

# **DIALOGUE PARTNERS AND THE DEVELOPMENT OF ASEAN**

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**CERTIFICATE**

This is to certify that the dissertation entitled "**DIALOGUE PARTNERS AND THE DEVELOPMENT OF ASEAN**" by Ms. **SASMITA MISHRA**, is her own work and has not been submitted for the award of any degree to this or any other University. We recommend that this dissertation may be placed before the examiners for consideration of the award of the degree of **Master of Philosophy (M.Phil)** of Jawaharlal Nehru University, New Delhi.

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## Preface

The ASEAN economic success has much to do with its successful relations with its "dialogue partners." The important dialogue partners of ASEAN are the USA, Japan, the E.C, Australia and more recently the peoples Republic of China. The politico-strategic objectives of these powers in the Asia-Pacific region have somewhat found a more refined expression under the dialogue relations they carry out with the ASEAN State. Dialogue relationship provides a forum to facilitate trade, investment information exchange, market access, and technology transfer related matters between the ASEAN countries and its dialogue partners. More recently the dialogue forums have been used to discuss political and strategic issues also.

First Chapter of this work is the introduction of the topic which discusses the evolution of ASEAN as a dynamic economic region since its establishment in 1967. The subsequent three chapters give a study in detail about the ASEAN Dialogue partner system (ADPS), the issues covered under it, the role it has played to further extra-region linkages.

In completion of this work, I am grateful to my guide professor B.D. Arora, without his suggestions and scholastic criticism this work could not have been accomplished.

I am obliged to my parents and dedicate this work to my parents, whose inspiration is an incessant flow of perseverance within me.

I am thankful to the staff of JNU, IDSA, Sapru House, India Investment Centre and U.N's Asian Pacific Centre for Trade And Technology Transfer, who have helped me in searching materials.

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The errors, if any, are exclusively mine.

**SASMITA MISHRA**

21.07.97

## **THE INTRODUCTION**

The Association of South-East Asian Nations (ASEAN) is a regional organisation established in August, 1967. It came into existence through the signing of the ASEAN Declaration in Bangkok, by the foreign ministers of the founding member states - Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei became the sixth member in January 1984 and Vietnam joined the Association as the seventh member in July 1995.

Despite different historical experiences, diverse social structures, different stages of economic development as well as political systems, these South-east Asian countries formed this regional grouping with definite political and economic objectives. These were as follows, as was set out in the Bangkok Declaration, 1967.<sup>1</sup>

- (i) To accelerate 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;
- (ii) To promote regional peace and stability through abiding respect for justice and the rule of law in the

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1. The FarEast And Australia , London, 1996, p.1067.

relationship among countries of the region and adherence to the principle of the United Nations Charter;

(iii) To promote active collaboration and mutual assistance on matters of common interests in the economic, social, cultural, technical, scientific and administration fields;

(iv) To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;

(v) 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 people.

(vi) To promote South-East Asian studies and

(vii) To 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.

In the three decades of its establishment, ASEAN has become an important region of Asia by virtue of its strong economic performance. It is increasingly recognised that,



all small and medium ASEAN countries, has been playing an unique and indispensable role in maintaining regional peace, stability and prosperity. Now, a cyclical mechanism of mutual promotion has been created between the internal economic development of the ASEAN countries and their external economic co-operation.<sup>2</sup> The region has been the fastest growing region in the last decade. The average GDP growth rate of ASEAN was 5.5% for the period 1989-90 as compared to the average world growth rate of 2.8%. Indonesia, Malaysia, Thailand and Singapore had an annual growth rate of 8% during the eighties. The average growth rates of the ASEAN countries over the years is given below.

**South-East Asian Growth Rates of Real GDP.<sup>3</sup>**

	GDP Growth (Average)			
	1965-80	1980-87	1990	1995
Philippines	5.9	0.5	2.4	5.0
Thailand	7.2	5.6	10.6	11.3
Malaysia	7.4	4.5	9.8	9.5
Singapore	10.1	5.4	8.3	10.8
Indonesia	8.0	3.6	7.4	10.5
Brunei	--	--	4.8	--
Vietnam	--	--	4.5	--

2. Yang Xiyu, "The Growth of ASEAN And Its Regional Influences," Foreign Affairs Journal, No. 40. June 1996, p.30.
3. Table No. 1.1, Source, Asian Development Bank, Asian Development Outlook, (April 1992) and World Development Report 1996.

Internally, numerous "growth triangles" within the ASEAN are bringing benefits to the relevant countries and the proposed construction of the ASEAN Free Trade Area (AFTA) within 15 years starting January 1, 1993 will provide fresh impetus to the rapid growth of inter-state trade and investment.

The ASEAN development coincides with the dramatic rising in status of the whole Asia-pacific region in the world political and economic configuration. While the rest of the world continues to be in the turmoil of establishing a new post cold-war order, different forces in the Asia-pacific region have embarked on a course toward building a new regional order through various co-operation efforts and struggles.

#### **ASEAN : General Features**<sup>4</sup>

The rich natural resources of ASEAN are spread over three million km., which is around one fifth of the total land mass of Asia (excluding Oceania). Its population (322 million people) is slightly above one-fifth of the total Asian population; its Gross Domestic Product (US \$ 32 billion) is one seventh of the Asian total.

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4. Hand Book of Economic Integration and Co-operation Groupings of Developing Countries, Vol.I, UNCTAD, 1996, P.104.

A good part of the world's output of natural rubber, palm oil, tin, copra, copper, sugar, coffee, timber, tropical fruit and minerals comes from the ASEAN region. ASEAN has also set the pace as a market leader in the manufactured exports of garments, textiles, electronics and consumer goods. ASEAN with its vast population and rapid industrial growth has emerged as a major market for consumer goods, capital goods and technical skills. ASEAN's liberalised economic environment has attracted substantial Foreign Direct Investment from the developed countries and the neighbouring economies of Hongkong and the Republic of Korea.

#### Contours of Change

Traditionally, ASEAN States' industrial structure was dominated by such primary sectors such as agriculture, forestry, fisheries and mining. And the traditional trade pattern was based on exchange of raw materials.<sup>5</sup> Hence, it is no surprise that in the '60s ASEAN was a grouping of poor nations. The development of ASEAN so far has gone through two stages : the period of 1967-75 and the period of 1976-93.<sup>6</sup> ASEAN in the first period has adopted number of

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5. Trade and Development Report, 1995, UNCTAD/UN, Geneva, 1995, P.12.

6. Yang Xiyu n.2, p.27.

resolutions, only a small portion of which were implemented. The members were at the time largely beset with internal disagreements like bilateral/trilateral territorial disputes, different foreign policy orientations (some firmly endorsing American's Asia policy and others insisting on taking a non-aligned position).

The year 1975, brought about welcome changes. The year witnessed the complete victory of the three Indo-China States - Vietnam, Laos and Campuchea against the US. These three immediate neighbours were ideologically different from ASEAN states and their independence brought pressure on the latter under the then cold war circumstances. The former Soviet Union was meaningfully stepping up its strategy of "marching southward" while the US was retreating from the Pacific. Under these circumstances it became inevitable for the ASEAN states for "Shelving difference while seeking common ground." At the ASEAN summit meeting held in 1976, it was unanimously agreed to set political co-operation as one of the organization's important objectives. The ASEAN secretariat was set up, which greatly enhanced the efficacy and influence of ASEAN.

**Export led Growth :**

A central thrust of the ASEAN development strategies has been to transform themselves from primarily agricultural

economics to industrialisation.<sup>7</sup> The table following shows the degree to which that policy goal has been met, as well as the heavy reliance on international markets for manufacturing growth, a necessity given the initial inadequacy of ASEAN domestic markets.

**ASEAN Industrialization<sup>8</sup>**

	Industry/GDP		Exports (Primary/Mfd.)	
	1965	1989	1960	
Indonesia	8.4%	40%	100/0	71/29
Malaysia	10.4%	34%	94/6	55/44
Philippines	17.5%	35%	93/7	38/62
Singapore	15.3%	37%	74/26	26/74
Thailand	15.5%	41%	98/2	48/52

In the initial years of industrializations, the ASEAN countries followed import substitution (IS) industrial policy. But this soon gave way to export-orientation (EO) during the '60s. Growth pulse quickened in the '70s with the emergence of stable governments, sound and consistent macro economic management and the welcoming of foreign direct

7. Donal Crone, "ASEAN Industrial Policies" in Gunnar K. Sletvold & Gavin Boyd, ed., Industrial Policies In The Pacific, Boulder, 1994, p,172.

8. Table no. 1.2, Sources : Asian Development outlook, 1990; World Development Report, 1990; Economic and Social Survey of the Pacific, 1976.

investment. Singapore led the bandwagon followed by Malaysia and later by other countries. Initially, based on strategic location, Singapore simply trans-shipped products and did basic processing of raw materials before re-exporting. Gradually, the manufacturing sector changed from labour intensive to higher value added processes and products. Growth in neighbouring ASEAN economies reinforced growth in Singapore by increasing demand for Singapore's entrepot activities.<sup>9</sup> A combination of political stability and better infrastructure placed Malaysia ahead of the remaining ASEAN rivals.<sup>10</sup> Export-Oriented industrialization did not take place in Indonesia until the mid-1980s. Indonesia's economic policy making was severely constrained by the vested political interests within the government.<sup>11</sup> The power of the technocrats to implement policies which conflicted with the interests of military-associated firms remained very limited. In contrast, Thailand's lively and influential business sector has developed more

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9. Russell Farnmore and Hal Hill, Evolution Growth & Structural Change: Australia's Business Challenge: South East Asia in the 1990s, Canberra, 1992, p.14.

10. R.Rasiah, Foreign manufacturing Firms in Industrial Development: A Study of Malaysia, Cambridge, 1992, p.35

11. Donald Crone, n.7, p.174.

autonomously.<sup>12</sup> During the 1980s, the Thai administration started developing co-operative relations with private sector organization, a process that continues. The Philippines, which was initially, at the front of the structural change initiatives, lapsed in the 1980s, with government instability and consequently, inconsistent macro-economic policies.

1980s was a decade of rapid growth and structural change in ASEAN, as economies increasingly specialised in manufactures of export. Strong growth in manufacturing industries saw fall in agriculture's contribution to GDP, but the most dramatic change was within the industrial sector, where manufacturing industries increased their contribution to GDP in relation to the mining and oil industries.

Restructuring in North-East Asia has been a factor in the growth and structural change in the ASEAN. North-East Asian investment in off shore production has combined with the ASEAN state's domestic policies aimed at welcoming investment and promoting exports as a source of growth.

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12. Ibid, p.181.

### Heavy Dependency On Exports

A challenge before ASEAN economies has been their heavy dependency on commodity exports.

### Export Dependency of ASEAN Countries: 1980-91 (Percentage)<sup>13</sup>

	Export/GDP
Indonesia	27.0
Malaysia	81.0
Philippines	30.0
Singapore	185.0
Thailand	38.0
Japan	10.0
Hongkong	141.0
Australia	18.0
New Zealand	28.0
South Korea	29.0

As the above table shows Singapore's total exports (domestic exports and re-exports) were larger than its GDP during the period 1980-91. Malaysia's ratio was also high at 81%. The ratios of other three countries were also high in comparison with the figures for developed countries.

13. Table No. 1.3, Source: World Bank (Review Estimates) a:  
Export dependency =  $\frac{\text{Export}}{\text{GDP}}$

GDP



The major fall-out of the heavy dependency on export on the part of ASEAN countries was that the business cycles of each country were very much influenced by the fluctuations in international commodity prices as well as the business cycles of their main importers, such as the United states and Japan.<sup>14</sup>

The steady growth of exports has stimulated domestic activities, which in turn have stimulated import growth; the import growth sometimes being larger than exports.<sup>15</sup> ASEAN member's export basket include both manufactures and primary commodities. Vietnam's rice export has increased substantially in recent years. It is emerging as world's third largest rice exporter.<sup>16</sup>

Brunei Darussalam, Indonesia and Malaysia are major petroleum exporters. Growth of ASEAN import has been a major facilitatory factor in export expansion in other developing countries, especially those in South Asia.

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14. Hiroshi Osada and Daisuke Hiratuka, "Business Cycles in Asia", Tokyo, 1991, p.34.

15. Ibid.

16. Nayan Chanda, "Vietnam : War and Peace", Far Eastern Economic Review, May 1995, p.23.

### The Role of FDI

In the initial years the local capital was not substantial. In almost all the ASEAN states, the capitalist class was non-existent, at the time the countries started developmental process. This was partly because of the colonial past and partly because of the hierarchal class structure, so typical of these countries. Trading was dominated by the overseas Chinese, who even today form a predominant section in business and trading.

In this situation it is the foreign capital which took lead in the export-market, especially in the labour-intensive electronics, textile, garment and rubber-based firms seeking low-cost and tax-free zones.<sup>17</sup> To attract foreign capital the government came forward with subsidies through generous tax and tariff exemptions, subsidized infrastructural support, services and a severe control on labour unions.<sup>18</sup>

The first wave of FDI flow into developing ASEAN countries in the 1960s and early 1970s was motivated by protected local markets and the first major Japanese yen

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17. Helen Hugh, Achieving Industrialisation in East Asia, Cambridge, 1988, p.51.

18. Rajah Rasiah, "Capitalist Industrialisation in ASEAN" Journal of Contemporary Asia, vol.24, No.2, 1994, p.201.

revaluation. It was manifested mainly in joint ventures in textiles and household equipments.<sup>19</sup> The second wave in 1970 was induced by the region's bright prospects and the availability of low cost capital. This wave of investments included import substitution projects in basic industries and creation of American export platforms in consumer electronics and semi-conductors.<sup>20</sup> The third wave, involving the re-location of labour intensive manufacturing from Japan and the Asian NIEs to ASEAN, resulted essentially from the appreciation of the yen and several NIEs currencies in the mid 1980s.<sup>21</sup> This coincided with the significantly improved investment climate in the ASEAN countries to boost their exports.

There are several views as to explain the wave of FDI into ASEAN in the 1990s. One view is that, there is a change in origin of the FDI flows into the region, namely the rise of "over-seas Chinese" capital as manifested in FDI flows from the Chinese economies of Hongkong and Taiwan.

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19. Hadi Soesastro, "Economic Development and Security in the Asia Pacific Context", (Jakarta) The Indonesian Quarterly, Vol. xxv, No.1, 1997, p.63.

20. Ibid.

21. Ibid.

Another view is that, increased FDI flow in the 1990s may originate primarily from Japan, resulting from a full-fledged implementation of globalisation strategies by Japanese companies that involve new, cutting-edge technologies, such as fibre optics, where different production activities in different technological stages of production will be undertaken outside of Japan. Yet another view fears that the massive investment boom in China may divert partly the FDI flows into the ASEAN to China.

As the ASEAN countries and China continue to upgrade their level of technological capabilities, they will be able to participate in such production networks, together with other Asian NIEs.<sup>22</sup> This will further consolidate the East-Asian production network with Japan at its core.

"Flying Geese" :

The "Flying Geese" conception of economic development represented by Shinohara,<sup>23</sup> and recast as the "product life

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22. Prem Vashista, Commonalities, Complementarities and co-operation : Asian Pacific Region, New Delhi, 1989, p.67.

23. M. Shinohara, Growth and Cycles in the Japanese Economy, Tokyo, 1972, p.21.

cycle" by Vernon,<sup>24</sup> is premised on uneven level of industrial development among inter-connected countries for example, within a region. Development diffuses, as more inter-connected countries relinquish more labour intensive, low-skilled industries to less industrialized countries. Direct foreign investment to take advantage of low-cost labour infact, flows from the United States to Hongkong and Singapore, the Republic of Korea and Taiwan in the 1960s, and from Japan to Indonesia, Malaysia and Thailand in the 1980s.<sup>25</sup> In so far as the receiving ASEAN economies are concerned, FDI into the most dynamic among them (Singapore, Malaysian, Thailand), goes hand in hand, as the "flying geese" metaphor predicts.

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24. R. Vernon, "International Investment and International Trade in the Product Cycle", Quarterly Journal of Economics, Vol.80, May 1966, p.102.

25. World Investment Report, Transnational Corporations and Competitiveness, UNCTAD/UN, New York, 1995. P.44.

**Ratio of FDI Inflows to GFCF in Selected East Asian Countries And Share of FDI in manufacturing<sup>26</sup>**

Country	Ratio of FDI inflows to GFCF			Year	Share of Foreign affiliates in manufacturing (Percent)
	1971-80	1981-90	1991-93		
Japan	0.1	0.1	0.1	1986	2.2
Hongkong	5.1	9.9	5.7	1987	17.3
Republic of Korea	1.2	0.9	5.7	1986	21.5
Taiwan Province. of China	15.8	26.2	37.4	--	--
Singapore	1.3	2.6	2.6	1988	53.0
Indonesia	3.5	1.5	4.5	--	--
Malaysia	13.6	11.3	24.6	1986	40.5
Philippines	1.0	3.8	4.6	1987	40.8
Thailand	2.3	4.8	5.0	1986	48.6
China	0.0	1.5	10.4	--	--
Japan	0.1	0.1	0.1	1986	2.2

As can be seen from the table above foreign affiliates accounted for 40-50 percent of manufactures in Singapore and in most of the ASEAN states in the late 1980s, whereas for the Republic of Korea and Hongkong the proportion were

26. Table No. 1.4, Source : UNCTAD.

around 21 percent and 17 percent respectively. The shares of FDI in gross domestic capital formation show a similar pattern of reliance on FDI.

Thus, economic development in ASEAN States has become steadily more dependent on FDI; yet apart from Malaysia, FDI still accounts for a small share of total investment in the ASEAN states.

Political synergies from the FDI do not flow automatically - ASEAN states have been careful in intervening so as to exploit the minimum benefits.

The decisions of TNCs (Trans-National Corporations) over where to locate activities is increasingly being driven both by cost consideration and by the desire to gain rents from the control over technology and their various organizational assets. In the early stage of development, FDI can contribute to development by creating employment, facilitating the transformation of natural resources into current revenues and generating foreign exchange. However, as time goes by, it becomes possible for TNCs to single out specific activities in the chain of production according to skill, technology and capital intensity; match these activities to specific country advantages and locate and coordinate them through inter-connected network of affiliates in such a way as to exchange the overall

corporate profits. Thus, it seems likely that with geographically dispersed production sites, the spill overs from hosting FDI are reduced because the package of technology and skills required at any one site is narrower and because the cross-border backward and forward linkages are strengthened at the expense of domestic firms. In the absence of policies promoting such upgrading and spill overs heavy reliance and FDI may also result in serious Balance of payments problem.

In the light of the experience of ASEAN states in this respect, Malaysia and Thailand, through their heavy reliance an FDI, have succeeded in high technology exports, which in large part combine low-skill assembly activities with hightechnology parts. Nevertheless, both countries have yet to develop a diversified manufacturing base.<sup>27</sup> In particular their ready orientation towards electronics contrasts with the slow development of most capital goods industries such as iron and steel, non-electrical machinery, metal products and transport equipment. The continued heavy reliance on imports of both capital and intermediate goods suggests that the ASEAN states still have to embark on upgrading the capital base.

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27. Exports, Capital Formation and Growth, UNCTAD/UN, New York, 1995, P.123.



Many of the elements of the technological infrastructure needed to allow domestic firms to compete in this middle range of exports are still missing. These countries also have yet to put in place a well-developed local supplier network, incipient clusters of high-technology activities and an adequately trained work-force; nor do they have any significant industrial Research and development (R&D), either within the enterprise system or in the public sector.<sup>28</sup> Indeed, figures on R&D expenditure show that the ASEAN states are poor performers among developing countries (devoting under 0.25 percent of GNP to this purpose).<sup>29</sup>

Thus, manufacturing activities mostly predominate in assembly and finishing operations. ~~This has in assembly and finishing operations~~ This has given rise to the fear that countries like India, China, Vietnam and other Asian countries, with lower cost structure compared to ASEAN countries may eliminate these sources of growth momentum, if concerted effort would not be put by ASEAN members to develop capital goods industries.

In brief the economies of ASEAN countries are among the fastest growing in the world. The major contributor towards

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28. Ibid.

29. Ibid.

ASEAN growth have been the export sector. The exported oriented growth has been so far dependent on the foreign capital flows especially from the USA, Japan and more recently from the Newly Industrialized Economies (Hongkong, Taiwan and Republic of Korea), EU and China. Thus, the trade and investment mechanism of ASEAN with its trading partners will be of particular interest so as to understand the developmental process under going in ASEAN. The chapters following deal with this aspect.

## **CHAPTER - II**

**ASEAN DIALOGUE PARTNERSHIP:**

**A UNIQUE ATTEMPT**

The economic co-operation among the ASEAN states during the first two decades was not satisfactory. To some extent it can be related to an inadequate "machinery" of the Association. Excessive reliance on state planning is cited as another reason, especially as the bureaucratic infrastructure was weak and divided. While the group moved effectively on the diplomatic front in its successful attempt to keep the pressure on neighbouring Vietnam over its prolonged military occupation in Cambodia, it was unable to surmount national consideration in its attempt to forge some form of economic viability.<sup>1</sup>

Because of this cautious approach on the part of the ASEAN member countries, the content of economic co-operation in the early years were mainly the result of external advice, especially of the U.S.<sup>2</sup>

The fact was, initially, there was a tremendous disparity in the different growth rates and levels of income among the ASEAN countries. This made the ASEAN members cautious in adopting something on a common basis. Moreover, ASEAN countries like Indonesia, the Philippines, Malaysia

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1. Asia 1987 Year Book, Far Eastern Economic Review, P. 81.
  2. Chintamani mohapatra, American role in the origin and Growth of ASEAN, New Delhi, 1990. P.6

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and Thailand were exporting similar commodities, and thus were more competitive than complementary. The early years of industrialization in the ASEAN countries had been achieved with FDI. Presence of Multinational corporations [MNCs] and accommodating them in the national economic policies were the main pre-occupation of ASEAN countries. These MNCs were as a rule very competitive and tend to argue for trade liberalization.<sup>3</sup> Under these circumstances, there are good reasons to assume that an attempt at an integration proper in the 1970s and early 1980s would not have been a success. Moreover, whatever progress was there, was effectively limited by the "slowest" member usually, Indonesia.<sup>4</sup>

Thus, the period 1967 to mid-seventies, economic integration was not yet a major topic within the ASEAN circles. It became a topic under external advice when the Kansu Report in the early 1970s proposed three major avenues of integration, that is,

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3. Hans C. Blomquist, "ASEAN As a Model For Third World Regional Economic co-operation", ASEAN Economic Bulletin, vol.10, July 1993, p.57.
  4. Ariff Mohammad, 'The changing Role of ASEAN in the coming Decades: Post Manila Summit Perspectives', in Miyokei Shinohara and Lo, Fu-chen, ed. Global Adjustment and the Future of Asian-Pacific Economy, Tokyo, 1988, P.154.

1] Limited preferential trade liberalization [falling short of Article XXIV GATT which only allows 100 percent preferences]

2] Regional intra-industry specialization and a regional intra-industry allocation of large-scale projects [United Nations, 1974].<sup>5</sup>

Thus, the Report prepared a policy mix of integration instruments and co-operation instruments. The Kansu proposals were operationalized and implemented through the ASEAN Industrial projects [AIPs], The ASEAN Industrial complementation [AIC], The Preferential Trading Arrangements [PTA], The ASEAN Industrial Joint Ventures [AIJUs], The ASEAN dialogue partner system [ADPS].<sup>6</sup>

#### **The ASEAN - Industrial Projects [AIPs]**

The AIPs, originally signed in 1980,<sup>7</sup> provided the ASEAN countries' governments with an instrument to assign government initiated, new, large scale industrial projects to different member countries. The problem with this

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5. Rolf J. Langhammer, "ASEAN Economic co-operation; A stock taking from a political Economy Point of view." ASEAN Economic Bulletin, Vol.8, No.2, November 1991, P.140.

6. John Wong "ASEAN's Experience in Regional Economic co-operation", Asian Development Review, Vol.3, No.1, 1985, P.81.

7. Rolf J. Langhammer, n.5.

programme was that the governments were not willing to relinquish their freedom to invest in whatever they please. According to Langhammer [1991], the programme of this type is characteristics of a planned economy. And the ASEAN countries are not planned economies. Thus, the AIPs were inconsistent with decentralized economic decision - making in ASEAN's Private sector-based economies. National policy objectives easily over-ruled the half-hearted regional approach to industrialization planning.

#### **The ASEAN Industrial complementation [AIC]**

The AICs followed a [vertical] intra-industry division of labour jointly organised by the public sector and private sector. There would be location wise specialization of production of different components in the production of final product.

The performance of this instrument as an integrating mechanism was also not impressive. The trade barriers which were then prevailing restricted the intra-industry trade within the ASEAN. ASEAN governments, instead of removing the barriers, tried to neutralise, the obstacles by some privileged treatment.<sup>8</sup> As a result, the AICs have not become a major instrument of ASEAN co-operation.

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8. John Wong, N.6, p.82.

### **The ASEAN Industrial joint-Ventures [AIJVs]**

The AIJU programmes gives tariff preferences as incentive for industrial co-operation among the ASEAN states. The AIJV products qualify for tariff preferences in all ASEAN countries, after a transition period of four years.<sup>9</sup> The member of ASEAN countries to be involved were reduced two, and approval procedures were less Cumbersome.

This program was also of "limited success" as ASEAN firms preferred joint ventures with partners from outside the region.<sup>10</sup> Bureaucracy and loss of time often outweigh the political utility of an AIJV projects.

### **The Preferential Trading Arrangements [PTA]**

The PTA is the integration instrument proper for ASEAN. PTA's core measure as tariff preferences is an integral part of the three other co-operation measures. The PTA has resulted in meager success because of insufficient product coverage and tariff cuts and the insignificance of tariff

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9. Christoph Hans Rieger, Towards the marking of an ASEAN common market, A concrete Proposal", Working Paper No.13, ASEAN-EEC Conference, 30-31 October, 1986.

10. Saji Naya and Michale G.Plummer "ASEAN Economic co-operation in the New International Economic Environment" ASEAN Economic Bulletin, Vol.7, No.3, 1991, P. 269.



barriers to non-tariff barriers.<sup>11</sup> The Bali conference on ASEAN and the world Economy in March 1991 have discredited the PTA as a bureaucratic device:

"although 15,752 items were on preferential trading list, intra-regional trade under this scheme amounted to less than 1 percent of total ASEAN trade."<sup>12</sup>

The relevance of PTA lies in the rapid growth of intra-ASEAN trade. This needs a decline in the segmentation of national goods market, an increasing complementarity of ASEAN production structure and thus more interdependence of national trade policies. Also, the intra-ASEAN divergences in terms of macro economic stability and performance need to be smaller.

However, more recently the PTA has taken shelter under the ASEAN Free Trade Proposal [AFTA] which is WTO consistent.

Hence, the economic dynamism of the ASEAN is mainly due to national policies suitable to attract large foreign investment rather than the success of intra-ASEAN economic co-operation. The progress of intra-ASEAN economic co-

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11. Aurora Sanchez, Non-Tariff Barriers and Trade in ASEAN". ASEAN Economic Bulletin, Special Focus issue vol. no.1, 1987, P.11.

12. Straits Times, 5 March, 1991, P.1.

operation has been slow due to implementation problems and lack of commitment as is discussed above.

In this situation, the ASEAN dialogue partner system [ADPS], which provides ASEAN countries common access dialogue with extra-region trading partners, remains the only ASEAN programme worth discussing. ADPs, offers national benefits larger than individual bargaining and have been rewarding for ASEAN exports.<sup>13</sup>

#### The ASEAN Dialogue Partner System [ADPS]

The concept of ADPS was originated at the Kuala Lumpur Summit of ASEAN in 1977.<sup>14</sup> The Dialogue partner System is a forum for discussions between the ASEAN member and their major trade partners. The ASEAN established its dialogue partnership, with Australia in 1974, with New Zealand in 1975, with the USA, Japan and the EU in 1977, with the United Nation's Development Programme [UNDP] in 1976, with the Republic of Korea in [1991], with India in 1995, with the peoples Republic of China in 1996. India became a sectoral dialogue partner of ASEAN in 1992 and later in 1995

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13. Rolf. J. Langhammer, "The Economic Rational of Trade Policy Co-operation between ASEAN and the EC: Has co-operation Benefited ASEAN?" ASEAN Economic Bulletin, Vol.2, No.2, 1985, P.116.

14. Rober L. Curry Jr. "Regional Economic co-operation in southern Africa and South-east Asia," ASEAN Economic Bulletin, Vol.8, No.1, July 1991, page 25.

was accepted as ASEAN's Dialogue Partner. Pakistan became a sectoral Dialogue partner of ASEAN in 1993.<sup>15</sup> Sector Dialogue partners can participate in ASEAN meetings on certain sectors such as trade, transport, communication and tourism. In selecting the dialogue partners, the ASEAN countries were influenced by their traditional trade links. The overall share of the current dialogue partners in the ASEAN export portfolio has traditionally ranged between 50 to 60 percent. Japan has a leading share [20 percent or more], followed by the United states [15 to 22 percent], European union and Newzealand [0.25 to 0.75 percent].<sup>16</sup>

The dialogue facilitates co-operation with the trade partners, in areas of special interest such as the market access, transfer of technology, human resource development, and support for ASEAN's position at international forums such as WTO and UNCTAD.

On the part of ASEAN, the work on the Dialogue Partner system is organised by assigning each member country one major trade partner. It is the responsibility of this number to co-ordinate the views of the other countries. The post-

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15. Annual Report of the ASEAN Standing Committee, Jakarta, 1992-93, p.45.

16. Marjorie L. Suriyamongkol, politics of ASEAN Economic co-operation, Singapore, 1988, P.15.

ministerial conferences [PMCs] held after the annual meeting of the ASEAN foreign ministers, is the occasion where the dialogues are carried out.<sup>17</sup>

The Dialogue negotiations are primarily concerned with market access. After the Singapore summit in 1992, the scope of the ADPS was enlarged to encompass political and security related issues also.<sup>18</sup>

A notable feature of the ASEAN dialogues has been the participation of the private sector in its meetings and consultations. This is in line with the call at the third meeting of ASEAN Heads of states in Manila in December 1987, for greater joint official and private sector participation and co-operation in the dialogue process. There is no doubt that the transnational corporations. [TNCs] are major economic forces in the Asia-Pacific. In the next two decades ASEAN will also see the rise of great number of ASEAN multinational companies.<sup>19</sup> Investments by Foreign-based TNCs and ASEAN multinationals are creating

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17. Pushpa Thambipillai, "ASEAN negotiating Styles Assets or Hindrance" In Pushpa Thambipillai and J.Saravanamuttu ASEAN Negotiations: Two insights Singapore, 1985, p.19.

18. Straits Times, 30 January 1992.

19. Joint IPS-ISEAS ASEAN Roundtable ASEAN Economic co-operation in the 1990s, 27-28 June, 1991. Joint communique.

economic linkages among the ASEAN economies and between ASEAN, NIEs and Japan. Thus, private sector role in the ASEAN economic development is indisputable; hence, the participation of private sector in the dialogue forum discussions. Such participation had proven beneficial to all sides.

Recently a new trend is emerging in ASEAN's dialogue relations from that of donor-recipient to one of a mature and balanced relationship.<sup>20</sup> Further strengthening of this relationship would be of mutual benefit. The Twenty-Fourth ASEAN ministerial meeting at Kuala Lumpur, in July 1991, noted increasing flexibility shown by the dialogue partners in responding to ASEAN's changing priorities and in broadening and seeking new areas of co-operation. In this regard, they agreed that future activities should focus on human resource development, science and technology, trade, industry, investment and environment. It is also noted the various consultative mechanisms, within the framework of dialogue relations had been particularly useful in raising issues such as market access, trade disputes and in the promotion of joint ventures.<sup>21</sup>

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20. Joint Communique, Twenty-Fourth ASEAN ministerial meeting, Kuala Lumpur, 19-20 July 1991, P.8.

21. Ibid.

Rapid global changes and the growing interdependence of the world economy has made responsive action toward the resolution of international economic issues more compelling. ASEAN used dialogue meetings to press for early conclusion of the Uruguay Round and put forward the expectation that its outcome would be balanced and beneficial to all the participants. ASEAN also exchanged views with the dialogue partners about AFTA, particularly the common External Preferential Tariff [CEPT] under AFTA. It requested support of the dialogues partners for the CEPT scheme in WTO.

The success of the ADPS was perceived differently by different authors. Which is hardly surprising considering the immaterial nature of the "product" the system is supposed to deliver. For instance Langhammer [1991] has a very positive view, like wong [1989], while Chng [1990]<sup>22</sup> deems the result "disappointing." The results seem to have been fairly good as far as soliciting aid and technical assistance is concerned, but less so far the original main goal of the process - improving market access to the dialogue partners.<sup>23</sup> However, there is no doubt that

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22. Meng Kng Chng, "ASEAN's Institutional Structure and Economic co-operation " ASEAN Economic Bulletin, Vol.6, No.3, March 1990, P.280.

23. Narongchi Akrasanee, ASEAN Economies and ASEAN Economic co-operation, Manila, 1984, p.31.

the system has been conducive to raising the profile and status of ASEAN in an international context.

ASEAN's growth process has been inextricably linked with ASEAN's trading activities, particularly, the volume and direction of ASEAN export. The "dialogue" mechanism, over the years has been instrumental in promoting ASEAN trading opportunities. The respective dialogue relationship that ASEAN maintains with the individual partner countries, thus is worth probing.

## **CHAPTER - III**

### **ISSUES IN PARTNERSHIP**



Over the years ASEAN's Co-operative relationship with the Dialogues partners has made significant progress. The dialogue relation cover both political and mutual economies co-operation . The first post ministerial dialogues with the non-ASEAN countries took place in 1977. Afterwards ASEAN foreign ministers meet annually with their counterparts from dialogue partner countries. The post - ministerial conferences [PMCs] held immediately after the ASEAN ministerial meeting is the forum in which ministers from dialogue partner countries and ASEAN member states discuss about international and regional issues.

"ASEAN has intensified external dialogue in political and security matters by using the ASEAN Post ministerial conferences [PMCs] process....While there are unertainties and challenges, the present conditions offer opportunities for countries in the region to strengthen and promote political and security co-operation that would be conducive for continued economic growth and development."<sup>1</sup>

The Institutional Frame work :

Effective co-operation requires regular channels of communication. The Dialogue partnership process fosters

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1. Twenty-Sixty ASEAN ministerial meeting, Singapore, 23-24 July, 1993, Joint communique.

this communication by exchanging information through dialogue or business opportunities, trade regulations, certification, standardization etc.<sup>2</sup> Dialogues establish local ventures between a dialogue partner and the ASEAN comprising of governmental, public sector as well as private sector representatives. Associations between the chambers of commerce and industry association of the dialogue partners and similar organisations in the ASEAN members are initiated in the dialogue forum and later strengthened. Each dialogue partner shares a different set of processes with the ASEAN states. These set of processes are reflection of the specificity of the particular dialogue partner as well as the typicality of the nature of relationship 'P' it shares with the ASEAN states.

In this context, it becomes necessary to examine one by one, the different issues which each dialogue partner take up at the dialogue forums.

EU-ASEAN:

The areas covered under the dialogue partnership between the EU and ASEAN are :

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2. V. L Rao and R. Upendra Das, India and ASEAN ; Issues in sectoral Dialogue partnership, New Delhi, 1993, p.37.

- Market access issues [General system of Preferences, WTO],
- economic, financial and industrial co-operation;
- human resource development;
- service and technology programmes;
- increasing trade and investment flows;
- promotion of tourism;
- encouraging participation of the private sector in mutual co-operation between the partners;
- focussing on assistance to the poor sections of the population;
- giving special attention to the participation of women in the development process ; and
- environmental protection.<sup>3</sup>

In the case of EU-ASEAN relationship the main institution is the Joint Co-operation Committee [JCC], set up under the 1980 Co-operation Agreement, to promote co-operation activities as well as consultation on furthering the aims of the agreement itself.<sup>4</sup> By 1994 the JCC had decided to set up five sub-committees to deal with trade science and technology, economic and industrial co-operation narcotics and forestry.

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3. V.L. Rao and R Upendra Das, n.2, P.9.

4. EU-ASEAN Relations; [Brussels, 1996], p. 1

The EU is represented on the JCC by the European commission, supported by representatives of the member states. The JCC meets every 18 months, but there are frequent contacts between the ASEAN Business committee [ABC], which is made up of the Ambassadors of the ASEAN countries to the EU, and the European commission.

Political issues are discussed at the meetings of the foreign ministers of the EU and the ASEAN countries. These meetings, the first of which took place in Singapore, in 1978, were initiated by the governments themselves and cover both political and economic issues. They are supplemented by the EU-ASEAN senior official meetings [SOM]. The first SOM took place in Singapore in May 1995.

Throughout the ASEAN-EU dialogue, the main pre-occupation of ASEAN has been the European single market established in 1992. ASEAN welcomed the trade and investment opportunities to be created as a result of internal EU barriers, although it had substantial concerns about possible adverse impacts of single markets on ASEAN trade with the E.U.<sup>5</sup> ASEAN Ministers have obtained assurances that the EU, because of its commitment to the

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5. Handbook of Economic Integration And co-operation Groupings of Developing Countries, Vol. 1 - Regional and sub-regional Economic. Integration Grouping, UNCTAD/UN, New York, P.110.

multilateral trading system, would remain open to its trading partners and the single market would in fact create a more liberalized trading system. Since EU is an important market for the ASEAN countries' primary commodities and manufactures and a potential source of direct investment, the dialogue between EU and the ASEAN has helped the process of industrialization in the ASEAN region. Similarly, the EU stands as a model for regional co-operation in certain aspects which could be emulated in the ASEAN context.<sup>6</sup> This was in keeping with the EU's declared support of regional co-operation, which has taken the form of assistance of several ASEAN projects.

ASEAN and EU have reaffirmed the importance of private sector participation in ASEAN-EC industrial and investment co-operation.<sup>7</sup> The private sector from both the sides have been encouraged to participate in the various ASEAN industrial programmes and in the EU investment partner Scheme [ECIP] in order to realise more ASEAN-EC joint venture projects. The ECIP scheme has been extended since it first began in 1989. Since the 10th ASEAN-EC ministerial meeting in 1992, concrete steps have been undertaken by the

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6. Ibid.

7. Annual Report of the ASEAN standing committee, Jakarta, 1992-93, P. 40.

EC to extend funding facilities of European Investment Bank [EIB] to ASEAN.<sup>8</sup>

Major EC-funded co-operation with ASEAN 1989-1995

- \* ASEAN-EC Air Traffic Control Training programme.
- \* ASEAN-EC Agriculture Development programme.
- \* ASEAN-EC Business Management Centre.
- \* ASEAN-EC Energy Management Training and Research Centre
- \* ASEAN-EC patents and Trademarks Programme.
- \* ASEAN-EC Scholarship programme.
- \* Industrial Standards and quality Assurance Programme [ISQAP]
- \* Integrated Harbour Management programme.
- \* Inter universities co-operation.
- \* Programme between European and ASEAN cities [MECAP].
- \* Radar Remote Sensing Programme.
- \* Regional Institute for Environmental Technologies - RIET Singapore.
- \* Science and development technology application.
- \* Seminars on EC matters for high - levels ASEAN officials.

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8. Ibid.

- \* Tourism technical assistance and Tourism Manpower Training Programmes.
- \* Education, health, sanitation, nutrition for refugees.
- \* Exhibition planning.
- \* COGEN 1 & 2 Information and demonstration of improved technologies for energy generation from biomass.<sup>9</sup>

#### JAPAN - ASEAN

The dialogues between ASEAN and Japan were held at the ASEAN-Japan Forum, established in 1977. Matters relating to trade, investment, technology transfer and development assistance are discussed at this Forum. Some of the important outcomes of ASEAN's dialogue partnership with Japan are.

- Establishment of the Fukuda Fund of US\$ 1 billion providing soft loans to finance ASEAN Industrial Projects. [AIPs];
- Establishment of the "ASEAN Promotion centre on trade, Investment and Tourism" to promote ASEAN export to Japan, and Japan's investments and tourists in ASEAN;
- ASEAN Human Resource Development Project to set up HRD centres in five of the ASEAN countries;
- ASEAN poultry Disease Research and Training Centre;

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9. EU ASEAN Relations: The Facts, Brussels, 1996, p.35

- Funding by Japan of an ASEAN Regional Studies Promotion Programme [ARSPP] - Which inter alia, held in 1987, a "symposium on ASEAN-Japan Economic Relations".<sup>10</sup> In 1987, Japan undertook to extend US\$ 2 billion over a period of three years for private sector development in individual ASEAN countries and to promote e regional co-operation in ASEAN. The activities under this fund called, the ASEAN and Japan Development Fund, are received by the ASEAN - Japan Forums. In recent years, the dialogue partnership between Japan and ASEAN has introduced a new element viz. intra-private sector co-operation compared with earlier relationship exclusively at the government level.<sup>11</sup>

ASEAN-Japan co-operation is important in that it provides a valuable opportunity for discussions among ASEAN and Japanese officials of the Uruguay Round on commodity issues. This forestalled conflicts of interests between ASEAN countries and Japan in their positions taken at international Forums such as the Uruguay Round.

Japan's ministry of International Trade and Industry [MITI] unveiled in August 1993 a plan to provide the ASEAN member countries with a comprehensive development assistance

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10. V.L. Rao and R. Upendra Das, n.1, P.6

11. Ibid.



programm. Assistance is expected to be targeted at industrial development in each ASEAN country, in particular in such areas as [i] development of the manufacturing sector, [ii] improvement of the physical infrastructure [e.g., electricity transport network, etc]; and [iii] adoption of international standardization in the industrial sector, among other concerns.

ASEAN-USA The dialogue partnership between the ASEAN and the USA resulted in institution-building such as :-

- ASEAN Agricultural Development and planning centre [ADPC] in Thailand;
- ASEAN Plant Quarantine Training Centre and Institute [PIANI] in analysis;
- The united states - ASEAN centre for Technology Exchange [CTE], New York with branches in the ASEAN countries,
- Human resource development scholarships and fellowships and research programmes through institution in ASEAN provided by the USA.<sup>12</sup>

Growing involvement of the private sector is a noteworthy phenomenon in recent years in ASEAN-USA relationship. The most significant development was the

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12. Ibid, P.8.

signing of the GATT Agreement on ASEAN-US Private Investment and trade Opportunities [PITO] in April 1990, involving financial assistance of US\$ 13 million over a period of six years.<sup>13</sup>

The project is intended to establish a mechanism to promote expanded private sector trade and investment between ASEAN and the USA. A PITO secretariat office and additional offices for trade and investment promotion have been established in the respective national chambers of commerce and industry. The PITO project covers several activities, the most important of which are as follows:

- Trade and investment promotional missions, exchange of business executives, seminars on environmental and pollution control, technologies and industries, agri-business and food-processing industries. An agri-business mission by eight United States companies from Iowa to Singapore, Malaysia and Thailand resulted in both more trade opportunities and possibilities of manufacturing investments by four United States companies in the relevant ASEAN countries.
- Policy research and problem resolution on trade and investment.

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13. Ibid.P.8

- Provision of information on united states technology standardization and certification requirements to ASEAN business through technonet Asia; and
  - Supporting Management and technical skills needed to create and sustain higher valued goods and services.
- The other mechanism established for effective dialogue relations are,
- AN ASEAN - United states business council co-chaired by respective representatives of chambers of commerce and industries,
  - Establishment of an intergovernmental Trade and Investment co-operation Committee to monitor and review matters pertaining to trade, investment, transfer of technology and human resource development. By mutual agreement, representatives of the private sector of each party can also be invited to the Forum;
  - A monthly United states -ASEAN Business report,
  - Establishment of an ASEAN Equity Fund. This fund will have a capital of US \$ 200 million. It will be privately managed and provide equity and quasi-equity for new projects in the ASEAN region with united States involvement.<sup>14</sup>

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14. Ibid.

The ASEAN - United states Initiative [AVI] report to the United states and ASEAN governments produced by independent experts, serves as a reference point to advance economic relation between ASEAN and the United States. Following this report, a joint working Group was set up with responsibility for reviewing existing ASEAN - United States economic relation and identifying areas and means to strengthen ASEAN-united states economic ties.

#### Australia - ASEAN

In addition to primary commodities, Australia has the capacity to supply regional demand competitively in a number of areas including processed food, agricultural systems, energy systems, infrastructure,, construction and building, environmental management, telecommunications and information technology, health equipment, aerospace, education, automative parts, pharmaceuticals, software and tourism.<sup>15</sup> The globalisation of production occurring in the region adds further significance to the maintenance and development of Australia's technical skills in engineering and design capacity, R & D strengths, and management and training skills.

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15. Richard Baker W., and Gary R. Hawke. ANZUS ECONOMICS: Economic Trends among Australia, New Zealand and United States, 1992. P.25.

Australia's dialogues with ASEAN counterparts aims at providing -

- \* co-operation to improve information flows, enhance understanding of markets, and facilitate networking amongst Australian firms to contribute better results in ASEAN markets
- \* Providing a wide range of support for firms seeking to trade and invest in South - East Asia,
- \* Networking arrangements and the placing of professionals in government organisations, firms and industry bodies by Australia's competitors to provide guidance on ways to strengthen Australian's presence in key markets.

Promoting co-operation between the government and the private sector and among private firms themselves could strengthen Australia's performance in South-East Asia.

- \* The newly formed council for business Affairs [CIBA] as an umbrella organisation comprising ;the peak industry groups, could initiate better interaction with government including co-operating within the frame work of the National Trade strategy to formulate more detailed strategies for particular industries.
- \* Industry association should encourage this information flow required to promote networking and clustering of

firms to bid for contracts in the region, as well as encourage piggybacking on firms established in South-East Asia.

#### New - Zealand - ASEAN

The foreign policy of the New-Zealand has recently adopted a regional approach to bilateral approach and thus the ASEAN has become the cornerstone of New-Zealand's foreign policy. <sup>16</sup>

The dialogue partnership between New Zealand and ASEAN has become meaningful as the investment co-operation is on the increase through the implementations of various projects under the Trade and Instrument Promotion Package [TIPP], designed to develop sustainable commercial links. On development co-operation, the establishment of a joint management committee [JMC], to plan, monitor, and review the whole spectrum of ASEAN-New Zealand relations has been agreed at the 11th meeting of ASEAN New Zealand Dialogue of June 16-17 1992, ASEAN completed the consolidation of ASEAN project on the utilization of Natural Gas for Natural Gas vehicle. ASEAN science Fund received annual cash contribution of the amount NZ\$ 100,000 for three consecutive

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16. Richard W. Backer and Gary, R. Hume, n.15, p.

years beginning 1990 so as to enhance indigenous scientific and technological activities in ASEAN countries.

The Republic of Korea [Rok] And ASEAN

The Republic of Korea is the first dialogue partner of ASEAN from the developing world. Prior to this, an ASEAN-ROK Joint Sectoral Cooperation Committee (JSCC), an inter-government consultative body, was established to facilitate the ASEAN-ROK Dialogue relations. The First Meeting of ASEAN-ROK Dialogue was held on 11-13 May 1993.<sup>17</sup> The projects under the ROK-ASEAN dialogue partnership are Technical Transfer Programme in Agricultural Development, Basic Research Project for supporting Establishment of Science and Technology Policy, tourism and Research and Development Management system.

On international issues, ASEAN and Rok agree to continue to undertake co-operation efforts in creating a more open world trading system on commodities and processed products and towards stabilizing prices and promoting downstream processing. ASEAN appreciated the support given by Rok against the campaign on eco-labelling of tropical timber products. The ROK Government as well as the Korean private sector intend to further enlarge their trade links

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17. Annual Report of the ASEAN standing committee, n. 6, P.42

with ASEAN by means of countertrade and a variety of financing methods. Considering Korea's rapidly expanding trade pattern. ASEAN countries offer potential opportunities for further expansion in the medium and long-term. Various high level visits have taken place to increase bilateral trade and to establish multi-faceted relations with ASEAN countries through an expanded flow of capital and technology, while seeking to achieve a horizontal inter-industry division of labour.<sup>18</sup>

#### India-ASEAN

Among the developing Asian countries, ASEAN countries have emerged as the significant trade partners of India. India has identified the dynamics of the ASEAN as its thrust market for export. However, lack of adequate market information, inadequate infrastructure for surviving the needs of two-way trade expansion and low level of business-to-business contacts and Lukewarm diplomatic efforts together with lack of competitiveness of Indian products (price, quality, delivery schedules) have been primarily responsible in the past for constraining further growth of India-ASEAN trade.

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18. Ibid



The followings are the list of 16 products as providing a "first lead" to the emerging opportunities for expanding two-way trade between India and the ASEAN countries.

1] Oil of vegetable origin; 2] Newsprint; 3] Dyestuffs; Synthetic; 4] Nitrogenous fertilizer; 5] Phosphatic fertilizers; 6] Potassic Fertilizers; 7] Rubber and rubber products; 8] Cement; 9] Pig iron ; 10] Tin Plates; 11] Steel castings; 12] Copper refined; 13] Aluminium and aluminium products; 14] Lead refined; 15] Zinc; and 16] Tin.<sup>19</sup>

The ASEAN India joint sectoral co-operation committee [JSCC] is the inter-governmental consultative body to co-ordinate the ASEAN-India dialogue relations. The Joint ASEAN - India Business Council on the other hand consists of representatives from the respective private sectors of ASEAN and India. The India Technical and Economic co-operation [ITEC] develop programmes and project in the field of tourism, administration and management, trade and investment, computers and informaties and solar energy and environmental protection. This fund is placed at the disposal of the ASEAN secretariat and administered by a joint management committee.

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19. Charan D.Wadhwa, "Possibilities of Trade generating joint ventures among SAARC-ASEAN" in Bhabani Sengupta, ed. SARRC-ASEAN; Problems of Inter-regional co-operation, New Delhi, 1988.

## **UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)-ASEAN**

The United Nations Development Programme (UNDP) is the only international organization which is a Dialogue Partner of ASEAN. Two major UNDP-supported projects for ASEAN, are the (a) Strengthening of the ASEAN Secretariat and (b) the Establishment of Programmes and Projects Management System (PPMS) are underway. These are expected to be completed by December 1993. The PPMS has completed a project proposal for the consideration by ASEAN on the establishment of the ASEAN Cooperation Unit (ACU), Programme/Project Appraisal Guidelines and a Programme Planning Framework. The Project Appraisal Committee (PAC) of the ASEAN Secretariat shall be responsible in implementing the Project Appraisal Guidelines in assessing and prioritizing all projects for Third Country funding. The UNDP assistance to ASEAN under the recently completed Fourth Cycle of the Inter-Country Programme (ICP), 1987-1991, contributed to the promotion of sub-regional cooperation on the whole. The ASEAN Sub-regional Programme for the Fifth Cycle, 1992-1996, represent the first attempt at providing a thematic and programmatic framework of UNDP technical cooperation to ASEAN. Two main themes have been adopted to unify diverse priorities and to focus programme thrusts and activities: (a) human development of the sub-region's human resource potential and

(b) sustainable economic reform through the expansion and intensification of ASEAN economic cooperation. The environment and natural resources were also underlined as an area of high priority in the sub-region. Similarly, programme execution by ASEAN is designed to promote self-reliance through decentralized mechanisms and use of indigenous sub-regional expertise as appropriate. Furthermore, emphasis will be given to large-scale interlocking activities, rather than small disjointed projects in order to maximise the benefits of such assistance.<sup>20</sup>

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20. Annual Reports of the ASEAN Standing Committee, n.6,  
p.43.

## **Chapter - IV**

**Role and Interest :**

**Dialogue Partners in ASEAN.**

The prospect of recovery of the global economy coupled with a consolidation of the open international trading system by the establishment of the world Trading Organisation [WTO], are expected to increase the growth of the already dynamic Asia-pacific region. Some amount of diversion of trade and investment from this region is expected however, because of the enlargement of the European Union [EU] and the North American Free Trade area [NAFTA].<sup>1</sup> Nevertheless, strong optimism prevails in the Asia-pacific about an enhanced growth and export performance on the basis of the following factors:

- 1) A rapid growth of intra-regional trade and investment in overall trade and investment flows of the region,
- 2) The continued attractiveness of the region as a destination for FDI,
- 3) Import promotion initiatives of Japan for the countries of the region,
- 4) Emerging sub regional trading schemes as ASEAN Free Trade Area [AFTA] and the South Asian preferential Trading Arrangement [SAPTA].<sup>2</sup>

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1. Transition of Trading opportunities to the year 2000 for Asia-Pacific Developing countries; National strategies and Institutional Frameworks For Export Expansion, UNCTAD paper, Jakarta, 1994, p. 4.

2. Ibid, P.5.

The active participation of the dialogue partner countries since the early '80s had been a major factor in the ASEAN's economic success. ASEAN's attractiveness to its dialogue partners lies in its serving the latter's immediate as well as long term economic, political and strategic objectives. The coming of the ASEAN countries and the dialogue partner countries under a single broader umbrella of Asia Pacific Economic co-operation [APEC], further consolidates the position of dialogue partners in the Asia-pacific region. The specific objectives and the nature of involvement of the dialogue partner countries with the ASEAN is of interest to this work.

#### European Union - ASEAN

When the EC-ASEAN co-operation Agreement was signed in 1980, the relationship between the two was of a donor-recipient one. This is more recently heading towards a partnership on equal footing.<sup>3</sup> As such the EU is now ASEAN's third largest trading partner, and the second largest export market for manufactures. The EU sees the ASEAN as a potential market because of its sheer size of population; the ASEAN sees the EU similarly, precisely because of the same reason - the size of the EU population.

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3. EU-ASEAN Relations, [Brussels, 1996, P.4.

The EU is helping its businessmen to do business in the ASEAN through the European community Investment partners [ECIP] scheme and the European Business Information Centres [EBICs]. More than 150 projects had been approved in ASEAN countries by mid-1994 under the EU funded scheme set up to provide seed money to EU and ASEAN companies wanting to enter into joint ventures and other forms of collaboration.<sup>4</sup>

The EU's developmental activities are now largely concentrated in Indonesia and Malaysia. The main goal is poverty alleviation through forest-protection projects in the first case and rural development in the second. The EU is also finding projects in health, education environmental protection and drugs trafficking.<sup>5</sup>

Despite the rapid rise registered in the two-way trade, there have been trade disputes over market access. However, at the 11th EU-ASEAN meeting of foreign ministers held in Karlsruhe in September 1994, both sides showed determination to strengthen existing relationship in a spirit of greater equality and partnership. The Europe-Asia Summit at Bangkok in March 1996, considered specific

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4. Ibid, P.6

5. Norbert Wagner, ASEAN and EC: The impact of 1992, Singapore 1991, P.33.

proposals to further Europe-Asia trade links within the broader framework of APEC. Thus whether the EU remain a major trading partner of ASEAN will depend on how it responds to the development taking place within both the ASEAN region and Asia as a whole.

#### Japan - ASEAN

Japan occupies a dominant position in the development of the Asia-pacific region and in the promotion of interdependency notably in trade and technology transfer. This dominant position is, however, being steadily eroded reflecting a more balanced situation that is gradually evolving. The importance of Japan in the total regional GDP is declining as the economies of developing East Asia steadily grow.<sup>6</sup>

The presence of Japanese FDI in the ASEAN countries are guided by such reasons as securing markets, utilizing cheap labour, exports of technology and sourcing of exports to Japan. In recent years securing of markets has tended to

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6. Seiji Naya, "Interdependence and Asia-pacific Integration", paper to the Western Economic Association International Pacific in Conference on Trade Awakening Giant and Pacific Rim Trade, 10 January, 1994, Hongkong, P.4.



figure more importantly as a reason for overseas investment in ASEAN countries.<sup>7</sup>

Japan is the largest foreign investor in the ASEAN region also the largest trading partner of the ASEAN. Japan's total investment in the ASEAN states was only \$7 billion in 1980 but by 1989 it had more than tripled to \$23 billion.<sup>8</sup>

In 1991, Tokyo exported goods worth \$37.7 billion to the ASEAN states and imported goods worth \$31.8 billion from them.<sup>9</sup> The fact that 42 percent of the Indonesian export, 20 percent of the Philippines' and 17 percent of the Thai exports go to Japan is a clear reflection of economic closeness between Japan and the ASEAN countries.<sup>10</sup>

There has been gradual yet substantial redeployment of production facilities from Japan to some of the ASEAN states, especially in the wake of the rising power of Yen since the mid -1980s, and the concomitant need to invest huge financial resources overseas. Recently, Japan's trade

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7. "Advantage for Asia from Tokyo's Troubles", Asian Review, June 1996, P.11.

8. Stephen W. Bosworth, "The United states and Asia", Foreign Affairs, Annual No. 1991-92, p.119.

9. Asian Defence Journal, August 1992, p.94.

10. Ibid.

surplus with Asia is in a rising spree. To alleviate this situation, Japanese investment in South-east would rise further. Thus, the ASEAN economics have become an integral part of a production structure that is emerging in the pacific region with Japan at its core.

Under APEC, Japan finds an appropriate platform to play its leadership role in the Asia-pacific. In order to assure US strategic commitment to Asia and the Chinese engagement with economic interdependence, to have both the powers in the same economic organisation i.e. APEC will help.<sup>11</sup>

The growing prosperity of the Asia-Pacific region is demolishing the stereotypes of a rich 'North' versus a poor "South"<sup>12</sup> Encouraged by their increasing economic power the ASEAN countries have displayed increasing confidence in their ability to establish and strengthen an order in the region. The ASEAN Regional Forum established in 1994, is one obvious example.

Observing this sense of regional community Japan, in recent years has begun to make this region one of the main

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11. Wendy Dobson and Lec Tsao Yuan, "APEC co-operation amidst Diversity", ASEAN Economic Bulletin, vol.10 March 1994, p.238.

12. Ikeda Yukihiro "Japanese Asia-Pacific Diplomacy", Japan Quarterly, vol.42, No.492, March 1996, p.17.

pillars of its diplomacy. In spite of Japan being a major super power in the global context, it has maintained a non-confrontationist traditional big power approach in the Pacific, courtesy US-Japan security alliance. The US-Japan alliance, by stabilizing relations among key external powers, helps advance the ASEAN nation's regional plans.

Though Japan cannot adopt its own security strategy as an independent power at a level comparable with either the U.S. or China [and possibly a future Russia] it is in the fortunate position of being able to secure a long-term foothold in the region through its alliances with the U.S. and to develop co-operation relations with smaller nations as a non-threatening power intact on helping to shape the Asian order to come.

In fact, the Japanese Prime Minister Ryutaro Hashimoto's call for three "reforms" in the Japanese-ASEAN relationship during his visit to five ASEAN countries in January 1996, is reflective of the above stated Japanese stance. The "three reforms" are as follows:

First, is to broader and deeper exchanges at all levels, but in particular through the regularized Japan-ASEAN summit meeting. The second, is to build cultural co-operation. The Third, is to work jointly with ASEAN countries on a variety of global issues, including

terrorism, environment, health and welfare, food, energy, population AIDS, narcotics, and the rule of law."<sup>13</sup>

#### USA-ASEAN

The stock of US investments in ASEAN countries is about half of the accumulated value of Japan's FDI in ASEAN countries, though a decade ago they were about the same order of magnitude.<sup>14</sup> The dampening of the interest of USA's investors in the south-East Asia in the '80s and afterwards is attributable to i) the USA's pre-occupation in the EU, ii) end of the cold war and consequently the redundancy of USA's policy of containment of communism in South-East Asia.

However, the share of manufacturing in the USA FDI in the Asia-Pacific region has increased. For example, the share of manufacturing in US FDI in Malaysia increased from 17 percent in Malaysia to about 60% percent in 1990.<sup>15</sup> This suggest that US FDI also contributes to the emerging new pattern of comparative advantage in the ASEAN region.

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13. Yoshihide Soeya, "A Majorly Unusual Power", Look Japan, Vol.42, No. 492 March 1996, p.17.

14. Stephen Guinsinger, "Foreign Direct Investment Flows in East and South-East Asia", ASEAN Economic Bulletin, Vol.8, No.1, 1991, P.21.

15. Ibid.

The USA is ASEAN's largest export market, especially for manufactures and its second largest source of imports after Japan.<sup>16</sup> Indeed, the united states has been an important catalyst for growth in ASEAN, both in terms of a market for manufactured items, commodity and provision of services. The USA and ASEAN have complementary economies, and have experienced composition of trade away from a traditional developed - developing country trading pattern.

The 1980 ASEAN-united states Initiation [AUI] provides the intellectual and structural substance for the memorandum of understanding [MOU], agreed to by the USA and ASEAN.<sup>17</sup> The AUI could serve to maintain USA economic, security political role in the region in the face of rising Japanese influence. The AUI proposes agreement from free-trade area to sector and issue specific arrangements, all of which must be consistent with GATT. The long term objective is an ASEAN-US free trade area.

Although the US can no longer play the dominant leadership in the South-east Asia, Washington is expected

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16. Hadi Soesastro, "Economic Development and Security in the Asia. Pacific context", The Indonesian Quarterly, vol. XXV, No.1, 1997, p.64.
  17. Robert L. Curry , Jr. "A policy Analysis of the ASEAN-US Initiative" ASEAN Economic Review, Vol.8, November 1991, P.152.

to play the role of a balancer and restraining factor to keep in check Japan and China.<sup>18</sup>

Australia - ASEAN Australia, in recent years, is responding to the changes in South-East Asia. Australian Exports to South-East Asia are rising more quickly than to any other part of the world.<sup>19</sup> From the point of Australian the 1950s and 1960s were largely a case of lost opportunities. Australia clung firmly to its European traditions, and failed to develop an interest or analytical capacity to understand change in region. However, by the 1990s, many of the commercial irritants between ASEAN and Australia had been removed. Traditionally, Australia is a major aid-donor to ASEAN countries. The migration of ASEAN labour into Australia has been increasing over the years. There are also contacts at strategic level between ASEAN and Australia. Stronger trade growth will deepen and stabilise these connections.

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18. Chintamani Mohapatra "Major Powers and South-east Asian security in the Post-cold war world", in Dipankar Banerjee ed. South-east Asia and India, New Delhi, P.25.

19. Russell Fynmore and Hal Hill, "Australian's Business Challenge: South-East Asia in the 1990s", Canberra, 1993, P. XIX [overview]

Exports to South-East Asia and changes in Market Share<sup>20</sup>

	SEA Import Growth (1987-91) (average pa %)	Growth in imports Australian (1987-91) (average pa%)	Australian Market Share 1991 (%)	Change in Australian Market share (1987-91)
Singapore	19.4	18.8	1.9	0
Indonesia	19.1	31.3	5.3	11.7
Malaysia	30.4	22.2	3.2	-0.9
Thailand	30.3	26.2	1.5	-0.3
Philippines	16.9	17.5	3.2	0
Vietnam	27.4	67.5	2.2	+1.5
Brunei	29.1	-9.1	0.8	-2.7

As is clear from the table above that the Australian export growth to ASEAN was able to keep pace with rapid ASEAN import expansion. Also ASEAN's rapid export oriented industrialization is providing important commercial opportunities for Australian companies. Australia's performance in all South-East Asian markets in the period 1987-91 has been much improved compared to the consistent decline in market share displayed in 1982-89.

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20. Table 4.1 Source : IMF, Direction of Trade various years.

However, even today Australia is a minor investor in the ASEAN countries. This is so, as for Australia commercially the most familiar investment areas are the U.K. and the USA and neighbouring New Zealand. Also in first half of the '80s pressures for localization and more restrictions on foreign enterprise intensified especially in Indonesia and Malaysia<sup>21</sup>. These factors as well as disappointment with earlier investment experiences in South-East Asia have accounted for the small Australian investment in the ASEAN.

However, in the past two or three years, renewed investors interest is clearly evident. This was so, because of the easier access for exports in the second half of the 1980s as tariffs were lowered in ASEAN countries; and the effects of sale to non-Australian interests of Australian companies with investment in South-east Asia.

Australian investment in South-east Asia covers a wide range of areas and the scope varies with each country. In Indonesia, Australian investment concentrates largely on coal, gold and tin mining, but there is also a presence in the manufacturing sector, In Thailand, areas of investment include rubber products, financial services, potash, gases, milk powder and biscuits. Investment in the Philippines is

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21. John Bresnan, Managing Indonesia The Modern Political Economy, New York, 1993, p.63.



mainly in manufacturing, while in Vietnam it is mainly in telecommunications, mining and tourism. In Singapore it is the services sector.<sup>22</sup> Australian financial institutions have an expanding presence throughout the ASEAN.

FDI is, however, a much longer term commitment than trade. It requires the investor to consider many factors such as political risk, host country foreign investment policy, labour market conditions, policies on repatriation of profits and taxation. As Professor Garnaut of the Australian National University said:

"direct investment requires much more intimate contact and knowledge than portfolio investment. It thus tends to follow lines of economic and social familiarity. It requires huge investment in knowledge to be successful in societies and economies that are very different from the home country."<sup>23</sup>

In the coming years, there is scope for increased Australian investment in the ASEAN countries as more and more complementarities in the production processes are explored<sup>24</sup>, particularly through joint Australia- ASEAN investment alliances in the third markets. Under APEC,

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22. Russel Fynmore and Hal Hill, n. p. 120

23. Ross Garnaut, Australia and the North-east Asian Ascendancy, Canberra, 1989, p.81.

there is scope for increase in Australian investment in the Asia-pacific region.

India - ASEAN After liberalization, India too is poised to emerge as an Asian tiger in the not too distant future. India provides an ever expanding market for foreign goods and for foreign investors due to the country's growing affluent middle class currently estimated conservatively at 250 million people. Indian skills and ASEAN's surplus capital provide the solid foundations for new economic complementarities. Recognising the economic potential of India in the post cold war era, ASEAN accorded India Sectoral dialogue partner status in January 1992. The trend towards rising wage rates and appreciating currencies (against the US dollar) in countries like Singapore, Malaysia and Thailand together with growing resources for foreign investment in all ASEAN countries are likely to shift the "flying geese" pattern of investment away from ASEAN countries towards neighbouring countries like India.<sup>24</sup>

From the point of view of India, for it the USA, the E.U and Canada account for nearly half of India's total trade value, but the level is static and trade with Asia is

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24. Charan D, Wadhva and Sanjay Ambatkar "India's Sectoral Dialogue Partnership with ASEAN' V.L Rao and R. Upernra Das, Ed.m India and ASEAN: Economic Partnership, New Delhi, p.32.

growing at the expense of the Socialist bloc. Nowhere is India's new-found Asianism more evident than its relations with South-east Asia. This is so, because of many reasons. Shared long-term concerns about China offer a basis for discussion. The diminution of Indo-Soviet relationship and the improvement of USA-India ties have been welcomed by ASEAN. Vietnam and Cambodia are no longer issues of disagreement and the two are taking roughly parallel approaches towards Myanmar.

Most importantly, India's economic liberalization has opened avenues for collaborations which were once closed. India's large pool of inexpensive, instilled and skilled labour, managerial capability and fundamental scientific and technical base could be married with ASEAN capital and technology, particularly as business costs in ASEAN rise and skill shortages worsen. The savings in transport costs based on geographical proximity should encourage trade. India and ASEAN have a joint interest in resisting the linkage of political issues to trade and both would profit from diversifying their economies and political linkages. The table below presents data relating to imports, exports and balance of trade of India with the ASEAN countries for two years, 1980 and 1990.

**India's Imports and Exports and Balance of Trade with ASEAN countries, 1980 and 1990 (in US \$ million).**<sup>25</sup>

	<u>Imports</u>		<u>Exports</u>		<u>Balance of Trade</u>	
	1980	1990	1980	1990	1980	1990
Indonesia	25.0	75.0	50.0	97.0	+25.0	+ 22.0
Malaysia	342.0	670.0	68.0	162.0	-274.0	-508.0
Philippines	12.0	6.0	9.0	36.0	- 3.0	+ 30.0
Singapore	475.0	801.0	127.0	330.0	-348.0	-471.0
Thailand	24.0	51.0	47.0	266.0	23.0	- 28.0
ASEAN	878.0	1603.0	301.0	891.0	-577.0	-712.0

It can be inferred from this table that during the decade 1980-90. India's trade with the ASEAN countries has grown rapidly. Despite this, India had an unfavourable balance of trade with the ASEAN grouping which increased from US \$ 577.0 million in 1980 to US \$ 712.0 million in 1990. India's major trade deficit with ASEAN in 1990 was with two countries, namely, Malaysia (US\$508.0) and Singapore (US \$ 471.0 million).

25. Table Source : IMF, Direction of Trade Statistics, 1984 and 1991 Annual Issues.

Indian joint ventures have been concentrated in Malaysia, Thailand, Singapore and Indonesia.<sup>26</sup> These ventures have failed and been closed of late, Indian intreprenums have revived interest in establishing joint ventures in the ASEAN countries by increasingly paying attention to hi-tech industries, especially in Singapore,<sup>27</sup>

The largest potential for expanding two-way trade between India and the ASEAN countries lies in the area of services. Tourism (due to cultural links between India and most ASEAN countries and the existence of sizeable ASEAN population of India origin), technology and manpower development identified by ASEAN are three other areas (besides trade) for according India the status of sectoral dialogue partnership, offer great scope for expansion of trade in services.<sup>28</sup> Yet another new area for business opportunities is provided by mutual co-operation in defence equipment, spares and training including defence manpower development.<sup>29</sup>

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26. Charan D. Wadhwa, "Economic Trends in Southeast Asian Countries and Business opportunities for India in the 1990s in Dipankar Banarjee, ed. N.17, p.40

27. Ibid

28. Ibid, p.43.

29. Hindustan Times, New Delhi, 5 November, 1992.

South Asia has its own regional trading group - the South Asian preferential trading Arrangement (SAPTA) Among the South Asian Association for regional Co-operation (SAARC) countries. Two way trade flow between AFTA and SAPTA would provide new business opportunities to the member countries of each of these free trade areas, in the coming years.

Now that labour cost in the ASEAN have started rising and ASEAN capital is in search for low cost production base, India should seriously explore possibility of initiating inflows of private FDI into India from these countries. The private sector now is the most powerful source of promoting dynamism in the ASEAN countries and India. The private entrepreneurs will have to take the major initiative in undertaking detailed market studies for establishing mutually profitable business co-operations. Greater political co-operation at the government level will be necessary for the business to business co-operation at the micro level. There are also areas where India and ASEAN may compete. India and their other low cost production base of Vietnam and Indonesia might compete for ASEAN capital.

#### China - ASEAN

The Chinese efforts to improve economic ties with the South-east Asian countries, especially with the ASEAN

countries have been going on for quite sometime. Chinese leaders are aware that no military power can sustain itself and its influence, unless that country strengthens its domestic economy and establishes strong economic ties with the outside world.

China had no cordial relations with the Asian Countries except Indonesia, until 1967, during the first two decades of the intense cold war period. It was only after the Sino-American detente in the 1970s, that the ASEAN nations opened upto Beijing. China soon took the opportunities to improve diplomatic and economic ties with the ASEAN countries. The presence of substantial Chinese settler communities in Indonesia, Malaysia, Singapore and Vietnam has made the ASEAN region a part of an "indirect sphere of influence" of China.<sup>30</sup>

However, in terms of trade data, the post cold war period has seen a substantial relative decline in the rate of growth of Sino-ASEAN trade, when, official expectation especially in China were to the contrary. China accounted for 5.1 percent of total value of ASEAN imports in 1985

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30. Shri Prakash "China-ASEAN :Economic Relations," V.L Rao and R. Upendra Das, ed. India and ASEAN : Economic Partnership, New Delhi, p.159.

which declined to 2.85 percent by 1991.<sup>31</sup> In the case of exports from ASEAN countries, China's share of value rose from 1.3 percent in 1985 to 2.5 percent in 1988 but progressively declined to just 2 percent in 1991.<sup>32</sup> This is a possible indication of greater diversification of the direction of ASEAN trade compared to over all trade values.

China, as a dynamic economy, provides keen competition to the ASEAN in attracting FDI. But, in contrast with competition, Chinese policy towards ASEAN is more of co-operation. Chinese enterprises have begun to invest in the ASEAN countries. There is scope for co-operation between the two sides in the fields of infrastructure projects, export of labour services, aviation, sea transportation, finance and tourism etc.<sup>33</sup>

China welcomes the establishment of ARF and participates in the annual conference of ARF. China also has begun to conduct regular high level officials' bilateral consultations with ASEAN as of 1995 to discuss political and security issues.<sup>34</sup>

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31. Ibid, p.162,

32. Ibid.

33. Lu Jianren, "New Sino-ASEAN Ties in The Post-Cold War era." Foreign Affairs Journal, No.31, Beijing, March 1994, p.54,

34. Ibid 55.



The further improvement of Chinese trade relations and a political role that China intends to play in the region, however, will depend considerably upon China's strategic behaviour in the future. In the recent Chinese move to forcibly extend Chinese sovereignty over the sprately island groups (over which Taiwan and four ASEAN states of Vietnam, Philippines, Malaysia, Brunai, also stake claim), had put it in suspicious note. During their meeting in Manila in July 1992, the Foreign Ministers of the ASEAN countries, in fact, issued a separate declaration on the problem in South-China Sea, thus registering their concern about the stability in the region.<sup>35</sup>

#### **New Zealand - ASEAN**

ASEAN is an increasingly important market to New Zealand for agricultural, forestry and manufactured exports, although dairy products still account for over half of total exports of the region. Major imports from ASEAN are petroleum products. New Zealand's trade relation with ASEAN is governed by ASEAN - New Zealand joint study ;group (established in 1976) which meets periodically to review trade developments.<sup>36</sup> New Zealand also continues to place a strong emphasis on bilateral trade relations with each individual country and has a trade agreement with each ASEAN

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35. Far Eastern Economic Review, August 6, 1992.

36. "Opportunities Missed", Asia 2000, No.8, May-June 1996.

members (except Singapore and Brunai, with which New Zealand has a scientific, industrial and technological agreement).<sup>37</sup>

New-Zealand still lacked high profile in the ASEAN countries. Opportunities, however exist in ASEAN countries for New Zealanders trading in livestock, frozen and chilled meat, Seafood, fruit and vegetables, non-famous metals, steel industrial machinery and wood products.

It is trade and commerce which determine ASEAN's new-found global presence. Dialogue partners of ASEAN contributes enormously in creating the dynamic ASEAN. However, the former's presence is not without any beneficial effect to the same. Investing in the Asia-Pacific has been an instrument against the recessionary effect of Western countries' business cycle.

The USA has enormous trade and investment in the region. Japanese investments and economic presence is overriding. Pacific dynamic economies like Taiwan, Korea, China and Australia are also making their presence felt. The environment demands more consolidation of the dialogue relationships. The bringing of security issues to the dialogue forums recently implies ASEAN's genuine desire to initiate confidence-building measures with its dialogue partners.

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37. Richard W. Baker and Gary Hawke, ANZUS Economies : Economics Trends among Australia, New Zealand and United States, Connecticut, 1992, p.108.

## **CONCLUSION**

After three decades of the establishment of ASEAN, it has created for itself a place in the Post-Cold War multipolar World, as the most dynamic economic region. The success of ASEAN grouping goes to the market-driven, private-sector-led out-ward-oriented strategy of development. The consequent export growth of value added products and intra-ASEAN trade expansion has brought credibility to ASEAN as a successful regional organisation.

The economic success of ASEAN has raised the hope of its becoming an independent balancing force in the Asia-Pacific region. This, ASEAN hopes to achieve by strengthening the existing alliance and enlarging the membership of ASEAN, also by establishing the relationship of positive dialogue and balance with the big powers.

The big powers involvement in the region comes via the FDI flows from them into ASEAN. The ASEAN remains an attractive destination for FDI as it has buoyant economies with rapidly expanding markets, abundant natural resources and labour supply, well-established institutional and physical infrastructure, and pro-FDI policies. There have been strong linkage between FDI and the growth of exports from the ASEAN countries to the industrial countries of the world. FDI has also helped in expanding intra-ASEAN trade in the 1980s.

ASEAN, in the meanwhile, has established its own regional free trade area, AFTA. The ASEAN experimentation with various trade and industrial co-operation schemes such as the Preferential Trading Arrangement (PTA), ASEAN Industrial Projects (AIP), ASEAN Industrial complementation (AIP) and the ASEAN Industrial Joint Venture (AIJV), had been of limited success. The creation of AFTA is ASEAN's recognition of the rising global competition for FDI due to the enlarged EC and NAFTA. AFTA is designed to stimulate more intra-regional trade and attract foreign investment to the area.

AFTA will remove barriers to intra-ASEAN trade in manufactures, including capital goods and processed agricultural products but excluding agricultural products and services. The mechanism to achieve this is the Common Effective Preferential Tariff (CEPT), which entails a progressive reduction of tariffs in stages, leading ultimately to a 0 to 5 percent level of tareff on agreed product groups by the year 2008.

The dialogue partnership programme of ASEAN had been useful for ASEAN in its interaction with the outside investors and trading partners. ASEAN gives "dialogue partners" status to its trading partners so as to carry out dialogues with them to facilitate trade and investment

related matters. The ASEAN Post - Ministerial Conferences (PMCs), have been the venue for such dialogues. The dialogue partners of ASEAN are the U.S., the EC, Canada, Japan, Australia, China, India, New Zealand, the UNDP, and the Republic of Korea. The dialogue partnership is a forum where the cohesive force of ASEAN presenting a common front to dialogue partners could counter the centrifugal forces generated by the increasing economic linkages between each individual ASEAN countries and the other economies. The Solidarity gives ASEAN far greater clout in negotiating with other parties than they would have individually. Past PMC successes included Cambodian and Indo-Chinese refugee problem, New Zealand's decision not to drop Singapore and Brunei from its GSP programme in 1985 and various successful Completion of agreements relating to technology transfer, technical training, funding and other assistance to ASEAN, and help in adapting ASEAN products to partner's market.

The dialogue partnership awaits further evolution. Under the APEC framework. The bilateral "dialogue" negotiations have to be in consistent with the multilateral agreements under the APEC. The agreement reached at the 1994 Bogor meeting in Indonesia set a fixed target of the year 2020 for developing states and 2010 for industrialized

states to create free and open trade and investment among the APEC member economies.<sup>1</sup>

The growing economic interdependence among the Asia-Pacific dynamic economies and the outside world had resulted in convergence of interests, which could further peaceful settlement of differences. APEC has begun to develop mechanisms for dispute mediation amongst its members. The more recently established ASEAN Regional Forum (ARF) is another appropriate forum for intensifying security dialogues in the region.

Although the United States no longer plays a dominant leadership role in the south-east Asian region, there is a more intensive U.S "commercial engagement" in the region. While all along, ASEAN hesitated to extend its political support to the US military presence in the Philippines, almost all the ASEAN members today urge continued US military presence in the region. This is because of their apprehension about the possible resurgence of Japan's military power and the Chinese strategic ambitions in the Asia-Pacific region.

Japan, which is already a dominant economic power of the region, appears to be trying to play a growing political

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1. John J.Harter and Eugene Brake, Economic co-operation in the Asia Pacific area : prospectives and comments on the Bogor declaration, Washington DC, 1995, P15.

and security role. Japan has had tremendous influence in the ASEAN region as it is the largest foreign investor in the ASEAN region and also the largest trading partner. The U.S-Japan security alliance, by stabilizing relations among the key external powers, helps advance ASEAN nations' regional plans.

Much of the Asia-Pacific region's stability depends on the Chinese initiatives and policies towards its Pacific neighbours. The Chinese relationship with ASEAN is increasingly guided by economic linkages in recent years. China was accepted as the newest dialogue partner to the ASEAN. However, China, in the event of American withdrawal from South-East Asia, is likely to emerge as an important factor in the security issues in the South-east Asia.

Thus, the US-Japan-China triangular relationship has much to do with providing Asia-Pacific in general and South-east Asia in particular, a peaceful environment to grow economically. The dialogue relations which were so far been instrumental in the negotiations between ASEAN and extra-region trading partners, need to be more cautiously guided, now that it is being increasingly evident that continuation of ASEAN prosperity is dependent on the nature of involvement of its dialogue partners in the region.



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