



**TOGETHER**  
*for a sustainable future*

## OCCASION

This publication has been made available to the public on the occasion of the 50<sup>th</sup> anniversary of the United Nations Industrial Development Organisation.



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

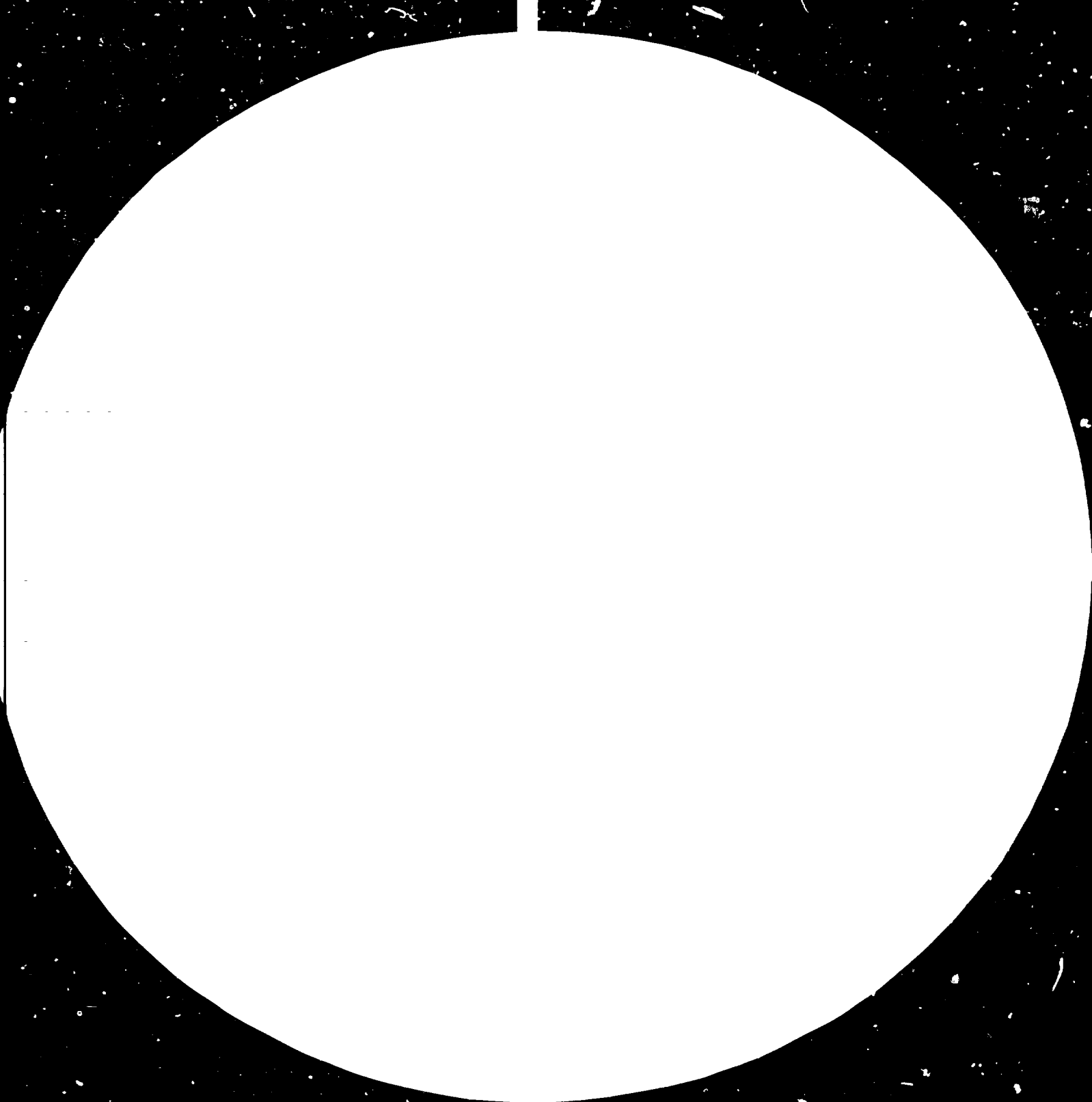
## FAIR USE POLICY

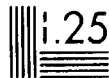
Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)





2.8



3.2



Resolution Test Chart

Resolution Test Chart

Resolution Test Chart

Resolution Test Chart

10275

Distr.  
LIMITED

UNIDO/IS.204  
6 February 1981

UNITED NATIONS INDUSTRIAL  
DEVELOPMENT ORGANIZATION

ENGLISH

---

ASEAN CO-OPERATION IN THE FIELD OF INDUSTRY -  
A BACKGROUND STUDY ON PAST AND PRESENT ACTIVITIES<sup>\*/</sup>

Prepared by the

Regional and Country Studies Branch  
Division for Industrial Studies

000770

---

<sup>\*/</sup> This document has been reproduced without formal editing. The designations employed and the presentation of material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or its authorities, or concerning the delimitations of its frontiers.

## PREFACE

The Division for Industrial Studies, Regional and Country Studies Branch, is carrying out, under its 1980-81 work programme in the field of regional and sub-regional studies and analyses, a series of background studies in respect of various regional co-operation schemes among developing countries. Besides being of immediate value as sources of consolidated information, the studies are aimed at providing a basis for the development of a research programme within the Division for Industrial Studies on various aspects and issues in respect of which in-depth research and analysis of experiences might be of direct practical value in providing guidance for future regional and sub-regional co-operation in industry between developing countries.

This study on ASEAN is based on documents, reports and studies available at UNIDO Headquarters. No field survey has been undertaken.

The views or comments contained in this document do not reflect those of the Governments of the five ASEAN countries nor do they officially commit the United Nations Industrial Development Organization to any particular course of action.

CONTENTS

<u>Chapter</u>		<u>Page</u>
	Summary, conclusions and recommendations .....	ii
I.	Economic characteristics of the five ASEAN countries .....	1
II.	Establishment of ASEAN and the Declaration of ASEAN Concord .....	4
III.	Organizational structure of ASEAN .....	6
IV.	Activities in the field of industry .....	11
V.	Trade co-operation .....	31
VI.	Co-operation on industrial financing .....	36
VII.	Relations with other economic groups or countries..	40
VIII.	Technical co-operation .....	43
Annex I	The ASEAN Declaration .....	47
Annex II	Declaration of ASEAN Concord .....	50
Annex III	Guidelines for Complementation .....	54
Annex IV	List of studies and reports .....	56

Summary, conclusions and recommendations

The ASEAN co-operation in the economic field has gained momentum during the last 4-5 years, although the actual achievements in terms of economic integration have been somewhat limited. A large number of working committees and consultative meetings among ASEAN civil servants and within the business communities of the five countries and the increased frequency of ministerial meetings has created an impression, both inside and outside the region, that the level of regional co-operation has been substantially enhanced during the last few years.

While there has been little real achievements yet in terms of substantive economic co-operation, the countries have embarked on a distinct, gradual move towards regional co-operation which, in the long run, might prove to be the only effective way of securing lasting regionalism in an area characterised by differences in national interests and aspirations. For instance, Singapore with its world-wide trading links and interests, might have less interest in a major diversion of trade towards less competitive neighbours, but as a small island state in the region, the country has an important strategic interest in close and constructive relations among the ASEAN partners. At the other extreme, Indonesia might consider that its own industrial growth requires the preservation of its domestic market for its own production, and thus be reluctant to grant open access to producers in other ASEAN countries. Malaysia, the Philippines and Thailand have tended to more willingly contemplate costs of trade diversion than Singapore and be less rigid about preserving the whole of their home markets for domestic production than Indonesia, but have nevertheless each been very careful in the calculation of national advantage.<sup>1/</sup> The limited progress in the establishment of large-scale ASEAN industrial projects and the implementation of industrial complementation schemes has to be viewed against this background. Indeed, given these economic and social diversities, together with differences in the stages of development the fact that the five South Asian countries have created an organizational framework for gradual economic integration and have already generated a sense of group identity over the past decade is itself a significant milestone.

---

1/ Arndt, H.W. and Garnaut, R., ASEAN and the Industrialization of East Asia. Journal of Common Market Studies, March 1979.

One area of economic co-operation in respect of which significant progress has been made during the last few years has been the product-by-product intra-ASEAN trade liberalization. This is pursued within the ASEAN Preferential Trading Arrangements (PTA) and is ultimately aimed at bringing about a higher level of economic integration among the five countries.

ASEAN has looked inward to the promotion of intra-regional trade and industrial co-operation but also outward to the improvement of the terms upon which its members relate to third countries. Indeed, there seems to have been much greater awareness of convergence of interest among the five countries on common problems that have emerged in economic relations with the rest of the world, such as commodity stabilization issues: the Multilateral Trade Negotiations; and bilateral relations with, *inter alia*, the EEC, Japan, the United States and Australia. ASEAN is thus fast becoming a vital political, social and economic grouping to the outside world which is able to use the advantage of acting as a group over issues that have regional implications, such as protectionism.

(i) Co-operation in the field of industrial development

The ways and means of co-operation in the field of industrial development pursued within ASEAN have been focussed on two approaches. The first one concerns large-scale government-sponsored ASEAN Industrial Projects (AIPs), in respect of which the experience gained clearly shows how complex and time-consuming the development of very large industrial projects is, irrespectively if they are being developed in the context of regional co-operation or not. As is evident from the two projects most far advanced -- the Indonesian urea project at Aceh, and the Malaysian urea project at Bintulu, Sarawak -- they are judged from an economic viability point of view, firstly, on basis of the national market and, secondly, on the envisaged competitiveness of its production in the world market, including other ASEAN countries' markets where certain preferential access is envisaged. As for the other three AIPs in a first group of projects, they have all run into various problems, related to economic viability, or to the fact that they would be in serious competition with national plants or proposed new projects in other ASEAN countries. These difficulties, perhaps inevitable in regional association, have caused progress to be slow, although the political will and effort continue.



Possibly the long-term impact of ASEAN will be greatest on the development of the region's industry through the (private sector) industry's own initiatives and by the provision of the political instruments with which agreement can be reached within ASEAN on complementary rather than competitive economic activities, and at the same time offering the prospect of preferential tariffs within ASEAN and limitations on competing imports from countries outside ASEAN, thus leaving the way open for significant reduction in the investment risks associated with setting up industrial units serving a regional rather than national market potential.

Thus, the second approach which has been energetically pursued, is that of ASEAN Industrial Complementation (AIC) schemes. Experience has showed, however, that it is quite difficult to ensure an equitable distribution of production between the participating countries within the same industrial branch - even in a branch like the automotive industry with its very wide range of products. Considerable efforts have been made by the industry itself, organized under the ASEAN-CCI and RIGs (regional "industry clubs"), in preparing proposals for industrial complementation schemes. At the ASEAN Industry Ministers' Meeting at Bali in September 1980 a breakthrough was finally achieved when an agreement was reached for the production in different ASEAN countries of a number of specific automotive industry items.

At that meeting it was also agreed that the participation of all five countries in future ASEAN projects would no longer be required. The Ministers also expressed the desire that private enterprise take a much greater role in joint ASEAN economic co-operation and agreed to start formulating guidelines on such ventures to see how special tariff preferences could be provided, within the ASEAN Preferential Trading Arrangement (PTA), to help such projects.

Increased attention has lately been given to the importance of ASEAN co-operation in industrial project financing. One example of this is the fact that the ASEAN Industry Ministers at their meeting in September 1980 called for a much more flexible approach than hitherto towards the large-scale industrial projects which would allow, among other things, companies tendering for a joint ASEAN project to offer a competitive package which included financing.

Furthermore, various proposals have been developed during the last few years for institutional arrangements to facilitate ASEAN industrial financing. In particular, at the ASEAN Banking Conference held in Jakarta in February 1980 a proposal was agreed to in principle by the ASEAN bankers for the development of a new ASEAN Finance Corporation (AFC). The main purpose of the AFC would be to fill the financial needs of ASEAN investors. The AFC, inter alia, should be a conduit for both equity and loans from outside the ASEAN region.

Special note should also be made of the pledge by the Japanese Prime Minister, made in 1977 in connexion with the second ASEAN summit in Kuala Lumpur, of a total amount of \$1 billion in credits for joint ASEAN industrial venture projects. The ASEAN Ministers of Industry at their meeting at Bali in September 1980 considered (but delayed the decision on) a proposal to ask Japan to double their financial commitment for this purpose to \$2 billion.

(ii) Issues for possible in-depth research and analysis

The evolution of the ASEAN industrial co-operation has clearly demonstrated the complexities and difficulties imbued in regional co-operation between developing countries even in an area of such relatively strong economic development as that of the ASEAN area. While the co-operation within ASEAN in general has been subject to considerable analysis, study and research, relatively little attention has been paid to the various aspects of industrial co-operation, in particular from the point of view of analysing and drawing lessons of the experiences gained during the period of almost ten years since the two initial comprehensive UN-studies dealing with industrial co-operation in the region were carried out in 1970-73.<sup>1/</sup>

The various approaches and schemes of ASEAN in respect of which an analysis of the experience gained might be of particular value in providing practical guidance for future regional industrial co-operation are suggested to be:

- (a) The very gradual evolution of the large-scale ASEAN Industrial Projects (AIPs) and the present efforts to adopt a more flexible approach for the development of such projects than what was used initially; the role of the public and private sectors in that context.

---

<sup>1/</sup> See page 11 below

- (b) The preparation by the industry itself of proposals for branch-wise co-operation, within the context of industrial complementation, and the assessment of such proposals by the inter-governmental bodies, inter alia, from the point of view of benefits and costs that would accrue to each member country in the short as well as long-term.
- (c) The formulation of guidelines on direct private enterprise co-operation in ASEAN to see how special tariff preferences could be provided to help such ventures, in the context of the ASEAN Preferential Trading Arrangements (PTA).
- (d) Ways and means of co-operation in industrial financing, such as the proposed ASEAN Finance Corporation (AFC). The mobilization and utilization of external sources of finance, such as the Japanese offer of US \$1 billion for AIPs, would also be included.

In addition to these subject matters of rather specific nature some more general issues may be tackled such as:

- (e) The extent to which progress in regional co-operation in the industrial field is determined by the general/political 'climate' for co-operation in the region.
- (f) Basic strategic approaches in the ASEAN industrial co-operation: 'inward-looking' (or based on collective self-reliance) or 'outward-looking', internationally based.<sup>1/</sup>
- (g) The need for effective harmonization of national industrial planning with regional industrial development.

---

<sup>1/</sup> ESCAP's Development Planning Division is planning to carry out under its 1982/83 work programme analyses related to ASEAN to determine the costs and benefits of alternative approaches to industrialization. These alternative strategies will be examined and assessed from the view-point of promoting national development objectives (E/ESCAP/DP.3/2, 5.1.1981, Draft programme of work and priorities 1982-1983: Development planning, projections and policies, page 18).

Chapter I

Economic characteristics of the five ASEAN countries

The Association of South-East Asian Nations (ASEAN) comprises Indonesia, Malaysia, the Philippines, Singapore and Thailand. In each of these countries, industrialization has been fully recognized as a main driving force of economic development and much attention has been given to ways and means of fostering industrial progress. Before considering the evolution and further prospects of ASEAN industrial co-operation a short chapter is given, presenting in condensed form basic data and general economic characteristics of the five individual countries.

Table 1. The ASEAN countries - Land area, population, GNP, per capita GNP and growth rates

	Land area (1000 sq.km)	Population (in million) Actual 1978	Pro- jected 2000	Popula- tion growth rate 1970-78 (%)	Per capita GNP (US \$) 1978	GNP at market prices (US \$ million) 1978	GNP growth rate at factor cost 1970-78 (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Indonesia	2,027	136.0	204	1.8	360	48,820	7.8
Malaysia	330	13.3	20	2.7	1,090	14,540	7.8
Philippines	300	45.6	75	2.7	510	23,250	6.3
Singapore	1	2.3	3	1.5	3,290	7,690	8.5
Thailand	514	44.5	68	2.7	490	21,790	7.6
ASEAN total	3,173	241.7	370		481	116,090	

Sources: World Development Report, 1980;  
World Bank Atlas, 1979

Table 2. The ASEAN countries - Structure of production, 1960 and 1978

	Distribution of GDP (%)							
	Agriculture		Industry (Manufacturing)				Services	
	1960	1978	1960	1978	(1960	1978)	1960	1978
Indonesia	54	31	14	33	8	9	32	36
Malaysia	37	25	18	32	9	17	45	43
Philippines	26	27	28	35	20	25	46	38
Singapore	4	2	18	35	12	26	78	63
Thailand	40	27	19	27	13	18	41	46

Source: World Development Report, 1980

Table 3. The ASEAN countries - Value added in manufacturing and sub-sectoral distribution, 1976

	Value added in manufact- uring (MVA) (million US \$) (1976)	Distribution of MVA (%) (1976)				
		Food and agricul- ture	Textiles and clothing	Machinery and equipment	Chem- icals	Other manu- factur- ing
Indonesia	1,671	41	16	...	...	43
Malaysia	1,103	35	8	11	12	34
Philippines	2,334	44	13	6	13	24
Singapore	707	7	5	49	7	32
Thailand	2,101	45	45	8	15	15

Source: World Development Report, 1980

ASEAN comprises a heterogenous region in terms of ethnicity, culture, history and traditions. The five countries, however, all have dynamic economies which have been performing significantly better than the developing country average during the last decade although they shared with the rest of the world the difficulties in the late 1970s caused by price increases, world wide inflation and monetary instability.

The ASEAN countries have, by and large, generated export growth in the presence of stagnant or declining real wages and persisting rural-urban and agricultural-industrial dualism. These factors have led to increased attention to and reassessment of economic policies and strategies. For instance, the ASEAN countries have participated actively in the studies and research work carried out by the Joint ESCAP/UNIDO Industry Division on re-orientation of industrial policies.<sup>1/</sup>

It has been suggested<sup>2/</sup> that the new development challenge for the region in the coming decade consists of three common features. Firstly, the question of economic development will become even more prominent in the national life of these countries, which have grown increasingly dependent upon further economic growth not only for fulfilling the growing material aspirations of their peoples but also for maintaining their social stability. Secondly, the new international environment for development in the next decade, with the possibility of slackening world trade, continued large fluctuations of raw material prices and reduction of international flows of capital and technology, is likely to make it more difficult for the sub-region, which has come to depend to large extent on such international factors, to sustain its previously high growth rates. Hence there is a need for the region to restructure its economies along a more self-reliant path, not just in the national but also in the regional context, i.e. towards greater regional economic integration. Thirdly, as a reaction against the growth-motivated strategies prevailing in the 1950s and 1960s, based on maximizing short-term efficiency of certain economic aggregates such as the GNP at the expense of the social aspects of growth, the future development strategies will have to accommodate to a greater degree the institutional and social goals for more equitable growth. There seems to be an increasing consensus among development experts and planners in the region that future development policies will have to be more broad-based and there should be a wider diffusion of development benefits to the lower income strata in order to meet their basic needs in terms of minimum consumption standards and reasonable social opportunities.

---

1/ Re-orientation of industrial policies - Studies undertaken for the Ad Hoc Group of Ministers of Industry", ESCAP. Bangkok, 1979.

2/ See for instance, John Wong. The ASEAN economies: Development Outlook for the 1980s, Economic Research Centre, University of Singapore, 1977.

## Chapter II

### Establishment of ASEAN and the Declaration of ASEAN Concord

The Association of South-East Asian Nations (ASEAN) was formed in August 1967 as an alliance between Indonesia, Malaysia, the Philippines, Singapore and Thailand, having as basic objective to create a peaceful, prosperous and resilient community through joint efforts with the view of strengthening economic and social stability in the respective countries. The joint declaration, known as the ASEAN Declaration<sup>1/</sup>, was signed in Bangkok at the time and forms the basis for undertaking co-operative action directed towards developing the region. The overall aims of ASEAN, as stated in the ASEAN Declaration, are:

- (i) To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership and peaceful community of South-East Asian Nations;
- (ii) To promote regional peace and stability through abiding respect for justice and the rule of law in the relationships among countries of the region and adherence to the principles of the United Nations Charter;
- (iii) To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
- (iv) To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
- (v) To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade including the study of the problems of international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their peoples;
- (vi) To promote South-East Asian studies;
- (vii) To maintain close and beneficial co-operation with existing international and regional organizations with similar aims and purposes, and explore all avenues for even closer co-operation among themselves.

---

<sup>1/</sup> The full text of the ASEAN Declaration is given in Annex I.

In February 1976 the Heads of Governments of the five ASEAN states met in the first ASEAN summit conference at Bali, Indonesia, and adopted the Declaration of ASEAN Concord.<sup>1/</sup> The Declaration puts forward a programme of action as a framework for ASEAN co-operation which, inter alia, calls for:

- on the political side, meetings of the Heads of Government of the member states, as and when necessary; and improvement of the ASEAN machinery to strengthen political co-operation;
- on the economy side, co-operation on basic commodities, particularly food and energy; industrial co-operation (see Chapter IV below); co-operation in trade (see Chapter V below); joint approach to international commodity problems and world economic problems; and strengthening of the ASEAN machinery for economic co-operation;
- on the social side, co-operation in the field of social development with emphasis on the well being of the low-income group of the population, through the expansion of opportunities for productive employment with fair remuneration; and support for the active involvement of all sectors and the ASEAN communities, particularly the women and youth, in development efforts.

At the Bali Meeting the Heads of Governments also signed the Treaty of Amity and Co-operation in South East Asia as well as the Agreement on the Establishment of the ASEAN Secretariat (see Chapter III below).

The Bali meeting marked the transition of ASEAN from an essentially political organization to one that is firmly oriented towards economic co-operation.

The second Meeting of the Heads of Governments of the ASEAN states was held in August 1977. The meeting coincided with the 10th anniversary of ASEAN and an assessment of progress of ASEAN in its first 10 years was made, with particular attention given to the implementation of the programme of action adopted at Bali in February 1976, as contained in the Declaration of ASEAN Concord.

In reviewing the progress of ASEAN co-operation the Heads of Governments placed particular emphasis on co-operation in the economic and social fields since, in their view, the economic and social advancement of the member states of ASEAN was a fundamental element in ensuring political stability of the ASEAN region.

<sup>1/</sup> The full text of the Declaration of ASEAN Concord is given in Annex II.



### Chapter III

#### Organizational structure of ASEAN

##### (a) Meeting of Heads of Governments

As directed at the first Meeting of the Heads of Governments of the ASEAN states held at Bali in February 1976, such meetings are to be held on ad hoc basis as and when necessary (Declaration of ASEAN Concord). A second meeting was held in August 1977 at Kuala Lumpur on the 10th anniversary of ASEAN.

##### (b) Ministerial Meetings

The Ministerial Meeting of Foreign Ministers, meets annually, on a rotation basis in each of the five capitals or other places in the host country. Special meetings of Foreign Ministers may be held as is deemed necessary.

The Declaration of ASEAN Concord, furthermore, stipulates that ministerial meetings on economic matters shall be held regularly or as deemed necessary in order to

- (i) formulate recommendations for the consideration of Government of member states for the strengthening of ASEAN economic co-operation;
- (ii) review the co-ordination and implementation of agreed ASEAN programmes and projects on economic co-operation; and
- (iii) exchange views and consult on national development plans and policies as a step towards harmonizing regional development.

In 1980 a new trend emerged, namely to involve ministers of specific economic areas inbetween the meetings of the ASEAN Economic Ministers - ASEAN's highest decision-making body for economic matters - for the purpose of speeding up progress towards greater economic co-operation. To a greater extent than before, the ASEAN Economic Ministers when they met in Bangkok in October 1980, simply discussed or endorsed matters which had already been worked out at ministerial level. Thus, in September 1980 the ASEAN Ministers of Industry had met at Bali for the first time. Similarly, the ASEAN ministers responsible for energy had met at the same

time and place also for the first time (and agreed to co-ordinate their planning, including the compilation of strategic stocks and the sharing of supplies in emergencies).

(c) Standing Committee

The seat of the Standing Committee is based on rotation conformed with the site of the next annual Ministerial Meeting of Foreign Ministers. The Standing Committee comprises the Foreign Minister of the host country as Chairman and the resident ambassadors of the other ASEAN countries as members. The Standing Committee is to maintain continuing operations of ASEAN inbetween Ministerial Meetings of Foreign Ministers.

As result of the review at the Kuala Lumpur Heads of Governments Meeting in 1977, the Standing Committee, which previously comprised only Foreign Ministry officials was expanded to include other Ministries. Although the Foreign Ministers will continue to co-ordinate the other Ministers' activities, they will no longer amend recommendations and decisions reached by other Ministers.

(d) ASEAN Secretariat

The decision was taken at the first Meeting of the Heads of Governments at Bali in February 1976 to establish the ASEAN Secretariat in Jakarta. At the head of the Secretariat is the Secretary-General who is participating at all ministerial meetings and meetings of the ASEAN Standing Committee. The Secretary-General is acting as a "channel of communication" between all the various ASEAN committees. He is responsible to the Foreign Ministers and, through them, the Standing Committee. Among the functions or responsibilities entrusted to him are:

- (i) Harmonization, facilitation and monitoring of progress in the implementation of all approved ASEAN activities; and
- (ii) Possibility to initiate plans and programmes of activities for ASEAN regional co-operation in accordance with approved policy guidelines.

Besides the Secretary-General, the Secretariat, in its initial period, has three bureau directors, in charge of economic, science and technology, and social and cultural affairs, and officers (of first-secretary rank)

responsible for foreign trade and economic relations, administration, public information and an assistant to the Secretary-General. General Hartono R. Dharsono of Indonesia was appointed in 1976 as the first Secretary-General. He was succeeded by Mr. Umarjadi Njotowijono. In July 1978 Datuk Ali bin Abdullah of Malaysia took over for a two-years period, as the position of Secretary-General rotates every two years alphabetically among the five countries. In July 1980 Ambassador Narciso S. Reyes of the Philippines became the new ASEAN Secretary-General. Dr. Luhulima is Director of Technology and Science of ASEAN.

(e) ASEAN Permanent, Special and Ad Hoc Committees

After a critical review of the Committee structure it was decided by the second Heads of Government Meeting in Kuala Lumpur in August 1977 that the following Permanent Committees, consisting of specialists, experts and officials on specific subjects, were to function:

- Committee on Trade and Tourism (COTT)
- Committee on Industry, Minerals and Energy (COIME)
- Committee on Transportation and Communications (COTC)
- Committee on Food, Agriculture and Forestry (COFAF)
- Committee on Finance and Banking (COFAB)
- Committee on Socio-Cultural Activities
- Committee on Mass Media
- Committee on Science and Technology
- Committee on Finance and Budgeting (i.e. management of ASEAN's budget)

The Permanent Committees which originally reported to the Standing Committee, are since the restructuring in 1977 reporting directly to their respective ministries, keeping the Standing Committee informed.

Among the Special Committees or Ad Hoc Committees the following may particularly be noted:

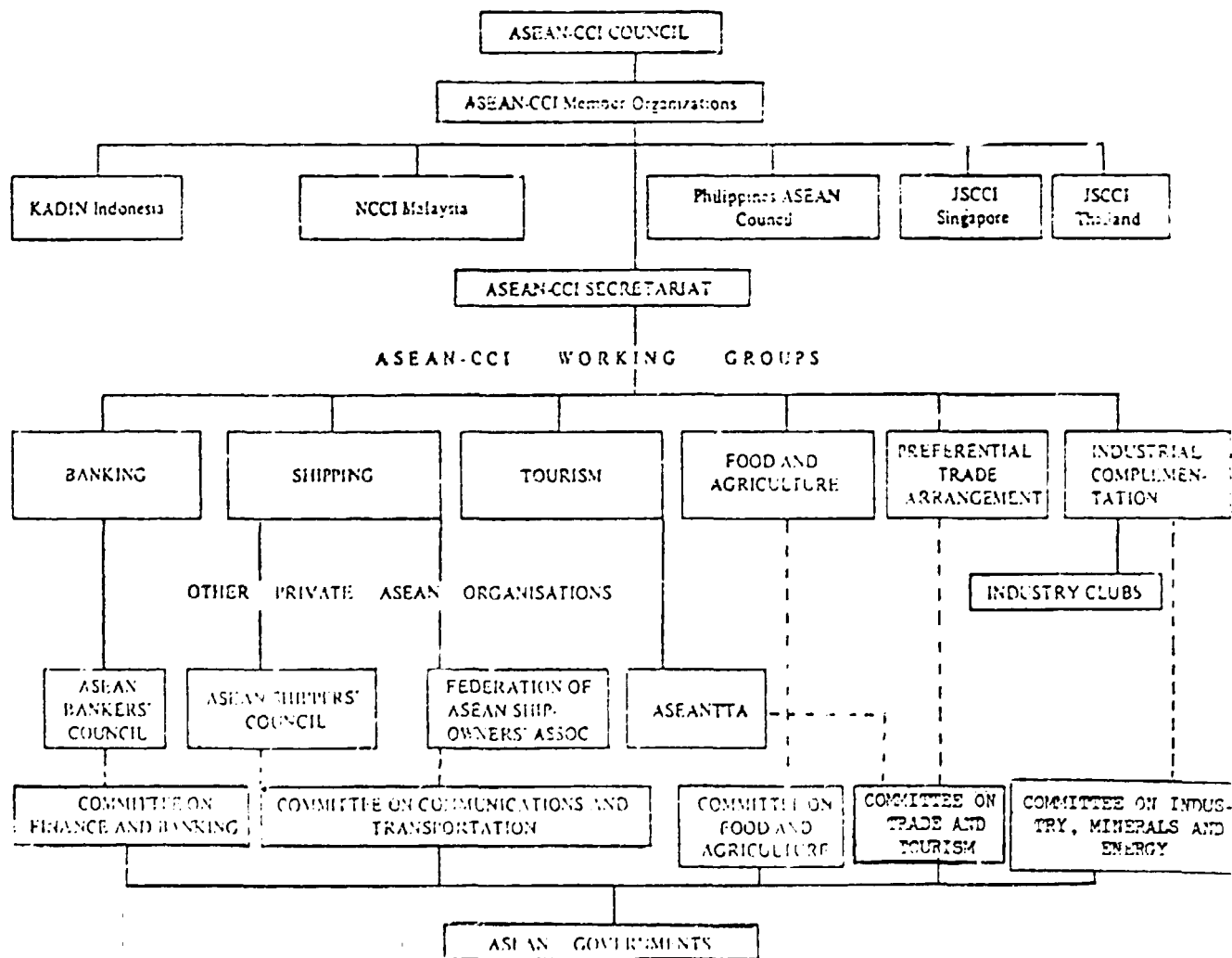
- Special Co-ordinating Committee of ASEAN (SCCAN). Its primary task is to negotiate for better terms with the EEC and to take care of day-to-day relations with the Community. SCCAN is assisted by the ASEAN Brussels Committee (ABC) which consists of 5 ASEAN Ambassadors/Representatives accredited to the EEC
- Special Co-ordinating Committee of ASEAN Central Banks and Monetary Authorities

- ASEAN Senior Officials on Synthetic Rubber. This Ad Hoc Committee deals mainly with the problems of competitive threat of synthetic rubber to natural rubber
- ASEAN Senior Officials on Sugar. This Ad Hoc Committee is responsible for economic co-operation agreements on sugar
- ASEAN Senior Trade Officials. This Ad Hoc Committee deals with matters relating to the Multilateral Trade Negotiations (MTN) under GATT and is assisted by the ASEAN Geneva Committee (AGC)

(f) ASEAN - Chambers of Commerce and Industry (ASEAN - CCI)

In response to the conceived role of ASEAN private sector in achieving ASEAN industrial co-operation, the private sector organized itself into an ASEAN - Chambers of Commerce and Industry in Jakarta in 1971. The ASEAN-CCI is the officially recognized forum for the private sectors of the ASEAN countries to discuss and formulate suggestions for consideration in ASEAN government fora (see further Chapter IV below).

Structure Of ASEAN-Chambers of Commerce and Industry



(g) ASEAN Bankers' Council

Drawing five members from each ASEAN country, the heads of major banking institutions - both private and state-owned - in these countries collectively form the ASEAN Bankers' Council which meets regularly. The current Chairman of the Council is Mr. Omar Abdallah, President of the state-owned Bank Bumi Daya, Indonesia.

## Chapter IV

### Activities in the field of industry

#### (a) Early UN studies

In the field of industry the practical achievements during the early period, up to the Bali Meeting of the Head of Governments in February 1976, were very meagre. Comprehensive studies were, however, made in respect of various schemes for co-operation in industry. Two major UN study efforts should, in particular, be mentioned:

- "Economic Co-operation among Member Countries of ASEAN" report of a UN Study Team with Mr. G. Kansu as Team Leader and Professor E A.C. Robinson as Senior Adviser. The report is published in the Journal of Development Planning, Number 7, United Nations, New York, 1974.
- "Asian Industrial Survey for Regional Co-operation", report prepared under the auspices of ECAFE (now ESCAP) in co-operation with the Asian Development Bank, UNDP and UNEDC. Professor H.C. Bos was co-ordinator for the study project, Mr. A. Feraldis was leader of the permanent team. The report is published as Document AIDC (9)/1, United Nations, New York, 1973.

Three principal and general techniques of co-operation in the field of industry (and trade) were developed in these reports, namely the technique of selective trade liberalization, the technique of industrial complementarity agreements and the so-called 'package deal' technique.

Co-operation through selective trade liberalization is designed to increase efficiency and secure a more economic use of resources both in the short run and in the long run by increasing the trade between ASEAN countries and permitting increased specialization on activities of greater advantage. Given the circumstances of ASEAN, a gradual step-by-step and item-by-item approach was considered appropriate, with a policy of progressive advance towards a long run goal of a limited free trade area.

The purpose of industrial complementarity agreements, which have played a significant role in Latin American development, is to expand trade and industrial co-operation, at the level of the individual industry or small group of related industries, through negotiations. These are conducted by representatives of manufacturers in different countries, with the aim of preparing an agreement covering that industry for government approval. Proposals may include measures for the encouragement of specialization and exchange of products or components through uni-directional preferences, reduction or abolition of intra-regional tariffs, removal of quantitative restrictions, establishment of joint ventures, and the sharing of markets. In

the case of the ASEAN countries a number of industries were suggested, in the two above-mentioned studies, for which complementarity agreements might be beneficial and suggestions were made for the conduct of negotiations and their supervision by governments.

The third general technique, that of the 'package deal' takes the form of an agreement to allocate between the various ASEAN countries certain large-scale industries projects for a specified and limited period of time and to create the conditions, including trade liberalization measures, which could enable them to serve the whole or a large part of the ASEAN market. To test and at the same time to give concrete reality to the 'package deal' recommendations, pre-feasibility studies were carried out in respect of a number of chemical and engineering projects where a prima facie case exists for co-operation in their establishment in the region. These studies revealed the very substantial economies, and the very big savings in capital and production costs, that can be secured by taking advantage of the economies of scale that are possible if they can be developed to serve the whole ASEAN market.<sup>1/</sup>

(b) ASEAN Industrial Co-operation

As mentioned above, in February 1976, at Bali, the ASEAN Heads of Government, meeting for the first time, adopted the document called the "Declaration of ASEAN Concord".<sup>2/</sup> The Declaration provides, inter alia, that member states "shall co-operate to establish large-scale ASEAN industrial plants particularly to meet regional requirements of essential commodities, and that the expansion of trade among member states shall be facilitated through co-operation in ASEAN industrial projects".

---

<sup>1/</sup> The question of regional co-operation in the establishment of large-scale projects has been further studied in depth by

- (i) Arie Kuyvenhoven and L.B.M. Mennes of the Centre for Development Planning, Erasmus University, Rotterdam in their article 'Projects for regional co-operation: identification, selection and location', published in Industry and Development No. 1, 1973, UNIDO (ID/SER.M/1), and
- (ii) Martin J. Staab, IBRD, in his article 'The production location problem and the development of industries on a regional basis in the ASEAN countries', published in the Journal of Institute of Developing Economics, March 1980.

<sup>2/</sup> See Annex II.

ASEAN industrial co-operation would seek to take advantage of the ASEAN market so that industries which could not be viably set up in any one ASEAN country could be viably and efficiently established on a regional basis. Thus opportunities would be provided for the expansion and diversification of trade and industrial development. Benefits generated from industrial co-operation schemes, taken together with the benefits from other programmes of regional economic co-operation, should in the long run be equitably shared among the member countries.

ASEAN industrial co-operation was envisioned to take place via three approaches, namely (i) the establishment of ASEAN Industrial Projects (AIPs), (ii) the ASEAN Industrial Complementation (AIC) programme and (iii) co-ordination of large-scale national projects in selected industry sectors.

(c) ASEAN Industrial Projects (AIPs)

As noted above, the Declaration of ASEAN Concord calls for co-operation by member states in establishing large-scale ASEAN industrial plants particularly to meet regional requirements of essential commodities. The Declaration further states that priority shall be given to projects which utilize the available materials of member states, contribute to the increase in food production, increase foreign exchange earnings or save foreign exchange and create employment.

The economic rationale for establishing ASEAN Industrial Projects (AIPs) is evident, as demonstrated, inter alia, in the above-mentioned two major regional UN studies. The individual countries of ASEAN have markets large enough to support production of most consumer goods, while in the case of certain products requiring large-scale industrial production, mainly in the field of capital goods and intermediate goods manufacturing, there is a necessity for larger markets than those of any of the individual ASEAN countries to enable these products to be sold at approximately the prices at which they are available at the world market.

While in the other forms of economic integration, as in the EEC, the setting up of industrial projects for regional markets is left mainly to market forces [although backed by tariff and other trade preferences which are granted across the board], ASEAN has opted for a somewhat different course. Mr. Vicente T. Paterno of the Philippines, former Chairman of COIME has pointed out the differences:



"While also employing trade preferences on selected products, in ASEAN we incline to the belief that, in our aggrupation of developing countries, guidance and positive encouragement from the regional governmental institutional mechanisms is additionally desirable so that energies and resources will be channelled to those industrial programs which would be most beneficial to the region as a whole, while ensuring equitable sharing among the member countries of benefits from the increased economic activity resulting from regional industrial co-operation".<sup>1/</sup>

The ASEAN Economic Ministers' Meeting, held in early 1976 barely two weeks after the Bali summit, agreed to study initially five ASEAN Industrial Projects. These proposed AIPs to be examined were: an ammonia-urea project each in Indonesia and Malaysia, a phosphatic fertilizer plant in the Philippines, a diesel engine project in Singapore and a soda ash project in Thailand.

The Ministers also agreed to create an expert group to review the industrial co-operation programme and directed that the group also examine the feasibility of establishing the five ASEAN Industrial Projects (in the understanding that the feasibility study for each plant was to be undertaken by the member country wishing to set it up). The expert group would also:

- investigate the technical and economic feasibility of establishing additional manufacturing capacity within the region to supply regional requirements for newsprint and potash;
- consult with one another on national programmes for development of steel and petrochemicals industries with a view to co-ordinating these programmes, avoiding unnecessary duplication and competition, so as to achieve maximum benefits for the ASEAN region as a whole; and
- exchange information on various sectors of national industrial development programmes with a view to identifying possibilities for complementation among existing industries in the region.

The ASEAN Economic Ministers, approved in 1978 the Basic Agreement on ASEAN Industrial Projects which covers, inter alia, the general principle to govern the equity participation of the ASEAN countries in the first five AIPs, namely that for these first AIPs the host country should have 60 per cent of the total equity of the AIP with the balance to be shared equally by the other ASEAN countries. (At the meeting of ASEAN Ministers of Industry in September 1980 it was, however, agreed that the participation of all five

---

<sup>1/</sup> Paterno, Vicente T., "ASEAN-Australia Industrial Co-operation", Speech delivered before the Australia-ASEAN Industrial Co-operation Conference, Melbourne, Australia, 19 June 1978.

countries in future ASEAN industrial projects would no longer be required.) The products of the AIPs were to be assured preferential access to the member countries through the various instruments of preferential trading arrangements (see Chapter V below).

In general, the approach to the AIPs has been characterized by step-by-step procedures and long and complex negotiations before practical results have been obtained.<sup>1/</sup> As shown in a UNIDO study<sup>2/</sup> prepared in connexion with the research work on redeployment, there are at least 10 steps involved before actual establishment of an AIP factory can commence. For example, the first AIP, the urea fertilizer project of Indonesia went through the following stages:

1. At the Bali summit in February 1976, Indonesia was directed to study the feasibility of establishing this regional project.
2. Commissioning of feasibility study for the urea project.
3. Resolution of policy issues involving:
  - (a) The quantity of urea each country would commit to offtake on a long-term basis
  - (b) The proportions each country would take in the equity of the project and the extent to which such equity may be taken by government and the private sector in each investing country.
  - (c) The formula which would be observed in pricing the product purchased under long-term quantity contracts.
  - (d) The extent to which direct infrastructure cost would be treated as capital cost or would be absorbed by the host country.
  - (e) The price at which the natural gas (raw material) would be supplied by Pertamina.
4. Completion of detailed feasibility study.
5. Evaluation by the Committee of Senior Officials and formal acceptance as an ASEAN Industrial Project.
6. Negotiations on the terms of project financing.
7. Discussion and negotiation of the articles of incorporation and by-laws of the AIP corporation.

---

<sup>1/</sup> At the meeting of the ASEAN Ministers of Industry held at Bali in September 1980, it was agreed that a much more flexible approach would be adopted vis-a-vis AIPs, which would allow, among other things, companies tendering for a joint ASEAN project to offer a competitive package which included financing (Financial Times, 1.10.1980).

<sup>2/</sup> Sanchez, Conrado Jr, "Industrial Redeployment in the context of Economic Integration among Developing Countries - The Case of ASEAN". Draft (prepared in late 1979) IS/GLQ.

8. Incorporation of P.T. ASEAN Aceh Fertilizer. Initial payments by stockholders on their subscription.
9. Organization of the Board of Directors; appointment of management staff.
10. Finalizing loans and preparing invitation to bid for equipment supply and plant construction.

The loan agreement -- under step 10 -- was signed with the Exim Bank of Japan on 30 October 1979, that is 3½ years after the Bali summit meeting. This example clearly shows the importance that the time element involved is realistically assessed and that real results of the AIP co-operation should be expected only within a relatively long time span.

Again drawing partly from information from the above-mentioned UNIDO redeployment study,<sup>1/</sup> the results achieved so far on the initial five ASEAN Industrial Projects are:

Indonesia: ASEAN Urea Project (P.T. Aceh Fertilizer)

(a) Rated Capacity:

Urea plant	570,000 tons per year
Ammonia plant	330,000 tons per year

- (b) Total investment funds required US \$323,000,000  
Authorized capital US \$ 93,900,000

(c) Equity structure: Per cent share

Indonesia	P.T. Pupuk Sriwidjaja	60
Malaysia	Petroleum National Berhad	13
Philippines	Fertilizer Corporation of the Philippines	13
Singapore	Temasek Holdings (Pte). Ltd	1
Thailand		13

(d) Location:

Daerah Istimewa Aceh, North Sumatra  
270 hectares

(e) Progress

Two loan agreements with OECF and Exim Bank, both of Japan, already signed, October 1979.

Commercial and General Affairs Directors already appointed.

96 per cent of required land area already acquired.

For construction preparation, detailed engineering survey and investigations presently under way.

<sup>1/</sup> Sanchez, Conrado Jr., *ibid.*

Target for start of operations: 1984.

Construction was to start in 1980 but no contractor could be chosen as all tenders exceeded the original budget. However, Japanese financing of the entire US \$90 million cost overrun caused by delays has recently been agreed. Toyo Engineering of Japan has won the contract to build the US \$400 million plant.<sup>1/</sup>

Malaysia: ASEAN Urea Project

(a) Rated Capacity

Urea plant	530,000 metric tons per year
Ammonia plant	360,000 metric tons per year

(b) Capacity utilization

	<u>Urea plant</u>	<u>Ammonia plant</u>
1984	55%	80%
1985	60%	85%
1986	70%	90%

(c) Total funds required US \$ 245.13 million (estimated)

Foreign portion	US \$ 178.87 million
Local portion	US \$ 66.44 million

Long-term debt	US \$ 171.72 million
Equity	US \$ 73.59 million

Debt/Equity ratio 70:30

(d) Location:

Bintulu, Sarawak

(e) Progress:

Joint venture agreement on the ASEAN Urea project has been agreed to by shareholders except that the final cost of the project will be known only after the complete study by the Japanese evaluation team.

There have been advance reports on the study done by the Japanese International Co-operation Agency.

- (a) Water supply at the Bintulu site poses a problem.
- (b) Malaysia lacks an agency with the experience to see to all aspects of marketing the product.
- (c) The majority of the output of the plant will be used in Malaysia, with the Philippines absorbing most of the excess.
- (d) Target for start of operations: 1984.

The project was formally approved for implementation by the ASEAN Industry Ministers' Meeting at Bali in September 1980.<sup>2/</sup>

<sup>1/</sup> Far Eastern Economic Review, 9.1.1981.

<sup>2/</sup> Financial Times, 1.10.1980.

Philippines: ASEAN NP/NPK Ammonium Sulfate Fertilizer project

(a) Plant capacity

	<u>At 90% of plant capacity</u>	<u>ASEAN potential market</u>
Ammonium sulfate	153,000 MTY	588,000
NP/NPK	432,000	537,000
D A P	346,500	174,000
Phosphoric acid	105,000	

(b) Operating rate

	<u>Per cent of plant capacity</u>
1983	60
1984	80
1985 - 1994	90

(c) Target date of operation: 1982

(d) Investment

Plant cost	US \$297.50 million
Initial working capital	US \$ 23.14 million
Total financial requirement	US \$320.64 million

(e) Location

Isabel, Leyte

(f) Progress

The original superphosphate fertilizer project was abandoned in mid-1978 for economic reasons by the Philippines, on basis of findings of Japanese feasibility study.

The NP/NPK/Ammonium Sulfate Fertilizer Project was submitted to the 9th CCME meeting held in November 1979. The delegates of the four other ASEAN countries expressed the view that they were not in a position to consider the expanded project as an ASEAN industrial project. They referred the matter to the ASEAN Economic Ministers at the earliest possible opportunity.

The Philippine delegation informed the meeting that, considering the urgency of implementation, it will proceed with the expanded project as a national project if the other ASEAN member countries do not exercise their option to participate.

However, the subsequent results of a project study by the US consultants Arthur D. Little were not altogether encouraging.<sup>1/</sup>

Singapore: ASEAN Diesel Engine Project

The project involves the manufacture of diesel engines with horsepower ranging from 5 to 21,000 horsepower.

Project implementation:

First phase -- 4 years

Fixed investment of US \$90 - 100 million, with a capacity of 100,000 units per year

Final phase -- next 4 years

Fixed investment of US \$40 million

<sup>1/</sup> Far Eastern Economic Review, 9.1.1981.

At the 9th COIME Meeting in November 1979, Singapore reiterated its previous statement that progress on the ASEAN Diesel Engine Project was not possible until the horsepower range and market support for the project were resolved. Indonesia, Thailand and the Philippines were going ahead with their national diesel engine projects. Singapore reported that it was proceeding with the establishment of a national diesel engine project which is scheduled to come on stream at the end of 1980. Initially, the project will assemble, test and service diesel engines for the regional market. The project was organized in such a way that it could be expanded and converted into an ASEAN project if agreement were reached on the horsepower range and market support for the ASEAN Diesel Engine Project (Singapore).

Thailand: ASEAN Rock Salt/Soda Ash Project

(a) Rated capacity

Soda ash plant 400,000 metric tonnes per year (starting in 1985 with 9,000 tonnes to be increased to 500,000 tonnes by 1997).<sup>1/</sup>

(b) Total fund requirement US \$232.99 million by 1983 (estimated)

Foreign currency/local currency ratio 58:42  
Debt/Equity ratio 70:30

(c) Location

Rock salt mining Bannet Narong (est. 313 million metric tons reserves)  
Lime stone quarrying Khao Pang Sok (est. 104 million metric tons reserves)  
Soda ash plant Laem Chabang<sup>2/</sup>

(c) Progress

The Canadian firm, Surveyor, Menninger and Chenevert (SNC) has carried out the feasibility survey, under a TA grant from ADB.

To date, no decision has been made regarding the final project cost. The government of Japan has sent three JICA teams (including one of a Canadian consulting firm) since 1979 to evaluate the project.<sup>3/</sup>

The protocol on the C.I.F. pricing policy for the ASEAN Rock Salt-Soda Ash Project (Thailand) has been initialled by the ASEAN Economic Ministers.

The first meeting of the shareholder entities for the project was convened in Bangkok in October 1979.

<sup>1/</sup> Far East Week by Week, 14.7.1979

<sup>2/</sup> The project was originally to be sited at Laem Chabang, however, subsequently support was given for its siting at the new deep-water port of Sattahip (on basis of which detailed feasibility studies were made). The issue was finally taken up at the cabinet which approved the Laem Chabang site. (Far Eastern Economic Review, 12.12.1980.)

<sup>3/</sup> Far Eastern Economic Review, 9.1.1981.

It is intended that the Thai Government and the private sector will hold 20 per cent and 40 per cent respectively, with the other four ASEAN countries holding 10 per cent each (or if Singapore scales down its investment to one per cent the other three countries will need to increase their share to 13 per cent each). The major shareholder for the private sector is expected to be Thai Asahi Glass Co. Ltd. The 20 per cent to be carried by the Thai Government will mostly come from the Japanese Government's proposed financial aid of \$1.000 million earmarked for ASEAN Industrial Projects.

In realization that the five identified AIFs would take some time to be ready for implementation and anxious not to lose the momentum achieved, the ASEAN Economic Ministers at a meeting in January 1977 agreed that pre-feasibility studies would be undertaken on other possible ASEAN projects, namely:

- heavy duty rubber tyres (Indonesia)
- metal working machine tools (Malaysia)
- electrolytic tin plating (Philippines)
- colour TV picture tubes (Singapore)
- potash (Thailand)
- newsprint

Status reports on these 'second line AIFs' have as yet been considered only once at COIME, at its 6th Meeting in September 1978. Essentially the following was reported:

(a) Indonesia: Heavy duty rubber tyres

Indonesia had encountered difficulties in obtaining adequate pertinent data on market projection and expansion plans of existing manufacturing facilities. Assistance was requested from ASEAN member countries to make available the needed information for the purpose of finalizing the project pre-feasibility study.

(b) Malaysia: Metal working machine tools

Malaysia noted that the metal working machine tools manufacturing industry consists of a large number of sub-sectors which were now at various states of development among ASEAN member countries. Malaysia suggested that COIME should look into the possibility of converting the project as part of the complementation scheme (AICP).

(c) Philippines: Electrolytic tin plating

The Philippines sought appropriate multilateral or bilateral assistance to undertake a detailed feasibility study for an ASEAN tin plate plant.

(d) Singapore: Colour TV picture tubes

ASEAN requirement for colour TV picture tubes was considered too small to support an economic-size plant. Singapore was already implementing a national project to produce colour tubes for the world market, which will have sufficient capacity to supply the ASEAN domestic requirement. Singapore indicated that it would not pursue the project as a possible AIF.

In the case of potash production, this project is linked with the original ASEAN Industrial Project for rock salt/soda ash. Vast deposits of both rock salt and potash exist in the Northeast Thailand although the proven total deposits of potash have not yet been precisely determined. However, if the two minerals could be extracted simultaneously from the same sites, the chances for profitable operations might be greatly enhanced. The Asian market for potash fertilizers, currently estimated at 2 million tonnes a year, is growing fast. Although there is no shortage of potash in the world and productive capacity exceeds present and projected demand by a reasonable margin, there is an imbalance in its distribution, 99 per cent of it being found in North America and Europe. Asia must obtain its supplies from these sources with heavy freight costs involved.

Finally, attention has been given to pulp and paper projects being considered in four possible locations in ASEAN. A FAC report on the prospects for the development of pulp and paper industries has been adopted as a planning guide. Lately, the Philippines have advanced a proposed pulp and paper mill project in that country as an AIP.<sup>1/</sup>

(5) ASEAN Industrial Complementation (AIC) programme

While the ASEAN Industrial Projects (AIPs) are expected to provide an important impetus in the long-term, it has been envisaged that the greater portion of the ASEAN industrial co-operation programme would be implemented and materialized by the direct efforts of the private sector in the member countries through the ASEAN Industrial Complementation (AIC) programme.

In response to the conceived role of the ASEAN private sector in achieving ASEAN industrial co-operation, the private sector has organized itself (as mentioned above) into an ASEAN-Chambers of Commerce and Industry (ASEAN-CCI). At the ASEAN-CCI Council Meeting in 1976, it was agreed that the principal vehicle for the ASEAN private sector efforts and co-operation in the ASEAN Industrial Complementation (AIC) programme would be through the regional "industry clubs" (RIC). Industry clubs are defined as the aggrupations of private sector entities, associations, federations or groups within the same industry representing each of the identified industries for possible regional industrial complementation. Regional industry clubs are composed of the

---

1/ Far Eastern Economic Review, 10.10.1980.



representatives of the national industry clubs given official recognition by the individual ASEAN Chamber of Commerce and Industry. Regional industry clubs have to be given accreditation by the ASEAN-CCI through recommendations of its Working Group on Industrial Complementation (WGIC). Seven RICs were given full recognition by the ASEAN-CCI Council at their Third Conference held in November 1977 in Manila, Philippines. These RICs are ASEAN Automotive Federation, ASEAN Federation of Cement Manufacturers, ASEAN Chemical Industries Club, ASEAN Federation of Electrical, Electronics and Allied Industries, ASEAN Federation of Food Processing Industry, Rubber Industries Association of ASEAN and ASEAN Federation of Glass Manufacturers. Other RICs later recognized include ASEAN Agricultural Machinery Industry Club, ASEAN Diesel Engine Industry Club, ASEAN Pulp and Paper Industry Club, ASEAN Steel Industry Club and ASEAN Engineering Club.

The first task of the recognized RICs is envisioned to be the identification of various products from the existing plants in the member countries that can be traded among them and to negotiate preliminarily the extent of tariff and other trading preferences needed to stimulate this trade. RICs will thus formulate and submit through ASEAN-CCI to the respective committees of the ASEAN Economic Ministers, the schemes for complementation in their respective industries. Upon approval of an industrial complementation scheme by the designated committees of the ASEAN Economic Ministers, particularly the Committee on Industry, Minerals and Energy (COIME), the scheme shall be ready for implementation including the specific tariff and other trade preferences for the products involved.

The industry group which has advanced most in developing a complementation scheme is the automotive industry. The main state in the evaluation of the scheme are presented in following paragraphs.

The ASEAN Automotive Federation (AAF) established in 1977 an AAF Technical Committee (AAFTC) which, after a thorough survey of the automotive industry in the ASEAN countries had been carried out, developed proposals for complementation which were formulated in "Guidelines on ASEAN Automotive Complementa-tion". Key elements in the AAF guidelines were the guarantee that no similar projects making a product included in a complementation scheme will be approved by any of the five governments, that such products will benefit from tariff reductions, and that their products will qualify as local content in all five

countries. The guidelines also introduced what it calls a "multi-sourcing concept."<sup>1/</sup>

The original proposal by the AAF was not accepted by the Meeting of Economic Ministers in Jakarta in June 1978 as concern was expressed over the proposed 49 per cent limit on foreign equity and that the tentative draft guidelines did not provide a "workable framework". They should first be tested against a private sector scheme. Furthermore, the Singapore delegation expressed reservations about the AIC schemes as envisaged in the tentative draft guidelines suggesting that the schemes, granting special privileges to accredited participants, would interfere with market prices and would be detrimental to the long-term economic development of the region.

In September 1979 at a COIME meeting in Manila, Singapore presented a position paper which argued that, in its opinion, complementation schemes make sense only if products manufactured under them are internationally competitive, and that the only way to ensure competitiveness is to allow free entry or equal terms by any producer in any of the five ASEAN countries. Thus Singapore challenged head-on the notion that designated manufacturers should in principle be given exclusive production and marketing rights in the region and that only manufacturers operating in one country should be given such rights for each items of production.<sup>2/</sup>

In the meantime, an ASEAN Experts Group of Automotive Industries, had been set up by the government Committee on Industry, Minerals and Energy (COIME) to evaluate private sector automotive complementation. The Group met in October 1979 with the AAFTC and approved modified draft "Guidelines on ASEAN Automotive Complementation."<sup>3/</sup>

1/ The "multi-sourcing concept" may be illustrated as follows:

Indonesia and Malaysia presently prohibit the import of components from more than one source. At the moment, Ford's subsidiary in the Philippines, Ensite, ships parts to the UK for inclusion with UK-manufactured parts in kits that are then sent to ASEAN. The parts by definition are no longer ASEAN-sourced and therefore not eligible for inclusion in a complementation scheme or for trade concessions. Moreover, adoption of multi-sourcing will cut Ensite's freight costs by 80 per cent. Original equipment manufacturer's (OEM) imports will be offered the same tax and import duty privileges as completely knocked down (CKD) kits plus additional tariff preferences if sourced within ASEAN. Products included in ASEAN complementation schemes will be treated as ASEAN local content, as defined by each government, provided they meet the rules of origin requirement.

2/ Far Eastern Economic Review, 2.5.1980.

3/ See Annex III for full details of the draft "Guidelines..."

The principle of 'multi-sourced' imports was accepted by COIME at its 9th meeting in November 1979 and it was recommended for approval by the ASEAN Economic Ministers (together with AAP's request for UNIDO to provide a technical consultant on the automotive industry). The COIME indicated its willingness to approve in principle the package of automotive component manufacturing, as the first set of projects under the ASEAN Industrial Complementation (AIC) programme, provided that additional information were collected and evaluated in order to enable COIME to assess:

- (a) the specific commitments required of each member country;
- (b) the benefits and costs that would accrue to each member country;
- (c) compliance with all relevant provisions of the "Tentative Draft Guidelines on Industrial Complementation."

The specific proposals, to be subject of further consideration by the Experts Group, were the following, of which the first five had already been approved in principle by COIME.

Diesel engines of 80-135 hp (Indonesia)  
Spokes, grease nipples and roller chains for motor-cycles and timing chains for automobiles (Malaysia)  
Body panels for Ford Cortina (Philippines)  
Universal joints for passenger cars and commercial vehicles (Singapore)  
Body panels for commercial vehicles of one ton and over (Thailand)  
Headlights (possibly Malaysia)  
Carburetors

When COIME met again in March 1980, Singapore announced its decision to drop out of the complementation scheme<sup>1/</sup> while the remaining four countries resolved to go ahead with the ASEAN motor vehicle complementation scheme and decided to present their proposal for final approval at the Economic Ministers' Meeting in Singapore in April 1980.

At the Economic Ministers' Meeting, it was reported,<sup>2/</sup> delegates from the four other countries continued to call for strong government support in terms of privileges and protection for accredited manufacturers, for

---

1/ In July 1979 Singapore withdraw support hitherto given to the domestic car assemblers in announcing its decision to bring down the tariff wall protesting the local car assemblers. This was a first concrete step in implementing a new policy towards higher wages in the republic. It also marked Singapore's definitive departure from the common ASEAN goal of domestication car production and from efforts to achieve this through complementary arrangements. (Far Eastern Economic Review, 27.7.79)

2/ Far Eastern Economic Review, 2.5.1980.

instance, a larger tariff cut for products falling under the AIC scheme than accorded under the ASEAN Preferential Trade Arrangements (PTA) (in the argument that these products should be treated as if manufactured locally in the calculation of local content in relevant cases). It was indicated, on the other hand, that the official ASEAN Committee of Trade and Tourism (COTT) had insisted that anything going beyond the most-favoured-nation principle would not be in accordance with the ASEAN PTA. Finally, Singapore's gesture of offering to drop out while the other four countries went ahead might not have been felt acceptable for reasons of ASEAN solidarity.

The result of the Economic Ministers' Meeting was a consensus which included Singapore and in a joint statement the ministers said the AIC schemes "should be organized on a product basis allocated to specific member countries for a limited period of two years in the case of on-going projects or four years from the date of approval in the case of new projects. Any preferences granted within the framework of the ASEAN PTA for any product by a particular country will be extended on an ASEAN most-favoured-nation basis to similar products produced in other ASEAN member countries in accordance with the basic principles of the ASEAN PTA." This clause seems to imply that trade preferences accorded to accredited manufacturers will not exceed those set fully in the PTA. The statement continued, however, as follows: "Member countries may grant additional preferences, such as recognition of local content on a country basis, and mandatory sourcing. Such additional preferences should be negotiated separately between the countries concerned." In essence, the ministers decided that the companies accredited under the AIC scheme should not be guaranteed exclusive production and marketing rights except for those which are negotiated between member countries outside the ASEAN framework.

Thus, if, for example, Indonesia was to be accredited the manufacture of diesel engines under the AIC scheme, manufacturers of diesel engines in, say, Malaysia and Thailand would automatically enjoy the same trade preferences (over non-ASEAN manufacturers) as those of the Indonesian manufacturers. It would, however, then still be possible that Indonesian diesel engines were to enjoy greater preferences than those produced in Malaysia or Thailand as it would be up to each country (but not ASEAN collectively) to decide that only Indonesian diesel engines should be considered locally manufactured or, for instance, that for certain motor vehicles, the assemblers must buy the diesel engines from Indonesia.

In other words, the degree to which complementation schemes will enjoy ASEAN governments' support has been left to each country's discretion. This leaves the door open for the four countries which agreed in the March 1980 COIME meeting to go ahead with the motor vehicle complementation scheme to grant additional preferences in the way that was envisaged at that meeting.

The results of the Economic Ministers Meeting in April 1980 was criticized by the industrialists in the ASEAN-CCI's Working Group on Industrial Complementation (WGIC); its chairman charging that 'exclusivity (exclusive production and marketing rights), an important factor in an orderly complementation scheme, has now been replaced by a free-for-all.<sup>1/</sup> The WGIC made a representation at the COIME meeting in Manila in June/July 1980 along the lines suggested by the Group's Philippine delegation. It is reported<sup>2/</sup> that the Philippine paper argued that the limitation of the period of preference for participating companies to two years for existing projects and four years for new projects was too restrictive and that the idea of extending the privileges to anybody in any ASEAN country who was producing similar items was against the very concept of complementation. The paper suggested, as a compromise, that approved AIC projects might be given at least a head start of, say, five years before its preferences are mutilated to similar products in other ASEAN countries.

The discussions at the June/July 1980 COIME on the further progress of the automotive industry complementation schemes proved inconclusive.

At the ASEAN Ministers of Industry meeting at Bali in September 1980 a concerted attempt was made to inject new life in the industrial co-operation schemes of ASEAN involving a change of policy towards a greater use of private enterprise and greater flexibility in project financing. The Ministers agreed, concerning the ASEAN automotive industry, on which countries should manufacture a package of motor parts, namely those five which had been approved in principle by COIME in November 1979.

The ASEAN Economic Ministers at their meeting in Bangkok in October 1980 endorsed the major progress made at Bali towards finishing a basic agreement on ASEAN industrial complementation regarding motor vehicle parts manufacturing. The Economic Ministers promised to initial the basic agreement at their next meeting in about six months and urged the finalization of the first and second sets of parts to be allocated.<sup>2/</sup>

---

1/ Far Eastern Economic Review, 18.7.1980

2/ Far Eastern Economic Review, 31.10.1980 and 14.11.1980 and Business Asia, 7.11.1980

The ASEAN Economic Ministers' approval of an automotives complementation scheme gives all firms a more detailed blueprint on which to base their plans and at the same time demonstrates the five governments' ability to reach political compromises without sacrificing the economic viability of such schemes. However, many of the plan's details - such as the extent of trade concessions - remain open to negotiation, making the approval another step in a long road rather than the final blessing. Almost four years after the first ASEAN Automotive Federation (AAF) council meeting created the AAF Technical Committee (AAFTC) to study detailed proposals for ASEAN co-operation in the automotive industry, the ASEAN Economic Ministers' meeting in Bangkok approved two full packages of products with a third being negotiated.

In their approval, the Ministers solved several outstanding problems. The most important issue decided at the meeting was the shape of the key concessions that the AAF had requested. Companies wanted the approval to include a ban to last three to five years on completing projects in other countries. Singapore's unwillingness to commit itself to this restriction had proved to be a stumbling block. The Ministers replaced the ban with a provision that any competing project export at least 75 per cent of its output to non-ASEAN markets. For example, while Malaysia will be the only country sanctioned to make roller chains, Singapore or any of the others would be able to set up a similar operation as long as 75 per cent of the production was exported to non-ASEAN countries. This rule will apply to both the products already made in ASEAN as well as the proposed carburetor and headlight plants. While companies could seemingly set up operations in one of the five countries and produce an ASEAN-approved product without further approval, individual country investment boards can be expected to monitor closely new investment applications to ensure their viability in the complementation scheme. However, if a company obtains approval from a specific country to set up operations to manufacture the approved product of a country, then it would be eligible for the scheme's privileges. This solution demonstrates considerable realism on the government's part and its willingness to heed private-sector advice, thus making the complementation scheme more viable.

A second key decision was to grant original equipment manufactures (OEM) status to be treated the same whether they come in completely knocked

down (ckd) kits or individually. In the past, ckd's attracted lower duties - in some countries as much as 50 per cent less - than individual components. This would obviously be a major disincentive for an assembler to switch from kits to a mix of ASEAN and OEM components.

Other important aspects of the scheme are still being decided. The exact tariff concessions are being bilaterally negotiated among the various ASEAN governments, and are expected to range from a low of 0 per cent to a high of 25.30 per cent. A compulsory purchasing scheme has been discussed by ASEAN, although nothing definite has evolved from the talks. The AAF has also asked for flexible minimums of ASEAN content. The companies wanted either lower levels or a grace period during which ASEAN content would be raised to the specified levels. Also at issue is whether ASEAN products will qualify for local content in the importing country, creating an important incentive, say, for a Thai assembler to use universal joints from Singapore.

ASEAN rules dictate that final discussions and approval must be completed by April 1981.

ASEAN Automotive Packages

	<u>First package</u>	<u>Second package</u>
Indonesia	Diesel engines of 80-135 hp	Steering systems
Malaysia	Spokes and nipples for motor-cycles, timing chains for motor vehicles	Headlights
Philippines	Body parts for Ford Cortinas	Heavy-duty rear axles for commercial vehicles
Singapore	Universal joints for passenger and commercial vehicles	Fuel injection pumps
Thailand	Body panels for commercial vehicles of up to one ton	Carburetors

It should be mentioned that, besides the proposed automotive industry scheme, several other possible complementation projects have been under consideration within the ASEAN-CCI and the respective RICs such as:

(i) ASEAN Chemical Industries Club:

Acetylene black. This has been proposed as a Philippine/Thai joint venture based on an ASEAN requirement of 4,000 tons a year. The Philippines' existing 500 ton/year acetylene black plant would be expanded to 2,000 tons a year to serve the domestic market plus Indonesia. A second 2,000 ton plant would be constructed in Thailand to provide the Thai market with 800 tons, Singapore with 700 tons, and Malaysia 300 tons. The project's cost is estimated at US \$6 million.

PVC paste resins. The ASEAN requiring 2,400 tons, the 7,500 tons a year, with Thailand requiring 2,400 tons, the Philippines 2,400 tons, Malaysia 600 tons, Indonesia 1,000 tons, and Singapore 720 tons. The project would be located in either of the two largest markets or in both if each country manufactures different grades.

Melamine. The project would use locally produced urea and would have a capacity of 10,000 tons. Indonesia's present consumption is 6,000 tons. The project would cost an estimated US \$8.5 million.

Methanol. Proposed capacity of this plant is 1,000 tons a day, 60 per cent of which would be exported to non-ASEAN countries. Estimated investment is US \$145 million.

Nitric acid/ammonium nitrate. The proposed US \$27 million nitric acid plant in the Philippines would produce 100 tons a day for the domestic market (currently estimated at 19,000 tons a year, rising to 38,000 by 1982) and the rest of ASEAN (21,000 tons).

VCM terminal. Eight companies manufacture PVC resins in ASEAN, and only one makes the VCM needed to produce PVC resins. A working committee has been formed to study construction of VCM terminal. Indonesia has proposed that the VCM terminal be located on Batam Island.

Other products proposed for complementation include formaldehyde, acetic acid, urea formaldehyde, melamine formaldehyde, phenol formaldehyde, disinfectant, preservatives, insecticides, paint and adhesive products (solvent for paint; dyes and pigments), and chemicals for water treatment, such as sodium meta-phosphate and hydrazine.

(ii) ASEAN Federation of Food Processing Industries:

Establishment of an integrated fish cannery project.

(iii) Rubber Industries Association of South East Asian Nations:

Production of carbon black  
Tires and tubes  
Industrial rubber products  
Footwear  
Latex foams

(iv) ASEAN Federation of Glass Manufacturers:

Tinted sheet glass  
Figured glass  
Safety glass

(v) ASEAN Pulp and Paper Industry Club:

Security paper

In view of the difficulties encountered in bringing the ASEAN industrial complementation (AIC) schemes into reality (see pages 24-26) the ASEAN businessmen, in order to sustain efforts towards regional economic co-operation with private sector initiative, have been giving attention to various



possibilities of ASEAN regional industrial projects for the private sector.<sup>1/</sup>  
The idea is to seek a scheme similar to the large government-funded AIPs, only on a smaller scale and with private initiative.

The private sector industrial projects were conceived largely because the businessmen found it extremely difficult to find industries which would be amenable to the complementation concept. Even in the car industry, which depends on thousands of parts and components and is thus perhaps the most natural candidate for a complementation scheme, it has not been easy to come up with an acceptable division of work. Thus, rather than to search for industries which can be broken down according to processes or components, it may be easier to identify, on the 'package deal' principle, unrelated entire industries for each country in respect of which the countries could then agree to give preferences to each other. The COIME meeting in Manila in June/July 1980, it is reported,<sup>2/</sup> formerly advised, however, that it was against a proposal that some ASEAN countries should set up a magnesium clinker mill, a security paper mill and a mini-tractor plant, each entirely in one country and exchange preferences.

(e) Co-ordination of National Projects in Selected Industries

An agreed third form of industrial co-operation is the exchange of information on national development programmes in steel, petro-chemicals, pulp and paper and other industrial sectors that may be later agreed upon.

Member countries are just beginning the process of exchanging information on large-scale national projects in steel and petro-chemicals. The exchange of information is viewed as a means of achieving co-ordination of the national projects with one another.

Development of sea communications inside ASEAN has lately emerged as an important topic of discussions and it might be noted that at their meeting in Bangkok in October 1980 the ASEAN Economic Ministers agreed to seek advice and assistance from Japan in promoting shipbuilding (and shipping).<sup>3/</sup>

1/ "ASEAN joint-venture projects" (see Far Eastern Economic Review, 9.1.1981).

2/ Far Eastern Economic Review, 13.7.1980.

3/ Far Eastern Economic Review, 31.8.1980.

Chapter V

Trade co-operation

(a) Intra-regional trade in ASEAN

An overview of trends in ASEAN intra-regional trade bears at first glance little evidence that integration is contributing to closer economic links between the five countries. Intra-regional trade as part of global trade in respect of the five partners was at the same level at the end of 1978 and four years before as shown in following table:

Table 1. Regional Trade Overview, 1975-78

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Total ASEAN
Exports to ASEAN as % of total exports						
1975	10.3	24.2	2.7	21.7	17.2	15.7
1976	8.9	21.5	3.1	19.0	17.1	14.4
1977	10.6	18.9	4.0	18.6	18.0	14.1
1978	8.6	18.6	6.0	18.6	16.7	14.0
Imports from ASEAN as % of total imports						
1975	8.7	15.2	4.8	11.0	2.7	10.1
1976	14.0	14.3	6.5	17.0	3.4	12.5
1977	14.3	14.6	6.4	16.5	4.3	12.4
1978	9.6	14.3	5.6	15.5	6.0	11.4
Trade with ASEAN as % of total trade						
1975	9.7	19.9	4.0	17.1	8.6	12.7
1976	10.9	18.5	5.2	17.9	9.6	13.4
1977	12.0	17.1	5.3	17.4	10.2	13.5
1978	9.0	16.7	5.8	16.8	10.6	12.7

A number of economic reasons can be advanced to explain the relative stagnancy of intra-regional trade in the past, such as:<sup>1/</sup>

<sup>1/</sup> See further John Wong, ASEAN economies in perspective - A comparative study of Indonesia, Malaysia, the Philippines, Singapore and Thailand. Singapore 1979, pp 37-44

- (1) The existing trade and production patterns of ASEAN have allowed only limited absorptive capacity for each other's major exports like rubber, tin, palm-oil and coconut, which are primarily destined to be consumed outside the region.
- (2) The ASEAN economies have almost exhausted all their commercial capacities in responding to the large and growing export market of developed countries during the past two decades.
- (3) The import-substitution policies together with the balance of payments difficulties among some ASEAN countries have resulted in certain policies which are inherently biased against regional trade: for example, high priority is given to imports of capital and intermediate goods which are usually supplied by the developed countries.

The latest available breakdown figures, for 1977, illustrate the current substantial ASEAN trade in respect of various product groups (see Table 2).

(b) ASEAN Preferential Trading Agreement

The ASEAN countries signed at a meeting in Manila in February 1977, an agreement on preferential trading arrangements (PTA) to encourage the expansion of intra-ASEAN trade. The instruments for the implementation of the PTA have been identified as follows: extension of tariff preferences, liberalization of non-tariff measures on a preferential basis, long-term commodity contracts, purchase finance support at preferential interest rates, preference in procurement by government entities and other measures that may be agreed upon in the future.

As of the end of 1979 2,327 products are the subject of ASEAN tariff preference.<sup>1/</sup> Under the PTA extension of tariff preferences is given through negotiations on a product-by-product basis. The preferences are in most cases expressed as a certain percentage of the import duty levied on extra-ASEAN imports of the products. Each quarter, tariff negotiations are held based on offer and request lists of each member country. Working in close co-operation with the Committee on Trade and Tourism (COTT) on this matter is an ASEAN-GCI Working Group on Preferential Trading Arrangement (WGPTA).

<u>1/ ASEAN tariff cuts:</u>		<u>Approved by</u>	
<u>Number of products</u>	<u>Negotiated by COTT</u>	<u>Economic Ministers</u>	<u>Implemented</u>
71	June 1977	June 1977	January 1978
251	Oct. 1977	June 1978	Sept. 1978
258	Dec. 1977	June 1978	Sept. 1978
246	April 1978	June 1978	Sept. 1978
500	Nov. 1978	Dec. 1978	March. 1979
498	March 1979	Sept. 1979	Dec. 1979
503	June 1979	Sept. 1979	Dec. 1979
<u>2327</u>			

(Business Asia, 19.10.1979)

Table 2. ASEAN Trade Analyzed by Country and Product Group, 1977

(US \$ '000)

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Total
<b>Total Indonesian Exports</b>		20,771	126,021	1,003,621	4,490	1,154,903
Food and live animals		2,694	83	73,712	4	76,493
Beverages and tobacco		56	8	167	-	231
Crude materials, inedible, except fuels		10,555	11	304,782	1,274	316,622
Mineral fuels, lubricants, and related materials		203	115,614	545,316	2,137	663,270
Animal and vegetable oils and fats		-	-	575	-	575
Chemicals and products of chemical industries		4,372	10,167	2,130	747	17,416
Manufactured goods classified chiefly by material		918	-	20,262	23	21,203
Machinery and transport equipment		1,816	80	41,665	187	43,748
Miscellaneous manufactured articles		102	11	6,123	111	6,347
Commodities and transactions not classified according to kind		55	47	8,889	7	8,998
<b>Total Malaysian Exports</b>	19,504		77,706	879,487	87,145	1,093,642
Food and live animals	740		4,734	91,115	3,164	99,753
Beverages and tobacco	97		3,103	5,989	-	9,189
Crude materials, inedible, except fuels	309		367	425,361	11,473	437,510
Mineral fuels, lubricants, and related materials	1,194		41,718	21,931	51,025	115,369
Animal and vegetable oils and fats	49		543	114,670	4,093	119,355
Chemicals and products of chemical industries	2,101		1,577	17,125	2,332	23,655
Manufactured goods classified chiefly by material	3,152		9,696	72,894	2,003	87,755
Machinery and transport equipment	9,085		9,036	79,291	9,119	106,531
Miscellaneous manufactured articles	2,397		6,742	45,110	2,152	56,401
Commodities and transactions not classified according to kind	380		190	6,000	1,228	7,798
<b>Total Philippine Exports</b>	22,500	29,933		64,536	8,853	125,872
Food and live animals	5,635	12,944		26,938	408	45,225
Beverages and tobacco	266	32		51	9	358
Crude materials, inedible, except fuels	1,342	124		148	442	2,056
Mineral fuels, lubricants, and related materials	-	1		4,052	84	4,147
Animal and vegetable oils and fats	3,310	563		9,737	294	13,904
Chemicals and products of chemical industries	2,464	1,876		1,788	4,300	10,428
Manufactured goods classified chiefly by material	8,494	2,694		4,905	2,063	16,156
Machinery and transport equipment	837	8,145		12,004	491	21,477
Miscellaneous manufactured articles	152	1,642		4,519	762	7,075
Commodities and transactions not classified according to kind	-	2,062		384	-	2,446
<b>Total Singapore Exports<sup>a/</sup></b>	533,436	1,128,973	123,218		240,378	2,126,005
Food and live animals	11,284	183,397	1,336		6,761	204,778
Beverages and tobacco	2,035	5,660	75		1,859	9,629
Crude materials, inedible, except fuels	10,498	56,503	2,137		12,186	81,324
Mineral fuels, lubricants, and related materials	402,372	188,952	56,458		111,791	759,573
Animal and vegetable oils and fats	546	3,480	48		2,977	7,051
Chemicals and products of chemical industries	22,618	121,586	8,561		21,185	173,950
Manufactured goods classified chiefly by material	36,062	186,447	7,861		8,422	238,792
Machinery and transport equipment	39,243	388,134	40,353		60,788	528,518
Miscellaneous manufactured articles	8,756	67,501	1,922		4,326	82,505
Commodities and transactions not classified according to kind	22	27,313	4,467		8,083	39,685
<b>Total Thai Exports</b>	208,973	183,414	10,714	214,327		617,428
Food and live animals	185,624	129,135	6,711	106,456		427,926
Beverages and tobacco	863	665	2	541		2,071
Crude materials, inedible, except fuels	6,887	29,659	1,852	51,403		89,801
Mineral fuels, lubricants, and related materials	97	118	-	254		469
Animal and vegetable oils and fats	-	5	10	41		56
Chemicals and products of chemical industries	1,035	974	51	2,033		4,093
Manufactured goods classified chiefly by material	8,496	9,499	609	21,752		40,356
Machinery and transport equipment	5,446	11,551	1,300	27,256		45,553
Miscellaneous manufactured articles	525	1,808	179	4,391		7,103
Commodities and transactions not classified according to kind	-	-	-	-		-

Sources: Department of Statistics, Singapore; Department of Customs, Bangkok; Central Bureau of Statistics, Jakarta; National Census and Statistics Office, Manila; Department of Statistics, Kuala Lumpur, Kuching Kota Kinabalu (Business Asia 23.11.79).

a/ Including reexports.

The scope of products given tariff preference is wide, but the depth of the tariff cuts does not generally seem to be substantial enough to have in these products. It has been suggested that greater responsibility should be assigned to the manufacturers of industrial products in ASEAN countries, to identify those products in which excess capacities exist, to pin-point mutually beneficial opportunities, to negotiate among themselves the tariff without causing harm to existing producers, and then put forward the outcome of their agreements to COTT.<sup>1/</sup>

Another aspect of great potential significance is the fact that the Economic Ministers at their meeting in Manila in September 1979 decided to raise the number of items to be included in the PTA from 100 to 150 each quarter, and, furthermore, agreed not to waste time negotiating little-traded items<sup>2/</sup> and instead concentrate attention on those of greater significance. The latter provision, in particular, is considered representing a major break through for ASEAN, as previously some countries were proposing items for which they were major producers, items which they did not need to import. Attention will thus now be concentrated on items in which the potential for trade is good; an apparent consensus has emerged that the PTA ought to be pursued with full vigour. The potential of this change in attitude should not be underestimated. Through the cuts range only between 10 and 30 per cent of existing tariffs, the difference could be significant for quite a number of manufacturers, particularly when one also considers the size of the combined ASEAN market.

(c) Special preferential trading arrangements

In addition to the PTA scheme, special trading arrangements are to be put into effect in respect of products of ASEAN Industrial Projects.

- 
- <sup>1/</sup> For example, a strong showing of chemicals among the 1,001 new preferences negotiated by COTT in 1979 reflects the increasing participation of the ASEAN Chemical Industries Club in the tariff-cutting process. Chemicals' share of total concessions has increased from 21 per cent of existing preferences to 32 per cent. A wide number of trade concessions proposed by the ASEAN Federation of Electrical, Electronics and Allied Industries, the Rubber Industries Association of Southeast Asian Nations and the ASEAN Federation of Cement Manufacturers are expected in forthcoming lists.
- <sup>2/</sup> In May 1980 the ASEAN Economic Ministers agreed, for the first time, to a 20 per cent across-the-board tariff reduction on 6,188 items with import values of less than US \$50,000. Malaysia has 1,717 items on the list, Philippines 1,625 items, Thailand 1,509 items, Indonesia 743 items and Singapore 594 items (Asia Research Bulletin 30.6.1980).

Furthermore, agreement has been reached for a preferential margin of 2.5 per cent in favour of ASEAN partners for government procurement of goods and services from untied loans.

The ASEAN Ministers of Industry at their meeting at Bali in September 1980 called for a greater role in joint ASEAN economic co-operation by private enterprises and agreed to start formulating guidelines on such ventures to see how they could provide special tariff preferences to help such projects.<sup>1/</sup>

---

<sup>1/</sup> Financial Times, 1.10.1980.

## Chapter VI

### Co-operation on industrial financing

Considerable attention among the ASEAN policy-makers is currently focussed on various proposals for institutional arrangements to facilitate ASEAN industrial financing.

The UN Team in 1970-72 included in its recommendations a detailed proposal for the creation of an ASEAN Development Corporation.<sup>1/</sup> The UN Team estimated that ASEAN industrial investment might during the immediate future be of an order of magnitude of \$150 to 200 million a year. Although this would represent only about 3 per cent of the estimated ASEAN investment in manufacturing industry in these years, the pressure on available funds was expected to be great and it was felt it would be of considerable advantage if there could be ASEAN co-operation to assist the financing and if the financial resources could be drawn to the greatest possible extent from ASEAN savings.

Since then, a number of other proposals have been presented, in particular during the last two years, concerned with the financing of ASEAN's industrial development, including the following:

- ASEAN Investment Finance Company (AIFC) - draft proposal prepared at the request of Omar Abdalla, Chairman of the ASEAN Bankers' Council and President - Director of Indonesia's state-owned Bank Bumi Daya.
- ASEAN Investment Corporation (AIC) - proposal put forward by private business interests in Singapore and Malaysia, which according to press reports <sup>2/</sup> calls for an authorized capital of \$300 million, one third of which should be paid up in aggregate on an equal basis by the private sectors of the five ASEAN countries. It is suggested that each of the countries should raise its \$20 million contribution by issuing shares in its own securities market, thus allowing investors in the five countries to participate directly in the regional economic development, and AIC's shares should then be traded on all ASEAN stock exchanges. The proposal, as far as AIC's financing role is concerned, is that the entrepreneur who is starting a new venture should raise 40 per cent of the capital himself, AIC would provide 30 per cent through equity acquisition and the remaining 30 per cent would come from the nationals of the other four ASEAN countries and/or from non-ASEAN sources.

---

<sup>1/</sup> "Economic Co-operation for ASEAN", Report of a United Nations Team 1972. Chapter 10 "Co-operation in development financing".

<sup>2/</sup> Far Eastern Economic Review, 1.2.1980.

- ASEAN Investment Capital Fund (AICF) - a draft proposal prepared by the Singapore-based PICA (Private Investment Company of Asia) at the request of ASEAN bankers. In developing this proposal the sponsors are noting that the priority as to type of funds required for development in the ASEAN region is changing. The increasing availability of medium-term loan funds during the past 10 years is a direct result of the growth of local financial institutions and the setting up of many international commercial banks and merchant banks lending to governments and large companies throughout the region. The World Bank and ADB principally finance infrastructure projects and only provide government guaranteed loans. While all these institutions are playing an essential role in providing and mobilizing finance for economic growth in sectors such as infrastructure, they are unable to allocate resources to provide risk capital (equity funds). It is on filling this resource gap that AICF should concentrate its main effort. Authorized capital would be \$150 - 200 million with an initial paid-up amount of \$40 - 50 million.

At the Third ASEAN Banking Conference, sponsored by the ASEAN Banker's Council, held in Jakarta in February 1980 it was agreed in principle to pursue the development of a new ASEAN Finance Corporation (AFC).<sup>1/</sup> The wholly ASEAN-owned institution will be designed to supply financial and support services to ASEAN-based ventures. The Council set up a Steering Committee to draw up detailed plans for the new AFC. At the same time approval in principle was to be sought of the individual monetary authorities. The main purpose of the AFC will be to fill the financial needs of ASEAN investors - defined in the Council's report as "mainly industrial enterprises based on the markets of three or more of the five ASEAN members". The AFC's wide-ranging capabilities are envisaged as follows:

- (a) It can participate in, and initiate, new industrial investment by providing seed (equity) capital and low-cost funds (with concessional interest rates and amortisation periods). This is one way in which the institution will be able to aid pioneer industries and the less established investors which many regional governments are promoting (for example, bumiputra and pribumi (indigenous) interests in Malaysia and Indonesia respectively).

---

1/ Far Eastern Economic Review, 15.2.1980.



- (b) Provision of quasi-equity capital (such as preferred shares) is another possibility. Although the risks are relatively high, the AFC will look for a "satisfactory" overall yield rather than good project-by-project returns. Many of the potential investments will involve up-stream processing activities which "require longer gestation or take-off periods" and which thus require equity and low-cost loan funds initially.
- (c) The AFC should have the willingness and ability to underwrite both equity and debt issues of new enterprises. Again, the emphasis here will be on "the pioneer type (industries) which necessitate a larger risk position".
- (d) The AFC will be able to guarantee convertible or straight debenture bond issues from ASEAN ventures. The idea is to allow "timid and inexperienced investors - both small and big - to hedge their entry as equity owners in new ventures," and to provide low-cost funds for new enterprises, with adequate yields to attract bond purchasers. These financial instruments will all be denominated in ASEAN currencies.
- (e) The new institution will also guarantee extra-ASEAN credits going to ASEAN enterprises. This would be a prop for those ASEAN governments, such as Indonesia's, which are highly reluctant to guarantee foreign debt in joint-ventures with single foreign or multinational involvement.
- (f) The AFC should be a conduit for both equity and loans from outside the ASEAN region. This is the means envisioned by the Council for channelling funds from groups such as the Keizai Doyukai (Japan's Committee for Economic Development). This body approached the ASEAN Banking Council, prior to the Jakarta meeting, with a proposal for a joint ASEAN-Japan investment fund.<sup>1/</sup>

---

<sup>1/</sup> With relocation of certain processing industries into ASEAN becoming the trend, the proposed ASEAN-Japan investment fund was intended to constitute a finance pool to serve such new industrial ventures. A tentative capitalization for the joint fund was set at US \$10 million. (Far Eastern Economic Review, 15.2.1980.)

The Banker's Council wants the new AFC to act as a virtual clearing house for both ASEAN and extra-ASEAN potential joint-venture partners. For pioneer-type investments, the AFC might include the provision of management assistance among its services, primarily to help set up competent management teams for starting up ASEAN-based enterprises. It is envisioned that the AFC will not only service the ASEAN-wide ventures but will allow itself access to individual-country investment as well.

In the search for alternatives aimed at raising the finance for the regional joint ventures in ASEAN one possible source of finance which may not have been adequately explored, is what could result from the operation of a common reserve fund. In a recent article<sup>1/</sup> J.R. Dodsworth of EF and J. Diamond of the Harvard Institute for International Development have assessed potential benefits and drawbacks in ASEAN monetary co-operation in offsetting seasonal and cyclical fluctuations in the balance of payments as a source of development finance.<sup>2/</sup>

Finally, it should be mentioned that efforts are being made by ASEAN banker's to create a regional market for banker's acceptances with the objective of promotion intra-regional trade.<sup>2/</sup>

---

1/ J.R. Dodsworth and J. Diamond, 'Monetary co-operation as a source of development finance: The ASEAN case. Journal of Development Economics, September 1980

2/ Far Eastern Economic Review, 19.12.1980.

Chapter VII

Relations with other economic groups or countries

When the ASEAN Foreign Ministers signed the PTA in February 1977 they also agreed on the desirability of common approaches on economic matters, including the establishment of joint consultative groups, vis-à-vis the EEC and other developed countries (such as Japan, Australia, New Zealand, US).

Thus, when the ASEAN-CCI met in March 1977 they agreed to ask Japan, which imports mainly raw materials from ASEAN to import more of the group's manufactured goods. An ASEAN-Japan forum was established to follow up, inter alia, on this matter, as well as on possible Japanese inputs to ASEAN industrial projects. Furthermore, the Japanese Prime Minister pledged in August 1977, in connexion with the second ASEAN summit in Kuala Lumpur, a total of \$1 billion in credits for the ASEAN industrial projects - provided they were proved to be economically feasible.<sup>1/</sup> An ASEAN-Japan Economic Council for private sector contacts was established in late 1979.

Possible areas of co-operation between US and ASEAN private interests were explored at the first ASEAN-US business conference held in Manila in July 1979. One of the results was the formation of an ASEAN-US Business Council.

The concept of a Pacific basin community has met with a considerable degree of interest in the developed industrial economies of the Pacific basin and several studies have been commissioned by the Japanese and Australian Governments. ESCAP's Development Planning Division is now planning to launch a series of studies in 1982 to assist ASEAN members in better defining their position vis-a-vis the concept of an integrated Pacific basin community.<sup>2/</sup>

A five-year ASEAN-EEC co-operation pact was formally signed in March 1980. The EEC's agreement with ASEAN is similar to those EEC has with India, Canada, and Mexico, but it falls far short of the concessions the

<sup>1/</sup> The ASEAN Industry Ministers at their meeting at Bali in September 1980 considered (but delayed the decision on) a proposal to ask Japan to double their financial commitment to the ASEAN joint industrial venture found to \$2 billion. (Financial Times, 1.10.1980.)

<sup>2/</sup> E/ESCAP/DP.3/2 (5.1.1981), Draft programme of work and priorities 1982-85: Development planning, projections and policies, p.17.

EEC grant the African-Caribbean-Pacific group under the Lomé Convention. The following are the main provisions in the agreement:

The two groups will grant each other most-favoured nation treatment under GATT (General Agreement on Tariffs and Trade) in all matters relating to customs duties and charges on imports and exports, regulations governing customs clearance, transit warehousing or transshipment of exports or imports, and taxes and other internal charges directly or indirectly imposed on exports or imports. Advantages granted by either side to other countries with the objective of setting up a customs union or trade area will be excluded from the agreement.

The parties agree to study ways and means of overcoming trade barriers and, in particular, existing nontariff and quasi-tariff barriers.

The two groups agree to co-operate in the fields of science and technology, energy, environment, transport and communications, and agriculture, fisheries, and forestry and to work together on concrete projects and programs to promote ASEAN regional development and co-operation.

The agreement is for five years and can be extended for periods of two years. A joint co-operation committee has been set up to promote and review the various co-operation activities envisaged under the agreement. The committee is to meet at least once a year.

Already in 1974 an ASEAN/EEC Commission Joint Study Group was established to liaise on development co-operation.<sup>1/</sup> The case for closer links with the EEC was presented at the ASEAN-EEC-ZBI (European Bankers' International) Conference in Brussels in April 1977 (at which UNIDO was represented). The Special Co-ordinating Committee of ASEAN and its arm in Brussels, the ASEAN Brussels Committee submitted regional project proposals to the EEC, which

---

<sup>1/</sup> The Joint Study Group has been concerned with tariff questions, arranged for seminars on trade and the promotion of joint ventures, and set up programmes for training and technology exchange. In 1978/79 the Economist Intelligence Unit was given the task of carrying out a study identifying 20 product sectors for industrial co-operation.

were taken up at the Conference. A second ASEAN-EEC Conference on Industrial Co-operation was held in Jakarta in February 1979 which some 300 European executives participated in. The EEC has, furthermore, set up in 1979, a permanent delegation to Southeast Asia in Bangkok.

The EEC Council is currently reviewing an ASEAN proposal that the EEC extend its Generalized System of Preferences (GSP) scheme for a further 20 years when it expires in 1981. ASEAN is the main beneficiary under the EEC's GSP scheme, accounting for more than 20 per cent of total EEC imports under the programme. The ASEAN countries have also asked the EEC to include a "donor content" in the GSP scheme. EEC content in a product produced in an ASEAN country would be considered ASEAN content. Products qualify for the EEC's GSP concessions if they have at least 60 per cent ASEAN content. Japan already offers such a concession under its GSP scheme. If the proposal is accepted, this would mean components or intermediate industrial goods produced in the EEC can be assembled and combined with ASEAN-sourced components or intermediates in an ASEAN country and exported back to the EEC at preferential rates, an attractive consideration for European firms drawing up strategies for approaching the ASEAN market.

The EEC has also agreed in principle to renew the Multi-Fibre Arrangement under which ASEAN textile quotas to the EEC are negotiated, beyond 1982. Moreover, the EEC is considering ASEAN's request for the introduction of some form of commercial credit system to help finance the ASEAN regional industrial projects. The two groups will also consider setting up joint industrial projects similar to the five ASEAN government-sponsored projects.<sup>1/</sup> One of the issues being considered is the possible establishment of an ASEAN-EEC development fund to finance pre-feasibility studies and investment projects of high priority and mutual interest.

In March 1978 an ASEAN-West Asia Investment Conference was held at which co-operation with Arab financial institutions was discussed. Suggestions have been made<sup>2/</sup> for the setting up of an ASEAN Investment Centre in a West Asian country, staffed by representatives from each ASEAN country, to monitor development and investment opportunities within ASEAN and disseminate information on opportunities for ASEAN investors in West Asia. Also the setting up of an ASEAN regional institution to mobilize Arab financial resources for regional projects has been proposed.

---

1/ Business Asia, 4.4.1980.

2/ Far Eastern Economic Review, 22.9.1978.

## Chapter VIII

### Technical co-operation

Two early studies of basic nature concerning economic co-operation between the South East Asian countries, to which UNIDO contributed, have been mentioned in Chapter IV above.

In December 1971 UNIDO sponsored an Expert Group Meeting on Regional Industrial Co-operation. Pursuant to one of the recommendations made by the meeting, UNIDO financed a three-week visit of a group of senior officials from the ASEAN countries to examine the experience of the ANDEAN Group in regional industrial co-operation. The visit took place in September 1972. UNIDO also sponsored 1975-1977 under its voluntary contributions programme a promotional project, based in Indonesia, for the development of export-oriented industries in selected South East Asian countries, with emphasis on small- and medium-scale industry products.

A UNDP/ESCAP programming mission visited the ASEAN member countries in June/July 1976 in order to determine the technical assistance requirements for regional co-operation to be met within the framework of the UNDP inter-country programme for Asia and the Pacific region during the period 1977 to 1981. UNIDO was associated in this mission. On basis of the findings of that mission an inter-country programme of UNDP assistance to the ASEAN Group was developed and projects formulated. The following listing of on-going projects is to very large extent a direct reflection of the findings of the mission in 1976:

#### On-going projects:

RAS/77/003. Industrial Co-operation in ASEAN. (Executing Agency: UNIDO)

Under RAS/77/003 'Industrial Co-operation in ASEAN' a project document for a small-scale project (with a total UNDP input of \$25.400) entitled 'Selection of Technological Families for Complementary Industrial Co-operation in ASEAN Countries', was carried out in 1978 with the provision of the services of a senior short-term consultant (Mr. Sabatté) and the convening of a workshop for discussions among ASEAN experts. The immediate objective of the project was to establish the basis of an integrated system of technological families for separate manufacturing operations in the ASEAN countries. Although the product families were to cover most of the likely future demands of all the ASEAN countries, however, their manufacture could be beneficially distributed among the participating countries within a system of complementary specialization, to enable each country to concentrate on one or a few families of common technology and to establish production units of reasonable economies of scale. The concrete results of the project were:

- (a) a study within ASEAN of the concept of complementary specialization;
- (b) a demonstration of the potential economic and practical advantages arising from this kind of industrial co-operation;
- (c) an initiation of more collaboration among ASEAN countries in industrial development.

A follow-up project, RAS/79/059, "Complementation of Engineering Industries within ASEAN" involving UNDP inputs of \$478,500 has been approved with UNIDO as principal executing agency and ESCAP as associate executing agency.

RAS/77/005. ASEAN Comparative Study of the Development of Labour Intensive Industry (Executing Agency: ILO)

The UNDP inputs involved \$169,000; the aims of the study was to identify areas of co-operation among ASEAN countries in the development of small-scale and labour intensive industries. It was to identify the most promising labour intensive industries in individual countries with focus on efficiency of management, economies of scale, quality of labour growth potential, product mix, substitutability, employment potential and production technology. Case studies have been completed for the Philippines and Malaysia. The Philippine case study analysed the role of the manufacturing and construction industries. The Malaysian case study analysed the technological and economic structure of the rubber processing, machinery and tin-processing industries. Case studies for Indonesia and Singapore were also to be completed within 1980.

RAS/79/047. Study on Minimum Economic Size Plants for Steel Processes (ASEAN) (Executing Agency: UNIDO)

The UNDP inputs involved are \$189,000; the immediate objectives include study of the "minimum economic size plant" for steel plant processes for individual ASEAN countries, to enable techno-economically sound investment decisions in the steel sector by the respective country, individually and regionally, and recommendations on a follow-up action-oriented programme based on the results of this project for individual ASEAN countries. A consultant team M.N. Dastur & Co. (P) Ltd., India, visited in early 1980 the ASEAN countries and completed a report in August 1980. A follow-up meeting with ASEAN representatives to discuss the final report is envisaged for 1981.

UC/RAS/77/011 ASEAN Advisory Services for Regional Steel Standardization (Executing Agency: UNIDO)

The project is based in the Philippines where the venue for a proposed Workshop on Standardization of Steel Products will be. The project also involves a study tour which was carried out in 1980.

RAS/77/015 ASEAN Trade Development and Co-operation (Executing Agency: UNCTAD/ ESCAP)

This project was launched in 1978 by UNCTAD and ESCAP. The project involved the services of 3 short-term consultants in trade statistics, cost-benefit analysis and international marketing. The UNDP inputs: \$50,000.

SI/RAS/78/801 Pharmaceutical Industry Adviser - ASEAN (Executing Agency: UNIDO): RAS/79/058 Pharmaceutical Industry in ASEAN countries (APDI)

This project is being implemented in co-operation with the UN Asian and Pacific Development Institute.<sup>1/</sup> The services of two experts, Messrs Meneses and Brown, have been utilized. The project also has a fellow-ship component.

In connexion with the UNDP 1982-86 Regional Programming Exercise a number of new projects were identified in consultations with the governments concerned. The following pipe-line projects were reviewed at UNDP UNIDO discussions in Vienna, 12-13.5.1980. The proposals listed as (a) - (d) and (h) - (k) had been put forward by the interim secretariat of COIME.

- (a) ASEAN: Pre-feasibility Study on the Establishment of Magnesium Clinker Plant as an ASEAN Industrial Complementation Project<sup>2/</sup>
  - (b) ASEAN: Pre-feasibility Study on the Establishment of a Security Paper Mill as an ASEAN Industrial Complementation Project<sup>2/</sup>
  - (c) ASEAN: Pre-feasibility Study for the Establishment of a Mini-tractor Project as an ASEAN Industrial Complementation Project<sup>2/</sup>
  - (d) Pre-feasibility Studies for motor vehicle headlight, carburetor and rear axle projects (as possible ASEAN Industrial Complementation Projects)
  - (e) ASEAN: Assistance in setting up common standardization, quality and measuring control procedures
  - (f) ASEAN: Follow-up on pharmaceuticals industry study
  - (g) Recycling of used lubricating oils (ASEAN or ESCAP region-wide)
  - (h) Feasibility study for an ASEAN pesticide plant
  - (i) Wood and wood-based packaging R and D
  - (j) Sub-contracting in aviation technology
  - (k) Technical support through short-term consultations for the interim secretariat of COIME
- (1) Study of long-term industrial co-operation, including small/medium scale industries, and evaluation of costs/benefits. It may be noted in this context that during his visit to UNIDO on 23 February 1979 Mr. Vicente Paterno, who at that time was Minister of Industry of the Philippines, indicated the concern of COIME in the state of insufficient inputs of research results into the ASEAN deliberations on industrial development.

<sup>1/</sup> Country case studies have been issued by the UN Asian and Pacific Development Institute as follows: Thailand (April 1979), Indonesia (June 1979), Philippines (August 1979), Malaysia (September 1979) and Singapore (October 1979). A monograph "The Pharmaceutical Industry in ASEAN Countries" and a report "Pharmaceuticals in ASEAN - A Consultation" have also been published by the Institute.

<sup>2/</sup> See, however, COIME decision referred to on page 30.



At the ASEAN-UNDP/ESCAP Review Meeting in Bangkok on 21 July 1980, the ASEAN placed on record its priority interest (in the field of industry) in continued implementation, inter alia, of project RAS/79/047.- Study of Minimum Economic Size Plant for Steel Processes - and in the new projects listed above under (a), (b), (c), (d) and (f).

It was also noted that assistance for study of a regional pesticide plant was expected to be provided under EEC funding. Another COIME initiated project, on the development of small and medium scale industry, was being pursued with Technonet and JICA. Also, the project for technical support to the COIME interim secretariat was to be provided by EEC.

Annex I

The ASEAN Declaration

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

Mindful of the existence of mutual interest and common problems among the countries of South-East Asia and convinced of the need to strengthen further the existing bonds of regional solidarity and co-operation;

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

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

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

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

Do hereby declare:

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

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

1. To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of South-East Asian Nations;
2. To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;
3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
5. To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade including the study of the problems of international commodity trade, the improvement of their transportation and communication facilities and the raising of the living standards of their peoples;
6. To promote South-East Asian studies;
7. To maintain close and beneficial co-operation with existing international and regional organization with similar aims and purposes, and explore all avenues for even closer co-operation themselves.

Third, that to carry out these aims and purposes, the following machinery shall be established;

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

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

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

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

For Indonesia	:	(Signed)	(Adam Malik) Presidium Minister for Political Affairs/Minister for Foreign Affairs
For Malaysia	:	(Signed)	(Tun Abdul Razak) Deputy Prime Minister Minister of Defence and Minister of National Development
For The Philippines	:	(Signed)	(Narciso Ramos) Secretary for Foreign Affairs
For Singapore	:	(Signed)	(S. Rajaratnam) Minister for Foreign Affairs
For Thailand	:	(Signed)	(Thanat Khoman) Minister of Foreign Affairs

Annex II

Declaration of ASEAN Concord

A common bond existing among the member states of the Association of South-East Asian Nations, the President of the Republic of Indonesia, the Prime Minister of Malaysia, the President of the Republic of the Philippines, the Prime Minister of the Republic of Singapore, and the Prime Minister of the Kingdom of Thailand, reaffirm their commitment to the Declarations of Bandung, Bangkok and Kuala Lumpur and the Charter of the United Nations, endeavour to promote peace, progress, prosperity and the welfare of the peoples of member states, undertake to consolidate the achievements of ASEAN and expand ASEAN co-operation in the economic, social, cultural and political fields, do hereby declare:

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

1. The stability of each member state and of the ASEAN region is an essential contribution to international peace and security. Each member state resolves to eliminate threats posed by subversion to its stability, thus strengthening national and ASEAN resilience.
2. Member states, individually and collectively, shall take active steps for the early establishment of the zone of peace, freedom and neutrality.
3. The elimination of poverty, hunger, disease and illiteracy is a primary concern of member states. They shall therefore intensify cooperation in economic and social development, with particular emphasis on the promotion of social justice and on the improvement of the living standard of their peoples.
4. Natural disasters and other major calamities can retard the pace of development of member states. They shall extend, within their capabilities, assistance for relief of member states in distress.
5. Member states shall take co-operative action in their national and regional development programs, utilizing as far as possible the resources available in the ASEAN region to broaden the complementarity of their respective economies.
6. Member states, in the spirit of ASEAN solidarity, shall rely exclusively on peaceful processes in the settlement of intra-regional differences.
7. Member states shall strive, individually and collectively, to create conditions conducive to the promotion of peaceful co-operation among the nations of South-east Asia on the basis of mutual respect and mutual benefits.

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

and do hereby adopt the following programme of action as a framework for ASEAN co-operation:

Political

- (a) Meeting of the Heads of Government of the member states as and when necessary;
- (b) Signing of Treaty of Amity and Co-operation in South-east Asia;
- (c) Settlement of intra-regional disputes by peaceful means as soon as possible;
- (d) Immediate consideration of initial steps towards recognition of and respect for the Zone of Peace, Freedom and Neutrality wherever possible;
- (e) Improvement of ASEAN machinery to strengthen political co-operation;
- (f) Study on how to develop judicial co-operation including the possibility of an ASEAN Extradition Treaty;
- (g) Strengthening of political solidarity by promoting the harmonisation of views, coordinating positions and, where possible and desirable, taking common actions.

Economy

- (a) Co-operation on basic commodities, particularly food and energy
  - (i) Member states shall assist each other by according priority to the supply of the individual country's needs in critical circumstances, and priority to the acquisition of exports from member states, in respect of basic commodities, particularly food and energy.
  - (ii) Member states shall also intensify co-operation in the production of basic commodities particularly food and energy in the individual member states of the region.
- (b) Industrial co-operation
  - (i) Member states shall co-operate to establish large-scale ASEAN industrial plants, particularly to meet regional requirements of essential commodities.
  - (ii) Priority shall be given to projects which utilize the available materials in the member states, contribute to the increase of food production, increase foreign exchange earnings or save foreign exchange and create employment.

(c) Co-operation in trade

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

(d) Joint approach to international commodity problems and other world economic problems

- (i) The principle of ASEAN co-operation on trade shall also be reflected on a priority basis in joint approaches to international commodity problems and other world economic problems such as the reform of international trading system, the reform of international monetary system and transfer of real resources, in the United Nations and other relevant multilateral fora, with a view to contributing to the establishment of the new international economic order.
- (ii) Member states shall give priority to the stabilization and increase of export earning of these commodities produced and exported by them through commodity agreements including buffer-stock scheme and other means.

(e) Machinery for economic co-operation

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

- (i) Formulate recommendations for the consideration of government of member states for the strengthening of ASEAN economic co-operation,
- (ii) Review the co-ordination and implementation of agreed ASEAN programmes and projects on economic co-operation,

- (iii) exchange views and consult on national development plans and policies as a step towards harmonizing regional development and
- (iv) perform such other relevant functions as agreed upon by the member governments.

#### Social

- (a) Co-operation in the field of social development, with emphasis on the well being of the low income group and of the rural population, through the expansion of opportunities for productive employment with fair remuneration.
- (b) Support for the active involvement of all sectors and levels of the ASEAN communities, particularly the women and youth, in development efforts.
- (c) Intensification and expansion of existing co-operation in meeting the problems of population growth in the ASEAN region, and where possible, formulation of new strategies in collaboration with appropriate international agencies.
- (d) Intensification of co-operation among member states as well as with the relevant international bodies in the prevention and eradication of the abuse of narcotics and illegal trafficking of drugs.

#### Cultural and information

- (a) Introduction of the study of ASEAN, its member states and their national languages as part of the curricula of schools, and other institutions of learning in the member states.
- (b) Support of ASEAN scholars, writers, artists, and mass media representatives to enable them to play an active role in fostering a sense of regional identity and fellowship.
- (c) Promotion of South-east Asian studies through closer collaboration among national institutes.

#### Security

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

#### Improvement of ASEAN machinery

- (a) Signing of the agreement on the establishment of the ASEAN secretariat.
- (b) Regular review of the ASEAN organizational structure with a view to improving its effectiveness.
- (c) Study of the desirability of a new constitutional framework for ASEAN.

Done at Den Pasar, Bali, this twenty fourth day of February in the year one thousand nine hundred and seventy six.



Annex III

Guidelines for Complementation<sup>1/</sup>

According to the proposed guidelines, an ASEAN industrial complementation project must be economically viable, its products of internationally acceptable quality, its prices relatively competitive, with continuity of supply assured. To qualify for accreditation as an ASEAN project, the following requirements must be met:

- The project must be established and commercially producing the products and/or parts and components specified in the certificate of accreditation.
- The project must be established and processess equipment or be in the process of setting up a plant (i.e. an irrevocable letter of credit for machinery and equipment must have been opened or the project approved by the host government) to produce the products and/or parts and components specified in the certificate of accreditation.
- For a project where additional major equipment has to be installed to produce the products and/or parts and components specified on the certificate of accreditation after the industrial complementation agreement has been signed, the host country must specifically request, and the Committee on Industry, Minerals, and Energy (CIME) specifically agree, that the project qualifies as an ASEAN industrial complementation scheme.
- For a project that has to be set up after the agreement has been signed to produce the products and/or parts and components specified in the certificate of accreditation, the majority of the ownership interest must be held by ASEAN nationals.<sup>2/</sup>

The basic rights and privileges that should be accorded ASEAN industrial complementation schemes are outlined in the draft guidelines as follows:

- There shall be no expropriation of the property of the ASEAN complementation project and any investment in it without due process of law and the payment of just compensation.
- The participating countries, subject to their own national legislation, should permit accredited projects the right to repatriate capital and remit earnings in a freely convertible currency.

---

<sup>1/</sup> Source: Business Asia, 2 November 1979.

<sup>2/</sup> An "ASEAN national" is defined as an individual or juridical entity of an ASEAN country as defined by the laws and/or policies of the country concerned, provided that the designation is acceptable to the prospective host country. In the case of a juridical entity, at least 51 per cent of the equity must be owned by citizens of ASEAN countries.

- The products and/or parts and components of an accredited scheme shall qualify for trade concessions in accordance with the Preferential Trading Arrangements agreement, including the rules of origin. (In certain cases, however, the rules of origin requirements may be relaxed. In this event, a minimum percentage and a period within which to meet the requirements must be stipulated by COIME on a case-by-case basis in consultation with the Committee on Trade and Tourism).
- Participating countries should offer accredited schemes the most favourable tax incentives under existing laws and, if feasible, make the incentives as comparable as possible for all accredited projects.
- Where feasible or relevant, for the computation of local content the participating countries should recognize the products and/or parts and components of complementation projects as products processed or manufactured in their own countries.
- To enable the accredited project to benefit meaningfully from the available market, no further accreditation of additional capacity for the same product will be allowed until COIME determines that the market has expanded sufficiently to warrant further accreditation of similar projects.

List of studies and reports

1. Kanapathy, V., "Towards a strategy of regional economic development," UMBC Economic Review, Kuala Lumpur, No.2, 1969
2. Tan, Augustine H.H., "ASEAN in perspective and the role of Singapore." The Singapore Economy, ed. by You Poh Seng and Lim Chong Yah, 1971
3. 'Southeast Asia's economy in the 1970s', Asian Development Bank, 1971.
4. "Asian Industrial Survey for Regional Co-operation", report prepared under the auspices of ECAFE (now ESCAP) in co-operation with the Asian Development Bank and UNIDO. Professor H.C. Bos was co-ordinator for the study project, Mr. A. Feraldis was leader of the permanent team. The report is published as Document AIDC(9)/1, United Nations, New York, 1973
5. 'A study of industrialization in five countries in Southeast Asia'. International Development Center of Japan, March 1973.
6. "Economic co-operation among member countries of ASEAN" report of a UN Study Team with Mr. G. Kansu as Team Leader and Professor E.A.C. Robinson as Senior Adviser. The report is published in the Journal of Development Planning, Vol.7, United Nations, New York, 1974.
7. Wu, Carson Kung-Hsien, 'Regional Comparison of Industrial Structure in Asia', ECOCEM, Bangkok, February 1975.
8. "ASEAN" - Pamphlet issued by the Dept. of Foreign Affairs, ASEAN National Secretariat of Indonesia, Jakarta, June 1975.
9. Haq, M.T. (UNIDO/ESCAP Regional Adviser on Industrial Economics), "Review of existing co-operative arrangements among the developing countries in the field of industry with special reference to Asia". Bangkok, October 1975.
10. Declaration of ASEAN Accord, February 1976.
11. Kanapathy, V., "Forward from Bali." UMBC Economic Review, No.1, 1976
12. SyCip, David. "The ASEAN option." UMBC Economic Review, No.1, 1976.
13. Lin See-Yan, "Progress, problems and prospects in ASEAN economic co-operation -- A Malaysian perspective", UMBC Economic Review, No.1, 1976.
14. Lim Chong Yah, "Singapore and ASEAN economic co-operation", UMBC Economic Review, No.1, 1976
15. Wong, John, "The ASEAN economies: Development outlook for the 1980's". Economic Research Centre, University of Singapore, 1977.
16. Saw Swee-Hock and Lee Soo-Ann, eds, 'Economic problems and prospects in ASEAN countries', Applied Research Corporation, Singapore, 1977.

17. Kintanar, A. Jr. Dr., 'Regional industrial projects among ASEAN countries'. Asian Trade and Industry, Vol.9/4,
18. "Some reflections on regional co-operation mechanisms in terms of ASEAN experiences". Paper prepared by consultant to ESCAP for the Meeting of Eminent Persons (Preparatory to the ESCAP Meeting of Ministers of Industry), Bangkok, August/September 1977 (CRP.No.8).
19. "ASEAN industrial co-operation". An information paper presented by the Government of the Philippines for the ESCAP Meeting of Ministers of Industry, Bangkok, November 1977 (IHT/MI/CRP.3)
20. Knyvenhaven, Arie and Mennes, L.B., 'Projects for regional co-operation: identification, selection, evaluation and location', Industry and Development, No.1, 1978 (ID/SER.M/1)
21. "ASEAN into the Second Decade". UMBC Economic Review, Kuala Lumpur, No. 1, 1978. Includes following articles:
  - a. - Soehod, A.R. Dr., "Private sector can accelerate regional economic co-operation";
  - b. - Yah, Lim Chong, Prof., "ASEAN - Economic co-operation and economic reality";
  - c. - Arndt, H.W., Prof., "Malaysia and ASEAN economic co-operation - An Australian viewpoint";
  - d. - SyCip, David, "Industrial development and regional co-operation in the ASEAN context";
  - e. - Kanapathy, V., "ASEAN banking co-operation - A tortuous road ahead".
22. "ASEAN - Towards Peace Progress Prosperity" - Pamphlet issued by the Dept. of Information, Indonesia for the ASEAN Summit Conference at Bali, February 1978.
23. Yuthovong, Vongyuth, "Science and technology in Southeast Asia". Nature, Vol. 274, 17 August 1978.
24. Uddin, Fasih, "Preferential trade measures within the integration and co-operation schemes in the regions of ESCAP and ECWA". Study prepared for UNCTAD. (TD/B/C.7/19 of 29 September 1978).
25. Rieger, Hans Christoph, 'Industrialization and cultural change, with special reference to Southeast Asia', article in 'Culture and Industrialization - an Asian dilemma' edited by Rolf E. Vente and Peter S.J. Chen, Mc Graw-Hill, Singapore 1980. (Papers presented at the international conference on "Culture and Industrialization in Southeast Asia" held in Berlin in November 1978.)
26. Arndt, H.W. and Garnaut, Ross, "ASEAN and the industrialization of East Asia", Journal of Common Market Studies, March 1979.
27. Wong, J., "ASEAN economies in perspective: A comparative study of Indonesia, Malaysia, the Philippines, Singapore and Thailand". London, Macmillan, 1979.

28. Rowley, Anthony, "Revolutionizing ASEAN industry". Far Eastern Economic Review, 1 February 1980.
29. Sanchez, Conrado, Jr., "Industrial redeployment in the context of economic integration among developing countries - The case of ASEAN". (Draft paper, Global and Conceptual Studies Branch, DIS, UNIDO.)
30. 'The ASEAN, Hong Kong, South Korea and Taiwan Economies - Their structure and outlook into the 1980s'. The Economist Intelligence Unit, London, 1980.
31. Staab, Martin, J.: "The production location problem and the development of industries on a regional basis in the ASEAN countries". The Developing Economies, The Journal of Institute of Developing Economies, World Bank, March 1980.
32. Wells, R.J.G., "ASEAN intraregional trading in food and agricultural crops, The way ahead", Asian Survey, June 1980.
33. Ichimura, Shinichi: "Japan and Southeast Asia". Asian Survey, July 1980.
34. Ahn, Doo-Soon, "Joint ventures in the ASEAN countries", Intereconomics, July/August 1980.
35. Dodsworth, J.R. and Diamond, J., 'Monetary co-operation as a source of development finance: The ASEAN case'. Journal of Development Economics, September 1980.
36. Wells, R.J.G., "Agriculture in ASEAN". Food Policy, No. 4. November 1980.



