976	1035	3004	536	940	818	883	965	695	347	276
1977	763	3491	561	1322	876	1103	1172	875	510	350

Source : *Statistical Abstract of the United States*,
op.cit., p. 878.

subsidizing goods for export. According to the U.S. government, such subsidies are inherently wrong if they favour exports over goods made for domestic use. The ASEAN countries were very critical of the countervailing duty measures because they had adversely affected certain garments exported by ASEAN to the U.S. market. The ASEAN delegates argued that these protectionist measures would not only discourage the industrialization efforts of developing countries, but also they would be inconsistent with the stand and views of the United States on free trade and the free market mechanism. In order to ensure free and improved access to the U.S. market for ASEAN's primary products and manufactured goods, the ASEAN delegates demanded that the U.S.A. modify the way of deciding quotas and the countervailing duty system, and that it recognize the right of developing countries to promote their export industries.

II. The Trade Reform Act of 1974 and Indonesia

Indonesia because of its membership in OPEC, has become one of the victims of the U.S.A. Trade Reform Act of 1974 which disqualified from trade concessions under the U.S. Generalised System of Preferences, countries which have entered "into a cartel-type arrangement, the effect of vital materials or to charge a monopolistic price which creates serious disequilibrium in the world economy".⁹ As a result, since 1974, Indonesia has been excluded from receiving concessions of the U.S. GSP. This has considerably weakened the entry of Indonesian exports other than oil into the U.S. market. With respect to the issue, the ASEAN delegates requested the U.S. to consider Indonesia as an exceptional case in the application of the Trade Reform Act of 1974.

III. Commodity Price Stabilization

In connection with the price stabilization of commodities and raw materials, ASEAN expressed its deep concern about the implementation of the Integrated Commodity Policy and requested the U.S.A. to actively support the early establishment of the Common Fund. ASEAN had argued that if the Common Fund could be brought into effect first, then it would be easy for the ASEAN countries to start negotiations on the buffer stock arrangements for their major agricultural and mineral commodities - natural rubber, tropical timber, vegetable and seed oil, tin, copper, sugar and hair fibres. ASEAN had brought to the U.S. notice the 'STABEX' arrangements provided by the EEC to certain African developing countries and urged her to adopt similar arrangements for commodities exported by ASEAN.

IV. U.S. Participation in the Economic Development of ASEAN

In 1976, total U.S. direct foreign investment amounted to US\$ 148782 million, of which US\$ 3372 million, or 2.26 per cent of the total amount was invested in the five ASEAN countries. Tabulated below are the figures relating to U.S. direct investments in the ASEAN countries in 1976.

Table 4.3
U.S. Direct Investment in the ASEAN Countries
- 1976.

(US\$ million)	
Indonesia	1469
Malaysia	364
Philippines	810
Singapore	459
Thailand	270
ASEAN's Total	3372

Source: Sueo Sekiguchi and Larry Krause, 'Direct Foreign Investment in ASEAN by Japan and the United States', Paper presented to the Tenth Pacific Trade and Development Conference, A.N.U., Canberra, March 19-23, 1979, p. 18.

At the dialogue, ASEAN emphasised the need to increase the U.S. capital investment in the member countries and to assure the increased inflow of the U.S. investment, the ASEAN delegates requested the U.S.:

- (a) to consider the proposed U.S. income tax regulation which waives certain tax privileges provided under the former American tax deferral system for American companies operating in the region.
- (b) to maintain the investment incentives granted by the American Overseas Private Investment Corporation. Those incentives are aimed at promoting the growth of developing countries through investments by American companies.¹⁰

The first ASEAN-U.S. trade dialogue ended with few results as neither party could come to an agreement on the first three issues - free access to the U.S. market, modification of the Trade Reform Act and the price stabilization of commodities. The U.S. officials led by Richard Cooper, Under Secretary of State for Economic Affairs, expressed their great concern over the economic difficulties of the ASEAN countries but clearly indicated that at this stage the U.S. would not be able to give any major trade concession to ASEAN. In response to ASEAN's demand for the liberalization of U.S. protectionist policies, U.S. officials made no specific commitments but urged ASEAN to participate actively in the Multilateral Trade Negotiations in GATT by making reciprocal contributions in the form of concessions. The U.S. delegates argued that such reciprocal concessions would make it easier for the U.S.A. government to push for major trade liberalization by gaining popular support. However, the U.S. recognized the need to make "substantial concessions" on tropical products.

and agreed to support ASEAN at the Multilateral Trade Negotiations to achieve this.

In connection with the price stabilization of ASEAN commodities, the U.S. view was that it did not want to get drawn into such negotiations while talks were already underway on the same subject at the UNCTAD. With regard to ASEAN request for U.S. support for the Common Fund, the U.S. officials argued that the proposed amount of US\$ 6 billion was neither feasible nor necessary and reiterated the U.S. approach to international commodity problems based on the then Secretary of State Kissinger's proposal that price stabilization mechanisms should be based on a commodity by commodity approach. ASEAN delegates did not agree with the U.S. proposal and it became evident that neither party was ready to depart from their initial stand. As a result, discussions were suspended and both parties agreed to start them at a later stage.¹¹

ASEAN's call for U.S. assistance with its industrial programme also met with limited success. However, the U.S. agreed to extend its financial and technical assistance on a collective basis as well as bilateral basis. It was further agreed to set-up a working committee to carry out feasibility studies on the proposed ASEAN's projects such as a food security system, animal husbandry, livestock production, forestry and end-uses of timber, vegetables and fats.¹²

It was clear that ASEAN did not achieve anything tangible from the first ASEAN-U.S. dialogue. But the dialogue was certainly an important landmark in recent ASEAN-U.S. economic relations as it laid the foundation for a permanent process of consultation between the two parties on trade and other economic issues of mutual interest. For this purpose ASEAN had announced that it was setting up an

ASEAN-Washington Committee comprising the ASEAN heads of mission in Washington.

It was further agreed to hold a second ASEAN-U.S. dialogue which eventually took place in Washington in September 1978, at the ministerial level. The agenda for the discussion presented by ASEAN was not very much different from the original one presented at the Manila dialogue. ASEAN efforts to justify its main demands basically centred on the theme that free market strategies could work to solve ASEAN's current economic problems and therefore they should be allowed free access to the markets of developed countries. As the Foreign Minister of Singapore, S. Rajaratnam, had argued, "for the last 20 to 30 years the U.S. and other developed countries have told us in the United Nations and other international organizations to go for trade and not aid. We have taken this advice. The ASEAN countries are not coming for aid. We say we want to trade."¹³

The second ASEAN-U.S. dialogue also ended with bitter feelings as ASEAN did not receive any substantial commitment from the U.S.A. with regard to its principal demands. As it was reported in the news media, ASEAN received only sympathy when it asked for special tariff preferences and for Indonesia to be given exceptional status.¹⁴ In response to ASEAN's concern over the Common Fund, the U.S.A. tentatively agreed to support it but did not elaborate to what extent the U.S. would extend its support. With regard to the demand for increased U.S. participation in the economic development in the region, the U.S. agreed to encourage American private investment, to support ASEAN's five industrial projects from the U.S. Export-Import Bank and to form a Joint U.S.-ASEAN Business Council.¹⁵

In concluding, it can be said that ASEAN's achievements from

the two dialogues are far from satisfactory. The failure of ASEAN in its dealings with the U.S.A., however, does not mean that Southeast Asia is becoming of less importance to the U.S.A. after its failure in Indo-China in 1975. Southeast Asia, in particular ASEAN, is of great concern to the U.S.A. for economic as well as political reasons. As noted by one of the U.S. career diplomats to Southeast Asia in 1977¹⁶:

"... it is rich in raw materials greatly in demand: oil, hardwoods, rubber, tin and other tropical products. It commands air and sea lines vital to those who would move their ships and planes between the Indian and Pacific Oceans or keep communications with the countries of Southeast Asia, Australia and New Zealand. It sits astride Japan's oil pipeline from the Middle East. Its steadily growing trade is predominantly with Japan, the United States, non-communist neighbours and Western Europe in that order. It is a growing area of investment for Japan, the United States, non-communist neighbours and Western Europe, again in that order. The tolerance of and assistance to our Seventh Fleet by the non-aligned nations of Southeast Asia, along with our bases in the Philippines, support the U.S. presence in the Western Pacific and contribute to the peace and progress in that area."

This statement clearly indicates the political and economic importance of the ASEAN countries to the U.S.A. Even after the Vietnam war, the U.S.A. has repeatedly denied that there is any intention to 'pull out of Southeast Asia' and in June 1977, the Secretary of State, Cyrus Vance, indicated the U.S. determination to remain as an Asian and Pacific power.¹⁷ On this basis, it can be assumed that ASEAN's failure to receive any firm commitment from the U.S.A. was not due to the deteriorating interests or importance of the ASEAN countries to the U.S.A. In fact, the U.S. economic stake in ASEAN is considerable and more likely to grow in future.

The U.S. opposition to ASEAN's main economic demands must be viewed from a different angle. It seems that most of the ASEAN's

demands involve world wide economic issues, in particular, the Third World's demands for a new international economic order. Some basic issues of the NIEO like the Integrated Commodity Policy have encountered strong opposition from the U.S.A. ever since they were put forward by developing countries in 1974. The U.S.A. has, in principle, accepted the necessity to stabilize the export earnings of developing countries, but it is strongly opposed to any move which would lead to the creation of producer cartels enabling the participants to charge monopolistic prices. The U.S.A. believes that price stabilization of commodities should be carried out on the basis of a commodity by commodity approach but not on the basis of the proposed Integrated Commodity Policy. On the other hand, the U.S.A. has firmly insisted that any move to liberalise trade can be carried out only on the basis of reciprocal concessions. This is obviously in conflict with the views of ASEAN which has asked for trade concessions on non-reciprocal basis.

On the other hand, various talks have already been undertaken at the UNCTAD aiming at a world wide compromise between developed and developing countries over the North-South trade and other economic issues. The U.S.A. wants to see the outcome of these discussions and until then it does not want to change its present attitudes towards the new international economic order. Under these circumstances, it is not surprising that ASEAN has failed to receive any firm commitment from the U.S.A. with regard to its principal economic demands.

However, as far as the two dialogues are concerned, they have certainly helped both parties to gain mutual understanding on the problems of each other. From the ASEAN countries' point of view, one important achievement from the dialogues is that they provided an

opportunity to tell the U.S. that the domino theory still has some validity in the political context of Southeast Asia, even though the U.S. thought it had lost validity with the fall of Vietnam, Cambodia and Laos into the communists' hands in 1975. Based on this theme, ASEAN has tried to convince the U.S. that ASEAN's existence as a non-communist regional bloc is fundamentally vital for the U.S. if the U.S. wants to preserve and secure its interests in the region. Another important achievement of the dialogues is the U.S. acceptance that ASEAN is a viable regional organization. This recognition will certainly play a key role in future U.S.-ASEAN economic relations.

ASEAN and the European Economic Community

The European Economic Community represents the third largest export market for ASEAN. Tabulated below are indicators of ASEAN's percentage value of imports and exports from and to the EEC between the period of 1969 and 1976.

Table 4.4
Percentage Value of ASEAN's Imports and
Exports From and To the EEC.

	<u>Imports</u>	<u>Exports</u>
1969	20.1	14.1
1970	19.6	15.0
1971	20.2	15.7
1972	18.0	15.2
1973	17.7	15.1
1974	17.1	14.4
1975	16.3	14.7
1976	15.3	16.4

Source : *United Nations Yearbook of Annual Statistics, 1977.*

As the table indicates, during the period concerned, ASEAN's exports to the EEC remained stagnant, except in 1976; in that year a slight improvement could be seen. Since the late 1960's ASEAN has been faced with a number of problems with regard to the access to the EEC market for its primary products and manufactured goods. Among these problems, the competition coming from some African countries for primary products, the British entry into the EEC and various protectionist policies against developing countries manufactured products are the most important.¹⁸ In particular, the close economic ties between the EEC and some African countries arising from their old colonial relationship caused those countries to receive special trade preferences from the EEC, which in turn have adversely affected ASEAN's agricultural products exported to the EEC market.¹⁹

These considerations along with the ASEAN's desire to obtain more foreign investment from the EEC have made it necessary and urgent for ASEAN to seek more effective trade and economic relations with the EEC which represents the single largest trading unit in the world. On the otherhand, abundant natural resources, along with political and strategic considerations caused the EEC to seek friendly relations with ASEAN. As the President of the EEC, Roy Jenkins, noted "Europe is aware not only of the economic potential of the region but also of its political importance. ASEAN has an important role to play to ensure the peaceful development of its part of the world. Therefore, it is in our mutual interest by strengthening our relationship to help contribute to ASEAN solidarity."²⁰

The question of formulating an ASEAN joint approach to conduct relations with the EEC was considered by the ASEAN Foreign Ministers at their fourth meeting held in March 1971. The issue was further

elaborated and scrutinized by the ASEAN representatives to the Group of 77, when they met in Bangkok in October 1971 and at a meeting of the ASEAN Secretariats-General held in Bali in October of the same year. These discussions led to the establishment of the Special Consultative Committee of ASEAN (SCCAN) and it was given permanent status in the ASEAN machinery at the Fifth Foreign Ministers meeting held in April 1972. It was envisaged that the SCCAN would provide working machinery to hold negotiations on a regular basis with the EEC in such areas as trade, aid, access to the EEC market, industrial co-operation and capital investment in the ASEAN countries. The first SCCAN-EEC meeting of 1972 marked the beginning of formal links between two groups and since then SCCAN has been instrumental in the formulation of ASEAN Joint memorandums in 1972 and 1975, and in the establishment of a Working Group to carry out a study on the EEC's Generalised System of Preferences.

In order to intensify relations between ASEAN and the EEC, and to ease the workload of the SCCAN, an agreement was reached by the ASEAN members in June 1972, to establish another body, called the "ASEAN Brussels Committee" (ABC), comprising the five ambassadors or representatives accredited by ASEAN countries to the European Economic Community.

In the subsequent years, ASEAN-EEC relations seemed to be improving, and was encouraged by official visits by high ranking EEC officials - Professor Ralf Dahrendorf - former Commissioner of External Relations; Dr. Marisholt - former EEC President; Francois Xaviour; Sir Christopher Soames - the EEC Vice-President, and Roy Jenkins the EEC President.

The meeting between Sir Christopher Soames and the ASEAN Foreign

Ministers, considered closely further possibilities for the expansion of a formal relationship between the two groups and resulted in the establishment of a Joint Study Group (JSP). This group was basically intended to serve as the mechanism through which to explore together all possible areas where co-operation could be broadened, intensified and diversified.²¹ Since its establishment the Joint Study Group has held three meetings in Brussels in June 1975 and in October 1977, and in Manila in December 1976. The activities of the Joint Study Group have been to deal with four areas, namely, commercial, agricultural, industrial and development co-operation.

The ASEAN-EEC discussions have centred on four major areas, namely:

1. General problems of trade between the two parties, including the consequences of an expansion of EEC membership.
2. Improvement in the EEC's Generalised System of Preferences in order to cover ASEAN agricultural products.
3. Improved access to the EEC market for ASEAN's semi-finished and finished manufactured products.
4. EEC participation in regional economic development.

1. Enlarged European Economic Community and the ASEAN Countries

Relations of individual ASEAN countries with the EEC had been established well before the decision of ASEAN in 1972 to follow a joint approach. In fact, Thailand in 1962, was the first among ASEAN countries to accredit its own representative to the EEC and was followed by the Philippines in 1964, Indonesia in 1967, Malaysia in 1968 and finally Singapore in 1972. By establishing diplomatic relations, the ASEAN members expected "to be in a better position to defend

their exports against the unfavourable effects of the common agricultural policy on the one hand, and the EEC's preferential arrangements with its eighteen African associated states on the other".²²

When Great Britain resumed formal negotiations with the European Economic Community for membership in 1971, ASEAN countries, in particular two Commonwealth members - Singapore and Malaysia - found it necessary to accelerate their relations with the EEC as the latter made it clear that in the event of U.K. entry, Commonwealth Asian countries would not be eligible for associate status under Part IV of the Treaty of Rome.²³ Apart from this, it was also announced that with the entry of Great Britain into the EEC, the former had agreed to phase out the Commonwealth Preference System over a four and half year period beginning from 1st January 1974, the date from which the U.K. customs tariff would start being aligned on the Community's external tariff.

These arrangements created by the British entry to the EEC, were considered to have detrimental effects on trade relations between the Commonwealth ASEAN countries and the EEC, and therefore Singapore and Malaysia together with other Asian Commonwealth countries, sought individual trade agreements with the EEC to safeguard their trade interests. At the same time Indonesia also took steps to seek similar trade arrangements with the enlarged European Economic Community. On the other hand, Great Britain, emphasising the effects which could have emerged from its entry, demanded that the EEC should give due consideration to whatever problems arose in connection with the Commonwealth Asian countries' trade with the Community.

The pressure put by the Commonwealth Asian countries on the one hand and Great Britain on the other, resulted in the conclusion of the

"Joint Declaration of Intent"(JDI) between the EEC and Great Britain, and it was attached to the Treaty of Accession. The Joint Declaration of Intent aimed basically at safeguarding the trading interests of the five Commonwealth Asian countries - Malaysia, Pakistan, India, Singapore and Sri Lanka. By giving special preferences to these five countries, the EEC did not intend to discriminate against other developing Asian countries. However, Indonesia seemed to be quite uneasy with the contents of the JDI and sought Dutch help in enlarging the JDI to cover all Southeast Asian countries. The general EEC view of the Indonesian proposal was that such an enlargement would have a weakening effect on the discharge of Community commitments to the Commonwealth Asian countries. However, in the end, it was agreed to include the other developing Asian countries in the same geographical area into the scope of the Joint Declaration of Intent. Thus the first paragraph of the JDI states:

"Inspired by the will to extend and strengthen the trade relations with the developing independent Commonwealth countries in Asia (Ceylon, Indian, Malaysia, Pakistan and Singapore) the EEC is ready, from the date of accession, to examine with these countries such problems as may arise in the field of trade with a view to seeking appropriate solutions, taking in to account the effect of the generalized tariff preferences scheme and the situation of other developing countries in the same geographical area."²⁴

II. Improvement in the EEC's Generalized System of Preferences and Improved Access to the EEC Market for ASEAN.

The Generalized System of Preferences was introduced by the European Economic Community in July 1971 with the provision that the GSP should be renewed every year in order to cope with the developments which might occur in the trade relations between the community and a third party. Under the GSP scheme, ASEAN countries have been

allowed to export to the EEC market industrial goods duty free and more than 50 agricultural products at reduced tariffs.²⁵ However, the concessions granted have not covered several agricultural products like pepper, palm oil and coconut oil which are major products among ASEAN exports.

Thus improvement in the GSP covering agricultural products which were of export interest to ASEAN was a key issue in the discussion held between the Chairman of SCCAN, Professor Sumitro Djojohadikusumo, and the EEC representative, Professor Ralf Dahrendorf, in 1972. The ASEAN delegation demanded that the EEC should take steps to make such necessary adjustments in the GSP. In return, the EEC delegates offered no promises to undertake the proposed adjustments but expressed readiness to take ASEAN's trading problems into account under the provisions of the Joint Declaration of Intent. Discussions between the two parties took place continually on the issue, but no substantial improvement occurred in the GSP until 1974. At the beginning of 1974, the EEC made several modifications in the GSP in order to offset disadvantages which might arise from the phasing out of the Commonwealth Preferences scheme to JDI countries. According to the modifications, Singapore and Malaysia were allowed to export plywood duty free and a new quota system was introduced for Malaysian canned fruits. Apart from this, the regulations relating to the "rule of origin" were also modified to ensure Singapore's *entrepot* trade. The modifications of 1974, as Malcolm Subahn has put it "were the most substantial since the introduction of the GSP scheme in July 1971; even so, they fell considerably short of the demands of the ASEAN countries".²⁶

ASEAN expressed its disappointment in a memorandum submitted to

the EEC in April 1974, which asked that "products currently exported by ASEAN be brought within the scope of the GSP, that tariffs on processed agricultural products and agricultural commodities exported by ASEAN in competition with the Lomé Convention countries be eliminated or at any rate sharply reduced, and that the rule of origin and the cumulative rule of origin be further liberalised".²⁷ Once again ASEAN's demands were largely ignored by the EEC but it was agreed to continue discussions until both parties could find solutions. The subsequent discussions did not make major breakthrough but they helped ASEAN to receive some tentative promises from the EEC, such as the proposal to bring palm oil and pepper under the GSP, an increased quota for plywood and the proposal to reduce the ASEAN list of agricultural products from 51 to seven.²⁸

III. The European Economic Community and the Regional Economic Development

Describing the responsibility of the EEC as the world's largest trading unit in economic development of underdeveloped countries, Roy Jenkins, the EEC President, wrote in 1977 "In the same light should be seen the financial assistance and food aid which the community and its member states give to the developing world. The major fund established for the economic development for the countries covered by the Lomé Convention will not limit aid to them. In 1976, we took our first step towards financial assistance to non-ACP (African, Caribbean and Pacific) developing countries in Asia and South America. In addition, the Community has given considerable assistance to ASEAN in the field of trade promotion. Funds for projects to develop regional integration have also been available for ASEAN".²⁹

Thus the EEC took steps to establish US\$ 1000 million fund to

help developing countries to solve their debt problems and Indonesia was one country which would benefit from the fund. In 1974, the EEC sent two statistical experts to assist ASEAN countries in the improvement of data collection, compilation and presentation in connection with foreign trade. In addition, several study programmes and seminars have also been arranged by the EEC for ASEAN officials to improve their knowledge in relevant fields at the EEC Centre and in the member countries. The ASEAN countries have also been given the opportunity to participate in a large number of trade fairs and exhibitions in the EEC countries and to organise "ASEAN weeks" in departmental stores in the EEC countries. In 1975, the EEC published an "ASEAN Profile" to distribute among the EEC traders and investors to divert their attention to the ASEAN region.

The first EEC-ASEAN Conference on Industrial Co-operation held in Brussels in April 1977, was also sponsored by the EEC. The conference according to newspaper reports, helped to bring a larger European industrial and commercial presence into the ASEAN region. It was decided to hold the second conference on Industrial Co-operation in Jakarta in 1979.³⁰

In concluding, it can be said the ASEAN's achievements from its dealings with the EEC are not satisfactory. As in the case of U.S.A., ASEAN has failed to receive any firm commitment from the EEC with regard to its two main economic demands - price stabilization of commodities and improved access to the EEC market. The EEC has firmly insisted that it will not take any positive steps towards the liberalization of trade, in particular for manufactured products, until its member countries are able to overcome the current economic difficulties. Opposed to the ASEAN's request, it has become evident that the EEC

also intends to adopt a more and more inward looking approach to the liberalization of trade. Growing unemployment in member countries caused the EEC to reconsider its import policies on labour intensive manufactured goods like clothing and textiles and there is a growing feeling that member countries must maintain a certain minimum level of production in such industries.

With regard to the price stabilization of commodities, in principle the EEC accepted the necessity to do so but its version of the Common Fund had many differences from the one that had been suggested under the Integrated Commodity Policy. According to the EEC's opinion, the Common Fund should be envisaged to act more as a clearing house for commodity arrangements already negotiated than as a source of finance.³¹

ASEAN and Japan : Emerging Problems of Economic Relations

For several reasons, such as being a prime trading partner, foreign investor and aid donor, Japan is of greater importance to ASEAN than the two other economic powers - the U.S.A. and the EEC. On the other hand, ASEAN countries are also of equal importance to Japan for political, strategic and economic considerations which are discussed in detail below. This high interdependency has persuaded both ASEAN and Japan to give strong emphasis to each other in their foreign policy, but official ASEAN-Japanese relations were established only in 1977 with the establishment of an ASEAN-Japan Forum with the following terms of reference³²:

- (i) to explore avenues for the promotion of co-operation on a collective basis between ASEAN and Japan in such areas as trade, industrial development, food and agricultural development and cultural affairs;

- (ii) to review and monitor the progress of co-operation between ASEAN and Japan;
- (iii) to recommend appropriate measures to expand economic co-operation between the two parties.

The pressure which induced ASEAN to seek more effective and orderly economic relations with Japan in 1977 were generated by mounting dissatisfaction of the ASEAN members with their post-war economic relations with Japan. Therefore, any study of recent ASEAN-Japanese economic relations would necessarily entail an examination of the origin and development of the post-war Japanese economic expansion in Southeast Asia.

Post-war Japanese foreign policy toward Southeast Asia has been cultivated and developed on three major considerations - her own military adventure in the Second World War, the subsequent defeat by the Western allies in 1945 and finally, her resurrection as a world economic power.³³ In this context, for several reasons, ASEAN countries have always been regarded as vital for Japanese economic well being. Firstly, Japan as a resources-poor developed country, has always had to depend on resources-rich ASEAN countries for her industrial development. Secondly, the five ASEAN countries collectively represent a big market with 250 million people which is of great importance for Japanese manufactured products. Thirdly, ASEAN countries are in control of the sea routes in the region through which Japan conducts more than 80 per cent of her import-export transportation. These economic considerations caused Japan to be increasingly concerned with the political stability of ASEAN countries. According to an unpublished Japanese official document, "... it is essential for Japan that the countries of these areas will not become

hostile to Japan or ruled by any power or powers hostile to Japan, ... it is also essential that these areas are politically stabilised and become economically prosperous as Japan's prosperity is closely linked with theirs."³⁴ This statement clearly reveals the political, economic and strategic importance of the region to Japan. Thus prime objective of the post-war Japanese foreign policy has been to support the policies which are likely to create a favourable environment for Japan in order to secure her economic and commercial interests.³⁵

With economic recovery, Japan had terminated her self-imposed isolationist period and by the 1950's it began to be actively involved in the Asian activities with renewed interest. In December, 1953, the Japanese cabinet announced the basic guidelines of Japanese policy toward Southeast Asia; first, to co-operate with the United Nations and third powers in programmes of economic assistance; second, to give government assistance but to leave the initiative for such programmes primarily to private interests; and third, to seek a settlement of the reparations problem as quickly as possible.³⁶ Accordingly in April 1953, and in October 1954 respectively, Japan gained full membership of the Economic Commission for Asia and the Far East (ECAFE) and the Colombo Plan. In addition, Japan had also played a key role in the establishment of the Ministerial Conference for Economic Development of Southeast Asia and the Asian Development Bank in the 1960's.

In the 1970's, the U.S. and the EEC further encouraged Japan to increase its participation in Southeast Asian affairs for several reasons. The most important were, first, to lessen Japanese competition while providing Japan with alternative non-communist source of raw materials along with a big market, thus preventing Japan from

falling back on the Chinese mainland; second, to ease the burden of the U.S.A. in assisting the development of Southeast Asian nations by sharing it with Japan; third, to prevent Southeast Asian nations from turning to the communist bloc for assistance that could draw them into the influence of the communist countries and finally, to perfect the American containment policy in Asia.³⁷

The post-war Japanese economic penetration into ASEAN countries has been carried out through three devices, (a) trade, (b) provision of extensive loans and development assistance and (c) Japanese private investment.³⁸ In 1956 and 1959 Japan concluded reparation agreements with Thailand (US\$ 200 million), the Philippines (US\$ 500 million) and Indonesia (US\$ 200 million) respectively. Most of the reparation money was used to import Japanese goods and as a result, Japanese trade with ASEAN countries had increased tremendously by the end of the 1950's. Trade between Japan and ASEAN countries was further intensified by Japanese yen loan system and Japan had outstripped the U.S.A. and the EEC by the late 1960's. Since then Japan has dominated the ASEAN market with an annual trade growth of 26 per cent.

Table 4.5

Percentage Value of ASEAN's Imports and Exports From and To Japan.

	<u>Imports</u>	<u>Exports</u>
1969	24.6	24.0
1970	26.3	24.8
1971	27.8	26.3
1972	28.3	26.9
1973	28.1	28.3
1974	25.7	27.9
1975	25.7	27.1
1976	24.8	24.4

Source : *United Nations Yearbook of Annual Statistics 1977.*

As the table indicates, nearly $\frac{1}{4}$ of ASEAN's total trade is conducted with Japan. During the period concerned ASEAN's imports from Japan has always exceeded its exports except in 1973 and 1974. Capital goods and machinery have always topped Japanese exports to ASEAN while raw materials, commodities and oil have been the principal items among Japanese imports from ASEAN.

Table 4.6 provides data relating to trade relations of individual ASEAN countries with Japan. According to the table a considerable variation in Japanese trade with individual ASEAN countries can be noticed. Malaysia and Indonesia are the only members of ASEAN that have been able to enjoy trade surplus with Japan in recent years. Up to 1975, the Philippines had a trade surplus with Japan but since then Japanese exports have exceeded imports from the Philippines. Singapore and Thailand have never had a surplus in their trade with Japan.

Aid.

During the 1960's the Japanese economy experienced rapid economic growth of about 10 per cent in real terms a year and at the end of the decade Japan became a third economic power in the open market economy. This economic prosperity has persuaded Japan to be involved in foreign aid programmes to developing countries. Thus in April 1964, Japan joined the Organization of Economic Co-operation and Development (OECD) and agreed to contribute annually one per cent of the national income to the development assistance fund. (However, its actual aid performance has been very poor.) In the same year Japan gained the membership of the International Monetary Fund and agreed to discharge her international monetary obligations in accordance with

TABLE 4.6.

Trade Balance Between Japan and ASEAN
Countries

(US\$ million)

		1973	1974	1975	1976	1977 Jan-Jun
<u>Indonesia</u>	Export	2214	4572	3430	4091	2487
	Import	902	1450	1850	1639	789
	Balance	+1312	+3122	+1580	+2452	+1698
<u>Malaysia</u>	Export	776	979	691	1362	705
	Import	448	708	566	704	391
	Balance	+328	+271	+125	+658	+314
<u>Philippines</u>	Export	820	1105	1121	793	426
	Import	620	911	1026	1114	527
	Balance	+200	+194	+95	-321	-101
<u>Singapore</u>	Export	223	619	399	647	302
	Import	930	1388	1524	1531	703
	Balance	-707	-769	-1125	-884	-401
<u>Thailand</u>	Export	394	686	724	848	364
	Import	720	951	959	1070	629
	Balance	-326	-265	-235	-222	-265

Note : + denotes Surplus; - denotes Deficit.

Source : *Far Eastern Economic Review*,
March 10, 1978, p. 40.

Article 8 of the IMF.³⁹ Ever since Japan began to provide development finance to developing countries, the five ASEAN members have always been ranked among the top recipients of Japanese aid. Tabulated below are indicators relating to Japanese bilateral aid to ASEAN countries.

Table 4.7

Japan's Official Development Assistance
to ASEAN Countries (Cumulative Value)
(Net Disbursement, US\$ million)

	Grants Other than Techni- cal Assist- ance	Techni- cal Assist- ance	Develop- ment Lend- ing and Capital	Total
World Total 1960-77	1755	625	4985	7365
ASEAN Total 1960-77	808	193	2048	3052
Indonesia 1960-77	271	67	1347	1686
Malaysia 1960-77	8	22	190	220
Philippines 1960-77	486	40	299	825
Singapore 1960-77	8	11	41	60
Thailand 1960-77	36	54	171	261

Source : Makoto Ikema, "The Common Approach to Foreign Policy, with Special Reference to ASEAN's Relations with Japan", Paper presented to the Tenth Pacific Trade and Development Conference, A.N.U., Canberra, March 19-23, 1979, p. 29.

According to the table, Japan's bilateral ODA accumulated from 1960 to 1977 amounted to US\$ 7365 million of which US\$ 3052 million or about 41 per cent was allocated to five ASEAN countries. Indonesia and the Philippines are the major recipients of Japanese bilateral

aid. As the figures indicate, during the period 1960-1977, about 55 per cent of Japanese total bilateral aid to ASEAN went to Indonesia while the Philippines' share was about 27 per cent.

The principal objective of Japanese foreign aid has been to help ASEAN countries to strengthen their political and social stability by improving economic and social conditions.⁴⁰ Another significant feature of Japan's foreign aid is it is tied.⁴¹ For example, Japan has always tended to give its credits and other assistance on the condition that such financial facilities should be used to import Japanese goods. Japan has also tended to give a large amount of funds to countries which allow Japan to exploit their natural resources on minimal conditions.

Private Investment

Private investment is the third aspect of Japan's economic relations with ASEAN countries. As in the case of trade and aid, Japanese private investment also began to pour into ASEAN countries with the economic boom of the 1960's. Three motives have guided Japanese private investment: namely, to procure resources for Japanese industries, to defend the market for Japanese goods and to utilise cheap labour.⁴² The following table shows the accumulated figures of Japanese direct investments in ASEAN countries as of 31 March 1977.

In 1977, total Japanese direct investment in the world amounted to US\$ 19405 million, of which five ASEAN countries accounted for one-fifth or 20.3 per cent. Once again Indonesia has been ranked first in Japanese investment priorities and as the table indicates more than 68 per cent of Japanese total investment in ASEAN has been invested in Indonesia. There have been three different types of capital

Table 4.8Japanese Direct Investment in
ASEAN - 1977.

(US\$ million)

	<u>Total</u>	<u>Percentage</u>
ASEAN	3946	100.0
Indonesia	2703	68.5
Malaysia	356	9.0
Philippines	354	9.0
Singapore	305	7.7
Thailand	228	5.8

Source : *Far Eastern Economic Review*,
10 March 1978.

investment, namely, import substitution, resources exploitation and export orientation.⁴³ The industrial sector has always been predominant in investment priorities, especially labour intensive industries such as textile, clothing, electronic devices and chemicals. According to 1972 statistics, 77 and 66 out of 358 industries established by Japanese investors were textile and chemical processing industries respectively.

The above discussion has brought out some salient features of post-war Japanese economic relations with ASEAN countries. In short, Japanese policy has always been directed by its twin objectives - source of raw materials and a market for Japanese goods - along with the common objective of maximising profit in the shortest possible time.

The current pattern of economic relation has given rise to

several problems which are of great concern to ASEAN countries; the most important among them are:

- (a) a huge trade deficit that has continually been experienced by the majority of ASEAN countries;
- (b) increasing exploitation of natural resources by Japan through its rapid economic penetration;
- (c) less participation by Japan in the industrial development in ASEAN countries, in particular non-labour intensive industries.

ASEAN efforts to correct this lop-sided trade relationship and other inequalities met with limited success thus causing considerable dissatisfaction and resentment among the member countries with the growing Japanese economic penetration of their countries. The anti-Japanese riots and demonstrations in ASEAN' capitals during the official visit of Tanaka, the former Prime Minister of Japan, in 1974, manifested ASEAN fear of Japanese expansion.⁴⁴ This situation gave rise to the necessity for ASEAN to reassess and to re-structure its economic relations with Japan, and for this purpose the ASEAN-Japan Forum was established in 1977. However, the foundation of the ASEAN-Japan Forum was laid in 1973 with ASEAN's joint approach to Japan over the issue of indiscriminate production and export of synthetic rubber by Japan, which was thought to have detrimental effects on the natural rubber industry in ASEAN countries.

During the period 1962-1972, Japan increased her synthetic rubber production twelvefold from 70,000 tons to 820,000 tons. In 1972, Japan exported 205,000 tons, a thirty-threefold increase in merely ten years.⁴⁵ This indiscriminate production and export of synthetic rubber threatened to destroy the natural rubber industry which was

one of the major foreign exchange sources of the majority of ASEAN countries. At their sixth meeting held in 1973, the ASEAN foreign ministers took the synthetic rubber issue into consideration and agreed to appoint a committee comprising senior officials of the member countries to map out a plan of action to deal with Japan.⁴⁶

In August 1973, ASEAN submitted a joint memorandum to Japan in which the member countries expressed their grave concern over increased synthetic rubber production. The memorandum urged the Japanese government to take immediate steps to reduce the production and export of synthetic rubber and insisted strongly on establishing a direct consultation system between Japan and ASEAN over the issue. The memorandum further called Japan to play a more active role in uplifting the economies of the ASEAN members.⁴⁷ Japan responded immediately to ASEAN joint memorandum and agreed to form a joint consultation system as demanded by ASEAN. This agreement eventually resulted in the establishment of the ASEAN-Japan Forum on Synthetic Rubber (AJFSR) and in the subsequent discussions under the auspices of AJFSR, Japan agreed to limit her synthetic rubber production to assure that the Japanese synthetic rubber would not endanger the economies of ASEAN.⁴⁸

In the following years, the ASEAN-Japan Forum on Synthetic Rubber gradually extended its scope and areas of consultation to cover trade, aid, industrial and agricultural development. These expanded activities necessitated the institutionalization of ASEAN-Japan dialogues on a permanent basis, and for this purpose, in 1977, the ASEAN-Japan Forum was established. So far the ASEAN-Japan Forum has held two meetings - one in Jakarta in March 1977 and the other in November 1977 in Tokyo. In addition, the heads of ASEAN countries

met the former Prime Minister of Japan, Fukuda, in August 1977 at the summit conference held in Kuala Lumpur.

In the discussions at the meetings of the ASEAN-Japan Forum and the summit have centred on issues relating to aid, trade, industrial development and cultural co-operation, of which the most important have been:

I. Aid: ASEAN has requested Japan to provide US\$1 billion on concessional terms to implement the five ASEAN projects agreed to by the heads of ASEAN countries at the Bali summit.⁴⁹ Japan has accepted the request and reaffirmed its readiness to extend financial assistance but on two conditions: first, that each industry should be identified by Tokyo as being an ASEAN project and second, that Japan must be satisfied that the proposed projects are feasible.⁵⁰

Japan put forward these conditions because it wants to make sure that the projects are approved by all the members collectively before they are implemented. From the Japanese point of view such a guarantee is required as the ASEAN Secretariat has not developed a powerful bureaucracy of its own.⁵¹ On the other hand, the feasibility condition has been put forward because Japan fears that greater output can result from the projects and that it will eventually need accommodation in Japanese markets. Therefore, Japan wants to make certain that the ASEAN market is sufficient to absorb the output of the five projects.

Indonesia has submitted its feasibility study on the Urea project to Japan but Japan has not made a decision yet. According to projections of the Japan External Trade Organization (JETRO), the urea supply in ASEAN countries will exceed demand by 1982 if the proposed Indonesian Urea project is implemented. It was thought that the marketing problem might be further increased by the production of a

Malaysian urea project on which a feasibility study has just been finished by a Japanese expert team. If these results are likely to threaten the Japanese market, it is certain that Japan will not make available agreed financial assistance until ASEAN countries make necessary revisions in their plans in accordance with Japanese requirements.⁵²

II. Trade: ASEAN has requested that Japan should take steps to make improvements in its Generalised System of Preferences by removing certain tariff and non-tariff barriers, thus ensuring improved access to Japanese markets for ASEAN manufactured and semi-manufactured products. ASEAN has further demanded changes in the application of cumulative rules of origin to ASEAN products and in the base year used for determining ceilings for mining and manufactured imports from 1975 to 1976.⁵³

With regard to these demands Japan has made no firm commitment except for declaring its readiness to give due consideration to ASEAN trading problems. However, as a result of pressure from ASEAN, in 1978 Japan agreed to liberalise the cumulative rules of origin applying to certain ASEAN products.⁵⁴ Apart from this no favourable concessions have been offered in favour of ASEAN with regard to tariff, non-tariff barriers and the base year.

III. Commodity Price Stabilization: Noting that the existing exports of ASEAN to Japan consist mainly of primary commodities, ASEAN has discussed with Japan the possibility of establishing a commodity price stabilization system for ASEAN commodities along the lines of STABEX scheme introduced by the EEC. The basic objective of the scheme is to provide emergency loans to ASEAN, either to each member

country or to the group as a whole when prices fall below a certain level, strictly determined through the market. The proposal has met with little success as Japan wants to see what will be the outcome of the current discussions at the UNCTAD on the implementation of the Integrated Commodity Policy.⁵⁵ However, at the summit conference, Fukuda promised that Japan would participate actively in formulating an international rubber price stabilization agreement acceptable to both producing and consuming nations.

As far as ASEAN-Japan dialogues and the summit meeting are concerned, it is clear that ASEAN achievements are far from satisfactory. Not only did ASEAN not receive any long-term commitments from Japan with regard to its major concerns, but also the commitments made by Japan seem to be somewhat ambivalent and tentative. Japan has always been reluctant to make any commitment which does not conform with the policies of the U.S.A. and the EEC over the issues like commodity price stabilization. On the other hand, Japan has been very careful not to apply any kind of discriminatory measures for ASEAN alone, as Japan fears that such measures would jeopardise her worldwide trading relations, especially those with the other developing countries.

In the preceding discussion an attempt has been made to investigate the emerging issues and problems of ASEAN's economic relations with the three major economic powers in the world today - the U.S.A., the EEC and Japan. Taken as a whole, the discussion suggests that ASEAN's achievements from its dealings with these economic powers necessarily remain marginal and in some cases ASEAN has achieved nothing at all. There have been various reasons for the failure of ASEAN. First, as mentioned before, much of the ASEAN's economic

demands are either directly or indirectly involved with the Third World's demand for a new international economic order. Various international discussions are already underway seeking a world wide compromise between developed and developing countries. All the developed countries are waiting to know the outcome of these discussions and until then they do not want to give any short term solution for the commodities exported by ASEAN, which represent only a very small fraction of the whole Third World.

Secondly, the current economic recession has made it quite difficult for the U.S.A., EEC and Japan to comply with ASEAN's demand for greater access to their markets for ASEAN's manufactured products. In particular, the growing unemployment in these countries has caused them to be more concerned with their labour intensive industries whether they are efficient or inefficient when compared to those of labour intensive industries of the ASEAN countries.

Thirdly, unwillingness of ASEAN to make reciprocal commitments is another factor accounting for the failure of ASEAN in its dealings with developed countries. The ability of ASEAN to gain trade commitments from other countries obviously depends on the strength of ASEAN commitment to free market-disciplined economic development. It is unrealistic for ASEAN to expect other countries to liberalise their tariff barriers while ASEAN is maintaining very high external tariff wall. Obviously, ASEAN would have achieved far better results from the U.S.A., the EEC and Japan, had ASEAN agreed to deal with them on the basis of complementation and efficient manufacturing development among them.

Finally, it seems that ASEAN still lacks the necessary political will to employ its collective bargaining power effectively. As a

result, ASEAN has not been able to generate the necessary pressure on developed countries. The effectiveness of ASEAN's collective bargaining power depends not only on the unanimity of the five countries, but also on the extent to which ASEAN can exercise its 'producer power' against developed countries. So far ASEAN has not made any attempt to use its producer power but its ability to do so in future also seems to be limited because of the conflicting economic interests of the member countries.

FOOTNOTES - CHAPTER IV.

1. ASEAN Declaration - Aims and Objectives. See - appendix, No.1.
2. Declaration of ASEAN Concord - Programme of Action - Part III, Co-operation in Trade, Clause IV.
3. *Ibid.*, Clause V.
4. *10 Years ASEAN*. Published by the Central Secretariat of ASEAN, Jakarta, 1978, p. 221.
5. Sumitro Djojohadikusumo, "ASEAN - Resources Diplomacy and Regional Policies". Paper presented to the Conference on Southeast Asia's Natural Resources and the World Economy, Kuala Lumpur Hilton, September 1974, p. 9.
6. *Ibid.*
7. Lau Teik Soon, (ed.), *New Directions in International Relations of Southeast Asia*, Singapore University Press, 1973, p. 114.
8. *10 Years ASEAN*. *Op.cit.*, p. 228.
9. Summary of the Trade Reform Act of 1974, The Government Printing, Washington, D.C., 1974.
10. *ASEAN Business Quarterly* - Third Quarter, 1977, p. 18. Also see *The Australian*, 6.9.77, p. 10, *Back Grounder*, Department of Foreign Affairs, Australia, 23.9.77, pp. 9-10.
11. *The Strait Times*, (Singapore), 17.7.78.
12. *Ibid.* Also see *The New Nation*, (Singapore), 29.6.78.
13. *The Strait Times*, 5.8.78, p. 30.
14. *Asian Wall Street Journal*, 5.8.78, p. 1.
15. *The Strait Times*, 18.8.78.
16. See J.A.C. Mackie, 'United States Interests in Southeast Asia', *Australian Outlook*, Vol.1, August 1978, pp. 205-223.
17. *Ibid.*
18. *Southeast Asia's Economy in the 1970's*, Asian Development Bank, Longman, 1971, p. 272.
19. *Ibid.*
20. *Far Eastern Economic Review*, 27.5.77, p. 33.

21. *The Mirror*, 27.1.75 (Singapore).
22. Malcolm Subahn, "ASEAN-EEC Relations" in *South East Asian Affairs*, 1977, Institute of South East Asian Studies, Singapore, p. 50.
23. See "Commonwealth Asia and the Enlarged European Economic Community", *International Asian Forum*, Vol. 3, 1972, HEFT-3, p. 340. See also John Galtung, "The extended European Community and the Less Developed Countries in Asia: a Comment", *International Asian Forum*, Vol. 3, 1972, pp. 365-368.
24. Malcolm Subahn, *op.cit.*, p. 51.
25. *The Mirror*, 27.1.75 (Singapore).
26. Malcolm Subahn, *op.cit.*, p. 53.
27. *Ibid.*, p. 53.
28. *The Mirror*, 27.1.75.
29. *Far Eastern Economic Review*, 27.5.77, p. 33.
30. *The Strait Times*, 7.7.78, p. 12.
31. *Far Eastern Economic Review*, 27.5.78, p. 33.
32. *10 Years ASEAN*. *Op.cit.*, p. 225.
33. For detail - see George P. Jan (ed.), *International Politics of Asia*, Wadsworth Publishing Company, 1969, pp. 179-189, Wayne Wilcox and others, "Asia and the International System", Winthrop, 1972, pp. 32-61; Wladyslan Goralski, "Japan Expands in Southeast Asia", *PISM*, No. 2, 1972, pp. 31-64; Yoshiyuki Hagiwara, "Formation and Development of the Association of Southeast Asian Nations", *Developing Economics*, Vol. XI, December 1973, No. 4, pp. 453-456.
34. John M. Allison, "Japan Relations with Southeast Asia", *Asia*, No. 17, 1969, pp. 34-58.
35. Arnfinn Jorgensen-Dahl - "Southeast Asia and the Theories of Regional Integration", Unpublished Ph.D. Thesis, A.N.U., May 1975, pp. 359-361.
36. George P. Jan, *op.cit.*, p. 181.
37. *New Strait Times*, 4.1.76.
38. See: "Dyason House Papers", The Australian Institute of International Affairs, Vol. 5, No. 1, September 1978, p. 3.
39. George P. Jan, *op.cit.*, pp. 207-214.
40. See: Kunio Yoshihara - Japan Relations with Southeast Asia, in *Southeast Asian Affairs*, 1974, ISEAS, Singapore, 1974, p. 69.

41. *Ibid.*, p. 71.
42. Yoshiyuki Hagiwara, *op.cit.*, pp. 454-455.
43. Kunio Yoshihara, *op.cit.*, pp. 74-79.
44. Yoshiyuki Hagiwara, *op.cit.*; see also Andrew H. Gunawan - "The Role of Students in the 15th January 1974 Incidents", in *Southeast Asian Affairs*, ISEAS, Singapore, 1975, pp. 65-71.
45. *Strait Times* (Malaysia), 8.8.73.
46. 'ASEAN', Published by Indonesia Department Luar Negeri ASEAN Secretariat National, 1977, pp. 42-44.
47. *Ibid.*, see also *Strait Times*, 7.8.73 and 16.8.73.
48. See *Strait Times* (Malaysia), 26.8.73, 6.2.74, 22.2.74, 17.3.74, 30.3.74 and *New Nation* (Singapore), 21.3.74.
49. *ASEAN Business Quarterly*, 3rd. Quarter, 1977, p. 14. See also *Joint Press Communique issued at the end of the Summit Conference between the Prime Minister of Japan and the Heads of ASEAN States*. For the text of the Press Communique see - *10 Years ASEAN*, pp. 209-214.
50. See *Far Eastern Economic Review*, 10.3.78, pp. 53-54.
51. *Ibid.*, p. 53.
52. *Ibid.*, p. 54.
53. See: *The Joint Press Communique*, *op.cit.*, for Japanese attitude towards the tariff liberalization. See Kiyoshi Kojima - Japan and New World Economic Order, *Hitotsubashi Journal of Economics*, Vol. 15, No. 1, June 1974, pp. 3-4.
54. See *New Nations* (Singapore), 25.5.78. This article discusses the previous system, changes made by Japan and their implication to ASEAN products. However, author agrees that the new changes are not the significant concession they appear to be.
55. *Far Eastern Economic Review*, 10 March 1978, p. 55.

CHAPTER V.

ASEAN and Australia : Recent Developments in Economic Relations.

Recent economic relations between ASEAN and Australia have been highlighted by the growing opposition from ASEAN to Australia's regional economic policies. In the period after 1975, relations between ASEAN and Australia have rapidly deteriorated with ASEAN unhappy about the various protectionist measures that Australia has adopted since 1974. The deteriorating relations reached the low point in February 1979 with the implementation of the new International Civil Aviation Policy (ICAP) by Australia. Focusing mainly on these two issues, this chapter attempts to identify the essential interests of ASEAN in its relations with Australia, the steps that have been taken by ASEAN to promote its economic interests and the response of the Australian Government.

The Origin and Development of Formal Links Between ASEAN and Australia

The move towards the establishment of formal links between ASEAN and Australia started in 1973, when ASEAN expressed its desire and readiness to develop economic relations with Australia on a collective and permanent basis. In May 1973, the heads of ASEAN diplomatic missions to Canberra held an unofficial exploratory round of discussion with the Australian officials. At this meeting it was agreed to hold further discussions to seek ways and means of promoting economic co-operation between the two parties.

In January 1974, a team of Australian officials met the

Secretaries General of ASEAN in Bangkok. Discussions were mainly centred on the promotion of co-operation in such areas as trade, investment and technical assistance. ASEAN emphasised the increased participation of Australia in the economic development of ASEAN countries but insisted that future co-operation should not jeopardise the existing bilateral relations between Australian and individual ASEAN countries.

The Bangkok meeting was followed by another meeting held in Canberra in April 1974. At this meeting, it was finally agreed by both parties that economic co-operation between ASEAN and Australia should be institutionalised. For this purpose, the ASEAN-Australian Dialogue was established (subsequently, name was changed to the ASEAN-Australian Forum). At the Canberra meeting ASEAN reiterated the necessity to expand trade relations between ASEAN and Australia, but no final agreement was reached over the economic issues.

With regard to Australian participation in the economic development of the member countries, ASEAN put forward four ASEAN joint projects and Australia was asked to give active support to see the projects off the ground. The projects were: (i) Protein Food Processing; (ii) ASEAN's Food Handling; (iii) Establishment of ASEAN's Consumer Protection Agency, and (iv) Research Centre for Education. The Protein Food Processing Project aimed at developing, distributing and utilising new forms of low cost protein rich foods, while the Food Handling Project aimed at an overall improvement in methods of handling, transporting and storing such products as fruits, vegetables, grain, fish and livestock products.¹

In response to the ASEAN request, the Foreign Minister of Australia announced that Australia would contribute A\$ 5 million

along with training facilities for ASEAN personnel attached to the four projects. In subsequent years considerable progress has been made in the implementation of the four projects, in particular the Protein Project and the Food Handling Project.

Emerging Issues in Trade : The first ASEAN Joint Approach in 1976.

Australia as the closest developed country is of great importance to ASEAN as a potential market for its primary and manufactured products. As reported in "Southeast Asia's Economy in the 1970's", "Though a relatively small economy, Australia is a significant international market and her geographic position near Southeast Asia suggests that she will be of growing importance as a market for certain raw materials and manufactured products".²

In the early 1970's, ASEAN exports to the Australian market became highly competitive vis-a-vis Australian produced goods as a result of the various import liberalization measures introduced by the Australian government in the late sixties and early seventies. During this period, Australia had considerably increased the import of foreign manufactured goods in order to meet rising internal demand generated by the growth in incomes of Australian people associated with the mining boom of the sixties and early seventies. The import of foreign products was further encouraged by the effects of the Australian government policies which introduced an equal pay for women and brought about a large increase in minimum wage level.³ In July 1973, tariffs on all imported products were cut by 25 per cent and in the same year the Australian dollar was revalued. As a consequence of these import liberalization measures, the Australian share of world import of labour intensive manufactured products rose from 1.9 per

cent in 1971 to 2.7 per cent in 1974.⁴

In the period after 1974, however, the entry of ASEAN exports to the Australian market has been severely affected by the various protectionist measures imposed by the Australian government on grounds of rising internal economic difficulties. In March 1974, a new quota system was imposed with a high tax surcharge on the items that exceeded the prescribed limit provided under the quotas. Some of the highest nominal rates of protection on various clothing products were as high as 50 to 100 per cent.⁵ In September 1974, the Australian dollar was devalued and since the mid-1970's, the Australian government has continued to make various changes in its Generalised System of Preferences in order to protect the local labour intensive industries as a counter measure to the rising unemployment problem. Table 5.1 shows the change that occurred in the Australian tariff structure after 1974.

Table 5.1

Average Effective Rates of Assistance
Provided by the Australian Government
to Selected Labour Intensive Industries
during the Period 1974-1976.

	<u>1974-1975</u>	<u>1975-1976</u>
Textile	37	70
Clothing	-	130
Footwear	71	80

Source: Debesh Bhattacharya, "Australia and a New International Economic Order", *Australian Quarterly*, Vol. 50, No. 4, December 1978, p. 52.

The five ASEAN countries have been ranked among the top casualties of the Australian protectionism but damage has been very uneven. Malaysia, the Philippines and Thailand have been severely affected as the export of manufactured products has become an important element in their economic development in recent years. Singapore has been less affected as labour intensive manufactured products account only for a small fraction of Singapore's exports. Indonesia has also been less affected as it has only a relatively small export oriented manufacturing sector.

At the discussions of the ASEAN-Australian Forum, ASEAN has consistently expressed its dissatisfaction with the existing pattern of trade between the two parties. The existing pattern has always been in favour of Australia which has consistently had a huge surplus in its trade with ASEAN. Table 5.2 provides data relating to trade between Australia and ASEAN.

Table 5.2
Trade Between ASEAN and Australia

(A\$ Million)	1966 1967	1968 1969	1970 1971	1972 1973	1973 1974	1974 1975	1975 1976	1976 1977
Australian Exports to ASEAN	182	216	297	389	502	725	659	671
Australian Imports from ASEAN	98	108	87	107	194	245	317	457
Trade Balance	+84	+108	+210	+282	+308	+480	+342	+214

Note : + denotes surplus

Source : *Dyason House Papers*, Vol. 5, No. 1,
September 1978, p. 6.

As the figures indicate, trade between ASEAN and Australia increased rapidly over the period 1966-1976 with Australia enjoying a huge trade surplus. During the period concerned, Australian exports to ASEAN increased threefold from A\$ 182 million in 1966/67 to A\$ 671 million in 1976/77. During the same period Australian imports from ASEAN increased fourfold from A\$ 98 million in 1966/67 to A\$ 457 million in 1976/77. However, the growth rate in imports had not been fast enough to offset the huge trade surplus that Australia had consistently enjoyed since the late 1960's.

Thus, at the discussions ASEAN strongly demanded the modification of the import restrictions imposed since 1974 in order to assure an improved access to the Australian market for ASEAN exports but the ASEAN request was largely ignored. However, in response to mounting opposition from ASEAN to Australia's regional economic policies, in 1976, the Australian government put forward a proposal to establish an ASEAN-Australian Joint Trade Committee with the following terms of reference.⁶

- (i) Exchange of information on trade and commercial matters;
- (ii) Exploring measures for expanding ASEAN-Australian trade and developing proposals for trade co-operation;
- (iii) Identifying and exploring measures for the solution of trade problems;
- (iv) Studying the scope of Australian participation in ASEAN economic development projects.

The proposal was turned down by ASEAN without serious consideration. In response to the Australian proposal, in November 1976, ASEAN submitted a joint memorandum to the Australian government criticising the Australian protectionist measures and the other regional economic policies. The memorandum started its attack on

Australian protectionism by stating, "The sound development of ASEAN exports to Australia is hampered by trade barriers. For a developed country, Australia has one of the highest tariff rates, especially on labour intensive light industrial goods exported by developing countries. An increasing number of such items as furniture, forest products, footwear, yarns, textile and garment products etc. are constantly placed under tariff review for protection purposes".⁷ The memorandum was highly critical of the Australian System of Tariff Preferences (ASTP) and stated that, "Although Australia was the first developed country to grant tariff preferences to the developing countries the benefits derived therefrom have been far below the expectations of the ASEAN member countries. In fact the ASTP has not really contributed towards any substantial increase in exports of the ASEAN member countries to Australia ... because of the scheme's limited product coverage, the low level of tariff reductions, the existence of a quota system and stringent definitions of handicrafts".⁸ Thus in order to ensure improved access to the Australian market for ASEAN exports, the memorandum suggested among other things⁹:

- (a) Wide product coverage to include 87 new categories of products of export interest to ASEAN - including a wide range of primary products, fabricated timber, textiles, machine tools, mechanical and industrial machinery and electrical parts.
- (b) Substantial reduction in tariffs on 75 categories of products presently covered by the ASTP.
- (c) Removal of recent Australian restriction which had the adverse effect of excluding a number of ASEAN handicrafts from the list of products eligible for preferences.
- (d) Liberalization of stringent rules of labelling and packaging.

On shipping, the memorandum suggested that, "Australia persuade shipping lines to refrain from introducing excessive freight rises,

improve handling facilities, open more ports to products of interest to ASEAN and relax stringent navigation regulations".¹⁰

The memorandum was officially a joint approach and signed by all the five members. By submitting the memorandum, as it was reported in the *Far Eastern Economic Review*, "ASEAN left open the possibility of future co-operation - but only if Australia increases its economic and technical aid to developing nations, reduces its tariffs and import quotas and adopts 'more equitable' shipping rates".¹¹

It appeared that Malaysia and the Philippines had played a key role in the preparation of the joint memorandum. Also these two countries were the most critical of Australia's external economic policies since their major exports such as coconut oil, clothing, textiles and various rubber products to the Australian market were severely hit by Australian protectionism. Of ASEAN countries, Malaysia had the largest trade deficit in its trade with Australia; it was A\$ 111 million in 1976. The reluctance of Australia to make trade concessions led Malaysia to seek various retaliatory actions against Australia and in June 1977, the Malaysian Trade Ministry threatened that the Malaysian government was planning to narrow the existing trade deficit.

The Ministry did not disclose the way in which the government was going to narrow the deficit but the Malaysian Trade Commissioner to Australia declared that, "Malaysia at present has more options than ever before; ... Malaysia has been faced with two possible ways to narrow the gap. One is negative, to buy less from Australia. The other one is to sell more to Australia. The second alternative has become more difficult in the last eighteen months because of Australian import restrictions".¹² Accordingly, in the same month, the

Malaysian Minister for Trade and Industry, Abu Samah, threatened Australia that Malaysia was considering cutting off its wheat imports from Australia worth about A\$ 36 million. Furthermore, Australia was notified that Malaysia would like to re-negotiate the sugar contract between the two countries under which Malaysia agreed to import 1.65 million tonnes of Australian sugar over the period of six years. Apart from these Malaysia's retaliatory actions included¹³:

- advising importers to look for alternative sources of the products that they have been traditionally buying from Australia including wheat, sugar and dairy products;
- taking action to slow down the entry of Australian imports into Malaysia;
- notifying Australia that Malaysia would like to review the 19 year old Malaysian trade agreement with Australia in which each agreed to accord preferential treatment for certain products (timber and rubber products from Malaysia; wheat and milk-based products from Australia) to ensure mutually beneficial terms.

Meanwhile the Philippines also appeared to be engaged in an undisclosed trade war with Australia by taking various retaliatory actions against Australia. The Philippines' Central Bank began to delay issuing letters of credit for the import of certain Australian products while the government refused to ratify a trade agreement signed in June 1976 with Australia until the Philippines was satisfied over its trade relations with Australia. (This agreement was ratified in 1979.)

The Australian Response.

It is widely accepted that the joint approach of ASEAN and the subsequent retaliatory actions of Malaysia and the Philippines have brought ASEAN-Australian relations into a new era. As Frank Frost has put it, "... until 1975 ASEAN was of minor significance for Australia in its relations with Southeast Asia, primarily because the scope of ASEAN's own co-operation was modest. A combination of factors including a pattern of rising manufactured exports from some ASEAN members, Australian import restrictions after 1974 and ASEAN's greater sense of purpose after 1975, produced the circumstances in which ASEAN challenged the legitimacy of Australia's existing economic relationship with its members in its joint approach in 1976. ASEAN's joint approach has already been influential in directing greater attention to the international implication of Australian domestic economic policies. The Australian government has had great difficulty in formulating an effective response to ASEAN's criticism and the decisions at Kuala Lumpur postponed rather than resolved the outstanding issues".¹⁴

The problems faced by Australia with regard to the formulation of an effective response to ASEAN have political and economic aspects. Politically, the Australian dilemma has been how to respond to ASEAN without damaging Australia's long established political relations with ASEAN. Since the inception of ASEAN in 1967, Australia used to make various diplomatic overtures supporting the existence of ASEAN and Australia has always emphasised the role which ASEAN has to play in bringing peace and political stability to Southeast Asia. On numerous occasions Australia has expressed its desire to develop friendly relations with ASEAN and

both the Labour and Liberal-National Country Party (L-NCP) governments have given ASEAN a special emphasis in their foreign policy formulation.

It was in the expectation that ASEAN would soon turn itself into an anti-communist military bloc that the establishment of ASEAN in 1967 was warmly welcomed by the then L-NCP government. The Minister of External Affairs declared that, "We are involved in regional defence arrangements, and whether it was ASEAN or any other arrangement of nations in this area which agreed to group itself for defence purposes, we would think this a healthy development".¹⁵

The Labor government which came into power in 1972, also strongly supported the basic aims and objectives of ASEAN. Unlike the L-NCP government, the Labor government put much emphasis on the economic aspect of ASEAN. The Labor government believed that non-military co-operation would be the best way to reduce ideological tension in the region as well as for the economic development of ASEAN countries. In January 1974, the Prime Minister, Gough Whitlam, paid an official visit to ASEAN and during his visit he was reported to have said, "ASEAN is unquestionably the most important, the most relevant and the most natural of all the regional arrangements and associations of Southeast Asia".¹⁶

When the L-NCP came into power in 1975, the Prime Minister, Malcolm Fraser, reiterated the readiness of the Australian government to develop friendly relations with ASEAN. The Prime Minister himself made an official tour of ASEAN in January 1976. In a speech given in Singapore, he strongly criticised the previous government's attitudes toward ASEAN and promised to give special attention to ASEAN under his administration. It was reported that the Prime

Minister offered to hold joint discussions with the ASEAN political leaders but the offer was rejected by ASEAN as premature.¹⁷

Stressing the need to develop friendly relations with ASEAN, in a statement to the Parliament in March 1976, the Foreign Minister, Andrew Peacock, declared that, "The government attaches the greatest importance to consolidating and developing our close relationship with the five members of ASEAN, both individually and collectively. On their two basic political priorities - the determination to see a region free of great power rivalry and domination and the concern to develop harmonious and co-operative relations among the countries of the region themselves - we are in full agreement with them. The government recognizes that, while political and security considerations will always be vitally important and while aid in various forms is, for the foreseeable future, indispensable, the ASEAN countries are increasingly concerned to develop their economic relations with Australia. We, for our part, are determined that they shall be developed, for we fully recognize the importance of healthy economic growth in the region and the importance of expanding trade for the developing economies generally. We have stated our position on this matter".¹⁸

Thus, for political, security and economic reasons, ASEAN has long been regarded as vitally important for Australia and as a result, every Australian government has increasingly tended to woo ASEAN with various political and economic commitments.

On the economic front, the Australian dilemma has been how to respond to ASEAN while protecting Australia's economic interests. Almost all the ASEAN demands are related to either the abolition or the modification of the protectionist measures introduced since

1974. Most of the protectionist measures have been introduced with a view to overcoming the growing unemployment problem which was estimated to be around 7 per cent of the total work force when the first set of trade restrictions were implemented in 1974. The local labour intensive manufacturing sector appeared to be highly vulnerable to international competition and as a result, the government felt that it should be protected until the government was able to overcome the current economic difficulties.

With regard to the trade issues, ASEAN's objectives have been twofold. First, in the short-run, ASEAN has wanted the Fraser government - at the very least - "... to cease raising levels of protectionism on items of import interest to ASEAN, and to make a firm commitment to start the process of trade liberalization soon".¹⁹ Second, in the long run ASEAN appears to be anticipating the establishment of an ASEAN-Japan-Australia Economic Community in which "... goods from Australia, especially primary products destined for Southeast Asian industries, would have assured markets in exchange for a progressive lowering of Australian trade barriers and by implication, the phasing out of labour intensive industries there".²⁰ All these economic demands are obviously in conflict with the economic policies implemented by the Fraser government in order to overcome the current internal economic difficulties.

With regard to the ASEAN joint approach, the Australian government finally decided that it should make every effort to defend current economic policies until Australia recovered from the present economic recession, while reaffirming Australia's long-term commitments to maintain close and friendly relations with ASEAN. This has been the central theme of Australian policy toward ASEAN in the

period after 1976. The Australian determination to defend its current economic policies was clearly manifested during Foreign Minister Andrew Peacock's tour to ASEAN in April 1977, the Solo discussions in July 1977 and the Kuala Lumpur Summit in August 1977.

The first task undertaken by the Australian government in connection with the joint approach was the establishment of the Inter-departmental Standing Committee in January 1977. The Committee was composed of senior officials from the various departments - Prime Minister and Cabinet, Defence, Treasury, Overseas Trade, Industry and Commerce, Business and Consumer Affairs. The Committee was assigned to review and monitor all aspects of Australia's relations with ASEAN and advise the government on future policy formulation towards ASEAN.²¹

In July 1979, the Foreign Minister, Andrew Peacock, toured three ASEAN countries - Thailand, Malaysia and the Philippines. During the discussions, the Foreign Minister explained to those three countries the reasons which led Australia to impose various trade restrictions on imports and he promised that, as Australia returned to economic health, the Federal Government would progressively reduce industry protection and liberalize trade in the interests of better relations with the Third World.²²

In May 1977, senior officials from both Australia and ASEAN met in Solo, Indonesia, to discuss current problems relating to trade. At this meeting, it was reported that "ASEAN official reiterated their concern at rising protectionist tendencies in Australia, their unhappiness over the growing ASEAN trade deficit with Australia and their desire for better access to the Australian market for ASEAN manufactured products and semi-processed products".²³

Once again ASEAN demands were largely ignored and Australia defended its protectionist policies uncompromisingly. The Australian counter arguments centred mainly on four points.²⁴

- (i) Although ASEAN's trade imbalance with Australia worsened in absolute terms from a deficit of A\$ 209.7 million in 1970-1971 to a deficit of A\$ 342.3 million last financial year (1976), Australia's imports from ASEAN increased at an annual growth rate of 29.04 per cent compared with a 17.3 per cent increase in Australia's exports to ASEAN countries.
- (ii) The trade imbalance fell from a ratio of 3.4 : 1 five years ago to 2 : 1 last year.
- (iii) ASEAN's trade deficit with Australia arose basically from the smaller base on which ASEAN growth had been operating.
- (iv) If current rates of growth in imports and exports between ASEAN and Australia continued, an overall balance in trade would be reached by 1983-1984.

The Australian officials further argued that about two-thirds of Australian imports were duty free and the average rate of duty on the remainder was about 20 per cent. They pointed out that only 4 per cent of the total imports were brought under the quota restrictions and argued that such restrictions were deemed necessary because of growing domestic economic problems. The Australian officials showed that Australia was one of the leading importers of labour intensive products among the Western developed countries on a per capita basis, as average Australian imports per head were \$2.18 versus \$0.63 cents for the United States, \$0.27 cents for the EEC and \$0.25 cents for Japan.²⁵

The Solo arguments were further elaborated in a briefing paper issued by the Australian government in August 1977. Reaffirming Australia's long-term commitments to developing friendly relations with ASEAN, the briefing paper said that, "... Australia appreciates the particular desire of the ASEAN countries to foster their overall economic relations with Australia. The government has emphasised that such relationship will be developed". Noting the existing trade imbalance between Australia and ASEAN, the paper said, "The imbalance is likely to continue as long as Australia remains a significant competitive source of increasing quantities of foodstuffs, raw materials and equipment deemed necessary for the economic development of the ASEAN countries". It went on to say that "... the trade deficit was partially offset by the invisible capital flows to ASEAN countries, which in 1975-1976 amounted to A\$ 161 million." The paper justified the protectionist measures introduced since 1974 by stating that "... the reaction of the Australian government was not, as some countries may well have done, to ban all imports of products which were competing with the sensitive Australian industries involved. Instead, the government took steps to limit, but not prohibit, imports in line with procedures followed when industries seek relief from higher levels of import competition. ASEAN exports to Australia in the short-term would pose difficult problems for Australia but long-term developments in the Australian economy may be expected to provide greater opportunities for ASEAN".²⁶

The Kuala Lumpur Summit of August 1977

The ASEAN heads of states held their second summit meeting in August 1977 to mark the tenth anniversary of ASEAN. Before the

summit meeting a decision was taken to invite the Prime Ministers of Japan, Australia and New Zealand to hold joint discussions on matters of mutual interest. Accordingly, the ASEAN political leaders met the Australian Prime Minister, Malcolm Fraser, on 7 August 1977, at Kuala Lumpur.

The summit discussions covered a wide range of issues including co-operation in political and economic spheres, Australian development assistance to ASEAN, participation in the promotion of the NIEO goals, protectionism of developed countries and trade issues between ASEAN and Australia. Trade issues dominated the whole series of discussions but Australia remained adamant to ASEAN criticisms. ASEAN request for more trade was repeatedly rejected. Instead, Australia opted to give more aid but this offer was entirely in conflict with ASEAN's basic demands. With regard to the trade issues, the only solution suggested by the Prime Minister was to set up a joint consultative mechanism between Australia and ASEAN to discuss trade problems and to recommend appropriate solutions. As the Prime Minister had argued, this mechanism would be able to act as an early device on the question of access of products to the Australian market.

With regard to the other issues, the heads of government of ASEAN and Australia reached a series of agreements at the Kuala Lumpur summit meeting. Australia reiterated its readiness to support the new international economic order, agreed to increase scientific and technical assistance to ASEAN and promised to participate actively in other economic co-operation programmes such as tourism and energy development. The Australian Prime Minister informed the ASEAN leaders

that Australia had decided to take the following measures to enhance the Australian Development Assistance Programme to ASEAN.²⁷

- (a) A new commitment of A\$ 10 million to support joint development projects under the Australian-ASEAN Economic Co-operation Programme.
- (b) Increasing the level of Australia's bilateral aid to ASEAN countries by A\$ 90 million to A\$ 250 million.
- (c) Contributing to aspects of agreed ASEAN regional industrial projects as they become more fully defined, within the skills and resources available from Australia.
- (d) An extension of untying Australia's aid to allow greater procurement from within the ASEAN region of materials and equipment having substantial local content.
- (e) Adoption of the principle of paying local costs associated with aid projects in ASEAN countries by funding up to 50 per cent of project costs, or the estimated foreign exchange component, whichever is the greater.
- (f) Greater participation by Australia in co-financing arrangements with a view to more effective and efficient allocation of aid funds where this is considered appropriate by the recipient country.
- (g) Sponsorship of an ASEAN-Australia investment seminar which was proposed by ASEAN.

The Australian protectionism was the central issue in the bilateral discussions between the Prime Ministers of Australia, Malaysia and Singapore at the Regional Meeting of the Commonwealth Heads of States held in Sydney in February 1978. Both Datuk

Hussein Onn (Malaysia) and Lee Kuan Yew (Singapore) repeatedly expressed their dissatisfaction with the current trading practices of Australia and requested the Australian Prime Minister to reconsider the restrictions imposed on the products which were of interest to ASEAN. Once again their demands were totally rejected.²⁸

Taken as a whole, the preceding discussion suggests that ASEAN has failed to achieve any tangible result from its dealings with Australia. However, it has been widely accepted that the ASEAN joint approach has generated a considerable amount of pressure on the Australian manufacturing sector as wider and wider sections of the Australian manufacturing sector have been forced into structural changes.

It seems that the current problems in Australia's trade with ASEAN have been confined to a relatively few industries such as textiles, clothing and footwear production. There have been numerous arguments which suggest that Australia should re-structure its industrial sector in order to accommodate the industrial development in ASEAN countries.²⁹ These arguments have shown that the Australian labour intensive industrial sector employs only about two per cent of the total workforce and part of it can possibly survive with freer trade. It has been further indicated that the amount of structural changes required to accommodate the problems in Australia's import trade with ASEAN is relatively small and Australia can offset those problems by expanding its exports to the region which currently represents a big market for Australian products such as wheat, dairy products, beef and sugar.³⁰

Though the Australian government appears to have accepted the necessity to re-structure the industrial sector, the government

feels that it is not politically feasible for the immediate future because of the growing unemployment problem.³¹ This was clearly indicated by a statement issued by the Minister for Industry and Consumer Affairs on 14 July, 1977. The statement said that the existing levels of employment in the textiles, footwear and clothing industries would be maintained by government support for the next three years.³² Any attempt to support the existing labour intensive industries means that not only has Australia to maintain the current restrictive trade practices, but also it may have to seek further restrictions in future as the existing industries appear to be highly vulnerable to foreign competition. Such a move would certainly aggravate the already deteriorating economic relations between Australia and ASEAN.

The Low Air Fare Issue : Second ASEAN Joint Approach in 1979.

Another important economic issue which led ASEAN, for the second time, to challenge the legitimacy of Australia's existing economic relations with the ASEAN countries, was the new International Civil Aviation Policy (ICAP) implemented by Australia with effect from 1 February 1979. ICAP introduced a new cheap air fare system between Australia and Great Britain (subsequently extended to cover other European capitals), under which the return air fare between Sydney and London was reduced to A\$ 568 in the off-peak season (two months of the year) and A\$ 998 in the peak season (five months of the year) with several restrictions, one being the restriction on stopovers. Travellers intending to make a stopover had to pay an additional A\$ 432 in the off-peak season and A\$ 302 in the peak season. The two national air lines - Qantas and British Airways - were given an

exclusive right to carry passengers between the two end points, thus having a duopoly of passenger carriage.

Australia implemented the new cheap air fare policy amidst ASEAN protests and requests for re-negotiations. Though the damage to ASEAN economies from the new air fare system appeared very uneven,³³ all the member countries of ASEAN took a similar view that the new policy would be a serious threat to their tourist industry and civil aviation industry for the following four reasons: the high surcharge imposed on stopovers, the exclusion of ASEAN air lines from the new air fare system, the call by Qantas and British Airways on Singapore Air Lines to reduce its passenger capacity by 40 per cent on Singapore-Australia and Singapore-London routes, and finally the decision of Qantas and British Airways to maintain airfares on the Australia-ASEAN sector, and the British-ASEAN sector at a higher level, on a cost per mile basis, than the Australian-London through fares.³⁴

In the first instance, Australia rejected ASEAN's claims as grossly exaggerated and unfair. However, in response to the mounting opposition from ASEAN to ICAP and ASEAN's threat to take retaliatory action against Australia, the Australian government agreed to call a meeting to discuss the remaining problems between the two parties. Accordingly, senior officials from Australia and ASEAN met in Canberra in January 1979. The result was a deadlock as neither party was prepared to change its initial stand over the issue, but they finally agreed to hold a second round of discussions as soon as possible. ASEAN suggested that the next meeting should be held at ministerial level and in one of the ASEAN capitals. Accordingly, the Minister for Foreign Affairs, Andrew Peacock, and

the Minister for Transport, Nixon, met their ASEAN counterparts in Jakarta on 20-21 March 1979.

ASEAN put forward a four point programme for negotiations - ASEAN countries should be allowed to participate in the Australia-Europe low air fare scheme with or without stopovers; reasonable stopover charges should be implemented; capacity and landing rights should be increased and finally air fares between ASEAN-Australia and ASEAN-Great Britain should be decided on the same basis used to decide the airfares between Australia and Great Britain.³⁵ The Jakarta meeting also ended without reaching any agreement as Australia could not agree with the ASEAN's basic demands. However, both parties agreed to continue discussions until they would be able to reach a reasonable agreement over the issue.

The third round of discussions between ASEAN and Australia over the airfare issue started on 5 May 1979, in Kuala Lumpur. At this meeting an agreement was reached to allow ASEAN air lines - Singapore Air Lines, Malaysian Air Line System, Indonesian Garuda Air Lines, Thai Airways and the Philippines Air Lines - to participate on the low air fare scheme between Australia and Europe. The five air lines were allowed on a collective basis to carry 350 passengers in each direction - a total of 700 seats per week. With regard to stopovers, it was further agreed to set a new rate of A\$ 150 but the passengers would be allowed only one stopover on a round-trip between Australia and Europe.³⁶

With the outcome of the Kuala Lumpur talks, the airfare issue came to an end. In concluding, it can be said that ASEAN won the battle, though it was given only a limited participation. The airfare issue was an important land mark of the ASEAN history

as it became a test case of ASEAN solidarity and the ASEAN joint approach towards foreign economic policy. There were many speculations that ASEAN would not be able to formulate a common stand against Australia because of divergent national interests of the member countries. However, the unanimous decision by the Economic Ministers of ASEAN to approach Australia on a collective basis, and the subsequent decision to take retaliatory actions against Australia if no satisfactory solution was found to the dispute, has proved that maintaining ASEAN solidarity at this juncture has higher priority than maintaining amicable ASEAN-Australian relations.³⁷ It is generally accepted that ASEAN worked as a more united group over the airfare issue than it ever did before.

Once again the Australian dilemma was how to respond to ASEAN while safeguarding its twin objectives - maintaining friendly relations with ASEAN and protecting its economic and commercial interests at the same time. As in the case of trade issues, the initial stand of Australia over the airfare issue was tough and uncompromising. However, in the end, Australia had to change its uncompromising stand and accommodate ASEAN, at least to a limited extent. From the Australian point of view, ASEAN has been given only limited concessions subject to a number of conditions. But from the ASEAN point of view, it has achieved exactly what it wants. As one commentator has put it, "... although the air lines collectively will be able to fly only 350 passengers a week out of Australia and 350 in on the fares, the offer from Mr. Nixon gives them exactly what they want - the right to advertise lower fares in Australia. It is almost certain that once the ASEAN airlines are allowed to take part in the scheme they will discount heavily, even

on seats which they are not legally allowed to sell at a cut price".³⁸

In conclusion, it can be said that ASEAN-Australian relations have deteriorated rapidly in recent years with ASEAN unhappy about Australian protectionism. The existing problems have been further complicated by the airfare issue and as a result relations between the two parties have further deteriorated. Any improvement in ASEAN-Australian relations in future largely depends on the extent to which Australia is prepared to adjust itself in accordance with the development aims of its northern neighbours.

FOOTNOTES - CHAPTER V.

1. *10 Years ASEAN*, Published by ASEAN Central Secretariat, Jakarta, 1978, p. 223.
2. Asian Development Bank, *Southeast Asia's Economy in the 1980's*, Longman, 1971, p. 271.
3. *Dyason House papers*, The Australian Institute of International Affairs, Vol. 5, No.1, September 1978, p.5.
4. *Ibid.*
5. Debesh Bhattacharya, "Australia and a New International Economic Order", *Australian Quarterly*, Vol. 50, No. 4, December 1978, p. 52.
6. *Asia Research Bulletin*, September 30, 1976, p. 242.
7. Quoted in Frank Frost, 'Recent Development in Australia - ASEAN Relations', Parliamentary Legislative Research Service, Canberra, November 1977, p.10.
8. *Ibid.*, p. 11.
9. *Asia Research Bulletin*, 30.9.76, p. 242.
10. *Ibid.*
11. Quoted in *Asia Research Bulletin*, 30.9.76, p. 242.
12. *Australian Financial Review*, 28.6.77, p. 5.
13. *ASEAN Business Quarterly*, Third Quarter 1977, p. 15. Also see *Canberra Times*, 29.6.77, p.1, *Australian Financial Review*, 28.6.77, p.5, *Melbourne Age*, 14.6.77, p.5, and 15.6.77, p.20.
14. Frank Frost, *op.cit.*, p.1.
15. *Daily Mirror*, Sydney, 29.4.69.
16. Quoted in Frank Frost's paper, *op.cit.*, p.3.
17. *Ibid.*, p. 15.
18. *Ibid.*, p. 16.
19. *Melbourne Age*, 14.7.77, p. 9.
20. *Ibid.*

22. *Melbourne Age*, 25.4.77, p. 6.
23. Frank Frost, *op.cit.*, p. 17.
24. *ASEAN Business Quarterly*, Third Quarter 1977, p. 15.
25. *Ibid.*
26. Frank Frost, *op.cit.*, p. 18.
27. *10 Years ASEAN*, *op.cit.*, p. 205.
28. *Sydney Morning Herald*, 15.2.77, p. 7.
29. See Clive T. Edwards, "Australia and Asia: Emerging Economic Challenges", *Australian Foreign Affairs Record*, Vol. 49, No. 1, pp. 9-17; Philip J. Eldridge, "Emerging Issues in Australia Relations", paper presented to the Second National Conference of Asian Studies Association of Australia, Sydney, 14-19 May 1978; Ross Garnaut, "Trade Pressures from Abroad", *Economic papers*, No. 59, August 1979.
30. *Dyason House Papers*, *op.cit.*, p. 5.
31. Frank Frost, *op.cit.*, p. 22.
32. *Ibid.*, p. 23.
33. Singapore was the country of ASEAN most affected by the new cheap airfare policy. Singapore estimated that it would lose some 120,000 tourists and S\$ 120 million annually. Apart from this, it is hard to say that the new cheap airfare policy has affected the other four countries seriously. See *Far Eastern Economic Review*, 23.2.79, pp. 100-102.
34. *Far Eastern Economic Review*, 23.2.79, pp. 100-101.
35. *Far Eastern Economic Review*, 30.3.79, p. 84.
36. *The Australian*, 8.5.79, p. 1.
37. Chia Siow Yue, "Singapore's Trade Strategy and Industrial Development, with special reference to the ASEAN Common Approach to Foreign Economic Policy", paper presented to the Tenth Pacific Trade and Development Conference, A.N.U., Canberra, March 19-23, 1979, pp. 37-39.
38. *The Australian*, 8.5.79, p. 1.

CONCLUSION

An analysis of the factors accounting for the formation of ASEAN leads one to the conclusion that the five countries grouped themselves together in 1967 for political, security and economic reasons of which political motivations were the most important. In the political sphere, their main concern was the strengthening of national stability in the face of growing communist threat and the rivalries between great powers in regional political affairs. On the economic front, their main concern was the acceleration of economic development which was regarded as essential if the five countries were to deal effectively with the contemporary political problems faced by them. In particular, the existing poverty of the masses was identified as a principal driving force for the growing appeal of communism in ASEAN countries, and therefore, it was argued that the elimination of poverty would be one of the best means of combating communism. In retrospect, none of the five countries was in a strong position individually to handle the political and economic problems they faced, and as a result, all of them realised that their survival, in particular as non-communist nations, would largely depend on their ability to co-operation in regional political and economic affairs.

ASEAN's Political Activities

On a broad basis, ASEAN's political activities during the last twelve years can be grouped into three sections as follows:

(i) co-operation in intra-ASEAN politics, (ii) co-operation in security and military affairs, and (iii) co-operation in extra-regional affairs.

With regard to co-operation in intra-ASEAN politics, ASEAN's achievements during the period concerned are quite satisfactory. The growth of ASEAN as a viable regional organization and the recognition that ASEAN has increasingly gained from the other parts of the world in recent years are indicators of the progress made by the five countries in the area of intra-ASEAN politics. The successful growth of ASEAN is mainly due to the mechanism which the five countries have gradually developed over the years to solve peacefully the problems of intra-ASEAN politics.

When ASEAN was established in 1967, there were many doubts about its long-term prospects as the unresolved political problems between the member countries often appeared to be weakening the newly formed organization. Thus, the first task confronted by the five countries was to build up a political consensus among themselves by settling their internal disputes. Over the years, the five countries have shown a marked progress in developing a habit of regional co-operation, one important feature of which has been their readiness to solve disputes between themselves by peaceful means. This process has helped them to overcome most of the internal political problems which could otherwise have created frictions among themselves and destroyed their unity to a very large extent. Examples have been the solutions reached by the member countries over such critical issues as the Sabah dispute between Malaysia and the Philippines, the conflict between Indonesia and Singapore over the execution of two marines and the border dispute between Thailand and Malaysia.

The growing political consensus among the member countries was further strengthened by the Bali summit of 1967, that provided an opportunity for all five political leaders of ASEAN to meet each

other for the first time in the history of ASEAN. The Bali discussions had helped them to a very great extent to understand each others aspirations. One important achievement from the Bali summit was the Treaty of Amity and Co-operation in Southeast Asia which marked the highest point of the growing political togetherness among the five countries. As a result, relations between ASEAN countries in the period after 1967 have been very cordial.

With regard to the promotion of co-operation in military and security affairs, only a limited progress has been achieved by ASEAN. This slow progress is mainly due to the divergent opinions of the member countries over the security and military issues. Indonesia, the Philippines and Thailand seem to be favouring an increased co-operation in military and security affairs while Malaysia and Singapore seem to be less interested. In recent years, Thailand has been the most outspoken member of ASEAN of military co-operation. In particular, Thailand's concern over the co-operation in security and military affairs appears to have increased since the Vietnam's invasion of Cambodia in the early part of 1979. In the recent past, there have been a number of small scale border clashes between Thailand and its neighbouring communist countries and as a result, Thailand seems to be pressing on its fellow member countries the need to increase co-operation in security and military affairs. The border clashes are mainly due to the guerilla activities launched against the new Vietnam-backed, Cambodian government, by Cambodian refugees who are presently sheltered on the Thailand-Cambodian border. If Thailand can find a proper solution to the refugee problem, then there will be a greater potential for reducing the current tension between Thailand and the Indo-Chinese communist states.

As far as the external security of the ASEAN countries is concerned, it seems that there is no immediate threat of direct military attack or invasion of ASEAN countries by the Indo-Chinese communist states. However, it can be assumed that the Indo-Chinese states would encourage internal communist movements in ASEAN countries to accelerate their revolutionary activities by extending moral support as well as material support. Thus the actual threat to the national security of ASEAN countries seems to be more internal rather than external. Despite the heavy programmes of suppression launched by the ASEAN governments in recent years, communist activities still remain at a considerably high level in almost all the ASEAN countries, thus, posing serious internal security problems. ASEAN countries have yet to formulate an ASEAN joint approach to internal security issues, but there are various bilateral agreements concerning the promotion of co-operation in internal security matters between individual ASEAN countries.

The five members have consistently ruled out any possibility of organising a direct military alliance under the ASEAN umbrella. Will ASEAN turn itself into a military bloc in future? It is quite difficult to provide a proper answer to this question at this stage. However, it can be assumed that ASEAN's future attitudes regarding the external security issues will largely depend on the future policies of the neighbouring communist countries towards ASEAN. If there is a threat of direct military attack on ASEAN countries, then there will be a greater possibility of turning ASEAN itself into a direct military bloc.

With regard to the co-operation in extra-ASEAN politics, in particular the conduct of relations with the neighbouring communist

countries, ASEAN has made substantial progress in recent years. Perhaps the most important achievement in this area has been the increased recognition that ASEAN has gained from the neighbouring communist countries that it is not an anti-communist military organization.

In recent years, relations between ASEAN and China have markedly improved, but Indonesia and Singapore have yet to establish relations at diplomatic level. Normalisation of relations between Indonesia and China is only a matter of time and there is a great deal of speculation that it will occur in the near future. Singapore appears to be waiting until Indonesia normalises relations with China. The growing relationship between ASEAN and China is mainly due to the changing political environment in Southeast Asia. Worsening Sino-Soviet and Sino-Vietnam relations along with the changing American attitudes towards Southeast Asia have caused China to change its initial antipathetic stance towards ASEAN and now China would like to see ASEAN developing itself as a buffer zone to counter the expansionist activities of the Soviet Union and Vietnam in the region. As a result, in recent years, China has become one of the ardent supporters of ASEAN.

Despite some disagreements between ASEAN and Vietnam over such issues as the Vietnamese refugee problem and Vietnam's invasion of Cambodia, in general, relations between ASEAN countries and Vietnam also appear to have improved in recent years. As in the case of China, Vietnam has also changed its initial hard line attitude towards ASEAN with the changing political circumstances in Southeast Asia. The principal factor behind the Vietnam's change is the worsening relations between Vietnam and China.

Though relations between ASEAN and the Indo-Chinese communist states appear to have improved rapidly in recent years, ASEAN has yet to formulate a common policy to conduct relations with Indo-Chinese states on a collective basis. The current progress is a result of efforts made by individual ASEAN countries, in particular by Malaysia, which has improved relations with Indo-Chinese communist states more than any other member country of ASEAN. However, a tradition has been developed to consult each other before undertaking major foreign policy initiatives.

The current improvement in the relations between ASEAN and the Indo-Chinese communist states, however, does not indicate that the two parties have reached a consensus over the existing differences born out of their contradictory political, economic and social concepts. Despite the apparently genuine sentiments on both sides to seek a common ground for lasting peace and mutual understanding, both ASEAN and Indo-Chinese communist states have a long way to go before they can overcome the existing differences. There is a great deal of potential for political conflicts between ASEAN and Indo-Chinese communist states, as they represent entirely different political, economic and social systems. Thus, the future developments in relations between ASEAN and the Indo-Chinese communist states will largely depend on the extent to which ASEAN and these states are able to understand each others political and social visions and their readiness to adjust to each others political, economic and social aspirations.

As noted in the first chapter, the only common policy which ASEAN has initiated in the area of extra-ASEAN politics is the proposal for the neutralisation of Southeast Asia, yet it still remains

only a talking point rather than a commonly accepted policy. In recent years, except for the U.S.A., all the other countries including China, the Soviet Union and Vietnam have shown some interest in the neutralisation of Southeast Asia, but a common agreement over the issue is yet to be reached. The U.S. participation is essential for the implementation of the proposal, but the U.S. has already indicated that it will not support the proposal. In addition, there are many differences between ASEAN and Vietnam over the existing military bases in Thailand and the Philippines. Vietnam insists that as a pre-condition all the military bases should be dismantled before making any positive approach towards the implementation of the proposal. ASEAN has yet to make a decision over the existing military bases, but it is most likely that ASEAN will not make a decision to remove military bases until the neutralisation of Southeast Asia is fully guaranteed by the countries outside ASEAN.

Co-operation in Intra-regional Economic Affairs

As noted before, promotion of economic development has been seen as a pre-condition for the security of member countries, ever since ASEAN's inception in 1967. As a result economic factors have played an important role in shaping policy formulation of ASEAN in relation to both internal and external aspects. ASEAN's role as an emerging regional economic grouping has received greater attention in recent years than its role as a regional political entity. During the last twelve years, ASEAN's economic activities have spanned a wide range of areas which on a broad basis can be divided into two groups - (i) co-operation in intra-regional economic

affairs and (ii) co-operation in extra-regional economic affairs.

During the period concerned, ASEAN has made fairly satisfactory progress in the promotion of co-operation among the five countries in such areas as shipping, tourism, food and agriculture, science and technology, transportation and communication, civil aviation, fisheries, etc. All these are non-controversial areas and the five countries have hardly caused any disagreement over the pace and form of co-operation.

However, ASEAN's achievements in the promotion of intra-regional trade and industrial development are rather disappointing. These two are the areas in which ASEAN has encountered many disagreements and differences among the member countries over the pace and form of co-operation. ASEAN efforts to overcome these differences have so far met with only a limited success. As noted in the second chapter, the expansion of intra-regional trade largely depends on the ability of ASEAN to go ahead with a comprehensive regional industry specialisation programme with the support of the liberalization of trade based on the across-the-board-tariff cut system. Such a programme would enable the ASEAN countries to achieve scale of economies, thus avoiding the danger of the polarization of inefficient small scale industries in the member countries.

The proposed five industrial plants can be regarded as an attempt to overcome this problem but all of them encountered various problems when they reached the stage of implementation. The diesel engine plant allocated to Singapore has already been abandoned, while there are many doubts about the economic viability of the industrial plants allocated to Malaysia, Thailand and the Philippines. The urea plant allocated to Indonesia is the only one which

appears certain to be established at this stage.

It seems that the decision to establish the five industrial plants was taken rather hurriedly as the political leaders of ASEAN wanted to show the outside world that they had achieved something solid at the Bali summit. Very little preliminary study was done before the selection of industries and the allocation decision was made only on the basis of resources endowment of the member countries. Financing and management of the five industrial plants were expected to be undertaken by the rather inefficient public sector. It is clear that political expediency overrode economic criteria in the selection, allocation, financing and management of the five industrial plants and as a result each industry is confronted with the problem of economic viability.

ASEAN has so far failed to reach an agreement on the introduction of across-the-board-tariff cuts even at a nominal rate of 10 per cent or 15 per cent. Instead, ASEAN has adopted a more complicated and cumbersome approach to the liberalisation of trade on a product by product basis. It is hard to expect that the present approach will have a big effect in expanding intra-ASEAN trade, as the products on which tariff concessions have been made, constitute only a very small fraction of total intra-ASEAN trade.

ASEAN's failure to achieve a substantial progress in the area of trade liberalisation and industrial development is mainly due to the economic nationalism of the member countries resulting from the existing differences in the level of industrial development and industrial efficiency of the member countries. Except for Singapore, all the other countries of ASEAN are still very much concerned with the protection of their infant industries and as a result

they appear to be reluctant to go ahead with regional industry specialisation programmes which they think will have adverse effects on their industrial development.

Co-operation in Extra-regional Economic Affairs

ASEAN has made satisfactory progress in this area, particularly in the period after 1976. This progress is mainly due to the fact that co-operation in extra-regional economic affairs is a much less contentious issue than intra-regional economic co-operation as there is no fear of unequal distribution of welfare gains.

One important achievement in this area is ASEAN's joint approach towards international commodity and monetary problems. In recent years, ASEAN countries have increasingly seen their internal development problems - resulting from the instability in the international commodity markets, the growing foreign indebtedness, lack of capital investment and protectionism of developed countries - as issues which require an international effort to achieve proper solutions. This increasing awareness of the international dimensions of their economic development problems has caused ASEAN countries to place greater emphasis on extra-regional economic matters in recent years.

As outlined in the third chapter, ASEAN's joint approach to international commodity and monetary problems has three aspects. Firstly, the active participation in the promotion of the new international economic order goals. Secondly, the growing determination of ASEAN to use its commodity producer power to strengthen its international bargaining power, and thirdly, increased participation in the establishment of commodity producers organizations.

With regard to the promotion of the new international economic order, ASEAN has strongly affirmed that its stand towards the NIEO is inseparable from that of the Group of 77, as declared in the Manila Declaration. Thus ASEAN has actively lent its support to the activities of the Group of 77. The NIEO demands have been the focal points of ASEAN's trade dialogues with the U.S.A., EEC, Japan, Australia, New Zealand and Canada held in recent years. ASEAN is particularly interested in the Integrated Commodity Policy as its member countries rank among the most affected countries in the Third World if the Integrated Commodity Policy is brought into effect. The ASEAN stand is that the Common Fund should be established as a main source of financing the buffer stocks but not for the management of the buffer stocks.

As noted in the third chapter, ASEAN as a major producer of several commodities such as natural rubber, tin, Palm oil, holds a commanding position in the trade of these commodities in the world market. In recent years, ASEAN has shown active interest in the use of commodity producer power in order to strengthen its international bargaining power. However, as discussed before, ASEAN's ability to use its producer power to intervene in international commodity markets seems to be very limited, mainly due to the relatively elastic demand and the availability of various substitutes in consumer countries. Nevertheless, ASEAN can use its strategically important raw materials such as natural rubber and tin to strengthen its bargaining power to some extent.

The conflicting economic interests of the member countries is another factor which limits ASEAN's capability to adopt a hard line towards international commodity bargaining. Singapore being

a resources poor developed country is not interested in market intervention either by forming cartels or any other means which would enable the producers to charge monopolistic prices for commodities. Though Singapore is the smallest partner of ASEAN, its economic interests cannot be simply overlooked by the other members, because of its role in financing, processing and shipment in the region's commodity production.

Recently, ASEAN has actively participated in the establishment of commodity producer organizations as part of its overall diplomacy towards international commodity problems. One objective of these organizations is to work out price stabilization programmes for commodities with which each organization is concerned, through international agreements between producer and consumer countries.

Perhaps the most important achievement of ASEAN in the area of extra-regional economic co-operation is the growth of ASEAN as a collective bargaining force vis-a-vis external parties. In the period after 1976, ASEAN has increasingly developed close economic ties with almost all the Western developed countries through the establishment of trade dialogues. ASEAN's main demands have been: price stabilization of commodities; the early establishment of the Common Fund; market access for manufactured products and increased inflow of capital investment and foreign aid. As discussed in chapters four and five, though ASEAN has failed to extract major trade concessions, it has been successful in generating a considerable amount of pressure on the developed countries. However, ASEAN would have achieved far better results had it agreed to deal with developed countries on the basis of reciprocity and industrial complementation. There is greater potential to work out some

degree of industrial complementation programme between ASEAN and the developed countries, in particular between ASEAN and Japan and between ASEAN and Australia.

The preceding discussion has outlined the achievements and failures of ASEAN in the promotion of regional co-operation in political and economic affairs since its inception in 1967. The discussion suggests that ASEAN has achieved a somewhat satisfactory progress in the area of regional political co-operation but failed to achieve substantial progress in economic co-operation. The main reason for this slow progress, as repeatedly mentioned in the previous chapters, is the economic nationalism of the member countries resulting from their different stages of economic development. As a result, ASEAN still lacks the necessary political will. This in turn has weakened ASEAN's policy formulation towards both intra-regional and extra-regional economic issues. Thus future developments of ASEAN's regional economic co-operation depends largely on the ability of the five countries to give priority to economic regionalism at the cost of economic nationalism.

APPENDIX I.

THE ASEAN DECLARATION (BANGKOK DECLARATION)

The Presidium Minister for Political Affairs/Minister for Foreign Affairs of Indonesia, the Deputy Prime Minister of Malaysia, the Secretary of Foreign Affairs of the Philippines, the Minister for Foreign Affairs of Singapore and the Minister of Foreign Affairs of Thailand:

MINDFUL of the existence of mutual interests and common problems among countries of South-East Asia and convinced of the need to strengthen further the existing bonds of regional solidarity and cooperation;

DESIRING to establish a firm foundation for common action to promote regional cooperation in South-East Asia in the spirit of equality and partnership and thereby contribute towards peace, progress and prosperity in the region;

CONSCIOUS that in an increasingly interdependent world, the cherished ideals of peace, freedom, social justice and economic well-being are best attained by fostering good understanding, good neighbourliness and meaningful cooperation among the countries of the region already bound together by ties of history and culture;

CONSIDERING that the countries of South-East Asia share a primary responsibility for strengthening the economic and social stability of the region and ensuring their peaceful and progressive national development, and that they are determined to ensure their stability and security from external interference in any form or manifestation in order to preserve their national identities in accordance with the ideals and aspirations of their peoples;

AFFIRMING that all foreign bases are temporary and remain only with the expressed concurrence of the countries concerned and are not intended to be used directly or indirectly to subvert the national independence and freedom of States in the area or prejudice the orderly processes of their national development;

DO HEREBY DECLARE:

FIRST, the establishment of an Association for Regional Cooperation among the countries of South-East Asia to be known as the Association of South-East Asian Nations (ASEAN).

SECOND, that the aims and purposes of the Association shall be:

1. To accelerate the economic growth, social progress and cultural

development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of South-East Asian Nations;

2. 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 adherence to the principles of the United Nations Charter;
3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
5. To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communication facilities and the raising of the living standards of their peoples;
6. To promote South-East Asian studies;
7. To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves.

THIRD, that, to carry out these aims and purposes, the following machinery shall be established:

- (a) Annual Meeting of Foreign Ministers, which shall be by rotation and referred to as ASEAN Ministerial Meeting. Special Meetings of Foreign Ministers may be convened as required;
- (b) A Standing Committee, under the chairmanship of the Foreign Minister of the host country or his representative and having as its members the accredited Ambassadors of the other member countries, to carry out on the work of the Association in between Meetings of Foreign Ministers;
- (c) Ad-Hoc Committees and Permanent Committees of specialists and officials on specific subjects;
- (d) A National Secretariat in each member country to carry out the work of the Association on behalf of that country and to service the Annual or Special Meetings of Foreign Ministers, the Standing Committee and such other Committee as may hereafter be established.

FOURTH, that the Association is open for participation to all States in the South-East Asian Region subscribing to the aforementioned aims, principles and purposes.

FIFTH, that the Association represents the collective will of the nations of South-East Asia to bind themselves together in friendship and cooperation and, through joint efforts and sacrifices, secure for their people and for posterity the blessings of peace, freedom and prosperity.

Done in Bangkok on the Eight Day of August in the Year One Thousand Nine Hundred and Sixty-Seven.

FOR INDONESIA

(Sgd.)

(ADAM MALIK)
Presidium Minister of
Political Affairs/Minister
for Foreign Affairs.

FOR MALAYSIA

(Sgd)

(TUN ABDUL RAZAK)
Deputy Prime Minister
Minister of Defence and
Minister of National
Development.

FOR THE PHILIPPINES

(Sgd)

(NARCISO RAMOS)
Secretary of Foreign
Affairs

FOR SINGAPORE

(sgd)

(S. RAJARATNAM)
Minister of Foreign
Affairs

FOR THAILAND

(Sgd)

(THANAT KHOMAN)
Minister of Foreign
Affairs

* * * * *

APPENDIX II.DECLARATION OF ASEAN CONCORD

A COMMON BOND EXISTING AMONG THE MEMBER STATES OF THE
ASSOCIATION OF SOUTHEAST ASIAN NATIONS.

The President of the Republic of Indonesia, the Prime Minister of Malaysia, the President of the Republic of the Philippines, the Prime Minister of the Republic of Singapore and the Prime Minister of the Kingdom of Thailand,

REAFFIRM their commitment to the Declaration of Bandung, Bangkok and Kuala Lumpur, and the Charter of the United Nations;

ENDEAVOUR to promote peace, progress, prosperity and the welfare of the peoples of member states;

UNDERTAKE to consolidate the achievements of ASEAN and expand ASEAN cooperation in the economic, social, cultural and political fields:

DO HEREBY DECLARE:

ASEAN cooperation shall take into account, among others, the following objectives and principles in the pursuit of political stability :

1. The stability of each member state and of the ASEAN region is an essential contribution to international peace and security. Each member state resolves to eliminate threats posed by subversion to its stability, thus strengthening national and ASEAN resilience.

2. Member states, individually and collectively, shall take active steps for the early establishment of the Zone of Peace, Freedom and Neutrality.

3. The elimination of poverty, hunger, disease and illiteracy is a primary concern of member states. They shall therefore intensify cooperation in economic and social development, with particular emphasis on the promotion of social justice and on the improvement of the living standards of their peoples.

4. Natural disasters and other major calamities can retard the pace of development of member states. They shall extend, within their capabilities, assistance for relief of member states in distress.

5. Member states shall take cooperative action in their national and regional development programmes, utilizing as far as possible the resources available in the ASEAN region to broaden the

complementarity of their respective economies.

6. Member states, in the spirit of ASEAN solidarity, shall rely exclusively on peaceful processes in the settlement of intra-regional differences.

7. Member states shall strive, individually and collectively, to create conditions conducive to the promotion of peaceful cooperation among the nations of Southeast Asia on the basis of mutual respect and mutual benefit.

8. Member states shall vigorously develop an awareness of regional identity and exert all efforts to create a strong ASEAN community, respected by all and respecting all nations on the basis of mutually advantageous relationships, and in accordance with the principles of self-determination, sovereign equality and non-interference in the internal affairs of nations.

AND DO HEREBY ADOPT

The following programme of action as a framework for ASEAN cooperation :

A. Political

1. Meeting of the Heads of Government of the member states as and when necessary.

2. Signing of the Treaty of Amity and Cooperation in Southeast Asia.

3. Settlement of intra-regional disputes by peaceful means as soon as possible.

4. Immediate consideration of initial steps towards recognition of and respect for the Zone of Peace, Freedom and Neutrality wherever possible.

5. Improvement of ASEAN machinery to strengthen political cooperation.

6. Study on how to develop judicial cooperation including the possibility of an ASEAN Extradition Treaty;

7. Strengthening of political solidarity by promoting the harmonization of views, coordinating position and, where possible and desirable, taking common actions.

B. Economic

1. Cooperation on Basic Commodities, particularly Food and Energy

- (i) Member states shall assist each other by according priority to the supply of the individual country's needs in critical circumstances, and priority to the acquisition of exports from member states, in respect of basic commodities, particularly food and energy.
- (ii) Member states shall also intensify cooperation in the production of basic commodities particularly food and energy in the individual member states of the region.

2. Industrial Cooperation

- (i) Member states shall cooperate to establish large-scale ASEAN industrial plants, particularly to meet regional requirements of essential commodities.
- (ii) Priority shall be given to projects which utilize the available materials in the member states, contribute to the increase of food production, increase foreign exchange earnings or save foreign exchange and create employment.

3. Cooperation in Trade

- (i) Member states shall cooperate in the fields of trade in order to promote development and growth of new production and trade and to improve the trade structures of individual states and among countries of ASEAN conducive to further development and to safeguard and increase their foreign exchange earnings and reserves.
- (ii) Member states shall progress towards the establishment of preferential trading arrangements as a long term objective on a basis deemed to be at any particular time appropriate through rounds of negotiations subject to the unanimous agreement of member states.
- (iii) The expansion of trade among member states shall be facilitated through cooperation on basic commodities, particularly in food and energy and through cooperation in ASEAN industrial projects.
- (iv) Member states shall accelerate joint efforts to improve access to markets outside ASEAN for their raw material and finished products by seeking the elimination of all trade barriers in those markets, developing new usage for these products and in adopting common approaches and actions in dealing with regional groupings and individual economic powers.

- (v) Such efforts shall also lead to co-operation in the field of technology and production methods in order to increase the production and to improve the quality of export products, as well as to develop new export products with a view to diversifying exports.

4. Joint Approach to International Commodity Problems and Other World Economic Problems

- (i) The principle of ASEAN cooperation on trade shall also be reflected on a priority basis in joint approaches to international commodity problems and other world economic problems such as the reform of international trading system, the reform of international monetary system and transfer of real resources, in the United Nations and other relevant multilateral fora, with a view to contributing to the establishment of the New International Economic Order.
- (ii) Member states shall give priority to the stabilisation and increase of export earnings of those commodities produced and exported by them through commodity agreements including bufferstock schemes and other means.

5. Machinery for Economic Cooperation

Ministerial meetings on economic matters shall be held regularly or as deemed necessary in order to:

- (i) formulate recommendations for the consideration of Governments of member states for the strengthening of ASEAN economic cooperation;
- (ii) review the coordination and implementation of agreed ASEAN programmes and projects on economic cooperation;
- (iii) exchange views and consult on national development plans and policies as a step towards harmonizing regional development; and
- (iv) perform such other relevant functions as agreed upon by the member Governments.

C. Social

1. Cooperation in the field of social development, with emphasis on the well being of the low-income group and of the rural population, through the expansion of opportunities for productive employment with fair remuneration.

2. Support for the active involvement of all sectors and levels of the ASEAN communities, particularly the women and youth, in development efforts.

3. Intensification and expansion of existing cooperation in meeting the problems of population growth in the ASEAN region, and where possible, formulation of new strategies in collaboration with appropriate international agencies.

4. Intensification of cooperation among member states as well as with the relevant international bodies in the prevention and eradication of the abuse of narcotics and the illegal trafficking of drugs.

D. Cultural and Information

1. Introduction of the study of ASEAN, its member states and their national languages as part of the curricula of schools and other institutions of learning in the member states.

2. Support of ASEAN scholars, writers, artists and mass media representatives to enable them to play an active role in fostering a sense of regional identity and fellowship.

3. Promotion of Southeast Asian studies through closer collaboration among national institutes.

E. Security

Continuation of cooperation on a non-ASEAN basis between the member states in security matters in accordance with their mutual needs and interests.

F. Improvement of ASEAN machinery

1. Signing of the Agreement on the Establishment of the ASEAN Secretariat.

2. Regular review of the ASEAN organizational structure with a view to improving its effectiveness.

3. Study of the desirability of a new constitutional framework for ASEAN.

DONE at Denpasar, Bali, this twenty-fourth day of February in the year one thousand nine hundred and seventy-six.

For the Republic of Indonesia

(Sgd).....
Soeharto,
President

For Malaysia

(Sgd)
Datuk Hussein Onn,
Prime Minister

For the Republic of
the Philippines

(Sgd)
Ferdinand E. Marcos
President

For the Republic of
Singapore

(Sgd)
Lee Kuan Yew
Prime Minister

For the Kingdom of Thailand

(sgd)
Kukrit Pramoj,
Prime Minister

APPENDIX III.

TREATY OF AMITY AND COOPERATION IN SOUTHEAST ASIA

P R E A M B L E

The High Contracting Parties:

CONSCIOUS of the existing ties of history, geography and culture, which have bound their peoples together;

ANXIOUS to promote regional peace and stability through abiding respect for justice and the rule of law and enhancing regional resilience in their relations;

DESIRING to enhance peace, friendship and mutual cooperation on matters affecting Southeast Asia consistent with the spirit and principles of the Charter of the United Nations, the Ten Principles adopted by the Asian-African Conference in Bandung on 25 April 1955, the Declaration of the Association of Southeast Asian Nations signed in Bangkok on 8 August 1967, and the Declaration signed in Kuala Lumpur on 27 November 1971;

CONVINCED that the settlement of differences or disputes between their countries should be regulated by rational, effective and sufficiently flexible procedures, avoiding negative attitudes which might endanger or hinder cooperation;

BELIEVING in the need for cooperation with all peace-loving nations, both within and outside Southeast Asia, in the furtherance of world peace, stability and harmony;

SOLEMNLY AGREE to enter into a Treaty of Amity and Cooperation as follows:

CHAPTER I PURPOSE AND PRINCIPLES

Article 1.

The purpose of this Treaty is to promote perpetual peace, everlasting amity and cooperation among their peoples which would contribute to their strength, solidarity and closer relationship.

Article 2

In their relations with one another, the High Contracting Parties shall be guided by the following fundamental principles:

- a. Mutual respect for the independence, sovereignty, equality, territorial integrity and national identity of all nations;
- b. The right of every State to lead its national existence free from external interference, subversion or coercion;
- c. Non-interference in the internal affairs of one another;
- d. Settlement of differences or disputes by peaceful means;
- e. Renunciation of the threat or use of force;
- f. Effective cooperation among themselves.

CHAPTER II

AMITY

Article 3

In pursuance of the purpose of this Treaty the High Contracting Parties shall endeavour to develop and strengthen the traditional, cultural and historical ties of friendship, good neighbourliness and cooperation which bind them together and shall fulfil in good faith the obligations assumed under this Treaty. In order to promote closer understanding among them, the High Contracting Parties shall encourage and facilitate contact and intercourse among their peoples.

CHAPTER III

COOPERATION

Article 4

The High Contracting Parties shall promote active cooperation in the economic, social, cultural, technical, scientific and administrative fields as well as in matters of common ideals and aspiration of international peace and stability in the region and all other matters of common interest.

Article 5

Pursuant to Article 4 the High Contracting Parties shall exert their maximum efforts multilaterally as well as bilaterally on the basis of equality, non-discrimination and mutual benefit.

Article 6

The High Contracting Parties shall collaborate for the acceleration of the economic growth in the region in order to strengthen the foundation for a prosperous and peaceful community of nations in Southeast Asia. To this end, they shall promote the greater utilization of their agriculture and industries, the expansion of their trade and the improvement of their economic infra-structure for the mutual benefit of their peoples. In this regard, they shall continue to explore all avenues for close and beneficial cooperation with other States as well as international and regional organisations outside the region.

Article 7

The High Contracting Parties, in order to achieve social justice and to raise the standards of living of the peoples of the region, shall intensify economic cooperation. For this purpose, they shall adopt appropriate regional strategies for economic development and mutual assistance.

Article 8

The High Contracting Parties shall strive to achieve the closest cooperation on the widest scale and shall seek to provide assistance to one another in the form of training and research facilities in the social, cultural, technical, scientific and administrative fields.

Article 9

The High Contracting Parties shall endeavour to foster cooperation in the furtherance of the cause of peace, harmony and stability in the region. To this end, the High Contracting Parties shall maintain regular contacts and consultations with one another on international and regional matters with a view to coordinating their views, actions and policies.

Article 10

Each High Contracting Party shall not in any manner or form participate in any activity which shall constitute a threat to the political and economic stability, sovereignty, or territorial integrity of another High Contracting Party.

Article 11

The High Contracting Parties shall endeavour to strengthen their respective national resilience in their political, economic, socio-cultural as well as security fields in conformity with their respective ideals and aspirations, free from external interference as well as internal subversive activities in order to preserve their respective national identities.

Article 12

The High Contracting Parties in their efforts to achieve regional prosperity and security, shall endeavour to cooperate in all fields for the promotion of regional resilience, based on the principles of self-confidence, self-reliance, mutual respect, cooperation and solidarity which will constitute the foundation for a strong and viable community of nations in Southeast Asia.

CHAPTER IV

PACIFIC SETTLEMENT OF DISPUTES

Article 13

The High Contracting Parties shall have the determination and good faith to prevent disputes from arising. In case disputes on matters directly affecting them shall refrain from the threat or use of force and shall at all times settle such disputes among themselves through friendly negotiations.

Article 14

To settle disputes through regional processes, the High Contracting Parties shall constitute, as a continuing body, a High Council comprising a Representative at ministerial level from each of the High Contracting Parties to take cognizance of the existence of disputes or situations likely to disturb regional peace and harmony.

Article 15

In the event no solution is reached through direct negotiations, the High Council shall take cognizance of the dispute or the situation and shall recommend to the parties in dispute appropriate means of settlement such as good offices, mediation, inquiry or conciliation. The High Council may however offer its good offices, or upon agreement of the parties in dispute, constitute itself into a committee of mediation, inquiry or conciliation. When deemed necessary, the High Council shall recommend appropriate measures for the prevention of a deterioration of the dispute or the situation.

Article 16

The foregoing provision of this Chapter shall not apply to a dispute unless all the parties to the dispute agree to their application to the dispute. However, this shall not preclude the other High Contracting Parties not party to the dispute from offering all possible assistance to settle the said dispute. Parties to the dispute should be well disposed towards such offers of assistance.

Article 17

Nothing in this Treaty shall preclude recourse to the modes of peaceful settlement contained in Article 33 (1) of the Charter of the United Nations. The High Contracting Parties which are parties to a dispute should be encouraged to take initiatives to solve it by friendly negotiations before resorting to the other procedures provided for in the Charter of the United Nations.

CHAPTER V

GENERAL PROVISIONS

Article 18

This Treaty shall be signed by the Republic of Indonesia, Malaysia, the Republic of the Philippines, the Republic of Singapore and the Kingdom of Thailand. It shall be ratified in accordance with the constitutional procedures of each signatory State.

It shall be open for accession by other States in Southeast Asia.

Article 19

This Treaty shall enter into force on the date of the deposit of the fifth instrument of ratification with the Governments of the signatory States which are designated Depositories of this Treaty and of the instruments of ratification or accession.

Article 20

This Treaty is drawn up in the official languages of the High Contracting Parties, all of which are equally authoritative. There shall be an agreed common translation of the texts in the English language. Any divergent interpretation of the common text shall be settled by negotiation.

IN FAITH THEREOF the High Contracting Parties have signed the Treaty and have hereto affixed their Seals.

DONE at Denpasar, Bali, this twenty-fourth day of February in the year one thousand nine hundred and seventy-six.

Untuk Republik Indonesia
Bagi Pihak Republik Indonesia
Para sa Republika ng Indonesya

For the Republic of Indonesia

.....
S o e h a r t o,
President.

Untuk Malaysia
Bagi Pihak Malaysia
Para sa Malaysia

For Malaysia

.....
Datuk Hussein Onn,
Prime Minister

Untuk Republik Pilipina
Bagi Pihak Republik Filipina
Para sa Republika ng Pilipinas

For The Republic of the Philippines.....

Ferdinand E. Marcos,
President

Untuk Republik Singapura
Bagi Pihak Republik Singapura
Para sa Republika ng Singapore

For The Republic of Singapore

.....
Lee Kuan Yew,
Prime Minister

Untuk Kerajaan Thailand
Bagi Pihak Thailand
Para sa Kaharian ng Thailand

For the Kingdom of Thailand

.....
Kukrit Pramoj,
Prime Minister

APPENDIX IV.THE KUALA LUMPUR DECLARATION

WE the Foreign Ministers of Indonesia, Malaysia, the Philippines, Singapore and the Special Envoy of the National Executive Council of Thailand;

FIRMLY believing in the merits of regional cooperation which has drawn our countries to cooperate together in the economic, social and cultural fields in the Association of Southeast Asian Nations;

DESIROUS of bringing about a relaxation of international tension and of achieving a lasting peace in Southeast Asia;

INSPIRED by the worthy aims and objectives of the United Nations, in particular by the principles of respect for the sovereignty and territorial integrity of all states, abstention from the threat or use of force, peaceful settlement of international disputes, equal rights and self-determination and non-interference in the internal affairs of States;

BELIEVING in the continuing validity of the "Declaration on the Promotion of World Peace and Cooperation" of the Bandung Conference of 1955 which, among others, enunciates the principles by which states may coexist peacefully;

RECOGNIZING the right of every state, large or small, to lead its national existence free from outside interference in its internal affairs as this interference will adversely affect its freedom, independence and integrity;

DEDICATED to the maintenance of peace, freedom and independence unimpaired;

BELIEVING in the need to meet present challenges and new developments by cooperating with all peace and freedom loving nations, both within and outside the region, in the furtherance of world peace, stability and harmony;

COGNIZANT of the significant trend towards establishing nuclear-free zones, as in the "Treaty for the Prohibition of Nuclear Weapons in Latin America" and the Lusaka Declaration proclaiming Africa a nuclear-free zone, for the purpose of promoting world peace and security by reducing the areas of international conflicts and tensions;

REITERATING our commitment to the principle in the Bangkok Declaration which established ASEAN in 1967, "that the countries of Southeast Asia share a primary responsibility for strengthening the economic and social stability of the region and ensuring their peaceful and progressive national development, and that they are determined to ensure their stability and security from external interference in any form or manifestation in order to preserve their national identities in accordance with ideals and aspirations of their peoples";

AGREEING that the neutralization of Southeast Asia is a desirable objective and that we should explore ways and means of bringing about its realization, and

CONVINCED that the time is propitious for joint action to give effective expression to the deeply felt desire of the people of Southeast Asia to ensure the conditions of peace and stability indispensable to their independence and their economic and social well-being;

DO HEREBY STATE

- (1) That Indonesia, Malaysia, the Philippines, Singapore and Thailand are determined to exert initially necessary efforts to secure recognition of, and respect for, Southeast Asia as a Zone of Peace, Freedom and Neutrality, free from any form or manner of interference by outside Powers;
- (2) that Southeast Asian countries should make concerted efforts to broaden the areas of cooperation which would contribute to their strength, solidarity and closer relationship.

Done at Kuala Lumpur on Saturday, the 27th of November, 1971.

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