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# The Road to ASEAN Economic Community

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Economic growth and cooperation is very much at the centre of the 1967 ASEAN Declaration (Bangkok Declaration). In the declaration, the first objective of ASEAN is to accelerate economic growth together with social progress and cultural development. The third objective includes the promotion of active collaboration and mutual assistance on matters of mutual interest in economic matters, among others. And the fifth is to collaborate more effectively for agricultural and industrial development, trade expansion, improvement of transport and communication, etc. Over the course of 50 years, ASEAN's economic agenda has moved from a preponderance of regional economic cooperation and trade preferential initiatives in the 1970s and 1980s to regional economic integration in the 1990s and 2000s, and then moving towards the ASEAN Economic Community (AEC) in the 2010s.

## **Economic Cooperation in the 1970s and 1980s**

The economic agenda in ASEAN's first few years was a slew of small sectoral cooperation projects. But their implementation was slow (Soesastro, 1995). During this period, the main but very important achievement was, as former Prime Minister Lee Kuan Yew of Singapore stated, '... the understanding

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and goodwill created at the various ASEAN meetings which had helped to lubricate relationships which could otherwise have generated friction'.<sup>1</sup> In 1974, the ASEAN Foreign Ministers agreed during the Seventh ASEAN Ministerial Meeting that '... ASEAN, having completed its first stage and presently entering its second stage of cooperation, should now embark on a substantial and meaningful economic collaboration ... [focusing] ... on trade liberalization, complementary agreements and package deal agreements'.<sup>2</sup> This culminated in the signing of the Declaration of ASEAN Concord on ASEAN cooperation during the First ASEAN Summit. The ASEAN Concord included detailed areas of economic cooperation on basic commodities (particularly food and energy), industry, and trade, and the joint approach to international commodity problems and other world economic problems. Thus, economic cooperation in ASEAN essentially began in earnest only at the start of ASEAN's second decade.

## Cooperation on Basic Commodities, Energy, and Global Commodity Issues

At that time, the pressing economic concerns facing the ASEAN Member States (AMSs) were the areas of economic cooperation in the ASEAN Concord. Thus, for example, the cooperation on basic commodities and energy as well as the joint approach to international commodity problems were in response to the tremendous volatility of the international commodity markets at that time. The international price of crude petroleum tripled between 1973 and 1974 and the international price of rice more than tripled from 1970 to 1974. It was against the backdrop of sharp global price increases in food and energy prices, indicative of the world food and energy crises, that President Soeharto emphasised, in his opening address during the first meeting of the ASEAN Economic Ministers (AEM) in Jakarta in November 1975, the importance of regional cooperation in the supply and production of staple foods and energy for regional resiliency in ASEAN.

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<sup>1</sup> Joint Communiqué of the Fifth ASEAN Ministerial Meeting, Singapore, 13–14 April 1972 (in ASEAN Secretariat, n.d.[a]: 72).

<sup>2</sup> Joint Communiqué of the Seventh ASEAN Ministerial Meeting, Jakarta, Indonesia, 7–9 May 1974 (in ASEAN Secretariat, n.d.[a]: 75).

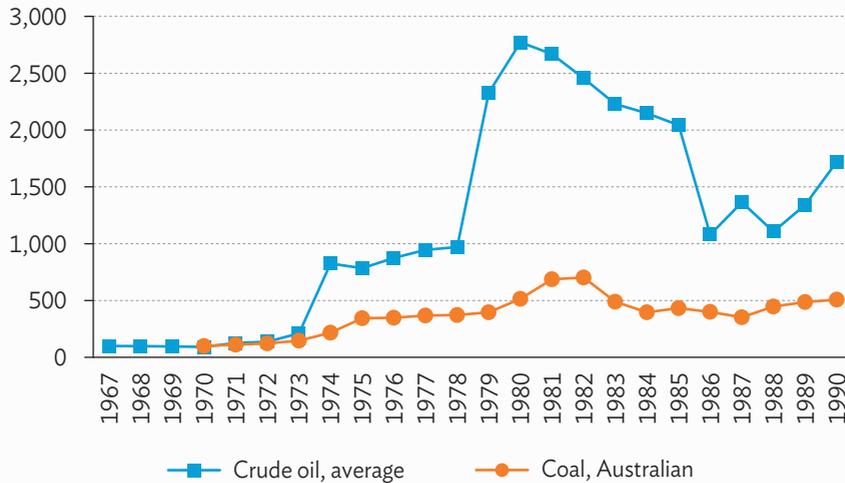
Towards this end, the AMSs signed the Agreement on the ASEAN Food Security Reserve in New York in October 1979, just a few months after the first meeting of the ASEAN Agriculture Ministers in Manila. Similarly, the Energy Ministers, during their first meeting in September 1980, agreed to formulate a framework for energy cooperation in ASEAN. In June 1986, the five original AMSs plus Brunei Darussalam signed the Agreement on ASEAN Energy Cooperation in the areas of planning, energy development, conservation, training, energy supply security, and exchange of information. Equally important, they also signed on the same day the ASEAN Petroleum Security Agreement establishing the ASEAN Emergency Petroleum Sharing Scheme, including the guidelines for the scheme. It is worth noting that the international price of crude petroleum dropped sharply in 1986 to about half the price in 1985.

The sharp drop in the international price of crude petroleum in 1986, after the sharp price increases in 1974 and 1979, illustrates very well the volatility of the international primary commodity markets during the 1970s and 1980s (see Figures 1a and 1b). In fact, the price volatility of rice was even greater than that of crude petroleum. Figures 1a and 1b also show the movement of prices of many ASEAN export products, such as palm oil, rubber, tin, and sugar. They all show substantial price volatilities.

ASEAN was a major global producer and exporter of many primary commodities in the 1970s and 1980s. Not surprisingly, the volatile international commodity markets were a major concern of the ASEAN Leaders as reflected in the call in the ASEAN Concord for a joint ASEAN approach to international commodity problems. Basing on the communiqués of the AEM meetings, ASEAN was engaged as a group on major commodity issues including the International Natural Rubber Agreement and its buffer stock scheme for natural rubber and the United Nations Conference on Trade and Development (UNCTAD) Integrated Programme for Commodities, especially on the establishment of the Common Fund. The Economic Ministers would almost invariably discuss the status of the negotiations on the Common Fund, with a call for its early establishment during their meetings in the late 1970s. They also monitored international negotiations and agreements on natural rubber, tin, and sugar – three important export products of ASEAN – while increasingly voicing disappointment on lack of progress in multilateral forums on commodities and on the disruptive effect on ASEAN exports of domestic policies of developed countries and indiscriminate dumping of stockpiles.

**Figure 1a: Annual Prices Indices of Crude Oil and Coal, 1967–1990**

Crude oil base year is 1967 (=100), coal base year is 1970

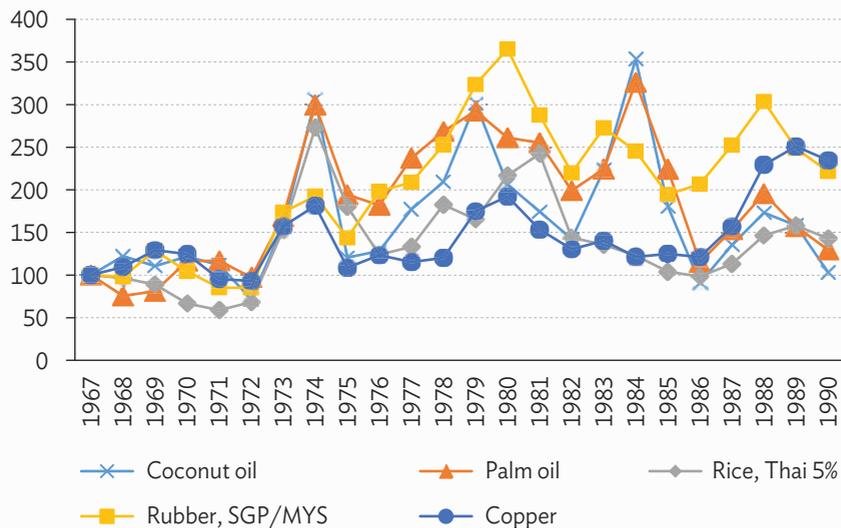


Note: Index numbers are derived from nominal US\$ prices.

Source: The World Bank Commodity Markets, <http://www.worldbank.org/en/research/commodity-markets>

**Figure 1b: Annual Price Indices of Oils, Rice, Rubber, and Copper**

Base year is 1967 (=100)



Note: Index numbers are derived from nominal US\$ prices.

Source: The World Bank Commodity Markets, <http://www.worldbank.org/en/research/commodity-markets>

The expression of disappointment in the communiqués of the AEM was most prominent in the early 1980s amidst worldwide recession on commodities and the attendant adverse impact on ASEAN farmers and producers. It was perhaps also an expression of the growing realisation of the failure of the international commodity negotiations to stabilise world commodity markets in the face of ‘... policies of major developed countries causing structural surpluses which are continuously dumped on to the world market aided by various export subsidisation measures and through the surplus disposal measures’,<sup>3</sup> which the Ministers considered the primary reason for the crisis in trade in agricultural commodities in the early 1980s. Thus, the Ministers agreed that the then forthcoming GATT<sup>4</sup> Uruguay Round should address distortive domestic agricultural policies and dumping strategies. As agricultural trade and policy issues were indeed included in the GATT Uruguay Round, the succeeding communiqués of the AEM on international issues focused more on the Uruguay Round, with a separate statement on the Uruguay Round during the AEM meetings in Pattaya, Bali, and Kuala Lumpur in 1988–1991, the AEM Declaration on the Uruguay Round in Luxembourg in June 1991, and the ASEAN Statement on the Uruguay Round at the meeting in Seoul of the Asia-Pacific Economic Cooperation (APEC) forum in November 1991. The declaration in Luxembourg and the statement in Seoul were an expression of the AMSs working together and having a joint approach to international economic issues, itself a positive benefit from the mandate included in the 1976 ASEAN Concord.

It is worth noting that the sharp price increases and declines of primary products in the 1970s and 1980s have substantially impacted ASEAN economies. Arguably, Malaysia and especially Indonesia benefited tremendously from the sharp price increases, especially of crude petroleum, in the 1970s because of their relative abundance of resources, including oil. Equally important, Indonesia managed the oil (and other commodity) bonanza relatively well, one of the few successful cases of escaping the so-called resource curse (or Dutch disease), which some oil-producing countries such as Nigeria succumbed to. On the other hand, the Philippines, being a net oil importer, was hard-hit by the oil price increases and had a

<sup>3</sup> Joint Press Release of the Eighteenth ASEAN Economic Ministers Meeting, Manila, 28–30 August 1986 (in ASEAN Secretariat, n.d.[a]: 214).

<sup>4</sup> GATT stands for General Agreement on Tariffs and Trade.

double blow of sharply higher oil price imports and sharply lower prices of export products during 1979–1982. Coupled with poor macro and external debt management (as compared to Thailand), this ultimately led to the Philippine economic crisis in 1983. The integrative essay in *ASEAN@50 Volume 3 – ASEAN and ASEAN Member States: Transformation and Integration* – discusses in more detail the economic development and transformation of the AMSs and the region during the past half century.

## Industrial Cooperation and Cooperation in Trade

The heart of the substantial and meaningful economic collaboration that the ASEAN Foreign Ministers noted in 1974 were industrial cooperation and cooperation in trade, guided by the recommendations of the United Nations Study Team on ASEAN Economic Cooperation in ASEAN headed by G. Kansu. The Kansu Report recommended three main techniques for advancing economic cooperation in ASEAN (ASEAN, 1978):

- selective trade liberalisation in selected commodities through inter-governmental negotiations, with the long-term goal to realise free trade step by step;
- industrial complementary agreements initiated by the private sector and facilitated by tariff concessions; and
- joint industrial projects as package deal arrangements.

The AEM recommended (in their first meeting in 1975) – and the 1976 ASEAN Concord largely adopted – the Kansu Report approach of product-specific regional industrial cooperation/complementation projects and selective trade preferences in priority commodities (both basic commodities and the industrial projects). The 1977 Agreement on ASEAN Preferential Trading Arrangements (PTA) emphasised the basic commodities (especially rice and petroleum) and the products of the ASEAN Industrial Projects.

The recommended product areas for joint industrial ventures and industrial complementation agreements were mainly capital-intensive industries and machineries. Thus, the Kansu Report was basically about regional cooperation for industrial development, using the larger regional market (as against the smaller national market) as the main draw. Given that the AMSs were largely primary product exporters and

importers of manufactures, the overall industrial development strategy at the regional level of the Kansu Report followed the import substitution route, which was the dominant development strategy for industrialisation at that time.

Industrial complementation and cooperation initiatives in ASEAN during the 1980s included:

- The ASEAN Industrial Projects, with the basic ASEAN agreement on them signed in 1980, which were intergovernmental joint ventures with the host country holding at least 60% equity. These were also chosen as ASEAN projects and to be accorded special trading arrangements under Article 10 of the 1977 Agreement on ASEAN PTA. The projects agreed upon were fertiliser projects for Indonesia, Malaysia, and the Philippines; copper fabrication for the Philippines; soda ash (subsequently replaced by potash mining) for Thailand; and diesel engines (ultimately not pursued) for Singapore.
- The ASEAN Industrial Complementation (AIC) initiative, whose basic agreement was signed in 1981. In contrast to the ASEAN Industrial Projects, which were independent projects but meant for the regional market, AIC projects were a package of complementary products (different components of a car, for example) each located in a separate participating country in ASEAN (at least four countries in each package). The private sector, through the ASEAN Chambers of Commerce and Industry, recommended the products but they were approved by the ASEAN Committee on Industry, Minerals and Energy. Two packages, both in the automotive sector, were approved.
- The ASEAN Industrial Joint Ventures (AIJV) initiative that the ASEAN Chambers of Commerce and Industry proposed, with basic agreement signed in 1983. The AIJV initiative allowed for participation of nationals from only two countries and raised the margin of preference (MOP) of 50% to a much more generous 90% margin-of-tariff preference by 1988.
- The ASEAN Brand-to-Brand Complementation (BBC), with the signing of the memorandum of understanding in 1988 specifically for the automotive industry under the basic agreement on the AIC. This initiative ensured better matching of parts produced in different participating ASEAN countries because they were all part of a brand (e.g. Mitsubishi, Volvo, Toyota).

The cooperation initiatives above, which were undertaken one after the other in so short a time, suggest willingness of the AMSs to innovate and undertake different but related mechanisms in the pursuit of deeper industrial complementation and linkages in ASEAN. However, the initiatives largely failed or lapsed into irrelevance because of the establishment of the ASEAN Free Trade Area (AFTA) in the 1990s. Reasons for the failures include:<sup>5</sup>

- (1) Problematic ASEAN Industrial Projects. These were large-scale projects where even the ASEAN market was not enough for efficient production. Production costs were higher than what had been initially assumed and the world average costs, and required region-wide tariff protection and monopoly power for survival. Long bureaucratic delays in implementation happened as approval was needed from all five AMSs. The private sector had virtually no inputs. The Indonesian and Malaysian projects pushed through, however, because they were national projects even before the ASEAN Industrial Projects scheme.
- (2) The difficulty of choosing suitable projects (despite about 30 project proposals) for allocation to at least four countries where each tended to favour the high-value-added products. Given the multiplicity of brands, the parts and components ended up mismatched, with production facilities lacking compatibility, and with highly unequal or little trade between participating countries.
- (3) The BBC initiative addressing the mismatch problem of the AIC initiative. Arguably, it was the most successful and durable of the four initiatives, but would ultimately become largely irrelevant because of AFTA. Nonetheless, there is now significant intra-ASEAN trade in automotive products, facilitated by AFTA but founded on the BBC initiative.
- (4) Large-scale AIJV projects with most having foreign participation but lesser ASEAN-wide scope. Long delays occurred in the identification, formulation, and approval processes. The AMSs were unwilling to participate because the deep MOP would adversely affect domestic competitor producers and, as such, some quid pro quo was demanded. Also, ASEAN investors seemed to prefer joint ventures with non-ASEAN partners while the ASEAN joint ventures tended to be outside the AIJV initiative.

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<sup>5</sup> The discussion on the reasons for the failures draws heavily on Tan (2003) and Soesastro (1995).

Overall, the fundamental problem of the AIC initiatives in the 1980s was that they were drawn under an import substitution mindset and regime in most of ASEAN at that time. The long bureaucratic delays in identifying and approving projects likely came from tension arising from the national interest of protecting domestic producers or nationally developing an industry, and the market-sharing challenges of the regional participation in the complementation initiatives. The experience indicates the limits to industrial cooperation and complementation in a relatively protected and protectionist regional economy.

## Tariff Preferences

The signing of the Agreement on ASEAN PTA in 1977 kick-started the process of negotiations for the granting of tariff preferences among the AMSs on ‘... Basic Commodities particularly rice and crude oil; products of the ASEAN industrial projects; products for the expansion of intra-ASEAN trade; and other products of interest to Contracting Parties’.<sup>6</sup> The agreement provided the framework and mechanism to intra-ASEAN PTA following the spirit of the United Nations–sponsored Kansu Report and in keeping with the encouragement at that time by the international community (e.g. UN General Assembly, UNCTAD) for the establishment of preferences among developing countries. Per the ASEAN PTA agreement, the instruments of preferential trading arrangements consisted of long-term quantity contracts, purchase finance support at preferential interest rates, preference in procurement by government entities, extension of tariff preferences, liberalisation of non-tariff measures (NTMs) on a preferential basis, and other measures. Thus, the 1977 agreement was ambitious and forward-looking, with preference in government procurement not even included in the latest AEC Blueprint for 2025. However, the implementation of the 1977 agreement focused primarily on the extension of tariff preferences in the intra-regional trading of products of member states.

It is worth considering the state of intra-ASEAN trade when the 1977 ASEAN PTA agreement was signed in 1977.<sup>7</sup> Intra-ASEAN exports increased in absolute value from US\$1 billion in 1968 to US\$5.1 billion in 1977.

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<sup>6</sup> Article 4 of the Agreement on ASEAN Preferential Trading Arrangements, Manila, 24 February 1977 (in ASEAN Secretariat, n.d.[a]: 294).

<sup>7</sup> The data and much of the analysis of the paragraph and succeeding paragraph are taken from Naya (1980).

However, as a percentage of total exports of the five ASEAN countries, it declined secularly from 21.8% in 1968 to 15.8% in 1977. Intra-ASEAN imports grew from US\$0.9 billion in 1968 to US\$4.7 billion in 1977, with their share to total imports of ASEAN declining from 15% in 1968 to 12.5% in 1975 before inching up back to 15.3% in 1977. Nonetheless, ‘... the comparable trade ratio [was] in fact larger than intra-regional trade ratios of other regional organizations in developing countries’ (Naya, 1980: IV.2).

Table 1 shows the country shares of intra-ASEAN exports and imports. Singapore accounted for 40% of total intra-ASEAN exports and 57% of total intra-ASEAN imports in 1977. This basically involved bilateral trade with Malaysia and, especially on imports, Indonesia and, to a very far less extent, Thailand. The other bilateral trade pairs were largely marginal, especially for the Philippines. Most of intra-ASEAN trade was in primary products. Nonetheless, the product composition of intra-ASEAN trade varied among the AMSs: Malaysia and Thailand exporting and importing primary products; Indonesia exporting primary products and importing manufactures; and Singapore and the Philippines, the two net importers in intra-ASEAN trade, importing primary products and exporting manufactures (Naya, 1980: IV.2–IV.4). It is apparent that in the face of the volatility of the international primary product markets, the declining share of intra-ASEAN trade to total ASEAN trade and the miniscule share of manufactures in intra-ASEAN trade could have provided further impetus for the 1977 ASEAN PTA agreement with an expressed emphasis on facilitating intra-ASEAN industrial complementation and enhancing intra-ASEAN trade.

The AMSs voluntarily offered 71 tariff items initially in 1977, followed by 755 in 1978, then 1,501 in 1979, and 4,325 by the end of 1979, with a tariff MOP of largely 10%. MOP was increased to 20%–25% for items with import value (as of 1978) rising initially from up to US\$50,000 (in 1980) to US\$10 million (in 1983) during 1980–1985 and became a minimum 25% in 1986 on all items under the PTA which by then covered 12,700 items. In 1987, the 19th AEM Meeting agreed on a 5-year programme of deepening MOP to 50% for existing items in the PTA, at least 25% MOP on new items to be phased into the PTA, reduction in the exclusion lists of individual AMSs to no more than 10% of the number of traded items and no more than 50% of intra-ASEAN trade value, and the reduction of the ASEAN content requirement in the PTA rules of origin from 50%

**Table 1: Share of Intra-ASEAN Exports and Imports 1968, 1973, and 1977**

Year	Indonesia		Malaysia		Philippines		Singapore		Thailand		ASEAN		in US\$ million		
	Exports of/to	Imports of/from	Exports of/to	Imports of/from											
Indonesia	1977	-	-	0.41	0.38	2.46	0.41	19.59	11.23	0.09	6.70	22.54	18.72	1,155	889
	1973	-	-	1.44	0.72	0.05	0.69	14.33	6.63	0.05	3.72	15.87	11.76	378	237
	1968	-	-	2.58	0.32	2.25	0.86	10.76	3.70	0.52	1.04	16.11	5.92	173	54
Malaysia	1977	0.37	0.96	-	-	1.48	0.57	18.93	8.01	1.68	4.44	22.46	13.97	1,151	664
	1973	0.64	2.99	-	-	0.82	0.42	29.29	9.29	0.60	5.26	31.22	17.96	743	362
	1968	0.96	6.79	-	-	3.00	0.04	25.77	10.67	1.19	7.43	30.92	24.93	332	227
Philippines	1977	0.44	3.36	0.56	1.33	-	-	1.26	0.74	0.17	0.30	2.43	5.73	125	272
	1973	0.60	0.09	0.24	0.76	-	-	0.62	0.43	0.18	0.58	1.64	1.86	39	37
	1968	0.44	2.87	0.04	3.77	-	-	0.86	1.00	0.17	0.12	1.50	7.77	16	71
Singapore	1977	10.41	21.13	23.08	29.92	2.31	1.44	-	-	4.51	4.92	40.31	57.42	2,065	2,727
	1973	5.62	16.90	27.85	41.64	1.34	0.79	-	-	3.46	6.34	38.28	65.66	911	1,325
	1968	3.12	12.73	31.09	37.74	0.46	1.06	-	-	5.21	5.98	39.88	57.50	429	523
Thailand	1977	4.10	0.17	3.60	0.93	0.24	0.18	4.31	2.88	-	-	12.25	4.16	628	198
	1973	3.05	0.39	3.96	0.68	0.56	0.24	5.43	1.44	-	-	13.00	2.76	309	56
	1968	0.82	0.94	5.37	1.09	0.13	0.34	5.28	1.51	-	-	11.60	3.87	125	35
ASEAN	1977	15.32	25.62	27.65	32.56	6.49	2.60	44.09	22.86	6.46	16.36	100.00	100.00	5,123	4,749
	1973	9.91	20.37	33.49	43.80	2.77	2.14	49.55	17.79	4.28	15.89	100.00	100.00	2,379	2,018
	1968	5.34	23.33	39.07	42.92	5.84	2.30	42.67	16.88	7.09	14.57	100.00	100.00	1,075	909

Source: Naya (1980) based on basic data from International Monetary Fund Direction of Trade.

to 35% for 5 years on a case-to-case basis.<sup>8</sup> The number of items in the PTA increased to 15,297 by 1990. The AEM, during their 22nd meeting in Bali, recognised the need to improve further the current programme of the ASEAN PTA when it would end in 1992, the next PTA programme

<sup>8</sup> Joint Press Release of the Nineteenth ASEAN Economic Ministers Meeting, Singapore, 9–11 July 1997 (in ASEAN Secretariat, n.d.[e]: 216). The Ministers also agreed to a standstill on non-tariff barriers.

until 1999 deepening MOP to 75%, reducing the exclusion list to 5%, and reducing the ASEAN content requirement to 35% (except for Indonesia at 41%) in selected chemical products.

A reading of the communiqués and press releases of the AEM meetings during the period suggests a cautious, gradual but progressive deepening and acceleration of the PTA in terms of number of items, MOP, import value, shift from ‘product-by-product approach’ in the early years to an ‘across-the-board’ approach after 1980, planned reduction in the items in the exclusion lists, and experimentation on the ASEAN content requirement in the rules of origin. As reflected in the 13th AEM Meeting (1982) mandate to the Committee on Trade and Tourism to study the possibility and desirability of establishing an ASEAN free trade area, AMSs officials exhibited continuing commitment to deepen intra-regional trade in ASEAN.

Data suggest marginal impact of the PTA on intra-ASEAN trade. In 1986, the PTA covered only 5% of intra-ASEAN 6 (including Brunei Darussalam) trade; intra-ASEAN 6 share to total ASEAN 6 exports declined from 20% in 1970 to 17% in 1989 (Tan, 2003). The percentage of tariff items actually utilised to the total number of items offered as of 1987 was extremely low: 1.6% in Indonesia, 3.8% in Malaysia, 4.6% in Singapore, and 5.1% in Thailand (no data for the Philippines). The share of the value of imports granted PTA to total value of imports from ASEAN in those items amounted to 30% in Indonesia, 22% in Malaysia, and 37% in Thailand (no data for the Philippines); the 12% share in Singapore (whose total imports accounted for half of total intra-ASEAN imports) was likely because of the extremely low or no tariff imposed in Singapore, hence no need for the PTA.<sup>9</sup> In addition, intra-ASEAN trade in the late 1980s remained overwhelmingly dominated by Singapore and involving mainly Malaysia and Indonesia.

Several reasons caused the low utilisation rate of the ASEAN PTA. First was ‘item inflation’ in cases where the tariff offers were at much greater disaggregation that effectively increased the number of tariff items offered.

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<sup>9</sup> The data were taken from Table 1 of Pangestu (1995: 47). Note that the total value of imports for ASEAN and the corresponding share of the value of items for ASEAN in Table 1 is wrong. The correct amount is US\$533,656 and the corresponding percent share is 19% and not 42.5%. The corrected share is the same as in Pangestu’s text.

Second, many items offered were not traded in ASEAN or had zero tariff already (especially for Singapore and Malaysia) or were products the member states export to the world and for which there was little trade in ASEAN. The third reason was that the share of excluded items was high: in 1987, the share of excluded items to the total number of excluded and included (in the PTA) items was 27% for the Philippines, 33% for Indonesia, 37% for Malaysia, and 55% for Thailand (zero for Singapore).<sup>10</sup> This is why the 19th AEM meeting in 1987 decided that the exclusion list must be at most 10% of all the total items. Fourth, implementation was difficult with respect to the rules of origin, a problem that remains an important challenge in intra-ASEAN trade at present. Finally, and perhaps most importantly, the ASEAN economies were not complementary because they were largely exporters of primary products with markets mainly outside ASEAN and largely importers of manufactures which the AMSs did not have the comparative advantage in at that time and therefore had to be imported from outside the region. As such, the impact of tariff preferences on intra-ASEAN trade would be at most modest, as studies at that time indicated.<sup>11</sup>

Nonetheless, the 1980s saw the growing perceptible shift in the industrial policy of the AMSs towards greater export orientation especially of manufactures (and away from import substitution as a means of industrialisation) in tandem with greater openness to foreign direct investment. The policy shift, partly in response to depressed primary product export prices in the early to mid-1980s, occurred at the same time as the sharp appreciation of the Japanese yen (and later, even of the New Taiwan dollar and the won of the Republic of Korea [henceforth, Korea]) that led to the significant rise in export-oriented foreign direct investment especially in manufactures in several ASEAN countries. The share of manufactures to total exports expanded tremendously from 18% in 1975 to 63% in 1991 (ASEAN Secretariat, 1995a). The successful greater export orientation and export of manufactures, together with the growing concerns on rising regionalism in the key export markets of the AMSs, would eventually prove decisive in ASEAN's shift from trade preference towards a free trade area and economic integration that gave birth to AFTA in the early 1990s.

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<sup>10</sup> The percent shares were computed by the authors from the data in Tables 1 and in Pangestu (1995: 47, 50).

<sup>11</sup> The paragraph draws heavily from Tan (2003: 236–244) and Pangestu (1995: 48–51).

## Other Economic Initiatives

A few other economic cooperation initiatives are worth noting because they resonate well with important related initiatives in the past 2 decades. The first is the ASEAN Swap Arrangement to provide a short-term swap facility to the AMSs with temporary liquidity problems. This started with the signing of the memorandum of agreement in 1977 and further deepened (in terms of the swap amount) and extended over the 1980s. This ASEAN Swap Arrangement became the precursor of the even larger and more ambitious Chiang Mai Initiative involving initially the ASEAN 10 countries plus China, Japan, and Korea in the early 2000s in response to the 1997–1998 East Asian crisis. The ASEAN Customs Code of Conduct, signed in 1983, is arguably the forerunner of the series of agreements and initiatives involving customs and trade facilitation that would become central elements of AFTA and the AEC. Referred to earlier in the discussion on the ASEAN PTA, the memorandum of understanding on standstill and rollback on non-tariff barriers (NTBs) among ASEAN countries, signed in 1987, brings out forcefully the enduring concern on NTBs until now and the apparent inadequacy of mechanisms of addressing them. It is for this reason that the Ing and Cadot paper in the companion Volume 5 – *The ASEAN Economic Community Into 2025 and Beyond* – proposes a rethink on NTMs and NTBs towards a domestic regulatory reform and regulatory cooperation perspective as a means of addressing NTBs in the future. Finally, the multilateral agreement on commercial rights of non-scheduled services among ASEAN, signed in 1971, is effectively the foundation of the now much more ambitious agreements towards an ASEAN ‘open skies’ regime under the AEC.

In summary, the evolution of economic cooperation initiatives and agreements in ASEAN in the 1970s and the 1980s was one of gradual, flexible but persistent movement forward with virtually no backtracking as well as willingness to modify and innovate in terms of approaches. The results on the ground were at best modest if not disappointing as the discussion above indicates, and there were misgivings on the design and implementation of the initiatives as well as inadequacy of political will and trust among the AMSs by ASEAN officials themselves.<sup>12</sup> Nonetheless,

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<sup>12</sup> See, for example, Khoman (1992: xix–xx).

they provided a good foundation to even deeper, wider-ranging, and more ambitious ASEAN initiatives and agreements since the early 1990s under AFTA and then the AEC in response to the challenges and opportunities of changing geopolitics and geo-economics in the region and the world at that time.

## **From Economic Cooperation to Economic Integration: The ASEAN Free Trade Area and the ASEAN Economic Community**

### **Establishment of the ASEAN Free Trade Area**

On 28 January 1992, on the occasion of the Fourth ASEAN Summit in Singapore, the ASEAN Leaders decided that ASEAN should move to a higher plane of economic and political cooperation in the light of the profound global political and economic changes since the end of the Cold War. The day was also just 3 months after the signing of the Paris Agreement on a Comprehensive Political Settlement of the Cambodia Conflict on 23 October 1991 that dramatically changed the political-diplomatic environment in ASEAN and effectively paved the way to the eventual expansion of the hitherto ASEAN 6 to ASEAN 10. Thus, on that watershed day, the ASEAN Leaders signed two landmark documents: the Singapore Declaration of 1992 and the Framework Agreement on Enhancing ASEAN Economic Cooperation. Also on that day, the ASEAN Trade and Industry Ministers signed the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area.

Indeed, the period between the Third ASEAN Summit in Manila and the Fourth ASEAN Summit in Singapore, especially in 1989–1991, saw the fall of the Berlin Wall, the thawing of the Cold War in Eastern Europe, and the collapse of the Union of Soviet Socialist Republics, on the one hand, and the marked shift towards regionalism in ASEAN’s major trading partners, with the impending start of the North American Free Trade Agreement and the establishment of the European Single Market (with the fear of a possible ‘Fortress Europe’) on the other. ASEAN Officials took serious note of these developments as can be gleaned from a comparison of the joint

press statements of the 20th AEM meeting in Pattaya in October 1988 and the 21st AEM meeting in Brunei Darussalam on 30 November–1 December 1989. Held just 3 weeks after the fall of the Berlin Wall and the Canberra (Australia) ministerial meeting establishing the Asia-Pacific Economic Cooperation (APEC) forum, the 21st AEM meeting saw the delegation leaders calling for:<sup>13</sup>

‘... bold responses and initiatives .. that will lead to free movement of goods, people and capital in ASEAN’  
– Secretary Jose Concepcion, Jr., Philippines

‘ASEAN should be more innovative’  
– Minister Radius Prawiro, Indonesia

‘ASEAN ... going through a turning point in its economic affairs ... [given] ... swift developments both within and outside the Asia-Pacific region.. [presenting] ASEAN with challenges and opportunities which ASEAN should take initiatives to tackle in an effective manner.’  
– Minister Lee Hsien Loong, Singapore

The Ministers directed the Senior Officials to take ‘... bold and innovative approach in addressing the issues facing the region ...’ (ASEAN Secretariat, n.d.[b]: 21). The 22nd AEM meeting in Bali adopted the CEPT for industrial products to facilitate the free flow of goods in ASEAN. Following the proposal of Prime Minister Anand Panyarachun of Thailand (and welcomed by Prime Minister Mahathir Mohamad of Malaysia) for an ASEAN free trade area, the 23rd AEM meeting in Kuala Lumpur agreed that all AMSs should subscribe to the establishment of AFTA simultaneously with the CEPT as the main scheme and the improved PTA as a complementary tool.

Arguably, the 21st AEM meeting in Bandar Seri Begawan kick-started the formal process in ASEAN that eventually led to the signing during the Fourth ASEAN Summit in 1992 of the framework agreement for the establishment of AFTA and the agreement on the CEPT scheme as the main vehicle of achieving AFTA. Nonetheless, as the essay in this volume of Thailand’s

<sup>13</sup> Joint Press Statement of the Twenty-First Meeting of the ASEAN Economic Ministers (AEM), Brunei Darussalam, 30 November–1 December 1989 (in ASEAN Secretariat (n.d.[b]: 19).

former Commerce Minister Narongchai Akrasanee vividly recounts, some luck and creative diplomacy also contributed to the eventual momentous ASEAN decision to establish AFTA. Examples are Narongchai's proposal to merge the CEPT (Indonesia's preferred approach) into AFTA defined with 0%–5% as 'free trade rates', and the appointment of Khun Panyarachun, head of the 1985 ASEAN Task Force, as unelected Prime Minister of Thailand.

## The Common Effective Preferential Tariff Scheme

As initially conceived, the CEPT scheme aimed to reduce intra-ASEAN 6 tariffs on manufactured goods and eliminate NTBs over a 15-year period beginning 1 January 1993 to an eventual range of 0%–5% tariff rate by 1 January 2008. All manufactured products, including capital goods and processed agricultural products, were included; unprocessed agricultural products were initially excluded. Allowed as exclusions from the CEPT scheme were general exceptions (for protection of national security, public morals, public health, as well as articles of artistic, historic, and archaeological value) consistent with GATT and temporary exclusions (which eventually need to be included in the scheme). The CEPT scheme had a fast-track programme of accelerated tariff reduction on 15 selected product groups, and a normal track for the rest. The tariff-reduction scheme was designed such that the tariff range would narrow over time until all products would end up in the 0%–5% range by 2008. The relevant products in the earlier ASEAN PTA were to be folded into the CEPT. Similarly, the 90% MOP (specifically most-favoured-nation [MFN] rates) for AIJV projects remained a valid option and likely preferable for the private sector at least in the early years of the CEPT when the 90% MOP could have led to a lower effective tariff.

Less than 2 years after the start of the CEPT scheme in September 1994, the AEM decided to (i) accelerate the realisation of AFTA CEPT from 15 years to 10 years to 1 January 2003 (instead of 2008; and, in 1998, under the Statement on Bold Measures, was further accelerated to 2002); (ii) eliminate the Temporary Exclusion List (with the products in the list to be phased in to the Inclusion List up to 2000; and (iii) include unprocessed agricultural products into the scheme (except, as determined later, those in the sensitive list). In September 1995, the AEM decided to maximise the number of tariff lines in the 0%–5% tariff range by 2000 and at 0% by 2003. Indeed, the AMSs accelerated their tariff-reduction schedules

voluntarily or unilaterally, based on the tariff schedules in 1996 for 2000, 87.8% of all tariff lines in the Inclusion List would be in the 0%–5% tariff range in 2000 representing 97.8% of total intra-ASEAN imports (ASEAN Secretariat, 1996).

In addition, the AMSs reduced products in the General Exclusion List by transferring 195 tariff lines to the Inclusion List during 1998–1999. More importantly, the 31st AEM meeting in 1999 agreed to eliminate import duties (i.e. 0% instead of 0%–5% tariff rates) on all products in the Inclusion List by 2015 (further accelerated to 2010 in 2003) for ASEAN 6 and 2018 for the newer ASEAN members. Towards this end, the AEM decided to eliminate tariffs on 60% of the tariff lines in the Inclusion List by 2003 for ASEAN 6.

By 2003, the series of ministerial decisions accelerating, deepening, and widening AFTA resulted in the following (ASEAN Secretariat, n.d.[g]):

- 99.6% of products in the CEPT Inclusion List of ASEAN within the 0%–5% tariff range;
- only 247 tariff lines (or 0.5%) of all products traded in the region outside the CEPT scheme (essentially the products under the General Exclusion List and the Sensitive and Highly Sensitive List; with the transfer of Malaysia’s tariffs on completely knocked down and completely built up vehicles on 1 January 2005, the ASEAN 6 did not have any product in the Temporary Exclusion List);
- the decline of the average CEPT rate for ASEAN 6 from 12.8% in 1993 to 2.4% in 2003 (and 1.9% in 2004) (ASEAN Secretariat, n.d.[h]); and
- for Cambodia, the Lao People’s Democratic Republic, Myanmar, and Viet Nam (or the CLMV), inclusion of 72.2% of all their tariff lines in the Inclusion List; 60.6% of all products they traded in the region had 0%–5% tariff range; and the average CEPT rate was 6.2%.

The results for the ASEAN 6 show that the CEPT scheme delivered as planned with respect to tariff reduction/elimination. In short, the CEPT tariff scheme was a success.<sup>14</sup> This was in sharp contrast to what AFTA

<sup>14</sup> The issue of NTBs has been more problematic, and NTMs and NTBs remain an important concern in ASEAN as well as in virtually all other regional integration initiatives.

sceptics were expecting, as former ASEAN Secretary-General Ajit Singh pointed out in his essay in this volume. The success of the CEPT tariff scheme is particularly noteworthy for two important reasons:

- The implementation and acceleration of the CEPT happened despite a major economic crisis in 1997–1998 in the ASEAN 5 countries. This greater trade liberalisation runs counter to increased protectionism in response to crises as was the case during the Great Depression in the early 1930s.
- The CEPT scheme was intrinsically an outward-oriented arrangement. Provision 7 in Article 2 of the CEPT Agreement states that the AMSs whose tariffs were reduced to 0%–5% (or were already at 0%–5%), even if granted on an MFN basis, are deemed to satisfy the provisions of the agreement and therefore shall enjoy the concessions under the agreement. In effect, the agreement encouraged the AMSs to liberalise not just within ASEAN but also with respect to the rest of the world on an MFN basis. In short, AFTA, through the CEPT, was not the usual regional trade block that tends to raise barriers against non-member countries, such as the European Economic Community and North American Free Trade Agreement.

Former Prime Minister Goh Chok Tong of Singapore put it clearly in 1993 why AFTA CEPT had to be outward oriented:

‘At the policy and intellectual level, the mood in the developed countries is shifting away from free trade, in favour of “fair trade” and “managed trade”. These terms evade the odium of protectionism... but should be seen for what they really are. ASEAN has to respond promptly and positively to these changes in the international environment if it is to prosper in the next 25 years. Retaliating with a protectionist trading bloc of our own is not a solution. It is against ASEAN’s own interest, as its links to the rest of the world are as important if not more important than linkages to each other.’<sup>15</sup>

<sup>15</sup> Joint Press Statement Twenty Fifth Meeting of the ASEAN Economic Ministers (AEM) Singapore, 7–8 October 1993 (in ASEAN Secretariat, n.d.[d]: 23).

The outward orientation of AFTA CEPT is remarkable indeed, especially in view of the more inward-looking bent of the predecessor ASEAN PTA and industrial cooperation initiatives into the 1980s. It is also important to note that whereas it took more than a decade before the AMSs offered about 15,000 tariff lines under ASEAN PTA, it took less than 2 years for the CEPT scheme's Inclusion List (normal and fast tracks) to cover 38,388 tariff lines accounting for 89% of all tariff lines in ASEAN (ASEAN Secretariat, 1995b).

Behind the remarkable change in orientation and speed of implementation under the CEPT were external and internal reasons. One key external factor was the increased competition for scarce foreign direct investments from Eastern Europe, China, and others after the end of the Cold War (Chng, 1995). In effect, the regional market integration arising from AFTA CEPT would increase international competitiveness and foreign investment attractiveness of the AMSs, which was very important for the robust growth of manufactures exports and overall trade of most AMSs since the latter 1980s. ASEAN accounted for the largest share of foreign direct investment that went to developing economies in the late 1980s.

A key internal factor was that the regional economic environment in the early 1990s was so different from that of the mid-1970s. Specifically, since the mid-1980s, virtually all AMSs shifted towards export orientation and most of the ASEAN region was amidst an economic and trade boom due largely to the surge in export-oriented foreign direct investment that made ASEAN a production base for exports. Given the successful developments in the region arising from the shift towards export orientation of the AMSs, and given the policy mindset of ASEAN Leaders as reflected in the above statement of former Prime Minister Goh, the CEPT scheme was logically an outward-oriented agreement and, as Peter Drysdale discussed in his essay in Volume 5, ASEAN is an experiment in 'open regionalism' that succeeded.

Implicit in the outward orientation or open regionalism that underpinned the AFTA CEPT scheme is that the tariffs of the AMSs on imports from non-ASEAN countries (or MFN tariffs) would need to be reduced secularly just as the CEPT rates were reduced secularly. What happened indeed was that MFN rates declined substantially, either because of the implementation of the Uruguay Round and/or precisely because of the implementation of the CEPT rates. The Calvo-Pardo, Freund, and Ornelas (2009) analysis suggests that the latter was the dominant cause, suggesting that AFTA is a

‘building block’ and not a ‘stumbling block’ towards global free trade regime. This is consistent with the ASEAN Leaders’ mandate in the Singapore Declaration of 1992 that ‘... ASEAN shall continue to uphold the principles of free and open trade embodied in the General Agreement on Tariffs and Trade (GATT) and work towards maintaining and strengthening an open multilateral trading system’ (ASEAN Secretariat, n.d.[c]: 18).

## **CEPT Plus or AFTA Plus and the Road to the ASEAN Economic Community**

The CEPT scheme was not solely on the reduction/elimination of intra-ASEAN tariffs. The 1992 CEPT Agreement included the elimination of quantitative restrictions and other NTBs, exceptions to foreign exchange restrictions for CEPT products, as well as exploration of other border and non-border areas of cooperation to supplement and complement the liberalisation of trade. The 1992 Framework Agreement on enhancing ASEAN economic cooperation included not only cooperation in trade as discussed above but also cooperation in industry, minerals, and energy; finance and banking; food, agriculture, and forestry; transportation and communication; and many other areas. Thus, the economic agenda laid out in 1992 was very wide and ambitious indeed. This was to become even more ambitious and definite in the ASEAN Vision 2020 signed by the ASEAN Leaders during the Second ASEAN Informal Summit in Kuala Lumpur in December 1997. The ASEAN Vision 2020 became the basis of future ASEAN programmes that ultimately developed into the AEC and its blueprint for 2015.

The decisions of ASEAN Leaders since the momentous 1992 Summit showed their continuing commitment to ever deeper and wider cooperation and integration that ultimately gave rise to the birth of what is the ASEAN Economic Community (in the economic arena) and the broader ASEAN Community today. It is worth noting that the greatest push for greater, wider, and deeper cooperation and eventual integration happened during periods of significant uncertainty for ASEAN – i.e. the turn of the 1990s; 1997, a few months after the start of the East Asian crisis; and early 2000s with the rise of China.

In contrast to the CEPT scheme, the rest of the cooperation areas were less straightforward and most were longer-term initiatives and initially without

quantifiable specific end targets until the AEC Blueprint 2009–2015. Indeed, virtually all of them remain very important areas of concern and cooperation up to the present. Thus, to a large extent, the initiatives in the 1990s and early 2000s were building blocks towards deeper and wider regional cooperation and regional integration and, at present, towards a regional economic community:

- **Non-tariff barriers.** NTBs were the second focus of the AEM after the CEPT tariffs. In the CEPT Agreement, NTBs were supposed to be eliminated gradually within 5 years after the enjoyment of the concessions under the CEPT. To implement this provision, a working definition following the UNCTAD classification was adopted; NTBs affecting the widely traded products in the region were prioritised (i.e. minerals, electrical appliances, machinery); and information gathered from member submissions and ASEAN chambers of commerce as well as data from GATT and UNCTAD. The findings of the ASEAN Secretariat showed that customs surcharges were far and away the most ubiquitous NTBs, followed by technical measures and product characteristic requirements. It is worth noting that the ASEAN Secretariat appeared to equate NTMs with NTBs in their initial analysis and submissions to the AFTA Council. Interestingly, the ASEAN Secretariat did not include quantitative restrictions (e.g. import quota) as an NTB or major NTB.<sup>16</sup>

The 10th AFTA Council in September 1996 mandated the removal of customs surcharges on products in the Inclusion List, which the AMSs duly implemented as noted in the 11th AFTA Council meeting in October 1997. As for the technical measures and product characteristics requirement, considering that these were NTMs and not necessarily NTBs, their abolition or removal would not be the appropriate course of action. Instead, it would be in standards and conformance assessment; this is discussed below. Arguably, apart from the removal of the customs surcharges, not much progress has been made on the NTB front. Indeed, the issue of NTMs and NTBs remains a major concern of AEM and ASEAN Leaders as reflected in the AEC Blueprint 2025. Two companion volumes, Volumes 3 and 5, address this issue in greater depth.

<sup>16</sup> Table 3, which is the working definition of non-tariff measures for the CEPT, did not include quantitative restrictions. See ASEAN Secretariat (1995b: 10–15).

- **Trade facilitation.** Trade facilitation initiatives focused on customs cooperation as well as harmonisation of tariff nomenclatures. Regular meetings of the directors-general of customs of the AMSs started in 1995. The non-binding ASEAN Customs Code of Conduct of 1995 became the more binding ASEAN Agreement on Customs in 1997 that provided the legal framework for customs cooperation in ASEAN. The agreement laid out, among others, the key principles of good customs governance and cooperation in ASEAN (i.e. consistency, simplicity, transparency, efficiency, accessible appeals, and mutual assistance and cooperation), agreements on the ASEAN Harmonized Tariff Nomenclature, principles of customs valuation including the non-use of customs valuation for protective purposes, and customs procedures conforming to the standards and recommended practices of the Kyoto Convention.

In short, the agreement indicates that customs officials aimed for a modern and facilitative customs in the region. Indeed, the ASEAN Customs Vision 2020, agreed upon in 1997, explicitly aimed for an ASEAN customs partnership for world-class standards and excellence by 2020. Towards this end, the ASEAN directors-general approved in 1999 the ASEAN Customs Policy Implementation and Work Programme in 15 major areas of work in customs and meant to be ‘... the main guiding document for ASEAN Customs cooperation in the next two decades’.<sup>17</sup>

In addition to the overarching agreements and action plans discussed above, a few more specific initiatives and concurrent actions moved customs cooperation and coordination during the latter 1990s and early 2000s. Among them were the implementation of the World Trade Organization Customs Valuation Agreement by all the original five AMSs, the establishment of the post-clearance systems in five AMSs (including Viet Nam but excluding the Philippines), the development of the manual on post-clearance audit and the ASEAN customs valuation guide, and the establishment of the Green Lane System for AFTA products. Worth noting is that ASEAN Dialogue Partners – especially New Zealand, Japan, and Australia – provided technical assistance (especially to ASEAN’s new members) and

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<sup>17</sup> Joint Press Statement of the Sixth Meeting of the ASEAN Directors-General of Customs, Jakarta, Indonesia, 26–27 February 1998 (in ASEAN Secretariat, n.d.[f]). Note that the paragraph draws from the joint press releases of the ASEAN directors-general during 1998–2002.

opportunities for sharing experiences and best practices in the customs arena. Overall, the significant start of customs cooperation in ASEAN has been apparent since the mid-1990s and into the early 2000s. By 2003, the ASEAN Directors-General of Customs decided to push for a single window for faster import and export clearance. This would be a central element of the trade facilitation agenda under the AEC Blueprint 2009–2015.

- **Standards and conformance.** ASEAN also turned its serious attention to standards and conformance cooperation for enhanced trade facilitation and to address the problems related to the two major NTMs raised above, i.e. technical measures and product requirements. At the Fifth ASEAN Summit in Bangkok in 1995, ASEAN Leaders agreed that ASEAN should introduce greater transparency in standards and conformance, align product standards with international standards, and undertake mutual recognition agreements on a bilateral or plurilateral basis.

The ASEAN Consultative Committee on Standards and Quality was responsible for ‘husbanding’ the standards and conformance agenda of harmonising national standards with international standards, implementing mutual recognition arrangements (MRAs) on conformity assessment, and harmonising or developing regional technical regulations. ASEAN harmonised the standards of 20 priority products with international standards; these products were some of the most widely traded in the region during 1999–2003 (ERIA, 2012). The consultative committee also worked on MRAs in selected priority sectors.

The AMSs signed the ASEAN Framework Agreement on Mutual Recognition Arrangements in 1998, which provided the general principles for developing sectoral MRAs and the general conditions for the acceptance and recognition of the results of conformity assessment procedures done in another ASEAN country. The first MRAs signed were the ASEAN Sectoral Mutual Recognition Arrangement for Electrical and Electronic Equipment in 2002 and the Agreement on the ASEAN Harmonized Cosmetic Regulatory Scheme (the scheme has an MRA component embedded in it) in 2003. The first two agreements towards harmonised technical requirements were the cosmetic regulatory scheme referred above and the Agreement on the ASEAN Harmonized Electrical and Electronic Equipment (EEE) Regulatory Regime signed in 2005 for implementation by 2010.

As is apparent from the discussion above, the implementation of the standards and conformance agenda has been slow and the results modest because of the intrinsically highly technical and complex nature of harmonisation of standards and technical requirements as well as the varied issues related to conformance assessment. Not surprisingly, the work on standards and conformance has continued into the AEC and would likely be more important in the future. A more detailed discussion on the performance of standards and conformance initiatives in ASEAN is in Volume 3.

- **Services.** Following the Uruguay Round that included services to the negotiating table for the first time, and in line with the call in the Singapore Declaration to move ASEAN cooperation to a higher level, the AEM signed the ASEAN Framework Agreement on Services (AFAS) in December 1995. Like the CEPT scheme, AFAS aims primarily at substantial elimination of restrictions to trade in services through deeper and wider scope of liberalisation beyond the AMSs' offers in the General Agreement on Trade in Services aimed at realising a free trade area in services. It is to be noted that the share of services to the gross domestic product of the original ASEAN 6 in 1995 when AFAS was signed ranged from 41% for Indonesia to 66% for Singapore (indeed even higher shares using information available to ASEAN Secretariat at that time).<sup>18</sup> Thus, together with the objective of AFTA CEPT of zero CEPT tariff, AFAS's goal of free trade in services would in effect result in a free trade of goods and services among the AMSs.

Initial negotiations of sectoral commitments focused on some priority sectors, specifically financial services, telecommunications, maritime and air transport, construction, tourism, and business services. Over time, and with the AEC Blueprint 2009–2015, the negotiations under AFAS were for eventual coverage of all sectors. The first four packages of AMS commitments were in 1997, 1998, 2001, and 2004. As in the other CEPT Plus initiatives, negotiations on the later packages of AFAS continued through the rest of the 2000s and first half of the 2010s, much of it under the AEC Blueprint 2015. As of early 2017,

<sup>18</sup> The shares for other AMSs were 44.6% for Brunei Darussalam, 45.7% for Malaysia, 46.3% for the Philippines, and 53.4% for Thailand. The figures were taken from the World Bank database. Note that these shares are lower than those used by the ASEAN Secretariat for 1993 in its 1995 AFTA Reader report. Since decisions then were based on existing information, the information at that time was that all the AMSs except Malaysia (with share of 46%) had a services sector share of more than 50%, topped by Singapore at 72%.

there remains one more AFAS package to be committed and implemented before substantive free trade in services within ASEAN is realised. The performance of AFAS under the AEC is discussed in Volume 3, while Volume 5 provides some ideas on making the last important mile towards free trade in services.

- **Investment.** The ASEAN Leaders, in their Fifth ASEAN Summit in 1995, also agreed to establish an ASEAN investment region, later called ASEAN Investment Area, to enhance ASEAN's investment attractiveness and competitiveness. Towards this end, the AMSs signed the landmark Framework Agreement on the ASEAN Investment Area in 1998, setting out a three-pronged investment cooperation programme on investment facilitation and cooperation, investment promotion and awareness, and investment liberalisation, including the mandate for the submission and review of the corresponding action plans. Most importantly, under the framework agreement, the AMSs agreed to accord national treatment to ASEAN investors by 2010 and to all investors by 2020, subject to exceptions, and to immediately open all industries to ASEAN investors except those in the Temporary Exclusion List and the Sensitive List. The Temporary List was to be reviewed every 2 years and to be progressively phased out by 2010 for the original ASEAN 6 (2013 for Viet Nam, 2015 for the Lao PDR and Myanmar, and Cambodia was not yet a member).

In the subsequent years, the AMSs collaborated on joint investment promotion and awareness, including the publication of investment promotion materials like an investment guidebook and cooperation in investment missions and fairs. Nonetheless, it is the liberalisation agenda that would be the most consequential towards an ASEAN investment area, and would be central negotiation issues into the AEC blueprint for 2015 and subsequent blueprint for 2025. As is apparent, the challenge in the liberalisation front since the signing of the framework agreement remains the reduction, to the minimum possible, in the list of industries that are excluded from the liberalisation agenda. A more detailed discussion on the status in the investment liberalisation front under AEC is in Volume 3.

- **Transportation.** In support of the call of the ASEAN Leaders during their Fifth ASEAN Summit for an enhanced model of cooperation and in line with their greater focus on facilitation in trade, the AEM during the 28th meeting in 1996 asked the Senior Transport Officials to formulate a framework agreement to facilitate goods in transit in

ASEAN. The ASEAN Transport Ministers during their first meeting in 1996 agreed on the ASEAN Plan of Action in Transport and Communications 1996–1998 and its implementation that included the development of multimodal transport and trade facilitation; harmonisation of road transport laws, rules, and regulations in ASEAN; and development of a competitive air services policy towards an eventual open skies policy in ASEAN. The region’s transport initiatives gained even greater traction with the 1998 Hanoi Plan of Action of ASEAN Vision 2020 signed by the ASEAN Leaders in 1997. The key initiatives planned to develop a highly efficient and quality transport infrastructure included the trans-ASEAN transportation network (by 2000); the ASEAN Framework Agreement on the Facilitation of Goods in Transit (by 2000); the ASEAN Framework Agreement on the Facilitation of Inter-state Transport; the ASEAN Framework Agreement on Multimodal Transport; maritime/shipping policy; competitive air services policy towards an open skies policy, harmonisation of standards, and regulations on vehicle specification; the Singapore–Kunming railway; and the ASEAN Highway Network.

The listing of the transport facilitation and infrastructure above would remain much of what the ASEAN Transport Ministers would focus their attention on to develop, refine, negotiate, agree, and implement since the 2000s towards the AEC. Volume 3 discusses the present status of the initiatives.

- **Other initiatives.** Other economic-related initiatives have expanded further the dimensions of the CEPT Plus or AFTA Plus. Among them are those in intellectual property, banking and finance, telecommunications, and initiatives in other sectors like tourism; food, agriculture, and forestry; and minerals and energy.

As an example, in banking and finance, significant initiatives date back to the late 1970s with the ASEAN swap arrangements (in 1977). Nonetheless, not until the First ASEAN Finance Ministers Meeting and the subsequent Special ASEAN Finance Ministers Meeting in 1997, the year the East Asian financial crisis broke out in Thailand, was there a sustained regional cooperation effort to deepen ASEAN cooperation in banking and finance, starting with the signing of the Ministerial Understanding on ASEAN Cooperation in Finance on the same day as the First ASEAN Finance Ministers Meeting. The East Asian financial crisis led to a greater push for an enhanced regional surveillance system, the decision in 2000 for the expansion of the ASEAN Swap

Arrangement into the Chiang Mai Initiative for temporary liquidity support, and stronger focus on improved prudential regulations. The Finance Ministers also reaffirmed AMSs' commitment to liberalise financial services. The Chiang Mai Initiative and the attendant enhanced regional surveillance were a joint initiative of ASEAN plus China, Japan, and Korea (i.e. ASEAN+3). These would be the most important implementation initiatives in banking and finance and macroeconomic policy into and under the AEC.

The discussion above brings out clearly that ASEAN initiatives in the 1990s and early 2000s since the momentous Fourth ASEAN Summit in 1992 covered a much wider range than what a standard free trade arrangement entails. To a large extent, they pointed towards what would eventually be the region's drive towards an ASEAN economic community as a critical pillar of the ASEAN Community with the signing of the Bali Concord II during the Ninth ASEAN Summit in 2003. Arguably, the signing of the ASEAN Vision 2020 during the Second ASEAN Informal Summit in December 1997 in Kuala Lumpur and of the Hanoi Plan of Action during the Sixth ASEAN Summit in December 1998 accelerated the path towards the eventual Leaders' decision to aim for an ASEAN Community by 2020 (later accelerated to 2015) with the signing of the Bali Concord II.

### **ASEAN Vision 2020, Hanoi Plan of Action, and Bali Concord II**

A few months after the outbreak of the East Asian financial crisis in Thailand and amidst continued depreciation of ASEAN currencies, the ASEAN Leaders adopted the ASEAN Vision 2020 during the Second ASEAN Informal Summit. This is remarkable indeed because the Leaders adopted a document mandated to the Ministers during the heyday of the ASEAN economic boom (during the First ASEAN Informal Summit in November 1996) as a testament of the Leaders' commitment to economic integration and community building in ASEAN despite the crisis.

As reflected in the title of the ASEAN commemorative book for the 30th anniversary of ASEAN in 1997, 'One Region, One Vision', the ASEAN Vision 2020 envisages ASEAN as 'a concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of

caring societies’.<sup>19</sup> The partnership in dynamic development envisages a ‘... stable, prosperous and highly competitive ASEAN Economic Region in which there is *free flow of goods, services, and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities* [italics supplied]’ (ASEAN Secretariat, n.d.[e]: 6). The italicised statement above is almost the same as what would define ‘single market and production base’ in the AEC Blueprint 2009–2015 except for the addition of ‘free flow of skilled labor’ in the blueprint.

The core elements of what would become the AEC Blueprint 2009–2015 were apparently drawn from the ASEAN Vision 2020. Indeed, many key strategies in the AEC Blueprint 2009–2015 were very much in the ASEAN Vision 2020 such as:

- Promote closer consultations in macroeconomic and financial policies.
- Fully implement AFTA; accelerate liberalisation of trade in services; realise free flow of investment by 2020.
- Accelerate free flow of professionals.
- Establish interconnecting arrangements in energy and utilities within ASEAN, e.g. ASEAN Power Grid, Trans-ASEAN Gas Pipeline.
- Promote financial sector liberalisation.
- Develop an integrated and harmonised trans-ASEAN transportation network; promote the open skies policy; develop multimodal transport; facilitate goods in transit; integrate telecommunications networks.
- Work towards a world-class standards and conformance system.
- Promote an ASEAN customs partnership for world-class standards and excellence in efficiency, professionalism, and service.
- Enhance food security and international competitiveness of food, agricultural, and forest products.
- Promote human resource development.

The Hanoi Plan of Action, approved by the ASEAN Leaders during the Sixth ASEAN Summit in Hanoi in 1998, was the first implementation plan to achieve the long-term ASEAN Vision 2020. It added more details and expanded the key strategies included in ASEAN Vision 2020. To some extent, the Hanoi Plan of Action, with a 1999–2004 time frame, was a

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<sup>19</sup> ASEAN Vision 2020, Kuala Lumpur, Malaysia, 15 December 1997 (in ASEAN Secretariat, n.d.[e]: 5).

precursor and a significant building block to what would eventually be the blueprints for the AEC, the ASEAN Political-Security Community, and the ASEAN Socio-Cultural Community.

The ASEAN Vision 2020 and the Hanoi Plan of Action accelerated and expanded the cooperation initiatives in ASEAN since 1998 as the discussion above on the CEPT Plus or AFTA Plus initiatives suggests. Former Prime Minister Goh Chok Tong of Singapore (see his essay in this volume) suggested that ASEAN move towards an economic community, to which the AEM and ASEAN Leaders asked the High-Level Task Force on ASEAN Economic Integration to draw up recommendations towards this end, drawing from the ASEAN Vision 2020, Hanoi Plan of Action, and the results of an ASEAN competitiveness study as well as studies and recommendations of the ASEAN Institutes of Strategic and International Studies and Institute of Southeast Asian Studies.

During the Ninth ASEAN Summit in Bali, Indonesia, in October 2003, the ASEAN Leaders signed the Bali Concord II that set out the establishment of the ASEAN Community comprising three pillars: political and security cooperation towards ASEAN Security Community (eventually becoming ASEAN Political-Security Community), economic cooperation towards the AEC, and socio-cultural cooperation towards the ASEAN Socio-Cultural Community. The three pillars are to be closely intertwined and mutually reinforcing. The Bali Concord II included as an appendix the recommendations of the High-Level Task Force on ASEAN Economic Integration. Those recommendations effectively became the mandates to the AEM and Senior Officials to formulate and agree on the specific commitments and plans of action to implement the recommendations, which would eventually form the AEC Blueprint 2009–2015.

Volume 3 discusses in some detail the AEC Blueprint 2009–2015 and its implementation, including the impact of ASEAN economic initiatives on the AMSs. Volume 5 discusses the progression towards the AEC Blueprint 2025 and the ways forward. These two volumes indicate that as ASEAN moved from development of frameworks, agreements, and plans of action of the 1990s and early 2000s and towards implementation of the plans, the AMSs met significant challenges along the way. With greater flexibility, the challenges enabled the AMSs to move ahead towards deeper economic linkages with one another and with the rest of the world. And the drive

towards a fully realised AEC into 2025 and beyond poses even greater challenges as well as substantial opportunities, calling for a greater sense of community and stronger political cooperation. That is, the drive for the AEC entails also the simultaneous drive towards the ASEAN Political-Security Community and the ASEAN Socio-Cultural Community.

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