

ASEAN: Regional Economic Cooperation and Its Institutionalization

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ABSTRACT

This paper discusses the need to beyond the old ‘ASEAN way’ and suggests the importance of further institutional deepening of economic cooperation in ASEAN, especially in the aftermath of the recent financial crisis. Hence, it suggests the need to develop of a ‘Common Market minus’, in which ASEAN brings in areas or sectors that are excluded from liberalization under the umbrella of the integration project and let them be managed through a common policy approach by newly created “regional units.” Yet, such a development needs to be carefully crafted, based on clear principles.

Keywords: *ASEAN, regional economic cooperation, institution building, ASEAN Vision 2020*

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ASEAN: REGIONAL ECONOMIC COOPERATION AND ITS INSTITUTIONALIZATION

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Introduction

There is no doubt that as an organization for regional cooperation, ASEAN, the Association of Southeast Asian Nations, has contributed greatly to peace and stability in Southeast Asia, and as such has also contributed to economic progress in the region. However, in order to maintain its significance to regional countries the organization needs to renew or reinvent itself so that it can effectively meet the new regional and global challenges. This necessitates ASEAN to undertake a dual transformation: in its spirit and in its institutional setting. ASEAN members must genuinely seek to “amalgamate” themselves to create a strong and dynamic “single economic space”. This amalgamation, perhaps an ASEAN form of regional integration, will need to be driven by a kind of institutional arrangement that may be unprecedented. ASEAN must now embark on a venture to build the support for the creation of a single region and to develop the institutional modalities to support this objective.

In 2003, having existed for 36 years in a region that has seen cross-border tensions and conflicts, tumultuous internal political changes, rapid economic growth and a severe financial crisis, ASEAN, has withstood the test of time. However, the process of regional cooperation that is driven by an ASEAN that is essentially inter-governmental in nature may no longer serve the region well. Greater institutional integration of sorts seems to be required. More active involvement of the ASEAN peoples in this regional enterprise may also be necessary. The big question is whether ASEAN can undergo such transformation within the next 5 to 10 years to achieve this vision by 2020.

Formed in 1967, ASEAN is the first regional organization in Asia. ASEAN came into being at the height of the Cold War and the Vietnam War. It is often being construed as a product of the global ideological conflict and a response to the threat of

communism in Southeast Asia. ASEAN clearly had its politico-strategic underpinnings, but for the first 25 years of its existence its agenda was strictly economic, social and cultural cooperation.

ASEAN has played a significant role in the creation of Asia Pacific regional arrangements. This began with the development of a series of Dialogues with its major trading partners. The European Community (EC) was ASEAN's first Dialogue Partner, following a meeting in March 1971. Australia, Canada, Japan, New Zealand and the United States also became ASEAN's first set of Dialogue Partners in the Asia Pacific. Once a year, at the end of the ASEAN Ministerial Meeting (AMM), a meeting was held between the ASEAN foreign ministers and their counterparts from the Dialogue countries. These meetings are known as the ASEAN Post Ministerial Conference (PMC).

In July 1984, ASEAN foreign ministers agreed to initiate a dialogue with the five Asia Pacific Dialogue Partners, known as the "6 plus 5" meetings, to exchange views on economic development in Asia Pacific. The proposal to transform this meeting into an ASEAN-Pacific Forum (APF) failed to get the endorsement from Kuala Lumpur. In 1989, when Australia proposed to convene a meeting on Asia Pacific economic cooperation, the ASEAN side offered to use the ASEAN PMC as its vehicle. There were objections to this proposal as it practically means that all meetings will be held in ASEAN. The agreement reached in Canberra, at the first APEC meeting, was to hold an APEC meeting alternately in an ASEAN member and a non-ASEAN country. ASEAN, thus, is often seen as a co-pilot in APEC.

More than this, and perhaps of greater interest to note, is the fact that APEC's process and institution-building are remarkably similar to those of ASEAN. This is not often recognized. ASEAN's experience at institution-building has been a modest one. In 1994, Indonesian Foreign Minister, Ali Alatas, made an explicit suggestion that APEC should learn from ASEAN's institutionalization. He stated: "APEC should become an organization with a secretariat and a codified set of rules and procedures in a gradual way like ASEAN" (*The Jakarta Post*, 19 March 1994).

ASEAN institutionalization has been carried out in a cautious and incremental

fashion. Accompanying that cautious approach to institutional change has been the consensus-based principle of decision-making. Taken together, these features of ASEAN's institutionalization and decision-making constitute the hallmark of ASEAN cooperation and form the basis for the Association's mixed image. On the one hand, ASEAN has been hailed for its role as a regional arrangement that has been able to forge a "diplomatic community" with a shared identity in Southeast Asia. ASEAN has been described as a success story for turning a region that once was predicted to become the Balkan of Asia into a region of peace and progress. On the other hand, it has been that very success that has led to the criticisms about ASEAN's inability to match its political-diplomatic success with substantive cooperation in the economic and social fields that is ASEAN's declaratory objective. This inability has been attributed to the deficiencies in the organizational structures and the slow pace of institutionalization. Several attempts have been made to restructure ASEAN's institutional framework, but they have produced only limited changes.

There has been some soul-searching in ASEAN during the past years that coincided with the onset of the financial crisis. Until then ASEAN was still in a state of euphoria due to the region's remarkable record of rapid economic growth, the near completion of the One Southeast Asia enterprise, and its role in the creation and strengthening of the wider regional cooperative structures such as APEC and the ASEAN Regional Forum (ARF). This position crumbled almost overnight with the financial meltdown. ASEAN's future relevance to its members and to the region suddenly becomes a question, even within the ASEAN officialdom. The big question is whether ASEAN can continue to grow on the basis of the "ASEAN way" of doing things. Should ASEAN indeed embark on an institutional deepening in order to maintain its relevance and effectiveness?

ASEAN Cooperation and Its Slow Institutionalization

When it was established in 1967, ASEAN did not set for itself an ambitious task of becoming a regional organization equipped with complex institutional structures and machinery in order to function effectively and immediately. Nor did it pretend to be an organization that aspires to accomplish a set of concrete objectives in the short and medium terms. It also did not stipulate the need for a summitry. The ASEAN enterprise was given a modest objective. As stated in the Bangkok Declaration,

ASEAN's primary objective is to accelerate economic growth, social progress and cultural development in the region through joint endeavors in the spirit of equality and partnership. Political cooperation, albeit not explicitly stated, was understood to be of critical importance as a foundation for cooperation in the other areas.

From the outset ASEAN has displayed a deep commitment to preserving the sanctity of national sovereignty, hence its reluctance to move towards "integration". ASEAN states have been unwilling to surrender their national sovereignty to a regional institution of a supranational type. ASEAN's institutional development has been greatly influenced by this major constraint. It should perhaps be recognized that ASEAN's survival has been partly due to the reluctance to transform the organization into a supranational body.

Institutional Evolution. The slow evolution of ASEAN's institutional structures reflects that modest undertaking and the political nature of the Association as a loose form of inter-governmental cooperation that accords highest priority to the preservation of national sovereignty. In fact, ASEAN is often seen and used by its members as a project to enhance national sovereignty through regional diplomacy and cooperation. ASEAN was founded and formulated by foreign ministers, and the meeting of foreign ministers, known as the AMM, was designed to become the central institution of ASEAN. The day-to-day work of the AMM is carried out by a Standing Committee, headed by a foreign minister from a member country on a rotational basis, and not by a regional body.

The first summit was not convened until 1976 in Bali, only after the ASEAN leaders recognized the need to strengthen and expand the Association's machinery in order to meet new challenges from both within and without the organization in the aftermath of the US defeat in Vietnam. This summit marked a new page in the history of ASEAN's institutionalization. It issued two important documents concerning the strengthening of the ASEAN machinery. First, was the Declaration of ASEAN Concord (DAC), which stipulated that meetings of heads of government will be the supreme organ of ASEAN. Following this summit an ASEAN Economic Ministers Meeting (AEMM) was also institutionalized. In addition there have been regular meetings of other ASEAN ministers since. But all these ministerial meetings are not

considered a part of the formal organization of ASEAN. Second, was the Agreement on the Establishment of the ASEAN Secretariat.

This restructuring did not alter greatly the basic feature of ASEAN's institutional framework that gives the AMM a central role. Despite the fact that the first summit was followed by a second one in the next year, it did not lead to an institutionalization of the meeting of ASEAN heads of government. The ASEAN Secretary General served as the secretary general of the ASEAN Secretariat rather than of ASEAN, suggesting the low status accorded to the office. *De facto*, the AMM remained the highest decision-making body in ASEAN. On economic matters, the AEMM gradually asserted its role, but the AMM retained its central role in formulating guidelines and coordinating all ASEAN activities. This political function makes the AMM the primary organ of ASEAN below the heads of government. It is the *primus inter pares* among all ASEAN's institutions. The dominant role played by foreign ministers in carrying out ASEAN's political functions had led critics to describe the Association as "a club of foreign ministers".

Subsequent developments in the process of institution-building and decision-making have somewhat moderated such an impression. Firstly, the growing emphasis on the need to intensify economic cooperation has elevated the role of non-AMM bodies. The AEMM which was previously overshadowed by the AMM has begun to play a more active role in formulating new proposals for greater economic cooperation, culminating in the agreement in 1992 to establish an ASEAN Free Trade Area (AFTA). Secondly, as a consequence of the above, there was the realization of the need to streamline the mechanism for economic cooperation. The Senior Economic Officials Meeting (SEOM) that was established to serve a similar function as that of SOM was also made responsible to overseeing economic cooperation activities that were previously under the purview of the abolished five ASEAN economic committees. A ministerial council was established to oversee the implementation of AFTA. An AFTA Unit was created within the ASEAN Secretariat to provide technical support for its implementation.

Thirdly, ASEAN's external relations conducted through meetings with the dialogue partners eventually developed into the Post Ministerial Conference (PMC) following

the annual AMM. ASEAN's dialogues began with its early dealings on trade matters with Japan and the European Community since the early 1970s. Since 1976 each ASEAN member is assigned to coordinate the relationship with a particular dialogue partner. The fact that this task was not entrusted upon the ASEAN Secretariat again reflects the nature of the Association. However, it is through these dialogue relations that ASEAN has displayed a degree of importance as a regional player.

The fourth development is the growing role played by heads of government in shaping the directions of ASEAN. The third ASEAN Summit in 1987 agreed to hold summits every 3 to 5 years and established a Joint Ministerial Meeting. A major restructuring took place only in the early 1990s when the larger regional and global environment within which ASEAN operates had undergone dramatic changes. The increasingly more complex challenges, problems, and issues facing ASEAN, as it began to encounter the uncertainties of post Cold-war international relations, have forced member countries to seek to strengthen ASEAN. A decision was made in 1992 to institutionalize the meetings of heads of government on a regular basis. The agreement was to hold a summit every three years with annual informal meetings in between.

The fifth development was the decision to strengthen the role and elevate the position of the Secretary General of the ASEAN Secretariat. The office is re-designated as the Secretary General of ASEAN and is given a ministerial status, and is now recruited on a competitive basis rather than on a rotational basis. Yet, the change in the status of the Secretary General does not signify a fundamental change in the nature of ASEAN as a loose inter-governmental form of cooperation that continues to accord priority to the primacy of national sovereignty and to the central role played by foreign ministers.

The sixth development is the expansion of ASEAN to include all remaining Southeast Asian states into membership. After "the great divide" for about three decades, the One Southeast Asia project was completed with the acceptance of Cambodia as ASEAN's tenth member in 1999. This expansion of membership creates new challenges to the process of institutionalization as these new members appear to be even more sensitive to any moves that are seen as undermining the principle of

national sovereignty. This constitutes an additional, and now perhaps the main, constraining factor towards greater institutionalization and integration.

The seventh development, often not duly recognized, has been the role and contribution of “second track” networks and processes in the “broader” ASEAN. They involve non-governmental participants engaged in people-to-people cooperation and diplomacy. These activities have given a new impetus to ASEAN’s existence and strengthen ASEAN as an organization. The ASEAN Institutes of Strategic and International Studies (ASEAN ISIS), established in 1984, performs this second track role by generating ideas and proposals through research, studies and exchanges within the network and beyond on how to promote greater regional cooperation. It is felt that the elusive nature of inter-governmental political and security cooperation in ASEAN has made it imperative for the region to make maximum use of the second track process as a forum within which politically sensitive issues can be discussed more freely and openly (Wanandi, 1994). The activities of the second track can also facilitate and help intensify people-to-people diplomacy and cooperation and to socialize the importance of regional cooperation. The idea of an ASEAN People’s Assembly has been taken up by ASEAN ISIS to further promote this development.

The ASEAN Way. In addition to these institutional developments, ASEAN has also relied on conventions and customs. The main feature in the functioning of ASEAN institutional structures is that decisions are arrived at through consensus. This practice has been so institutionalized as to make it the core element of the so-called “ASEAN Way” in decision-making. ASEAN’s experience in the conduct of cooperation and decision-making has also demonstrated the presence of three basic principles which guides behavior, namely restraint, respect, and responsibility. The principle of restraint obliges ASEAN countries not to interfere in the domestic affairs of other member countries. The principle of respect is demonstrated in communication and habit of consultation where states can discuss problems and air grievances. As a manifestation of responsibility, ASEAN member states are expected to consider each others’ interests and sensitivities.

These conventions and customs have sustained ASEAN cooperation for the first 30 years. They have proved useful in solving differences, harmonizing diverging

interests, and managing conflicts among member states. However, the habit of dialogues and consultation to reach a consensus is also seen as a major factor leading to a protracted and time-consuming process of decision-making. Now with ten members that are even more diverse in various respects this process is going to become more time consuming.

The above discussion on ASEAN's institutional evolution shows that the minimal institutionalization over the past thirty years results from a complex interaction of preferences and goals, the sanctity of sovereignty, conventions and customs, as well as changes in the external environment. ASEAN's experience demonstrates that, at the beginning, institutions were the product of preference and goals. However, once in place institutions set parameters to further action. This is reflected in ASEAN's institutional developments in the first two decades of its existence. The modest preferences and goals reflected the founding fathers' realistic understanding of the prevailing geo-political condition. This forms the basis for ASEAN's state-to-state structure. Having established its basic institutional architecture, ASEAN was trapped into a situation where it prefers "to stay with the tried and true".

Political Cooperation: ASEAN's Inherent Strength. It has been argued generally that ASEAN's success has been in the political field. Despite its declared objective to be a vehicle for regional economic, social, and cultural cooperation, ASEAN has been a prisoner of intra-ASEAN political problems and, then, of geo-political developments in the region. The birth of ASEAN itself was made possible by dramatic changes that took place in the domestic politics of one of the largest country in the region, Indonesia, which led to the ending of *konfrontasi* with Malaysia and a re-orientation of its foreign policy. ASEAN emerged out of the pains of that *konfrontasi*.

The desire to promote a peaceful community of Southeast Asian nations was based on the paramount objective of creating a regional order that would allow member countries to devote their attention and resources to the pressing task of internal consolidation and development. Such an objective necessitated a friendly relationship among regional countries which was sought through the adherence to the principle of non-interference. This principle was then seen as a significant factor which made it possible for member countries to avoid conflicts, thus, allowing their governments to

concentrate on the primary task of putting one's house in order as a basis of regime legitimacy.

The need to ensure a stable and friendly relationship among ASEAN members has been the primary political function of the AMM. That function has been carried out through a number of roles. Firstly, the AMM serves as a useful vehicle by which ASEAN high officials become more acquainted with one another, recognize each other problems better, become more sensitive to each other's interests, and promote greater mutual understanding. Secondly, the AMM constitutes a forum for the institutionalization of a habit of dialogues among member states. Thirdly, the AMM provides a venue for consultation and exchange of views over bilateral and regional problems whenever they arise. Fourthly, and more importantly, the AMM plays a central role as a forum for regional confidence-measures in Southeast Asia. All these functions have, in turn, contributed greatly to the institution of a regional mechanism for conflict management and reduction among its member states. It is through these functions that ASEAN has gradually come to develop a notion of "ASEAN spirit" as the primary basis of solidarity and unity-building.

These four functions of the AMM reflect a degree of modesty in preferences and goals of the establishment of ASEAN. It was this modesty that then set the parameters that impede ASEAN's further actions in promoting greater cooperation beyond the political arena.

If institutional stagnation during the first decade of ASEAN's existence reflected the modesty in preference and goals, by the second half of the 1970s ASEAN was facing an entirely new political reality attendant of changes in the strategic environment in Southeast Asia and initial success in undertaking the process of cautious intra-regional confidence-building. The political functions of the AMM, for example, were then expanded further following strategic changes in the regional environment, especially following the withdrawal of American troops from Vietnam and then the outbreak of the Cambodian conflict. Vietnam's invasion of Cambodia in 1978 forced ASEAN to play a more active role in seeking peaceful solution to the conflict. Vietnam's action constituted a threat to an ASEAN member, Thailand, and therefore, was seen as a factor that jeopardized regional stability and security. In this regard, the

fact that the Cambodian conflict was also entangled with great powers politics had prompted ASEAN to step up its activities in trying to deny the opportunity for greater interference from extra-regional powers in regional affairs. In this regard, the AMM served as the main vehicle through which ASEAN's external relations were exercised with the main purpose to secure wider international support in forming an "anti-Vietnam coalition".

The extension of AMM's role once again demonstrated how forces in the larger environment outside an organization shape and determine the role and actions that it has to take. If during the period prior to the Cambodian conflict the AMM focused its efforts on promoting harmony in intra-ASEAN political relations, the emergence of new challenges from a wider environment threatening that very intra-ASEAN harmony forced ASEAN to redefine its regional role in order to solve the conflict. Here, ASEAN's objectives were no longer limited to an attempt at maintaining stability within its own group, but also at those efforts to guarantee a wider regional order which was more benign and friendly to ASEAN. In other words, changes in the larger environment has prompted ASEAN, largely still through the AMM, to play both intra-mural and extra-mural roles.

Redressing ASEAN's Institutional Weaknesses. Changes in the environment have also been instrumental in forcing ASEAN to renew its commitments that in part required institutional restructuring. In 1982 ASEAN established a Task Force with the task to review the working machinery of ASEAN. The Task Force submitted its report and recommendations for reform to the 16th AMM in 1983. It was known that ASEAN governments were not receptive to the far reaching recommendations of the Task Force report. In 1986, the ASEAN Chambers of Commerce and Industry (ASEAN-CCI) established the Group of 14 with the endorsement of the ASEAN foreign ministers. In its report, entitled *ASEAN: The Way Forward*, the Group proposed a number of recommendations regarding the restructuring of the ASEAN machinery, of which the following five are of particular importance (ASEAN-CCI, 1986):

1. The institutionalization of ASEAN Heads of Government Meeting (AHGM) on an annual basis so that leaders can foster economic cooperation by providing the necessary political commitment and direction, and overseeing

the process of implementation.

2. The ASEAN Economic Ministers Meeting (AEMM) should be made responsible only for trade, industry and investment, and accordingly it should be re-designated the ASEAN Trade and Industry Ministers Meeting (ATIMM).
3. The responsibilities of ASEAN Foreign Ministers should now be converged on the task of developing ASEAN's political, diplomatic and socio-cultural relations.
4. The upgrading of the status of Secretary-general and the strengthening of ASEAN Secretariat so that it can play a more active role.
5. The adoption of greater flexibility in the ASEAN decision-making method through the ASEAN-minus-X formula.

Some of these suggestions have been taken up by ASEAN. However, the second decade of ASEAN cooperation remained largely a period of consolidating a political community in the face of external security challenges, notwithstanding the louder statements on promoting and initiating bolder economic cooperation activities.

Proposals for reform were made again in the early 1990s in the form of a set of recommendations by the Group of Five (G-5) to the 24th AMM in Kuala Lumpur in July 1991. In its report entitled *Strengthening the Structure and Mechanism of ASEAN, with Special Reference to the ASEAN Secretariat*, the Group maintained that ASEAN was heading towards a "crisis" with regard to its command and control structures. To rectify the existing deficiencies, they proposed, among other things, the following measures to be considered by ASEAN heads of government:

1. The adoption of one of two options on decision-making process. Firstly, the need to establish a Supreme Council of ASEAN (SCA). This body, comprising the heads of government, should play a clear role in making decisions and in monitoring their implementation. Secondly, if the first option

is not feasible, then there is the need to strengthen the AMM. This option constitutes a reiteration of the role of the AMM by unequivocally stating that a decision is an ASEAN decision only if it is endorsed by the AMM.

2. The redefinition of the post of Secretary General to that of ASEAN instead of the ASEAN Secretariat, coupled with the enlargement of its effective mandate to include, among other things: (i) the presentation of the Annual report of ASEAN to the SCA; (ii) the preparation of a draft ASEAN Plan for Cooperation (APC); and (iii) an active role in dialogue relations with third countries or organizations.

Both the Group of 14 and the G-5 appeared to be concerned that on the basis of existing structures ASEAN would move too slowly. Mounting pressures posed by internal developments within ASEAN itself and dramatic changes in the regional and global environment forces ASEAN to undertake institutional changes in 1992. As Chin (1994) has argued, the imperative for institutional changes were (1) the removal of political and ideological wall between the six ASEAN members and the Indochinese states, leading to the need for cooperation within an enlarged regional community; (2) the need to address new regional security challenges; (3) the need to cope with more intense economic competitiveness in a global economic system; (4) the need to cope with new-Post Cold War issues such as democracy, human rights, and environment; and, (5) the need to engage the growing role of NGOs in fostering regional cooperation.

However, the decision to convene a summit every three years with informal summits in the intervening years as well as strengthening the role of the ASEAN Secretariat is felt to remain inadequate. The ASEAN foreign policy community would have liked to see formal summits on an annual basis. One argument is that APEC already instituted annual summits, and thus, if ASEAN is to play an important role in APEC it should also have its summit prior to an APEC summit. Similarly, the elevation of the position of the Secretary General of ASEAN has not increased its authority.

The most significant change was the decision in 1992 to formally declare that the Association is ready to address security and military issues. Reflecting this departure

in ASEAN's thinking on the nature of its cooperation, a new institution known as the Special SOM was instituted. The Special SOM constitutes a forum where representatives of the foreign ministry and defense establishments of ASEAN countries meet to discuss security issues and promote intra-ASEAN dialogue on ASEAN security cooperation. This has led to the initiative to establish the ASEAN Regional Forum (ARF) for multilateral security and political consultations with the major regional powers. Through the ARF, ASEAN attempts to advance its regional security interests in the face of uncertainties attendant of the end of the Cold War. This explains ASEAN's insistence of being in the driver's seat of the ARF process. Since ASEAN sees the main function of the ARF as a forum to promote stable relations between regional powers, its role in making the process meaningful would depend on how it enhances its own credibility by transforming itself into a more unified, effective, institutionalized, and cohesive organization. This is necessary for ASEAN's leadership in managing the region-wide ARF process: from initial confidence-building measures (CBMs), through preventive diplomacy, to the elaboration of approaches to conflict resolution.

Yet ASEAN has not made substantial progress in the institutionalization of an ASEAN conflict resolution mechanism. ASEAN has been well-known for its "sweeping under the carpet" strategy as a way of coping with intra-ASEAN conflicts. This strategy is no longer adequate and, if continued, will run counter to its role as a manager of regional order. Thus, there may be a need to operationalize the related provisions contained in the Treaty of Amity and Cooperation (TAC) such as the role and the function of the ASEAN High Council. More importantly, as problems and challenges facing ASEAN are increasingly becoming more complex, cultural approaches to conflict resolution are no longer applicable to all kinds of conflicts and at all times.

ASEAN members have not yet put the TAC into effective use. Members continue to prefer settlements of disputes outside the ASEAN framework. For example, the dispute between Indonesia and Malaysia over Sipadan and Ligitan islands has been brought to the International Court of Justice (ICJ). Even after thirty years of existence, ASEAN is not yet about formal dispute settlement or conflict resolution. As Leifer (1996, 1997) put it, it is rather about creating a regional milieu in which problems

could be readily managed or contained.

Economic Cooperation: The Long Journey to AFTA. It is perhaps correct to state that ASEAN is an *economic* association that is *politically* driven. It is aimed at developing a kind of regional solidarity amongst neighbors for the purpose of creating regional peace and stability through economic cooperation. The founding fathers of ASEAN made it clear that regional economic integration is not the objective of ASEAN.

ASEAN economic cooperation (AEC) is supposed to be ASEAN's core cooperation agenda. In the late 1980s there was widespread recognition that the performance of AEC had been very poor. The history of AEC is that of a continuous search for direction and new initiatives to make AEC successful. This search has been confronted with the following choices for AEC's focus: between intra-ASEAN cooperation and developing an external economic diplomacy agenda in dealing with ASEAN's major trading and economic partners; between trade and investment cooperation and sectoral (industrial) projects; between public sector-oriented projects and private-sector driven activities; or between a loose, non-binding cooperation arrangement or economic integration, including the creating of a trading bloc. The choice has often been described as that between resource pooling activities and market-sharing schemes.

In the course of this search, a series of major initiatives have been taken: the ASEAN Industrial project (AIP) in 1976, the ASEAN Preferential Trading Arrangement (PTA) in 1977, the ASEAN Industrial Complementation Scheme (AIC) in 1981, later modified into the ASEAN Brand-to-Brand Complementation (BBC), as well as the ASEAN Industrial Joint Ventures (AIJV) in 1983. In addition there had been proposals for an ASEAN Small and Medium Industries Scheme (ASMIS) and an ASEAN Small and Medium Industries Center (ASMIC) that did not get off the ground.

Many other cooperation projects were launched and implemented by the various ASEAN economic committees, on Finance and Banking (COFAB), on Food, Agriculture and Forestry (COFAF), on Industry, Minerals and Energy (COIME), on Transport and Communications (COTAC), and on Trade and Tourism (COTT).

Furthermore, ASEAN developed a number of cooperation activities with its trading partners, the so-called Dialogue Partners and Sectoral Dialogue Partners. Some of these have involved the search for a more formalized framework for cooperation, such as the ASEAN-US Initiative (AUI).

The remarkable economic performance of the ASEAN countries could not be attributed to any or all of the above AEC schemes. It resulted mainly from ASEAN's trade and investment links with the outside world. One could argue, however, that those various schemes and projects have contributed to creating the habit of cooperation, which is a key to ASEAN's success. Perhaps it was the disappointment, the embarrassment, and the frustration with these AEC schemes that led the ASEAN leaders to decide in 1992 to embark on AFTA, the "bold" decision that was considered necessary to maintain ASEAN's vitality and relevance.

The journey to AFTA has been a long one. The creation of a free trade area was not considered at the establishment of ASEAN. As stated in the Bangkok Declaration, ASEAN's central objective is *to accelerate economic growth through joint endeavors*. The third ASEAN Summit in Manila in December 1987 perhaps marked the beginning of a new era for ASEAN. It has helped ASEAN to take a hard look at itself. The Summit received various proposals from the Group of 14, ASEAN business groups, scholars and academics as well as based on studies that have been commissioned by different ASEAN economic committees. Amongst the proposals was the formation of a hybrid system that recognizes the existence of varying tariff structures and differing levels of development among the ASEAN members. This system combines the formation of a customs union among Indonesia, Malaysia, the Philippines, and Thailand, and a free trade area to link this union with Singapore and Brunei. The ASEAN-CCI supported a proposal for an "ASEAN Market Liberalization Initiative". It proposed a 50 percent minimum MOP on an across-the-board basis for non-agricultural products and the elimination of the exclusion lists. A product-by-product approach was suggested for the liberalization of agriculture.

The Manila Summit itself did not produce the "big bang". The idea of a free trade area was still unacceptable but discussions in anticipation of it have gone quite far in formulating and formalizing different concepts. Developments in 1990 provided the

impetus for ASEAN to hasten its move forward towards strengthening of AEC and to take new and “bold” initiatives. The idea of AFTA no longer appears to be a remote possibility. In January 1992 at the fourth ASEAN summit in Singapore, ASEAN heads of government signed the Singapore Declaration and the Framework Agreement on Enhancing ASEAN Economic Cooperation, which provided the basis for the establishment of AFTA. This was a major political decision because AFTA represents a marked departure from earlier AEC schemes.

Why was this possible? The changing global economic environment has forced many countries to strengthen their position by developing “economic alliances” with others. Bilateral and regional free trade areas (FTAs) are seen as one form of such alliance. Regionalism, in fact, becomes a complement rather than a substitute to globalism. This is the essence of ASEAN’s strategy of concentric circles of cooperation and ASEAN’s understanding of open regionalism. Within ASEAN itself there was growing dissatisfaction with the various AEC schemes. This diminishes confidence within ASEAN in its own capacity and relevance. Thus, there was the strong believe that if ASEAN did not embark on a new, bold, and credible initiative it would no longer be an attractive and effective regional economic and diplomatic force.

The AFTA agreement is to phase down intra-regional tariffs to 0-5 percent, initially over a period of 15 years starting 1 January 1993. It also agrees to eliminate non-tariff barriers for a wide range of manufactured products. The mechanism for achieving it is the Common Effective Preferential tariff (CEPT) scheme. Under this scheme member countries would set out comprehensive timetables for the phased reduction of intra-ASEAN tariffs on nominated goods. The main difference between PTA and CEPT is that PTA was granted only by the nominating country and there was no reciprocity, whereas under CEPT there is reciprocity in that once the good is accepted to be under CEPT all countries must give the preferential tariff. Unprocessed agricultural products and services have been explicitly excluded from AFTA, but some ASEAN members have voluntarily included some unprocessed agricultural goods in their tariff reduction lists.

In implementing the CEPT goods can be placed on the “fast track” or “normal track” timetables. A total of 15 products were originally earmarked for fast track reductions.

The CEPT scheme makes allowance for the exclusion of sensitive products. Apart from those restrictions for the protection of national security, health and cultural traditions, all exclusions are to be temporary in nature and are subject to review. Allowance is also made for member countries to provisionally suspend CEPT preferences in cases when an import surge causes damage to a domestic industry. The CEPT scheme also includes an ASEAN content requirement of 40 percent.

AFTA was not launched on the original date of 1 January 1993 because administratively members were not ready. It was “relaunched” on 1 January 1994. Soon ASEAN governments realized that the AFTA program appeared to have been overtaken by events, particularly by ASEAN members’ own commitments to reducing trade barriers under the Uruguay Round Agreement. At the AEMM in September 1994 in Chiang Mai, Thailand, an agreement was reached to accelerate AFTA’s implementation from 15 years to 10 years. In addition, AFTA is expanded to cover unprocessed agricultural products and all products in the temporary list will have to be taken out within five years by annually removing 20 percent of the items from the list.

AFTA’s acceleration could increase AFTA’s attractiveness to investors. From the outset, AFTA is aimed at enhancing ASEAN’s attractiveness as an investment location, a production and export platform for the global markets. It can also be seen as a training ground for the ASEAN members in their efforts to integrate more fully into the world economy (Soesastro, 1995). The target date has now been brought forward to 2002 from 2008. It was Prime Minister Goh Chok Tong that stated that to be an effective player within the broader fora ASEAN has to move faster to bring down its tariffs and to offer itself as one united region with uniformly low tariffs (*Straits Times*, 15 December 1995).

In responding to the crisis the AFTA Council pledged to maintain open economic policies by reaffirming the commitment to realize AFTA by 2003, and subsequently decided to accelerate it to 2002. In December 1998 ASEAN governments agreed to achieve a minimum of 90 percent of their total tariff lines with a maximum 5 percent tariff by 2000 and 100 percent of items in the inclusion list with a maximum 5 percent tariff by 2002. In March 1999 ASEAN economic ministers discussed a proposal to

agree on achieving a 0 percent tariff for at least 60 percent of items in the inclusion list by 2003 AFTA members have submitted individual acceleration plans. Average tariff rates for products under AFTA will be reduced from 5.4 percent in 1998 (compared to 12.8 percent in 1993) to 2.7 percent in 2003. Firm implementation of AFTA is perhaps more important than announcements of earlier completion dates. ASEAN's credibility depends on the firmness with which individual ASEAN members implement their AFTA commitments. Malaysia's backtracking on its automotive sector liberalization affects AFTA's credibility.

Trade and investment cooperation need to be seen as inseparable twins. The ASEAN Investment Area (AIA) received a boost with the signing of the Framework Agreement on ASEAN Investment Area in October 1998. The objective of AIA is to make ASEAN a competitive, open and liberal investment area through a binding agreement. It is not clear as yet whether the agreement will have an immediate effect on investments into ASEAN. The agreement opens all industries (with exceptions specified in the temporary exclusion list and the sensitive list) for investment by ASEAN investors only by 2010 and by all investors by 2020. It also grants national treatment, with the same exception as above, to ASEAN investors by 2010 and to all investors by 2020. As a binding agreement the AIA is a much more progressive document than the APEC Non-binding Investment principles. However, considering that AFTA's completion is scheduled for 2003, the timetable for AIA appears to be too far into the future. It would make sense to accelerate AIA's implementation by at least 5 years.

Towards Financial Integration? As if guided by some kind of premonition about the coming of a financial crisis, ASEAN finance ministers only held their first ever meeting on 1 March 1997 in Phuket, Thailand. The meeting's aim was to promote ASEAN cooperation in the area of finance. It produced a Ministerial Understanding that provides a framework to enhance cooperation and facilitation in several areas of finance within the existing institutional arrangement. An ASEAN Finance Ministers' Meeting (AFMM) was to be conducted regularly and assisted by the ASEAN Senior Finance Officials' meeting (ASFOM). The activities were to include exchanging views on macroeconomic policies, improving transparency of policies, regulations and rules affecting the financial sector, promoting ASEAN as an efficient and

attractive financial and investment region, promoting public-private sector linkages in the area of finance, and developing ASEAN human resources in the area of finance. The meeting emphasized three particular issues: the importance of strengthening the supervisory and regulatory framework of the banking sector; the need to liberalize the financial services sector further in a gradual fashion, including through the WTO; and the utility of the ASEAN Swap Arrangement in view of the dramatic changes in the global financial environment.

When the crisis hit, ASEAN was not in the position to do anything for its members. The Swap Arrangement was far from adequate. An informal proposal from Japan to establish an Asian Monetary Fund was shot down. The crisis hit countries had to resort to the IMF. On 1 December 1997 a Special ASEAN Finance Ministers' Meeting took place in Kuala Lumpur to discuss the causes of the crisis and the policy responses. They agreed to renew the Swap Arrangement that was due to lapse in August 1999, but no other concrete initiatives were taken. The finance ministers began to toy with the idea of cooperative efforts to redefine the criteria for sound economic policies. This would be an important step in the direction of developing regional surveillance. Indeed, the crisis has opened up a window of opportunity for the region to become more open to collective monitoring and review of policies. The ASEAN finance ministers appear to be a few steps ahead of their other colleagues, especially foreign ministers, on this matter.

Finance ministers were also of the view that to a large extent efforts to improve the transparency of financial markets must be undertaken on a global basis. In their view, the IMF, together with other international financial institutions, should develop a global framework to collect, analyze, and disseminate information on developments in the financial area. In their call for international support, the finance ministers at their second meeting in February 1998 in Jakarta urged the international community to recognize the structural and financial reforms undertaken by ASEAN countries and to respond favorably to these initiatives. The most concrete step taken by the finance ministers concerned the regional surveillance mechanism within ASEAN. This mechanism was to be developed within the general framework of the IMF with the assistance of the Asian Development Bank (ADB). Their view is that the contagion and systemic risks facing the region make it necessary for ASEAN to develop such a

mechanism. Finance ministers suggested that an ASEAN Select Committee comprising members of the ASEAN Central Bank Forum, which was established in November 1997, and Finance Officials would form the core of the mutual surveillance. They also decided to set up a Permanent Secretariat (subsequently placed within the ASEAN Secretariat) to facilitate this initiative with the assistance of the ADB.

The idea of a surveillance mechanism was subsequently watered down to a surveillance process. The process is supposed to work on the basis of peer review, and the process should aim at “providing recommendations on possible actions that could be taken at the country and/or regional level.” If this can be successfully implemented it will definitely transform ASEAN into a different association from what it is now. Perhaps the judgment is still out as to whether the process can achieve its objectives. It has been a slow process and reports by insiders suggest that the monitoring and review have been very superficial because of lack of transparency. In addition, the surveillance reports prepared for the meeting are not made available to the public. There is all the likelihood that the inauguration of this initiative that was made with some fanfare that raised great expectation would only result in a flop that would further demoralize ASEAN. What this may suggest is that indeed ASEAN members are as yet not ready to move in the direction of institutional integration. The crisis has made financial cooperation a necessity, but for such cooperation to work there should be a willingness by participating countries to give up some of its sovereignty. It remains to be seen whether financial cooperation can become a new important pillar for AEC.

A review of the evolution of AEC clearly shows that over the past 30 years AEC has moved in the direction of more outward-oriented cooperation schemes. AFTA is bound to be outward oriented. It is a means to integrate the region with the rest of the world. AEC schemes have also moved away from government-led schemes to private-sector oriented programs. Regional economic integration has been largely market driven. AFTA Plus should be designed to facilitate this market driven process. Perhaps, the dichotomy between resource pooling and market sharing should no longer be made. AEC should involve both. It also needs to address the problem of development gaps between the older and newer members of ASEAN. Essentially, the

AEC agenda should be well-balanced. There should be something for each member of ASEAN. ASEAN may have to apply the “10 minus X” principle in all aspects of AEC. These issues will become more pronounced with deeper economic integration.

Deepening Economic Integration and Its Institutional Implications

The most important recent development in the realm of ASEAN economic cooperation is the arrival of the idea of an ASEAN Economic Community. This idea has been placed in ASEAN’s agenda since it was proposed by PM Goh Chok Tong at the ASEAN Summit in 2002. A number of ideas on deepening ASEAN economic integration have since been developed. These include the *Concept Paper on the ASEAN Economic Community* prepared by the Institute of Southeast Asian Studies (ISEAS), and the ASEAN ISIS (Track Two) Report to ASEAN Policy Makers, *Towards an ASEAN Economic Community*. In addition, the *ASEAN Competitiveness Study* by McKinsey and Company, which was commissioned by the ASEAN Economic Ministers (AEM), also proposed a modality for ASEAN to move towards a single regional market.

A High Level Task Force (HLTF) has been created by the AEM to develop a set of recommendations on deepening ASEAN economic integration. The HLTF is expected to produce its recommendation for the ASEAN Summit in October 2003 in Indonesia. There is no shortage of ideas from which the HLTF can draw on. The big question is whether there is political will on the part of ASEAN leaders to commit themselves towards the creation of an ASEAN Economic Community by 2020.

The significance for ASEAN to moving towards deeper economic integration is without doubt. ASEAN members have realized that they have a much greater chance to maintain their international competitiveness if they work together towards the creation of an integrated market. As shown earlier, this has led to the historic decision in 1992 to form the ASEAN Free Trade Area (AFTA). A decade later, with the AFTA project already implemented in the older ASEAN members, it has become all the more important for the group to deepen and accelerate regional economic integration. ASEAN’s position in the regional and global stage had been adversely affected by internal and external developments during the past few years. The challenge faced by ASEAN is not simply to restore its position or to catch up with the rapid progress in

the region and the world. It needs to stay ahead of the curve. Deepening and accelerating regional economic integration will significantly elevate ASEAN's attractiveness as a global production base.

Economic integration will also contribute to regional cohesion. This will strengthen ASEAN's bargaining power and geopolitical influence. Deeper economic integration has been a key element in the grouping's growing trade and economic ties with extra-regional countries. These ties will be further strengthened by the development of closer economic partnerships, including free trade agreements, between ASEAN and a number of its trade partners. The ASEAN-China Comprehensive Economic Cooperation Framework Agreement is the first such initiative that will be followed by similar ones with Japan and other countries or group of countries. In East Asia, ASEAN may even be placed in the position of becoming a "hub". This is a very strategic and potentially powerful position. It will gain this position perhaps by default as none of the other East Asian economies can gain such a leadership position. The study by the ASEAN Secretariat, *Towards a Single Economic Space*, made the point that ASEAN's closer economic partnerships and free trade arrangements with key trade partners are expected to accelerate ASEAN's own economic integration towards a single economic space in the global economy.

The creation of an ASEAN Economic Community by 2020 is a feasible proposition. The ASEAN Economic Community should be seen as a logical extension of the various initiatives taken and implemented by ASEAN thus far towards greater economic integration. It is the next logical step for ASEAN to take. However, this next step requires strong and firm commitments by ASEAN members to move forward in a credible and timely manner. This can be aided by a clear articulation of the ultimate form of integration as well as the appropriate path to achieving it. Equally important is a commitment by ASEAN members to embark on greater institutional integration.

Main Elements. The main elements of the ASEAN Economic Community have been spelled out in a Report of an ASEAN ISIS discussion, *Towards an ASEAN Economic Community*, published in April 2003 (further referred to as the ASEAN ISIS Report). The Report began with a discussion of the ultimate form of integration. It then

examined the path towards deeper integration and the institutional design to successfully undertaking the ASEAN Economic Community project, taking into consideration the political factors likely to be at play.

The Report noted that in a sense ASEAN members have already committed themselves to deeper economic integration. The ASEAN Vision 2020, adopted by ASEAN leaders in 1997, envisaged the creation of “a stable, prosperous and highly competitive ASEAN Economic Region in which there is a free flow of goods, services and investment, [and] a freer flow of capital”

The ultimate form of integration as proposed in the ASEAN ISIS Report is the creation of a fully integrated market (a Common Market) in 2020 but takes into account areas where members reserve deeper integration for a later stage (beyond 2020). It suggests that ASEAN adopts a “Common Market minus” approach. An alternative approach is to adopt the “FTA plus” arrangement, namely an FTA that includes some elements of a Common Market. The former approach can be more liberalizing. Its additional advantage is in the explicit formulation of some kind of a “negative list” that can be brought under the umbrella of the integration project.

A Common Market is understood to be an arrangement in which there are complete free flows of trade, including internal trade – as in a Customs Union, as well as free mobility of labor and capital. Full mobility of labor involves the right to reside and accept employment in all member countries, and mutual recognition of professional and technical qualifications. Full capital mobility requires lack of exchange controls, and full rights of establishment for firms in all countries.

It has been suggested that credible removal of tariffs may require policy harmonization or common policies on taxes, wages, prices, etc. It may even require common rules governing competition and monopoly, as well as in environmental regulations. However, it is still a matter of controversy whether a full Common Market requires a single currency and a common system of prudential regulations of banks and other financial institutions.

ASEAN has no problems in achieving completely free flows of trade and investment in 2020. Under the AFTA program the region will achieve completely free flows of goods by 2020 already. The older ASEAN members (ASEAN-6) have adopted a target of zero-tariff AFTA by 2010. The newer ASEAN members have also adopted zero-tariff AFTA, initially by 2018, but subsequently they have advanced the deadline to 2015 for most products. Under the ASEAN Investment Area (AIA) agreement, by 2020 there will already be free flow of investments, not only amongst ASEAN members but globally.

In fact, by 2020 most intra-ASEAN liberalization in trade and investment will be multilateralized. ASEAN members of APEC may have introduced zero MFN (most favored nations) tariffs by 2020. Other ASEAN members may have already brought down many of their MFN tariffs to zero. In view of this, ASEAN has the potential to embark of a program to harmonize its external tariffs. This can be undertaken through progressive reduction of MFN tariffs by subsets of ASEAN members, especially those with higher tariffs. In the context of the WTO round, ASEAN members can develop common strategies to reduce their MFN tariffs. These efforts help accelerate the free flow of internal trade (as in a Customs Union) and will significantly reduce transaction costs due to the progressive elimination of rules of origin (RoO) requirements.

The liberalization of trade in services in ASEAN is pursued under the ASEAN Framework Agreement on Services (AFAS). The intention is to move more progressively than under the GATS (General Agreements on Trade in Services) of the WTO. Hence GATS Plus. This has yet to be demonstrated by the ASEAN members.

In the area of services liberalization ASEAN members need to examine two questions of policy importance. First, ASEAN should give serious attention on the sequencing of its services liberalization, giving priority to cooperation in strengthening the regulatory environment and institutional capacity. Second, ASEAN should seriously examine whether in the liberalization of services is more beneficial for ASEAN to adopt a policy of global opening.

The ASEAN Vision 2020 proposes to accelerate the free flow of professional services. In the meeting of ASEAN Ministers of Labor (or Manpower) held in Indonesia last May, some ASEAN members have raised the possibility of a free flow of labor in the region. It should be noted that significant flows of unskilled labor are already happening in the region. Regularized flows can be a means to creating a progressively liberal environment in this area. A common policy approach to regularize these flows should be brought under the umbrella of the integration project. The agreement reached at that meeting was to give priority to the free flow of skilled professionals. ASEAN members agreed to begin to develop standards of quality for professionals. Rather than developing a common standard, it seems that ASEAN members will develop national standards and later adopt some kind of a mutual recognition agreement (MRA). The free flow of professionals and skilled labor is an important element of investment liberalization in the region. The ISEAS Study recommends the removal of work permits for ASEAN skilled and creative workers that are employed in an ASEAN country outside their home country. The McKinsey Study proposed the introduction of special visas for skilled labor to ensure a balance between demand and supply.

Free mobility of capital in ASEAN is another important element of investment liberalization in the region. Financial sector liberalization in the region should be focused on its appropriate sequencing. Accordingly, in this area as well priority should be given to strengthening the regulatory environment and institutional capacity. With a few exceptions the region already has liberal exchange regimes. Concerns over the volatility of short-term capital flows are legitimate and can be addressed also through the development of a common policy approach.

In determining the appropriate path towards deeper integration it is important to assess the region's "initial conditions" for integration. In the case of ASEAN it is obvious that simultaneous trade and investment liberalization should be its main vehicle for integration. ASEAN has appropriately embarked on trade and investment liberalization through AFTA and AIA. In view of the gaps that exist among ASEAN members, particularly between ASEAN-6 and the newer members, it appears that intra-regional investments can play an important role in building regional cohesion.

Therefore, the AIA needs to move more progressively. ASEAN should also take measures to seriously eliminate all non-tariff barriers (NTBs).

Fast tracking of trade and investment liberalization in specific sectors or areas may help build capacity and constituency for further liberalization. The main recommendation of the McKinsey Study is the fast-tracking of liberalization of selected sectors, namely consumer goods and electronics, and possibly adding on other high-potential sectors such as tourism, agro-biotechnology, and automotive industry at a later stage.

It needs to be noted, however, that ASEAN's economic integration project, which is driven by a deepening and acceleration of trade and investment liberalization, might have to introduce safeguard (or recourse) mechanisms that are based on clear principles. It is important to ensure that such safeguard mechanisms do not become obstacles to longer-term liberalization efforts.

Attempts must be made to achieve some overall balance of gains for members. This is the first principle. Experience elsewhere has shown that trade-offs can be made between net economic costs and political benefits for members. If this cannot be achieved, some flexibility can be adopted. This principle is known as ASEAN minus X (or 10-X) and has been adopted for some time. Perhaps it is more appropriate now to formalize a two-speed ASEAN, which can involve different subsets of ASEAN members for different areas of cooperation. As the consensus-based approach becomes more difficult to utilize in ASEAN there have been proposals to introduce "qualified majority voting" for technical policy matters (the McKinsey Study) or even "coalitions of the willing".

ASEAN may also consider introducing the principle of redistribution of income or resources, which can be formalized in the form of either compensation schemes or joint efforts to provide regional public goods that would be mostly beneficial to the less developed members of ASEAN.

The above helps ensure the political feasibility of the integration project. In addition to the above, there may be a need to exclude, temporarily or even permanently, some

sensitive sectors from the liberalization objective. However, ASEAN members must come to an agreement to bring these sectors under the umbrella of the integration project through a common policy approach. Such common policies can focus on managing production and trade. The use of domestic policy instruments (e.g. subsidies) as a substitute for trade policy should also come under some common discipline.

Another important element of the integration project is the adoption of a common external trade policy. ASEAN as a group and individual ASEAN countries have embarked on a series of preferential, discriminatory free trade agreements (FTAs). ASEAN needs to develop a common framework so as to ensure that each of these initiatives can become a building block (and not a stumbling block) for wider regional agreements. It also should ensure that ASEAN as a group can drive the process. Otherwise ASEAN will become a spoke to arrangements that are determined by the trade partner. This will make it difficult to later amalgamate the different initiatives towards a wider regional arrangement. It should also be noted that uncoordinated proliferation can lead to increased tensions between ASEAN members. Some ASEAN countries that are not in the position to participate in the game of forming FTAs may be left out.

It is important to keep in mind that the production networks in ASEAN have become more complex. A common framework helps ensure that business transaction costs are minimized. Rules of Origin (RoO) that are restrictive constrain sourcing of inputs. RoO that vary across products and agreements add to the complexity and costs. ASEAN members should also promote the concept of an ASEAN cumulative RoO.

Singapore has entered into different bilateral agreements with different RoO. This may not matter for Singapore because it has no sectors (textile, automobiles) where restrictive RoO applies. In the area of electronics (IT) its bilateral agreement with the US has introduced a new rule, the so-called Integrated Sourcing Initiative (ISI), which is potentially beneficial for the region. In fact, a common policy approach can help define the role for the first mover(s) such as Singapore to strategically engage major partners in the Southeast Asian region as a whole.

The common policy framework for ASEAN may also involve harmonization of external tariffs. Subsets of ASEAN can do this by forming separate Customs Unions that will help accelerate the reduction of MFN tariffs.

Finally, a critical element of the integration project is the establishment of a credible dispute settlement mechanism (DSM). With the adoption of the Protocol on Dispute Settlement Mechanism in 1996, ASEAN has begun to move to more formalized dispute settlement mechanisms. However, dispute settlement within ASEAN should be taken out off the political realm (involving ministers or senior officials) and be brought into the legal realm. The ISEAS Study recommends the establishment of a high-level judicial body to enforce the DSM. This proposed court should be staffed by judges from every ASEAN member country. In the McKinsey Study a Dispute Settlement Bureau is to be established within the ASEAN Secretariat to process claims and to manage a roster of panelists. Ruling of disputes would be made by independent panelists who are nominated by ASEAN member countries. The study also recommends that private firms be given access to the DSM for limited types of dispute. Under the existing 1996 DSM Protocol, only member governments can bring a dispute before the DSM.

Institutional Innovation. In addressing the important issue of institutional design, the ASEAN ISIS Report believes that for ASEAN to be able to move ahead it must be transformed from being an inter-governmental cooperation structure into a regional institution. This process can only be gradual. The Report proposed the “strategic introduction” of “regional units” into the existing structure, but need not be incorporated into the ASEAN Secretariat.

The creation of “regional units” is a first step towards institutional integration. Regional units are staffed by nationals who are formally independent of governments. The regional units should initially be given charge of areas where common policy approaches have been adopted. This would include, for instance, the management of development collaboration (e.g. implementing the IAI – Initiative for ASEAN Integration) and the monitoring of progress of various other initiatives.

A stronger ASEAN Secretariat, together with the “regional units” can function as the driver and guardian of the integration objective. This structure consisting of the ASEAN Secretariat and the “regional units” may eventually be “amalgamated” into a kind of ASEAN Commission. However, this need not be the case. The Secretariat and the “regional units” can continue to co-exist in a synergistic but decentralized fashion, with the regional units managing functional cooperation projects. National level political oversight continues to be provided by the AMM (ASEAN Ministerial Meeting) aided by the SOM (Senior Officials Meeting) and the AEM (ASEAN Economic Ministers Meeting) aided by the SEOM (Senior Economic Officials Meeting) or eventually an ASEAN Council of Ministers.

Conclusion

It is possible for ASEAN to move towards an Economic Community that is defined as a “Common Market minus”. One main element of this idea is to bring the areas or sectors that are excluded from liberalization under the umbrella of the integration project and be managed through a common policy approach by newly created “regional units”. This will be a major institutional innovation for ASEAN. Short of being transformed into a supranational arrangement, which the region need not aim for, this new institutional modality may be the optimal one for ASEAN. However, these developments should be carefully crafted and be based on clear principles.

Indonesia as host of the ASEAN Summit in 2003 must provide leadership in developing these new concepts and mobilizing political support for moving towards an ASEAN Economic Community. President Megawati, in her Inaugural ASEAN Lecture, stressed the need for ASEAN to be integrated politically so that a “we-feeling” could be developed among its members. This is an important element of ASEAN’s transformation. The ASEAN Economic Community project, pursued in tandem with serious efforts to create an ASEAN Security Community, will transform the region into a zone of peace and prosperity, a force of stability in the wider region, and a constructive player in the global stage. President Megawati has outlined this new architecture for ASEAN as a regional entity with two legs. She stated: “If ASEAN in recent years seems to have been moving rather slowly, it may be because it has been going forward on only one leg – the leg represented by economic cooperation. This is the biggest challenge of change that ASEAN must face today: it

must no begin to move on more than one leg. It must now use both the leg of economic cooperation and the leg of political cooperation so that it can move forward faster and in a more balanced manner.” It is in the interest of countries in the wider region, including Japan, to support the strengthening of ASEAN’s two legs.

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