

# **ASEAN, APEC and the Americas: Its Interconnections in Regional Integration**

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## **1. Introduction**

The Association of Southeast Asian Nations (ASEAN) continues its rapid transformation within the global economy. As an outward-looking economic grouping, ASEAN has been able to benefit from trade and investment flows by remaining as open economies. At present, any major emerging international order, both at the multilateral and regional level, would cause ASEAN to be concerned and to adjust its landscape and its policy in order to respond to new trends. Hence, the future and the dynamics of the ASEAN region depend on ASEAN's ability to respond to these changes and to remain competitive above all.

Most of the ASEAN region consists of developing countries except Singapore. The strong growth in these countries has arisen because of the importance of their export-oriented industrialization in the past two decades. The increasing opportunities have come about through trade and investment of which the role of major economic partners can not be denied. These countries represent markets, resources in technology and expertise necessary for ASEAN's overall economic performance. Therefore, most ASEAN countries do always consider the special and considerable role of these developed countries in their economic relationships.

The new context of the changing international environment, much more recently, has advanced ASEAN to rethink these developments as well. The end of the Cold War has given rise to regionalism worldwide. This is amidst widespread trade liberalization schemes after the conclusion of the Marrakesh Multilateral Trade Agreement and the increasing opportunities in East Asia. ASEAN, in this sense, finds that it is logical to take steps in viewing its opportunities and prospects from different angles within and outside the region.

From the perspectives of ASEAN's own economic integration, the experiences have shown the ASEAN countries timely adapted at their own pace in response to other regional economic groupings, especially in the Americas and in Europe. The grouping had launched the ASEAN Free Trade Area (AFTA) in view of accomplishing its objectives within ten years. It aims at exploring regional efforts to achieve free trade and investment areas in ASEAN by

attracting firms worldwide to make their strong presence in the region. If AFTA has become a cornerstone of regional integration, then the design and process need to continue to be worked out realistically. This means that the exercises of any further regional arrangements need to correspond or complement with the major track of ASEAN links with the world, so as not to diminish or divert the prior efforts.

The future of the Asia-Pacific region is also meaningful to ASEAN. The increasing interdependence of trade and investment are sign posts for ASEAN to interact as to how ASEAN's interest needs to be placed within the Asia-Pacific. ASEAN may be well placed to benefit from the rising opportunities in East Asia, for example. However, this does not mean that ASEAN is well prepared to compete with other countries in the Asia-Pacific region as a whole.

The North American Free Trade Area (NAFTA) is one of the examples that is great concern for ASEAN as to how trade and investment can be diverted. The recent new initiatives of the Free Trade Area of the Americas (FTAA) by 2005 have been perceived, with little attention in ASEAN. There are also a number of other regional trading arrangements in Latin America, which have also, not been received with much interest with the exception of the Southern Cone Common Market (MERCOSUR) in which ASEAN has expressed its interests to explore future economic and technical cooperation.

The Asia-Pacific region is known to ASEAN as an extended area in which it could be possible to increase its commercial opportunities. ASEAN's response to the Asia-Pacific Economic Cooperation (APEC), in this sense, is positive. Its process in trade liberalization, although non-committal, is seen to favor increasing trade and investment in the Pacific, thus fostering ASEAN interest as well. ASEAN hopes to assert an important role to discuss important issues with major countries through this institutionalized grouping. Thus, APEC is not seen as a threat to ASEAN.

Within this perspective, it is the objective of this paper to focus on what these regional attempts could mean to ASEAN and how ASEAN is to react and proceed with its own efforts in the future. The paper is to begin with ASEAN's integration process of deepening and widening (section 2) and ASEAN's expectations from these exercises. Then, the study is to show ASEAN's view on its interests with the regional integration in the Americas and APEC.

These regional groupings are important to ASEAN; however, ASEAN is still uncertain of its attempts, especially the new initiatives in the Western Hemisphere such as FTAA (section 3). The resilience of ASEAN depends on the future outcomes of this APEC setting (section 4). Therefore, it is important for ASEAN to respond positively to the new outlook in the near future (section 5).

## **2. ASEAN Economic Integration in Perspectives**

ASEAN as a regional grouping has been regarded as one of the most successful exercises in the developing countries (see Table 1 and Table 2). Despite its initial difficulties, ASEAN has finally been able to move forward with success in economic development and cooperation. The grouping withstood the Cold War, and has developed primarily its own economies. With the

appropriate conduct of economic policies, each country has emerged over time to become increasingly linked to the other. It is only recently that these countries have explored the economic complementarities and opportunities offered to each other.

**Table 1 Annual Growth Rates of Real GDP**

Unit: Percentage

	1961-70	1971-80	1981-90	1991-94
World	5.6	3.6	2.9	1.5
ASEAN				
- Indonesia	3.8	7.2	5.6	6.8
- Malaysia	6.5	7.9	6.0	8.4
-	5.2	5.8	1.6	1.3
Philippines				
- Singapore	8.8	8.9	7.0	8.2
- Thailand	8.3	6.7	7.8	8.1
Asian NIES				
- Hong Kong	9.4	9.3	6.7	5.7
- Korea, Republic of	8.4	8.6	9.3	6.9
- Singapore	8.8	8.9	7.0	8.2
- Taiwan	9.7	9.8	7.9	6.8
China	3.4	5.8	9.0	11.4
Japan	11.0	4.5	4.2	1.4
MERCOSUR				
- Argentina	2.7	0.7	-1.7	n.a.
- Brazil	2.4	5.7	0.6	n.a.
- Paraguay	1.6	5.2	-0.4	n.a.
- Uruguay	0.2	2.7	0.4	n.a.
Chile	2.1	-0.2	1.5	7.2
Colombia	2.0	3.2	1.6	n.a.
Mexico	3.9	3.4	-1.4	n.a.
Peru	1.9	0.8	-2.5	n.a.
Venezuela	2.2	1.3	-1.4	n.a.

- Source:
1. UNCTAD, Handbook of International Trade and Development Statistics, 1992.
  2. International Economic Data Bank, The Australian National University, Canberra, data compiled from the World Bank's World Tables 1992; Asia-Pacific Economics Group, 1995, Asia-Pacific Profiles 1995; The Australian National University, cited from Drysdale & Huang, "Growth, Energy and the Environment: new challenges for the Asian-Pacific economy", Asian-Pacific Economic Literature, Vol. 9, No. 2, Nov. 1995,

p.2.

**Table 2 Population, Size of Economy and Level of Income in 1995**

	Population 1993 (million)	GDP US\$ billion	GDP per ca (US\$)
ASEAN	<b>421.6</b>	<b>639.2</b>	<b>1,516.0</b>
- Brunei	0.3	4.3	14,280.0
- Indonesia	193.8	201.2	1,038.0
- Malaysia	20.7	87.3	4,221.0
- Philippines	70.3	74.1	1,054.0
- Singapore	3.0	85.1	28,497.0
- Thailand	59.5	167.1	2,810.0
- Veitnam	74.0	20.1	271.0
NICs	<b>75.4</b>	<b>944.3</b>	<b>18,495.0</b>
- Hong Kong	6.2	142.9	23,086.0
- Korea, Republic of	44.9	455.5	10,155.0
- Taiwan	21.3	260.8	12,242.0
- Singapore	3.0	85.1	28,497.0
China	1,211.2	697.6	576.0
US	263.0	7,253.8	27,578.0
Japan	125.6	5,134.3	40,888.0
MERCOSUR*	<b>198.5</b>	<b>859.8</b>	<b>4,330.0</b>
- Argentina	33.8	281.9	8,110.0
- Brazil	156.8	554.6	2,970.0
- Paraguay	4.7	7.8	1,580.0
- Uruguay	3.2	15.5	4,660.0

Note: \* Population 1993, GDP and GDP per capita stand for 1994.

\*\* Data of 1994, from The Economist Entelligence Unit,  
Asia-Pacific Regional Overview, 3rd Quarter 1996,

p. 5

Source: The Institute of Developing Economies,  
"1997 Economic Outlook for East Asia" and the World Bank.

### Some Salient Features

The understanding of the ASEAN economic integration has to be seen from its salient features: The grouping pays great attention to the outward-oriented and market-driven economic

development policies over the past decades which has resulted in its trade and investment openness (see Table 3). Each country starting from Singapore down to Indonesia and now Vietnam recognizes that continuous reforms are fruitful for allowing market forces to operate more fully. The ASEAN firms keep themselves vigilant to competitiveness by their openness to the global economy. Over the years, ASEAN has been able to converge more closely making the grouping an attractive region for trade and investment opportunities (Urata (1993): 281).

The multilateral trading system has provided market access for ASEAN products to the developed world. Without it, it would be difficult for these countries to advance properly its trade with the world: ASEAN's trade value is more impressive than its economic growth between 1980 and 1994.<sup>1</sup> On the other hand, intra-ASEAN trade expanded from US\$ 24.4 billion in 1980 to US\$ 63.9 billion in 1994, meaning that intra-ASEAN trade accounted for less than a quarter of total ASEAN trade. This simple figure is a reminder to ASEAN policy makers not to advance ASEAN economic integration as more inward-looking at all costs. But rather, ASEAN investment-led integration combined with its openness to world trade would help ASEAN to gain a new ground of opportunities more easily.

Taking this into account, ASEAN's goal has never been to become too institutionalized. The leaders and the ministers creating ASEAN integration efforts over the years have always had built-in consensus principles. In practice, a number of regional initiatives have been decided with good faith, even AFTA which has been dubbed with "Agree First, Talk After" in this sense. The government believes in the prime motive of the private sector. Then, the regional initiatives such as AFTA have been designed in such a way to make ASEAN products competitive in the global marketplace and to put the region on the worldscale as a regional center for foreign direct investment (Ariff (1996): 218).

Finally, each ASEAN country has reached the point that it can explore the economic complementarities to each other apart from the extra-regional markets. The countries such as Malaysia, Indonesia and Thailand and more recently the Philippines, no longer think only in terms of limiting their own national economic policies within their territories. But rather, these same countries are feeling more the need to extend their potential. ASEAN, in this sense, can accommodate the ASEAN interests among themselves while remaining open to outsiders as well.

### Profile of AFTA and After

Before ASEAN members started AFTA in 1993, many cooperative activities were on the way, but not with substantial results. The very first efforts of ASEAN preferential trading arrangement (or ASEAN PTA) and industrial cooperation scheme did not lead to success in building stronger intra-regional trade and investment.<sup>2</sup> The evidence is that intra-ASEAN trade

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<sup>1</sup> ASEAN exports grew by 3.8 times while imports increased by 4.2 times between 1980 and 1994. See Sieh L. M. L. (1996): 4.

<sup>2</sup> Tariff reduction under the scheme is slow at work and not substantial enough to encourage the flow of intra-regional economic activities.

has not progressed much and remained only a share of around 20 per cent of the total ASEAN trade.

It is only recently that intra-ASEAN trade has become more important. Precisely, the regional production networks of a number of industrial activities, especially for parts and components in the electrical and electronic industry and automobile industry are increasingly contributing to this change. For instance, Thailand's most important trading partner was changed from the United States to ASEAN and the degree of intra-industry trade is growing overtime.<sup>33</sup> But this does not mean that ASEAN represents Thailand's most important markets for its products.<sup>44</sup>

As a result, AFTA was launched at a convenient moment, perhaps, to increase the intra-industry trade for firms locating in the region. The formation of AFTA is seen as an important achievement in regional integration. ASEAN members are determined to lower their tariffs for most products to zero, and not more than 5 per cent, for the remaining products, by the year 2003 (see Table 4). This reduction under the Common Effective Preferential Tariff rates (or CEPT) began in 1993.

**Table 4 ASEAN Tariff Reduction for All Sectors under the CEPT (AFTA)**

Country	Number Tariff lines	Year							
		1996	1997	1998	1999	2000	2001	2002	2003
Brunei	6,112	2.02	2.02	1.64	1.64	1.38	1.38	1.38	1.38
Indonesia	7,910	11.56	10.56	8.80	7.87	5.83	5.68	5.00	4.25
Malaysia	10,494	6.11	5.38	4.66	3.92	3.23	3.03	2.86	2.58
Philippines	4,694	8.24	7.50	6.48	5.86	4.85	4.37	4.36	3.28
Singapore	5,708	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Thailand	8,867	14.14	12.73	10.18	9.31	7.03	6.99	5.80	4.62
Vietnam	857	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88
ASEAN	44,642	7.66	6.95	5.76	5.19	4.02	3.89	3.47	2.89

Source: ASEAN Secretariat

As the economies of ASEAN mature individually and as a region, natural boundaries for trade and investment will blend through regional integration, hence favoring increasing contact for firms to do more business within and outside the region. The integration process is to spur high growth in ASEAN with a large population of around 420 million population endowed with

<sup>3</sup> Intra-ASEAN have increased at an average rate of 9.4 per cent between 1988 and 1994 compared to an average of 5 per cent in the 1970's.

<sup>4</sup> In fact, three quarter Thailand's trade with ASEAN is done with Singapore, mainly for parts and components of the electrical and electronic products.

vast potential resources. Large capital flows and direct investment from MNCs can obtain high rates of return.

Regional integration through AFTA also received attention since Vietnam became a new member in 1995. As the newest member, Vietnam has been given more time to complete the process by 2006. Then, a further expansion of ASEAN membership to include Cambodia, Laos and Myanmar in 1997 it is significant for these regional integrating efforts as well. If this expansion means for members to start implementing their AFTA program in 1999, then the year 2010 appears to be the implicit ultimate target date for ASEAN to complete a free trade area.

As for the challenges to develop further regional integration in ASEAN after AFTA, AFTA Plus is mentioned as an extension of the elimination of tariff and non-tariff barriers to areas and items beyond those that are originally covered under the CEPT scheme.<sup>5</sup> Progress, in these areas, is important to facilitating trade and investment. Other important areas of integration, which are seen as an integral part of AFTA Plus, refer to the establishment of an ASEAN Investment Area (AIA), the introduction of ASEAN Industrial Cooperative (AICO) scheme and the implementation of the ASEAN Framework Agreement on Intellectual Property Cooperation. ASEAN is about to begin to lay down the basis for expanding and extending AFTA into AFTA Plus.<sup>6</sup>

Regional integration in ASEAN is to go hand in hand with the economic performance of member countries. Recently, there are signs of some significant similarities in macroeconomic variables. For instance, growth rates in these economies have shown sign of converging with the pickup in the rate in the Philippines. Thus, these favorable conditions are added as an encouraging note for the policy-makers to think of any further regional integration in ASEAN.

#### Implications for Extra-regional Linkages

If AFTA is an important scheme for further regional integration, what would be the likely implications for outsiders? In order to answer this, one has to understand the institutional aspect of AFTA. In fact, the scheme offered is the continuation process of the old ASEAN PTA. Because of the ASEAN PTA was notified under the 1979 Enabling Clause,<sup>7</sup> AFTA has not subject to the GATT Article 24. AFTA, as a result, is an instrument of regional trading arrangements to get free rider status within WTO. The issue is most likely to be examined by the Committee responsible for regional trading arrangements of the WTO in Geneva.

For ASEAN's trading partners, AFTA is not to be so much about integrating only among ASEAN members. In this sense, the "ultimate objective of AFTA is to increase ASEAN's

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<sup>5</sup> Agricultural products and services are excluded from the CEPT scheme.

<sup>6</sup> In other words, "help link companies in all ASEAN members leading to the creation of world-class ASEAN-based activities in the production of goods and services" (Soesastro (1996): 120).

<sup>7</sup> See GATT Decision of 28 November 1979 (L/4903) "Differential and More Favourable Treatment of Developing Countries", GATT, Basic Instruments and Selected Documents, Twenty-sixth Supplement, Protocols, Decisions, Reports, 1978-1979 and Thirty-fifth Session, Geneva, March 1980, pp. 203-205.

competitive edge as a production base geared for the world market" (AFTA Reader (1993): 1). This argument applies to ASEAN in terms of its recognition to advance and to sharpen its international competitiveness. In other words, ASEAN is integrating among themselves in order to integrate with the world. Therefore, AFTA would be a means for achieving this.

As AFTA is not to increase an intra-ASEAN trade per se, it is incorrect then to treat AFTA in a traditional view of regional arrangement. The likely implications of the scheme for trade and investment effects have to be interpreted with great care. Static effects from numerous studies on AFTA recognized the AFTA scheme is likely to be insignificant (Toh Mun Heng and Linda Low (1993)). The overall gain from trade liberalization under AFTA is valued at between US\$ 3-4 billion in terms of exports. One study even showed that ASEAN trade liberalization under MFN would be at least three times larger than AFTA. Another study suggested that the sources of intra-ASEAN trade growth seem to be derived from policies promoting economic transformation in general rather than from AFTA alone (Chirathivat (1996): 29).

Overall, the static effects as a result of trade creation and diversion seem to be insignificant. The implications for outsiders, in this sense, are small. In other words, ASEAN's trading partners are not to worry about the diversion effects as AFTA aims at integrating regional efforts in order to capture the world attention to increase its trade and investment linkages in ASEAN as a region. In fact, whether AFTA materialized or not, trade and investment relations between ASEAN and the major developed countries will continue to flourish. AFTA offers a plus advantage to these countries. The economic framework of ASEAN economies can enhance with AFTA rather than the prospects of AFTA itself.

As for the static trade diversion effects of AFTA with the U.S.A., a study had (Plummer and Imada-Iboshi (1996)) made an assessment and found out that the trade diversion impact of AFTA is generally low. In other words, outsiders have little to worry about AFTA as this can be offset by the dynamic effects resulting from trade and investment in AFTA itself and the multilateral and APEC liberalization.

### **3. ASEAN and Regional Integration in the Americas**

While ASEAN countries have benefitted from an outward-oriented development strategy, their continued growth could be strongly effected by adverse policy developments in the world economy. This issue is mentioned as a possibility although all ASEAN economies are now more integrated within the global economy than ever before. The multilateral trading system of the GATT, now the WTO, has been a useful framework for ASEAN trade over the past few decades. But increased protectionism and discriminatory regional integration arrangements especially in the EU and the Americas could potentially impede future economic development in the ASEAN countries. The weight of these two regional trading blocs represent almost two thirds of the total world merchandise in trade (see Table 5), thus meaningful to other regions in terms of its regionalistic development.

#### **Table 5 Shares of Various Regional Groupings in World Merchandise Trade**

Regional Groupings	Exports			Imports		
	1980	1990	1994	1980	1990	1994
World	100.0	100.0	100.0	100.0	100.0	100.0
EU (15)	37.2	44.6	40.6	41.0	44.7	39.4
NAFTA (3)	15.4	16.6	18.1	16.5	19.5	22.0
ASEAN (6)	3.5	4.2	6.3	3.1	4.6	6.5
APEC (18)	-	-	46.3	-	-	47.5
EU + APEC	-	-	86.9	-	-	86.9

Source: Trends and Statistics: International Trade 1995, WTO

Given a continuing high degree of economic openness in the ASEAN region, it is important to keep on looking closely at the exposure to external fluctuations that might have an impact upon the economic performance. Indeed, all these countries are strongly influenced by changes in the international marketplace. The latest fast moving trends of regionalism worldwide have, thus, caused concerns to ASEAN as to how much these developments could create an inward-looking policy and impose discriminatory measures against outsiders.

The regional integration in the Americas also merits ASEAN's attention. A number of new initiatives in the Western hemisphere are now occurring where as previously ASEAN was mainly concerned with NAFTA. Different implications from these groupings are to be observed as the United States represents ASEAN's most important export market. Thus, the increasing trend of regionalism in the Americas could possibly lead to actions of a discriminatory nature and the potential for trade and investment diversion.

Latin America and the Caribbean is a region less known to ASEAN. Characterized by economic difficulties, political instabilities and frequent policy changes in the past, this region causes reflection to other parts of the world including Southeast Asia, of what might be the ways and means to better approach each other if increasing contact is to occur. However, the number of countries in Latin America and the Caribbean seem to be recovering from its crisis and have a better capacity to grow in the 1990's. This has opened new horizons for outsiders to look for new partnerships. The revival of regional integration in Latin America and the Caribbean has become an interesting development. For example, one can observe the increasing dynamics of the Southern Cone Common Market known as MERCOSUR, comprising some important Latin American countries, such as Brazil and Argentina. Its interconnections in the Americas are also complex, but not to be ignored by different countries in Southeast Asia.

#### ASEAN and NAFTA

Previously, when NAFTA was created in 1994, the major concern for ASEAN was to look at the degree of trade and investment diversion. This is logical since the United States is by far one of the most important trading partners. And NAFTA is likely to cause some trade diversion in particular sectors (Hufbauer and Schott (1993): 113). Trade restraints, over time, in various forms of non-tariff barriers, may have impeded the growth potential of ASEAN exports. This is why ASEAN had tried to assess the potential impact from his arrangement. So far, the integration process in NAFTA seems to move much further, closer to the one of the EU, especially in the areas of free movements of goods, services and capital and its institutional arrangements (see Table 6).

**Table 6 Scores of Different Economic Integrations**

Elements of the Integration Process (Depth of integration)	EU	NAFTA	MERCOSUR	AFTA
Free trade in goods and services	4	4	2	2
Free movement of capital	4	4	1	2
Free movement of labour	3	2	1	1
Supraregional institutions	5	3	2	0
Monetary coordination	3	1	0	0
Fiscal coordination	1	0	0	0
Average	3.3	2.3	1	0.8

0 = low    5 = high

Source: Proff H and Proff H.V. (1996): 394

Overall, the United States and Canada are already having a low tariff structure, so NAFTA seems unlikely to change much the gains, as suggested by many empirical studies. On the other hand, Mexico can make substantial gains in NAFTA due to the greater possibility of gaining business contact from its neighbors and the substantial reduction of its tariff rates within the regional arrangements. At one point, Mexico can induce and become platforms for MNCs and its subsidiaries to locate to export to the United States, thus diverting foreign direct investment from other regions, including ASEAN. In fact, Mexico seems to possess similar comparative advantages in manufactures resembling that of ASEAN. Because of the more preferential treatment given to Mexico under NAFTA, ASEAN exports to the United States may be reduced.

As shown by Ariff (1996: 214), there are many empirical studies on the potential impact of NAFTA which can be interpreted to cover ASEAN. The overall results seem to be different. But, one can conclude for sure that NAFTA would cause ASEAN to compete more strongly with Mexico in the United States for a number of manufactured products, especially for the textiles, clothing, some other electrical and electronic products. Of course, the impact is likely to vary from country to country. Those who possess a similar comparative advantage structure to

Mexico, are likely to be the most affected.<sup>8</sup> Among the ASEAN members, Singapore seems to be the least affected while other ASEAN countries without exception ranging from Indonesia, Malaysia, the Philippines and Thailand may have some impact varying at different degrees (Ariff (1996): 216). ASEAN's hope is that trade diversion effects can be lessened if NAFTA could pursue a good growth which, in turn, would result in increased demand and import from outside.

As a result, ASEAN's reaction to NAFTA is rather a fear that this regional trading arrangement may turn out to be against them, and that ASEAN needs to do something. For the moment, there is no major concrete discrimination from NAFTA that appears to weaken the multilateral trading system apart from the preferential lowering barriers to Mexico. ASEAN has taken steps to participate actively in the WTO with the wish to take steps necessary over time to strengthen again its stand for market access in NAFTA.

The accession of Mexico to NAFTA is also possible to divert investment from the ASEAN region as well. For those FDI particularly from Japan and Asian NIEs, the export-oriented activities related to the US market may be reassessed with regard to the position of these firms could possibly lead to their eventual relocation into NAFTA, especially Mexico. This is according to the benefits gained in terms of market access and being close to the U.S. market. As for ASEAN outward investment in NAFTA, only a few countries in ASEAN such as Singapore and Malaysia can be considered as new players in world FDI, thus probably covering a few sectors of investment in NAFTA. Overall, there is no clear indication of how these firms would like to move within NAFTA and cause an investment diversion in the ASEAN region.

At present, some ASEAN countries do have special framework agreements with the U.S., as well as bilateral investment treaties and a "Treaty of Amity and Economic Relations" with Thailand. At the regional level, ASEAN-US dialogue is that under which economic and other bilateral issues of importance to the ASEAN-US relationships are discussed at the ASEAN Post-Ministerial Conference and in separate meetings. There is also the agreement to form a Trade and Investment Consultative Council as part of the general US-ASEAN Initiative process (Plummer (1994): 151). However, none of these agreements can form as preferential trading and investment arrangements. It is probable that ASEAN would continue to discuss NAFTA matters within the ASEAN-U.S. dialogue and other instances in the years to come as NAFTA is to become more and more detailed in most areas of its schemes.

### ASEAN and MERCOSUR

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<sup>8</sup> In 1993, apparel trade accounted for US\$ 5 billion in exports and roughly US\$ 35 billion in imports, according the U.S. Department of Commerce. The apparel and textile industries employed 932,000 Americans in 1993 spread over 18,000 mostly small business. In 1996, two important trends in the American clothing import picture: 1) imports of goods from Asia are way down while imports from Mexico are up significantly 2) imports from Central America and the island nations of the Caribbean are way up. In fact, imports from Mexico and Honduras have skyrocketed enough to topple Hong Kong as the leading source for shipments of textile and apparel products in the U.S.

In the case of Mexico, there are not any duties any more within NAFTA. As for the Caribbean and Central America, these countries have been able to profit from added-value duties under the PL-807 law allowing the shipment of cut fabric into those countries with a tariff that applied only to the added value, World Trade Magazine, February 1997, pp. 26-27.

MERCOSUR is by far the second most important regional trading arrangements in the Americas. The grouping was initiated in 1991 and aims to create a customs union by 2001. It is comprised of Brazil, Argentina, Paraguay and Uruguay. Chile is an associate member where in a free trade arrangement has been established with it. Its objective is to create a common market in the future.<sup>9</sup> Comparatively to ASEAN, MERCOSUR is more ambitious than ASEAN-AFTA while the member countries, at the moment, are smaller. The ten year timetable for creating a customs union is also more ambitious than ASEAN. What would be the potential implications for both regional trading arrangements?

Up to the present, MERCOSUR economies may look bigger than ASEAN (see Table 2). But, ASEAN is progressing much more rapidly and can catch up quickly with the size of MERCOSUR. ASEAN's population size is more than two times the one of 200 million MERCOSUR. And the size of its international trade is also larger than MERCOSUR since ASEAN is more outward-oriented. With a combined GDP of US\$ 860 billion in 1994 while the one ASEAN represent US\$ 537 billion in the same year.

Overall ASEAN trade with MERCOSUR is less than 2 per cent of ASEAN total trade, but has kept growing quickly in the last few years (see Table 7 and Table 8). ASEAN imports more from MERCOSUR rather than exports. On the import side, with the exception of Brunei and Vietnam, other ASEAN countries import mainly from Brazil and Argentina while they have equally tried to export to those countries. Generally, except for Singapore, other ASEAN countries, including Indonesia, Malaysia and Thailand do have a trade deficit with MERCOSUR.

Greatly due to unrelated historical linkages, and geographical distance, the extent of economic linkages between ASEAN and MERCOSUR are still currently limited. Trade as well as investment linkages between the two are weak. The evolving development process through trade and investment is quite different between the two regions. It seems to be that commercial opportunities between them have not yet been well explored although they may have a similar comparative advantage pattern like ASEAN; however, they are still different in the range of products offered. At present, only Singapore and Malaysia have started searching for effective direct investment in Latin America.

Probably the greatest challenge MERCOSUR faces today is how to cope with existing asymmetries among its member countries in terms of their economic and political power. These asymmetries complicate the establishment of institutional mechanisms which could balance the interest of each country. This does not include the tariff escalation on the imports of automobiles by Brazil that causes concern for member states. ASEAN watches this development with great interest.

As an outsider to MERCOSUR, ASEAN's fear of trade diversion from this regional arrangement is not great in itself since its trade is not so substantial with the grouping. However,

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<sup>9</sup> In 1995, its customs union started function consolidating free trade among these four countries as well as the common external tariff. The latter tariff fluctuates between zero and 20 per cent, governing approximately 85 per cent of traded goods. See *Systema Economico Latinoamericano (SELA)* (1996), Keys to Latin America and the Caribbean, September, Caracas, p. 60.

ASEAN would like to make sure that this grouping does not represent a threat to ASEAN's exports in these regional markets. In fact, MERCOSUR has trade arrangements with various countries including Chile, Bolivia, the United States<sup>10</sup> and lately with the EU.

ASEAN recently<sup>11</sup> had held a ministerial meeting with MERCOSUR with the objective to create a new framework for economic and political cooperation in the future. New linkages are outlined, but remain to be seen. For the moment, ASEAN may see MERCOSUR as South-South regional trading arrangements where there may be experiences to share with each other.<sup>12</sup> However, on the other hand, it seems to be that MERCOSUR is quite different from ASEAN in a number of ways.

MERCOSUR gives much importance to proximity as a natural trading partner. Although this has led to a rapid rise in trade among its partners,<sup>13</sup> still growth may not generate many economic benefits. If trade is diverted towards a high-cost partner, away from low-cost suppliers elsewhere, the losses may be large. Precisely, a study by Yeats has shown the most rapid increase in MERCOSUR is transport equipment and machinery which seems to be one of the worst categories of performance on world markets. Also, MERCOSUR seems to retain high-tariff and non-tariff protection. In a sense, these costs of high distortions are these days taken carefully in ASEAN.

#### ASEAN and the Americas

Apart from these two regional groupings e.g. NAFTA and MERCOSUR, there exists other overlapping sub-regional integration efforts in Latin America -- the Andean Community, the Central American Common Market (CACM), the Caribbean Common Market and the G3, Mexico, Colombia and Venezuela -- and the Latin American Integration Association (LAIA).<sup>14</sup>

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<sup>10</sup> the so-called "4+1" agreements

<sup>11</sup> See the Summary Record of the Informal Meeting between the ASEAN Economic Ministers and the Ministers of the Mercado Comun Del Sur, 10 December 1996, Singapore. (mimeograph)

<sup>12</sup> In 1993, 18% of foreign trade was within MERCOSUR, 27% with the EU, 9% with non-MERCOSUR South American Countries, 20% with NAFTA and 12% with East Asia.

<sup>13</sup> Between 1991 and 1994, intra-MERCOSUR trade doubled, reaching US\$ 10 billion in 1994.

<sup>14</sup> (a) The Andean Pact, which groups Bolivia, Colombia, Ecuador, Peru, and Venezuela, in 1995, represented a market with population of approximately 110 million, an estimated trade of US\$ 77.3 billion and a GDP of US\$ 183 billion. The free trade area is in full operation for all countries, with the exception of Peru, and the Common External tariff has been in force for Colombia, Ecuador and Venezuela as of January 1995.

(b) The Central American Common Market includes Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Its members group a population of 29 million, external trade in order of 19.4 billion (in 1995) and GDP in the amount of 33 billion dollars (1994).

(c) The Caribbean Community groups many Caribbean islands with a population of around 6 million. International trade reached approximately 10 billion dollars in 1995, and its GDP is 16 billion dollars (for 1994)

(d) The Latin American Integration Association is the oldest integration scheme of a regional nature. It forms a group of eleven countries and aims to bring together sub-regional schemes and agreements.

This does not include complex multiple bilateral treaties or other agreements between groups of countries. However, NAFTA and MERCOSUR represent the "two pivots" of the Western hemispheric integration process (Haggard (1996): 2).

The expansion of NAFTA has created much debate for Latin American countries as to whether to join this grouping or not. Up to present, none of the Latin American countries has really participated in it except to negotiate the problematic matters directly with the U.S. The MERCOSUR, apart from having an associate member like Chile, is also emerging as a major network of bilateral agreements in Latin America. At one point, the idea of a South American Free Trade Agreement (SAFTA) was promoted by a major country like Brazil in order to distinguish its own initiative, different from NAFTA. But the links between the two will surely take some time as they are quite different. Latin America, over all, with the exception of Mexico can not reach NAFTA standards with regard to trade, investment, and relevant regulatory framework in practice, apart from the very diversified region that it represents in itself.

Looking from the ASEAN perspective, these regional institutional gains in the Western Hemisphere are undoubtedly an exciting development in itself.<sup>15</sup> ASEAN would like to see how these integration trends could help lead to greater openness to trade and investment in the global system. Latin America, seems to be confronted with wide-ranging economic reforms while moving ahead with these regional schemes.<sup>16</sup> This is true in Mexico, with no exception, in NAFTA as for the rest of the hemisphere. ASEAN, as developing countries; have learnt that these regional integration exercises have to be dealt with carefully and have good timing as well in order to create further momentum for the grouping and not to discourage member countries with these arrangements.<sup>17</sup>

In fact, the first and important approach to the Western hemispheric integration was announced in June 1990<sup>18</sup> by President Bush in response to Latin America's difficulties and a new framework for its relationship (Hufbauer and Schott (1994):1). The Enterprise for the Americas Initiative (EAI), in its essence, was aimed to reform three areas of the U.S. and Latin American relationships: investment promotion, aid via debt reduction and elimination of trade barriers. However, the trade liberalization objective seems to precede the other two areas of cooperation (Haggard (1996): 18). The EAI had a short life since it was overtaken by subsequent events, especially the creation of NAFTA. The only survival spirit of the EAI seem

See Systema Economico Latinoamericano (1996), Keys to Latin America and the Caribbean, Caracas, Venezuela, September.

<sup>15</sup> "Most countries in Latin America are poised for a take-off that could give the region growth double the average annual 3 per cent of the early 1990's. If the present trends continued, in the year 2000, Latin America would have 510 million people and a GDP of 1.7 billion. Imports would grow to more than US\$ 400 billion and exports over US\$ 370 billion." Financial Times, March 18, 1997, p. 5.

<sup>16</sup> Reducing the region's vulnerability will require boosting its saving rate and increasing exports. Reforms still needed in tax, education, social security, labor and financial institutions.

<sup>17</sup> See the revival of these groupings in SELA (1996).

<sup>18</sup> He set his vision of free trade from Alaska to Tierra del Fuego in his Enterprise for the Americas Initiative (EAI) (Weintraub (1994): 80).

to be its approach with regard to separate bilateral agreements with different regional groupings.<sup>19</sup>

In order to understand the creation of the Western Hemisphere Free Trade Areas (WHFTA), one has to go beyond the usual concepts as this may cover many areas besides the trade in goods. As the interests of countries are also diverse, reflecting the size and the stage of development, it is not easy to find a common core of integration.<sup>20</sup> The Clinton's administration, however, succeeded to hold the Summit of the Americas known as a Free Trade Area of the Americas (FTAA). The action plan drawn by the summit aims at completing negotiations for a FTAA by no later than 2005, with concrete progress to be made to attain this objective before the end of the century. In fact, the second summit of the FTAA has now been scheduled in 1998 in Chile, with substantive results expected to come out of it.

For the moment, there are major issues on which the developed and developing countries in the region must find agreement in order to negotiate a successful FTAA.<sup>21</sup> These issues can be categorized as easy to be dealt with if interests of countries are converged and difficult if these same countries have problems reaching agreements as their opinions can be quite different and diverse. The desired forms and modalities for structuring the FTAA must address the question of its rationales and whether or not there would be a different outlook from those existing arrangements and how to define the degree of convergence<sup>22</sup> and divergence between countries involved in the process (Morton (1996): 2).

As the process of the FTAA may take sometime, this does not mean that ASEAN should not focus on the issue. To look at the FTAA, from the ASEAN perspective, it seems to be that the concept is conceived well beyond trade and deals more broadly with economic relations between countries. For the moment, it is far less comprehensive in its rationales as the ultimate objectives are yet to be defined. From this viewpoint, the FTAA should be able to learn much from the APEC model, and not allow the grouping to be involved with discrimination against nonmembers: This discrimination usually takes the form of preferential tariff and nontariff measures for members.

In its essence, the trend toward regional economic cohesion in most geographical areas is driven by the common underlying features: To favoring trade and the growing role of investment and integration of production networks in the regional and global system. If the FTAA is to add the success of economic reforms and the economic relationship of Latin America with the world, then the regional integration would need to take place in trade, investment and production relations in a competitive environment. The East Asian experience has provided some background of how the deep intra-industrial linkages through trade and investment can be generated within the region.

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<sup>19</sup> This would constitute "stepping tones to a larger hemispheric free trade area \_ \_ \_" see Haggard (1996): 19.

<sup>20</sup> For an excellent explanation on this complexity. Please refer to read Haggard (1996).

<sup>21</sup> Representing an overall GDP in excess of US\$ 9 trillion or almost one third of world GDP combined and a market of over three-quarters of a billion people or around 15 per cent of world population.

<sup>22</sup> NAFTA-MERCOSUR framework talks could be useful means to achieve progress on high convergence issues and to prevent further divergence on the rest (Morton (1996): 2).

In particular, the opportunities for intra-industry trade and investment of Latin America with the Western Hemisphere and the world are now significantly greater than during the past few decades. In sum, efforts on the FTAA should be concentrated also on how North America and Latin America can benefit from closer ties of huge, fast-growing Asian markets.<sup>23</sup> The trend toward this regional cohesion, although desirable, is to grow with the global economic interaction. The FTAA should leave room and set mechanisms for outsiders to participate in the process as well. The rhetoric of these new initiatives as "open" trading and investment blocs is important as to foster intra-regional trade and investment without promoting significant diversion. The adoption of restrictive regulations in the context of NAFTA and the uncertainty over the level of its common external barriers in the case of MERCOSUR, however, leave strong impressions for outsiders like ASEAN inciting them to monitor these regional initiatives.

#### **4. ASEAN and APEC**

The Asia-Pacific region is increasingly catching more attention in the area of international affairs. As the world is moving into the next century, the region is still very buoyant and fast changing for most aspects related to the economic and political development. If the region becomes the most important growth center of the world economy, the more important discussions would obviously center on how the vision is set for handling the rapid changes within the region (Dutta (1994)). For the moment, these challenges have been undertaken increasingly by the regional arrangement known as APEC.

Nobody in ASEAN could imagine what APEC would be like today compared to its beginning at the Canberra's ministerial meeting in 1989. It was then at the first leaders' meeting in Blake's Islands that APEC posed a challenge for the government. Beyond the concept of only a consultative forum, the grouping has adhered strongly to an open multilateral trading system, as this would be the first-best option. APEC is very much the forum in the economic sphere of the region, but has become more formalized with the heads of government and ministerial meetings to discuss the common agenda related to them. The Bogor Declaration has set the vision of APEC on the three pillars: trade liberalization by the year 2010 for developed economies and 2020 for developing economies followed by investment liberalization, trade and investment facilitation with a view to increase business, and strengthening economic and technical cooperation for the success of two former pillars. This was further emphasized in the leaders' meeting in Osaka in 1995 by providing the framework with a set of defined principles. Then, the first outcome of those individual and collection actions is finally known as the Manila Action Plan for APEC (MAPA).

ASEAN is lucky to have helped bring about at least three important agendas in APEC: The APEC secretariat in Singapore, the Bogor Declaration and the latest MAPA. This has further helped to enhance ASEAN's role and participation in APEC as a whole. The APEC process has finally entered the stage of implementation from January 1997. Based on these

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<sup>23</sup> In 1992, for example, the Asia-Pacific region buys 24 per cent of North America's exports while Latin America buys 6 per cent. More over, Asian countries also buy a healthy share of Latin America exports (Hufbauer and Schott (1994): 182).

collective and individual actions of MAPA, ASEAN has now promised to encourage other members to liberalize more than its commitments to the WTO. So, each member needs to commit to submit to regular and objective reviews according to the common principles of the grouping.<sup>24</sup> This is to ensure that all members perceive mutual benefit for implementing jointly agreed proposals. It remains to be seen how ASEAN would benefit from the process and what would be the ASEAN challenges within the APEC process in the future.

### Integrating Within the Asia-Pacific Economy

There were several reasons for ASEAN's participation since the formation of APEC. ASEAN represents an important geographical area in the region. It interacts increasingly with the economies of the Asia-Pacific. Many countries of APEC have been involved with the so-called ASEAN "Dialogue Partners". Hence, it can be argued that ASEAN needs to make its role fit well in the dynamism of the region. The ASEAN economies have benefited from and contributed increasingly to this dynamism.

To highlight this fact, the figures of ASEAN in 1995 show a large regional market of 420 million people with a combined US\$ 537 billion in GDP or around US\$ 1,500 per capita. Despite the fact that the size of ASEAN GDP is only around 4 per cent of that of APEC<sup>25</sup>,<sup>25</sup> it has grown and will continue to do so rapidly. The ASEAN population size is around 15 per cent of the one in the Asia-Pacific. The economies of ASEAN are now placed at different stages of development, with Singapore having per capita higher than twenty times that of Vietnam (Table 2).

ASEAN, as a sub-regional part of the Asia-Pacific, can not be as attractive as the whole APEC in the sense that APEC covers more economies and the larger ones such as the United States, China and Japan or the more developed ones like Canada, Australia and New Zealand. However, ASEAN is still considered as a vast fast growing market. It intends to combine its market and the importance of its production base with other economies in East Asia and the Pacific to keep itself competitive. The Asia-Pacific region is diverse enough for ASEAN to generate greater interdependence with different economies.

In fact, the shifting pattern of comparative advantage in ASEAN is closely related to the structural changes and industrial restructuring taking place especially in the Asia-Pacific region. With the inflow and stock of FDI in ASEAN (Table 9 and Table 10), many ASEAN countries have become platforms for the MNCs. Singapore has been successful to transform the island into a regional hub of communications and supply services to the regional market. Malaysia, and Thailand have a decreasing role of their formally labor intensive industries in the late 1980's and

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<sup>24</sup> As for the implementation of commitments made in the APEC process, the mechanism of consultation, review and revision are to begin its process this year, which exerts peer pressure for the implementation and subsequent improvement of voluntary unilateral and collective initiatives. See PECC, (1996), Perspectives on the Manila Action Plan for APEC, November, Jo-Jess Printmaster, Manila, pp. 8-9.

<sup>25</sup> In 1995, the GDP in APEC economies totalled about US\$ 13 trillion, implying that APEC economies accounted for close to 55 per cent of world income compared with 46 percent in 1980. APEC's share of world trade has also increased from 42 to 50 per cent over the 1985-94 period. (PECC (1996): 1).

the beginning of the 1990's to favor more technology-intensive industries. Indonesia and recently the Philippines have performed a continued strong growth of their economies, especially in the manufacturing sector. Even Vietnam, the latest country to join ASEAN in 1995, has benefited from its rapid transformation by attracting strongly FDI from abroad.

However, it is not apparent whether changes taking place with ASEAN and APEC economies do constitute to strengthen or weaken the ASEAN-APEC synergy (Ariff (1994): 152). For the moment, the pattern of comparative advantage of ASEAN seems to interact more and more with the Asia-Pacific region. In fact, ASEAN inter-industry trade share with the region has been replaced by the one of intra-industry trade. The geographical proximity of ASEAN to the economic powerhouse of East Asia, cultural affinity and pragmatic policies of ASEAN countries have rendered ASEAN an attractive place for the East-Asian investors, especially from Japan and Asian NIEs apart from the MNCs from western developed countries. These trends look like they may be increasing as some countries of ASEAN like Singapore, Malaysia, even Thailand and Indonesia (see Table 9 and Table 10) are about to invest more in the Asia-Pacific as well.

Up to the present, ASEAN's economic relations with other APEC economies seem to demonstrate greater complementarity as trade and investment keep growing as related to the intra-industry type of relationships. There is the view (Ariff (1994): 171) that increased competition among APEC countries, resulting from unilateral liberalization, makes it possible to favor the adjustment for a new complementarity in the structure of production and trade. Thus, ASEAN and APEC should complement and compete well in a dynamic sense if each country of ASEAN is working well to cater to the new structural changes and industrial restructuring taking place in the region.

#### Within the APEC Process

Before the formation of APEC in 1989, the only regional trading arrangements (RTAs) in the Asia-Pacific were ASEAN preferential trading arrangements (ASEAN-PTAs) and the Agreement between Australia and New Zealand.<sup>26</sup> This was without counting CUSTA (Canadian-U.S. Free Trade Agreement) in 1989, the same year as APEC. The beginning of APEC has somehow forced ASEAN to think of its stand and its participation. The grouping was not formerly a major player in the Asia-Pacific affairs and there was a fear that this grouping could possibly dilute or act merely as a kind of supplement to ASEAN efforts done up to date. This explains how ASEAN was cautious and not confident with the APEC process when it was first formed. The dominance of larger economies brought about ASEAN's insistence on informal arrangements and the non-institutionalization of APEC (Soesastro (1994): 47).

Since then, ASEAN has taken the issues of APEC seriously one has become one of the most vocal strengths of developing economies in the grouping. As for how much APEC is possible to make ASEAN incoherent would depend very much on APEC 's evolution and

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<sup>26</sup> The New Zealand-Australia Free Trade Agreement of 1965 and its successor, the Closer Economic Relations (CER) Agreement of 1983.

ASEAN's participation (Ariff (1994): 168). APEC, now, has become an integral part of ASEAN reflections. Although, each country acts individually in APEC, still in general, APEC member economies accept ASEAN as a sub-regional grouping. The value of APEC for ASEAN lies in its complementarity to ASEAN integrating efforts. In this sense, ASEAN is working to ensure that APEC is to serve ASEAN's first-best solution, which means encouraging an open multilateral trading system while promoting dynamism and progress within the region with the ability to invent new initiatives.

In fact, the principles of ASEAN participation in the APEC process have been expressed clearly known as the "Kuching Consensus" (See Soesastro (1994): 47). In a sense, ASEAN is able to form the core of the group and acts in various instances of the APEC process up to present. The ASEAN consensus, slow moving to some still has made progress, and is well applied in APEC. Even the principles to implement the Bogor Declaration are obviously seen as not too committal in its ways of implementation, but an effective compromise mechanism in a diversity of economies' members like APEC. The participation of ASEAN Eminent Persons' Group (EPG) was positive as it was able to help the APEC process move on at its right momentum.

Many efforts of ASEAN together with other APEC members have had a good pay-off for APEC to continue well into the next century. Let one hope that ASEAN economic relations with other APEC economies will increase economic complementarity and competition within the process while strengthening APEC's commitment to economic openness. It is desirable for ASEAN to check on its own record on ASEAN and APEC compatibility in terms of regional integrating efforts. APEC is now moving forward with its individual and collective action plan known as MAPA in 1996, or the continuation of the Bogor Declaration in 1994 and the Osaka Action Agenda in 1995. This plan would cover the three pillars of APEC as mentioned above and ASEAN is to work now on its implementation.

### The Challenges Ahead

The evolution of APEC may not turn out as expected, but its outcomes seem to be positive at this point in time. Overall, ASEAN, as a part of the grouping, succeeded in bringing important principles together with other members economies, but can not prevent APEC to become more institutionalized (Chirathivat (1996)). In fact, the institutionalization of APEC may not bother ASEAN as long as this does not involve the creation of a new bureaucratic structure and invention of new tools inconsistent with the needs of the APEC region. On the other hand, ASEAN is to favor the institutionalized APEC if its works are consistent with the approach of open regionalism and continue to compliment with intra-ASEAN integration schemes.

APEC has emerged strongly as an important regional forum since it is now moving to the implementation of its vision. This implementation means that each country has to apply its commitments by unilateral offers for trade and investment liberalization within APEC together with the other initiatives of the three pillars. This would constitute the first important issue for ASEAN challenges in the future. In general, ASEAN feels comfortable for this implementation as each country has proposed its individual action plan and is thinking in some sort of way of

APEC as a back-up to AFTA to advance or initiate ASEAN's own policies. Singapore and Brunei would be easy to fulfill its APEC liberalization, as this would give more opportunities to its openness. Malaysia and Indonesia are comfortable with these schemes, as their current average tariffs are not so high among APEC member economies. On the other hand, Thailand and the Philippines have the important task of proving of their ability to reduce the overall average tariffs within the implementation schemes.

There are also other important areas of trade and investment liberalization that APEC is now working towards and with which ASEAN is to fulfill its commitment as well. As for the other two pillars of the Bogor Declaration; trade and investment facilitation and economic and technical cooperation, in general, ASEAN believes that these pillars should be introduced simultaneously with trade and investment liberalization. This is based on the assumption that most members join APEC with expectations to gain benefits and to strengthen their interests through their cooperation.

The issue of compatibility of ASEAN-AFTA and the three pillars of APEC schemes is also becoming important now as the two approaches of trade and investment liberalization are now entering its implementation phase. AFTA is now subject to a new plan of ten years to complete its trade liberalization by 2003, especially in the manufacturing sector. Agricultural products and services are to take a longer length of time. As AFTA is an FTA, it contains all the elements of a discriminatory agreement, meaning the reduction of intra-ASEAN barriers with a clear specific rules of origin. The three pillars of APEC, on the other hand, have a wider scope than a conventional FTA such as AFTA. It is non-discriminatory and aims to create a free trade and investment in the Asia-Pacific, hence exemplifying the WTO commitments. It would take a longer period of up to 2020 for most ASEAN countries except Singapore and Brunei.

To date, AFTA is considered not to be a threat to the region in terms of its significant impact. Meanwhile, the APEC implementation, although it is unilateral liberalization in its essence, still it has peer pressure and can continue to produce new initiatives, for example initiated by major developed countries. Speeds and adjustment in terms of trade and liberalization are important issues for ASEAN within AFTA and APEC as these two tracks are to reflect more its own capabilities through its own structure and coherence to deal with this regional outlook. As APEC's implementation becomes clearer, ASEAN has a good chance now to extend its own initiatives of post-AFTA to compliment well with the APEC three pillars. These areas are expected to extend to cover the factor movements of ASEAN rather than the product liberalization. Hence, there are reasons for AFTA to exist with APEC in the future, but ASEAN has a precondition to work well on its own integrating efforts of post-AFTA.

Finally, the APEC issue is likely to be reflected more within the ASEAN domestic policies. There is no doubt that the future and dynamics of the Asia-Pacific region matter very much to ASEAN. The grouping would find itself comfortable if APEC is to stand on an open regionalism and is working to encourage market forces for integrating further the economies of the region through trade and investment nexus. This also means that it is necessary for each ASEAN country to work on its economic relations with major partners of the region as well. The grouping is to work with other ASEAN economies such as China, Korea and Taiwan to

share the similar types of salient issues in coordinating domestic needs and international commitments (Yamazawa and Hirata (1996): 3). The coordination process is seen to be slow and gradual, still, ASEAN is now confident in liberalization, based on their recent experiences of unilaterally liberalizing their trade regime. There are also issues of linking sub-regional integration schemes in the Asia-Pacific. ASEAN has started to work with CER<sup>27</sup>.<sup>27</sup> In fact; "forming cross linkages between regional trading arrangements such as AFTA and CER may be regarded as a positive development".<sup>28</sup><sup>28</sup> Overall, ASEAN is try in to work positively with a number of regional trading arrangements in the Asia-Pacific, especially with APEC. At the end, the liberalization of ASEAN and APEC, if planned correctly, can reinforce each other to promote and deepen further integration through invisible market forces, which work well in the region up to present.

### **5. The New Outlook for ASEAN**

The formation of regional integration areas in the Asia-Pacific have been gaining strong momentum in the 1990s. This profile looks much different from the 1980's when ASEAN was not certain about the launching of a free trade area. Apparently, this is similar to the experiences of other regional integration schemes in the Asia-Pacific. However, the new prospects for regional trading arrangements in the 1990's are vigorous and could produce positive results as long as these experiences are compatible with the multilateral trading system or the WTO. This explains why ASEAN, as a player in regional integration, is working to ensure that the new enterprise in regional integration of the whole region would be complementary to the WTO. There are regional groupings in which ASEAN is actively involved such as APEC and ASEAN's own integration. There exists other groupings formed in the region of which ASEAN is not a part.

The form in which ASEAN economic integration was designed, or the present AFTA, is very much to serve as a training ground open to each country before moving on to the next step to greater integration with the world economy. There is no doubt that the economic performance of the ASEAN countries is strongly influenced by regional and global market forces. Hence, the role of ASEAN is to provide an efficient regional institutional arrangement that is consistent with the export oriented market-driven economy of ASEAN. Negative side effects or externalities of AFTA for outsiders are not significant. On the other hand, ASEAN hopes to fulfill greater opportunities and linkages of trade and investment related to the major and fast growing countries.

The very idea of ASEAN economic integration now is how to connect this to the other experiences of regional integration in the Asia-Pacific. There is a degree of coherence of ASEAN-AFTA and the three pillars of APEC both of which are now in motion. It seems to be that the APEC process is, for the moment, complementary to the experiences of AFTA. Thus,

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<sup>27</sup> The Australia-New Zealand Closer Economic Cooperation Trading Arrangement (ANZCERTA or CER) came into being in 1983. The main objective is to strengthen the broader relationship between Australia and New Zealand and develop closer economic relations through a mutually beneficial expansion of free trade under conditions of fair competition. AFTA Reader, Vol. IV, ASEAN Secretariat, September 1996, p. 44.

<sup>28</sup> AFTA Reader, Vol. IV, ASEAN Secretariat, September 1996, p. 45.

the value between the two groupings now relies in its compatibility. Both implementation schemes are important for ASEAN as well as other sub-regional groupings in the Asia-Pacific. Both commitments are to help strengthen the WTO as the global process of liberalization is much more complex.

The perspectives on the FTAA are still uncertain up to this point. Concrete progress is aimed at before the end of the century. And by the year 2005, there would be a FTAA covering the whole Americas. The decisive move of the project is now to depend upon the Summit of the FTAA, 1998, in Santiago, Chile. ASEAN is, of course, not a part in that region but is to observe more closely this development. The key question for FTAA is how North America now under NAFTA and Latin American, especially through the grouping of MERCOSUR can bridge their convergence and divergence in various issues related to them, and how ASEAN can deal with the evolution of the FTAA.

In fact, one of the major concerns for ASEAN over NAFTA is that the U.S. is reluctant to make a wide open market at home for most East Asian countries, including ASEAN. These issues are inherent as part of the NAFTA construction which has helped very much the market access for Mexico's products. ASEAN does not want to see the watering down of such a concept to cover the whole Americas such as the FTAA in process as this could favor the creation of a trading bloc. In this way, ASEAN hopes that there would be a way in the APEC liberalization process could enable all member economies to be more active in trade liberalization so that would water down and lessen the strength of the rules and regulations of NAFTA.

APEC connections, from the ASEAN viewpoint, have provided an opportunity for the U.S. to be relatively less inward-looking within NAFTA. APEC, in this sense, can contribute positively to NAFTA and for ASEAN and other countries. The process of APEC would allow ASEAN and the United States, together with many other countries to discuss various issues altogether. The most recent issue for example, the liberalization of information technology (IT) products, the United States has been able to address their concerns and could reach an agreement within APEC. As a result, APEC may serve for members like ASEAN to not see the United States as too stringent about their own NAFTA. The dispute settlements issue is to be encouraged within the ASEAN-U.S. Dialogue Partners.

As for the relations between ASEAN and Latin America, trade and investment among both groupings are not substantial at present. However, the recent surge in both exports and imports between ASEAN and Latin America proves the hypothesis that there may be more complementarities among them. They are less known to each other but both regions constitute new dynamism in the global economy and there should be ways and means to explore opportunities in their economic activities. The new initiatives such as ASEAN-MERCOSUR links should be a positive development. As there is no formal links at present between Latin America and East Asia, ASEAN is to encourage other East Asian countries for the creation of a forum that links the interests of both regions. ASEAN may consider establishing a direct dialogue with Latin America through ASEAN-Dialogue Partners process. Latin America, on the other hand, is to encourage their own economic reforms and ASEAN business ventures in the

region. It is probable that both regions should decide to form a South-South Dialogue to deal with common issues of concern among them.

Since the directions of regional integration schemes in the Asia-Pacific are becoming clearer, it is a good time for ASEAN to think positively about a deeper integration. Up to present, regional integration of ASEAN has been frequently referred to in the extent of its interdependence of trade and investment with the region. However, a deeper integration implies "the adjustment of national policies around a negotiated norm" (Haggard (1995): 4), to the extent which implications could go far.<sup>29</sup> In other words, ASEAN is to ask increasingly how to pursue a deeper integration of ASEAN with regard to the changes in the global and regional norms. Is it worthwhile for ASEAN to progress moderately its integration vis-à-vis the rest, especially relying on conservative changes in national regulatory differences? Or, is ASEAN ready to move at a faster speed to negotiate among themselves for more ambitious efforts to comply within and outside with regard to the internal and external economic and political pressures? This is to constitute an important agenda that is going to take place within ASEAN more increasingly.

It is, overall, in the interest of ASEAN to think about a deeper integration of ASEAN from within and outside. Strong arguments have been made up to present about the positive results of ASEAN integration, but little efforts have been done about ASEAN's move to a deeper integration and its interconnections with the rest of the Asia-Pacific region. Moving along this path would require domestic policy changes, including reforms and institutional adjustments that have not been so noticeable within the grouping up to present (Kahler (1995): 108). The case suggests that ASEAN has to pursue with great care its own ideals of convergence, harmonization and policy coordination among members in the years ahead.

## **6. Conclusion**

ASEAN, as a significant regional grouping in the Asia-Pacific region, has advanced rapidly in the global economy. The economic co-operation among members has become increasingly important in the 1990's. Worldwide regionalism has led ASEAN to focus seriously on AFTA. This common framework is useful for ASEAN to integrate further with the world. In fact, ASEAN remains first and for all a group of very open market-oriented economies and committed to the multilateral trading system. Hence, intra-regional integration is to be market-driven and would not cause any substantial costs to outsiders.

The successful development policies of the region have been pursued mainly by its openness and ability to adjust its domestic economic policies, thus favoring greater growth in the region. Looking into the future, the region's economic integration is to be further enhanced by the rapid growth of intra-regional trade and investment as it has done in the past. It is expected

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<sup>29</sup> Haggard has defined three components of the deep integration relevant for the developing countries. The first is the effort to extend international rules from trade to investment. The second is related to the differences in national regulatory regimes that have discriminatory effects on trade and investment or that generate unfair competition. The third has to include a more complex, set of conflicts, labeled as system friction " \_ \_ how differences in national corporate, industrial, and even political structures constitute restraints on trade and investment \_ \_ " (Haggard (1995): 2-3).

that inter-regional trade between East Asia and North America is to grow as fast as intra-regional trade within Asia. Thus, the continued dependence of ASEAN products, apart from their own regional complementarities, is still important in both East Asia and North America.

Regional integration in the Americas is a recent development. ASEAN, although, it does not have any formal concrete agreements, the grouping is still concerned about how trade and investment can be diverted, especially in the case of NAFTA as this grouping is much more institutionalized. This is logical since the United States represents ASEAN's most important export market. An uncertain market access to the United States raises concern to ASEAN development. The United States, up until present, has managed its relationships with ASEAN as a bilateral diplomacy: it has a special relationship with all ASEAN countries and is one of the most important dialogue partners of ASEAN. The future of interplay between the multi-track approach whether regional, bilateral or unilateral is considered to be important for ASEAN when the United States foreign economic policy is taken into consideration.

The initiatives of the FTAA remain to be seen in the future. Although this concept is not to be revealed soon, ASEAN has yet to recognize the more determined approach towards the regional integration in the Americas. The Summit of the Americas in Santiago will be important with regard to its process and future development. The MERCOSUR, meanwhile as the most important regional grouping in the Americas, in itself, does not pose any threat to ASEAN, except that there would be the question of any inward-looking motives of this grouping and its connections to the Americas.

There is sufficient and strong reason to explain ASEAN's active participation in the APEC process. The future and dynamics of the Asia-Pacific region can not be overseen by ASEAN. Therefore, ASEAN hopes that APEC will maintain its principle of an open regionalism and contribute positively to the multilateralism of the WTO. There is; however, the serious business of APEC concerning its process, especially as the grouping is now moving into its implementation of different initiatives. ASEAN, overall, is confident and is to continue to work consistently within the APEC process.

ASEAN has also seen the interconnections of APEC to the Americas. These two regional integration efforts, although at different stages and development, are considered to be the most powerful regional groupings in the Asia-Pacific region. The role of the United States is important. ASEAN certainly expects the United States to maintain interest in APEC, so as not to be excessively inward-looking of its relation within other regional groupings such as NAFTA. On the other hand, APEC's usefulness for the United States' full participation of the is desirable for ASEAN as this could help ASEAN discuss various matters with the United States as well as other countries in the Asia-Pacific region.

Since the format and direction of regional integration schemes in the Asia-Pacific region are becoming clearer, it is time for ASEAN to strengthen its interconnections with other groupings. As trade and investments of the region are to continue their strong linkages, ASEAN is to maintain this regional momentum work at its best. Apart from its commitments to the regional groupings with which ASEAN is associated, it could use its economic diplomacy to

negotiate with other regional groupings in the Asia-Pacific region, especially in the Americas, encouraging them not to turn inwardly. Indubitably, ASEAN needs to position its own regional integration inter-connected with the Asia-Pacific region as the twenty-first century is about to begin.

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