ABOUT THE BOOK

In this anthology of his thoughts on the Association of Southeast Asian Nations, ASEAN Secretary-General Rodolfo C. Severino, Jr. examines the current challenges confronting the region and how ASEAN has responded to them. Assuming the post at a very challenging time, these pieces serve as a blow-by-blow account of how ASEAN has risen to face up to the situation and come out stronger and more united. He outlines ASEAN’s responses to the financial crisis of 1997-1998, the haze episodes arising from land and forest fires at about the same time, and the rapid expansion of ASEAN's membership in the period 1995-1999.

The common thread in the Secretary-General’s speeches is clear: Southeast Asia has no other alternative. The forces of globalization require closer regional integration if Southeast Asian countries and Southeast Asian firms are to hope to be competitive in the global economy. No single Southeast Asian nation can prosper outside the framework of regionalism.

This book is most useful for those who wish to understand what ASEAN has done over the years, its approach to the issues, what it can do, and what it does not intend to be or do. The Secretary-General also speaks of what else ASEAN should be doing to remain relevant to its people.

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ASEAN TODAY AND TOMORROW

SELECTED SPEECHES OF

RODOLFO C. SEVERINO, JR.
Secretary-General of the
Association of Southeast Asian Nations

THE ASEAN SECRETARIAT
JAKARTA
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Chapter 1

Foundations for Regional Peace and Progress
In Southeast Asia, the central question of our time is: How can the people of this region compete, and thus raise their living standards, in a global economy that is being integrated and transformed by policy and technology interacting with each other? How can ASEAN as an association help them to do so? ASEAN’s relevance both to the world and to its own people depends on how effectively it can help the region to be competitive in the global marketplace. Of course, because ASEAN is made up of sovereign states, competitiveness depends even more on what ASEAN’s states, societies and peoples do for themselves in this regard.

When we look at the issue of competitiveness, we ask: Competitiveness for what? The basic answer is: For markets, investments and people. We can now ask: At the regional level, what has ASEAN done with respect to each of these objects of competition?

**Expanding Markets**

First, markets. The primary strategy that ASEAN has adopted is to integrate and thus expand the regional market. As we all know, the ASEAN Free Trade Area is being accelerated, creating a market of 500
million people, half of China’s population, with a gross domestic product equal to China’s. For all practical purposes, AFTA is now with us, less than twenty-one months from its official target date for ASEAN’s six leading trading nations. Products of companies with related operations in two or more ASEAN countries have been enjoying full AFTA treatment under the ASEAN Industrial Cooperation scheme (AICO).

ASEAN is easing the flow of trade within the region. It is harmonizing customs procedures and product standards. It is drawing up implementing protocols for the framework agreement on goods in transit. It is working out agreements on multi-modal transport and inter-state transport. Talks are going on or about to start on freeing up trade in services in several sectors. ASEAN is developing e-ASEAN, which is intended to harness, cooperatively, information and communications technology to make trade more efficient and less expensive within countries, within the region and with the world outside.

Beyond Southeast Asia, ASEAN is now exploring with Australia and New Zealand a possible free trade agreement between them and AFTA. The institutionalization of the ASEAN Plus Three forums should lead to more intensive economic and other contacts between ASEAN and its Northeast Asian neighbors, China, Japan and Korea.

To protect and expand their markets in the large economies of North America and Western Europe, the ASEAN countries have taken common positions on issues before the World Trade Organization. These include the need for the industrialized countries to reduce tariffs on manufactured goods and to fulfill the spirit, as well as the letter, of their commitments to remove quotas on garments and textiles. They also cover the abolition of agricultural export subsidies and the use of labor and environmental issues and
anti-dumping measures for protectionist purposes. ASEAN insists that the developed countries cooperate in building the capacity of developing countries to negotiate and compete in an open world market.

**Competing for Investments**

Competitiveness, of course, requires investments, investments of the productive kind, the long-term kind, quality investments to finance production, to lower costs and to harness and acquire technology, as well as to generate jobs. Investment is itself an object of competition; competition with China and its huge domestic market and massive, fast-developing and still-inexpensive manpower; competition with India and its dynamic pockets of high technology; competition with Latin America and its opening economies and proximity to the huge North American market; competition with Eastern Europe and its broad industrial base and highly educated people.

What has ASEAN done as a region to compete for much-sought-after investments?

First, the integration of ASEAN into one big market is one attraction for investment. Investments in ASEAN would have an even larger market should ASEAN form free trade areas with Australia and New Zealand and with other countries and regions. The work on liberalizing intra-ASEAN trade in services is part of this market-enlarging endeavor. At the same time, making services more efficient and less expensive would in itself be a major consideration in investment decisions.

ASEAN is being bound closer together by regional infrastructure linkages – road networks, railways, power grids, gas pipeline networks, and telecommunications interconnections. Not only would these facilities support the establishment and operation of investment projects; they present opportunities for investment.

ASEAN has been taking direct measures to draw investments into the region. It has agreed to set up an ASEAN Investment Area, in which each ASEAN country opens most sectors of its economy to investors from other ASEAN
countries and extends national treatment to them. Other investors in joint venture with ASEAN nationals or companies are entitled to this liberal treatment. Six weeks ago, ASEAN sent out a ministerial-level joint investment promotion mission to Japan. This will be followed next month by similar missions to New York, Minneapolis, San Jose, London, Paris and Munich.

The accelerating pace of ASEAN cooperation in matters of finance is meant to enhance ASEAN’s attractiveness to investment as well as to strengthen its economic fundamentals. The liberalization of intra-ASEAN trade and investment in financial services is being worked on. ASEAN is seeking jointly to develop regional capital markets, including bond markets. The finance ministers, in their meeting two and a half weeks ago, decided to adopt international standards and practices in accounting, auditing and disclosure. A working group has been set up to carry out this decision.

An economic surveillance mechanism is now in place. Run out of the ASEAN Secretariat with support from the Asian Development Bank, the mechanism gathers and analyzes economic data from the member-states and periodically issues surveillance reports on the economic state of ASEAN from various points of view. In a process of peer review, the finance ministers examine and debate these reports, reporting to one another on the progress of reform in their respective countries and encouraging one another to persevere in their reforms.

Financial cooperation occupies an important place also in the fast-developing forum between ASEAN and China, Japan and Korea. In less than a month, the finance ministers of the thirteen countries of Southeast and Northeast Asia will meet in Chiang Mai to explore, among other things, possible measures for monitoring short-term capital flows within the region and a self-help and support mechanism to make available resources for use in financial emergencies.

ASEAN has been enhancing the investment climate by fostering a sense of stability and security in the region, cultivating such ventures as the ASEAN Regional Forum, the Treaty of Amity and Cooperation in Southeast Asia,
the Southeast Asia Nuclear Weapons-Free Zone, and the ASEAN-proposed regional code of conduct for the South China Sea.

An increasing number of binding economic agreements strengthens ASEAN’s rules-based regime, a factor of importance to investors

**The People Factor**

Finally, there is competitiveness in terms of people. At its most basic, this means training ASEAN’s people, giving them a sound education, and keeping them healthy. Human resources and their productivity have always been a factor for economic competitiveness. They are much more so now, when knowledge-based and technologically dynamic industries assume ever-greater importance in the world’s economies. More than this, people are also consumers and constitute a market. Purchasing power that is well-distributed provides a more potent stimulus to and more stable foundations for economic growth than purchasing power that is concentrated in a few. This is why ASEAN has, of late, been focusing its attention on human resource development, rural development, the fight against poverty, and social safety nets – within itself and in cooperation with its dialogue partners and international institutions.

Cutting through all this – trade, investments and human resources - is the development and use of information and communications technology. ASEAN is determined to join the information age on a cooperative basis, building the infrastructure, providing the legal and policy environment, training people, stimulating investments in information and communications technology companies, freeing trade in ICT products, using ICT for trade, harnessing ICT for education and health, utilizing ICT for the improvement of society and the enrichment of people’s lives. An e-ASEAN task force, consisting of public and private sector representatives, is now at work on practical measures to start bringing se-ASEAN to reality, to help ASEAN to be competitive in the information age.
The Responsibility of Nations

Much of the work to make each ASEAN country competitive has to be done at the national level. It is the national will that must be exerted. Opening the economy to competition, leveling the business playing field, solidifying the rule of law, enforcing law and order, strengthening political stability, removing red tape, fostering a business-friendly business environment — these are all matters for national societies and their governments to decide. Ensuring a more equitable national distribution of income, and thus raising the purchasing power of the people, is the concern of national policy. Education and training adequate for global and regional competition require a substantial re-allocation of resources that only individual countries can decide for themselves. Countryside development, poverty-eradication, and social safety nets are basically national responsibilities, as they have everything to do with the re-distribution of national resources.

But it is ASEAN that is making possible the regional economic integration that reinforces Southeast Asia’s economies, enhances their competitiveness and helps make the region attractive to investors. It is ASEAN that gives impetus to the regional infrastructure linkages that support and attract investments. It is ASEAN that can provide the increasingly useful regional supplement to the global and national efforts to deal with volatile capital flows and currency movements. It is in ASEAN where the countries of the region can learn from one another, undertake joint training, exchange best practices
and establish regional models for rural development, the alleviation of poverty, education for today’s economy, and social safety nets. It is ASEAN that fosters regional stability in Southeast Asia. It is through ASEAN that the countries of Southeast Asia can deal with other countries and regions from a position of greater strength.

It is this work of ASEAN in reinforcing the competitiveness of the region as a whole – in terms of markets, investments and people – that makes ASEAN relevant to the world and, above all, to its people.
What ASEAN is and what it stands for

Asia Policy Lecture at the Research Institute for Asia and the Pacific, University of Sydney, Australia, 22 October 1998

I would like to share with you some of my thoughts on what ASEAN is, what it is not, what it has done, what it was not meant to do, how events have changed its political and economic environment, how it is likely to respond to those changes, and why the international community ought to do to help it.

If, just fifteen months ago, the Secretary-General of ASEAN had stood before you the way I do today, he would have touted ASEAN as the most successful association of developing countries in the world and Southeast Asia as the most dynamic region on earth. He would have rattled off the statistical averages among the then seven ASEAN members to prove his point - eight percent economic growth rate a year for the previous five years, 16.5 percent average annual increase in exports from 1993 to 1996, an apparently interminable rush of foreign direct investments.

Perhaps more importantly, my predecessor would have cited the marked improvement in the lives of the people of Southeast Asia. The average person in the first seven members of ASEAN expected to live just slightly longer than fifty years in the 1965-1970 period. In the years from 1990
to 1995, the average person expected to live 64.7 years, or an increase in life expectancy of 14.6 years in less than thirty years. Related to this was the remarkable decline in the mortality rate, with the crude death rate dropping from 16 per thousand population in 1965-1970 to 7.7 per thousand population in 1990-1995. Access to health care showed similar improvements, whether in terms of population-to-physician ratios, in terms of population-to-hospital bed ratios, in terms of percentage of births attended by trained health staff, or in terms of infant immunizations. The per-capita calorie supply for all nine present ASEAN members increased by more than 23 percent from 1965 to 1996. The average adult literacy rate for the six original ASEAN members rose from 64 in 1970 to 83 in 1990, higher than the world average and much better than the average for the developing countries.

The Secretary-General would have cited the reasons for this impressive record - the remarkable savings rate, liberal trade and investment regimes, general freedom of capital movement, deliberate policies of attracting foreign investments into export industries, effective tourism programs, enlightened leadership, a skilled and industrious work force, the importance given to education and health care, the so-called “Confucian ethic,” social discipline, and, not least, the effectiveness of ASEAN itself.

If my predecessor had boosted ASEAN in that way in June 1997, his words would have found resonance in this country, as many Australian commentators had similarly lauded the Southeast Asian record in precisely those terms, labeling their surging economies tigers and dragons. The overwhelming impression of ASEAN was of an unstoppable economic powerhouse with bright prospects of sustained growth and a force for regional stability. The association itself was deemed to be an effective instrument for stability and progress.

Even Paul Krugman, in his famous article in the November/December 1994 Foreign Affairs entitled “The Myth of Asia’s Miracle,” did not doubt that East Asia would continue to grow at impressive rates; he only expected that growth to slow down.
Today, fifteen months later, the overwhelming impression of East Asia’s enduring strength and of ASEAN’s efficacy has been cast aside and forgotten. The same commentators who used to assume a future of continuous growth for ASEAN now seem to believe that ASEAN can do nothing right - or can just do nothing.

This mass shift in perception is perhaps understandable. After all, the economic disaster that has engulfed Southeast Asia, together with much of the rest of East Asia, has wiped out many of the gains of the region’s tiger-economies, with no quick end in sight. An environmental disaster arising from forest and peat fires has swept large parts of Southeast Asia.

The frustration and bewilderment over the sudden reversal of fortunes of the region have led many, including some in Southeast Asia itself, to raise questions about ASEAN’s effectiveness and utility and about the validity of the very idea of ASEAN. It has become somewhat fashionable in some circles to cast aspersions on ASEAN and denigrate it for not “doing something” about the financial crisis or the forest and peat fires. To me, this is something akin to blaming the OAS for the financial crisis in Mexico some years ago or for forest fires in Brazil, or the OAU for Africa’s recent sorrows, or the EU for the problems in the Balkans.

The fact is that ASEAN has done some things about these two disasters, which are both very complex in their origins and impact and too massive and complicated for ASEAN to handle by itself. A little later, I will describe what ASEAN has done and, in so doing, help in some measure to illuminate the nature and purposes of ASEAN.

In order to be rational and objective about ASEAN’s role in Southeast Asia’s current problems, we must, first of all, be clear about what ASEAN is and what it is not, what it can and what it cannot or was not meant to do. At the same time, the economic crisis has obviously changed ASEAN. At the very least, the crisis has altered ASEAN’s self-image and changed others’ perception of the association, shifts in perception that are themselves part of the reality. In this light, it is valid to ask whether ASEAN should now do things differently and what it should do differently in the future.
ASEAN’s founders in 1967 intended ASEAN to be an association of all the states of Southeast Asia cooperating voluntarily for the common good, with peace and economic, social and cultural development its primary purposes.

It is not and was not meant to be a supranational entity acting independently of its members. It has no regional parliament or council of ministers with law-making powers, no power of enforcement, no judicial system. Much less is it like NATO, with armed forces at its command, or the UN Security Council, which can authorize military action by its members under one flag.

Because it is not any of these things, is ASEAN of little value, as some seem to argue?

There are good historical, cultural and political reasons why ASEAN’s members prefer the association to be the way it is and to function and evolve - slowly - in its own way. I will not go into those reasons here. The important thing is that ASEAN has to be measured against the purposes that it has set for itself and the limitations that it has imposed upon itself. ASEAN has to be judged by the results that it has produced in pursuit of those purposes and under those limitations, not against the wishes or expectations of others.

It is important to remember, in this regard, that ASEAN was founded in the midst of poverty and conflict.

A bloody domestic upheaval had just led Indonesia to end its “confrontation” with Malaysia. Singapore and Malaysia had just undergone their traumatic separation. The Philippines and Malaysia continued to be locked in their dispute over Sabah. Singapore had been torn by race riots, while in Malaysia racial tensions were simmering and about to explode, in 1969, into violence. Viet Nam was engaged in a civil conflict, with the deadly involvement of the major powers. Laos and Cambodia were engulfed in that conflict, with fateful consequences for both. Thailand felt threatened by the spillover effects of the raging war in the former Indochina. With the
installation of the “Burmese Way to Socialism” in 1962, Burma had retreated into isolation and eventually turned down its neighbors’ invitation for membership in ASEAN. Brunei Darussalam had put down a rebellion aimed at bringing down the sultanate.

At the same time, Thailand, Malaysia, the Philippines, Laos and Myanmar continued to be threatened by internal insurgencies, even as the New Order in Indonesia had defeated an apparent attempt of the Communist Party to take power.

These insurgencies and other threats to internal security were fed by the abysmal economic and social conditions of most countries of Southeast Asia at that time.

In Southeast Asia’s boom years, it was difficult to imagine the poverty and misery of the 1950s and the 1960s, just as it is now difficult to imagine that up to less than two years ago Southeast Asia’s economies and societies were flourishing or on the threshold of doing so. It is also difficult to imagine today the bitter animosities that characterized the relations between Southeast Asian countries in the years just before and just after ASEAN’s founding.

Today, tensions between Southeast Asian countries may occasionally surface. Some issues between them remain unresolved. A degree of mutual suspicion lingers. But no conflict has erupted between ASEAN members. The long period of peace and stability in Southeast Asia made possible the three decades of unprecedented economic and social progress in the region, unprecedented in Southeast Asia and unprecedented in the developing world.
Indeed, the main reason for ASEAN’s enduring strength has been the stake that each member has in the viability of the association. This stake goes beyond the economic and social benefits that each member-state has derived from the cooperative peace on which ASEAN is anchored. It goes beyond the results of the economic and other forms of cooperation that ASEAN has been undertaking over the past three decades. It has to do, above all, with the way each member-state looks at itself and its place in the region and in the world.

Through ASEAN, Indonesia has been able to wield its size, prestige and influence in the world without threatening its smaller neighbors. Singapore, its birth as a nation attended by tensions arising from racial and economic divisions, remains an island in a sea of Malays; but in ASEAN it has arrived at a common basic identity with its Southeast Asian neighbors. Malaysia, itself a multi-ethnic society, has unresolved jurisdictional disputes with every one of its immediate neighbors; but it has managed its relations with them in a civilized way and in an ASEAN setting. In ASEAN, Thailand has forged an enduring link to maritime Southeast Asia. The Philippines, after almost a century of colonization by and over-dependence on the United States, has found in ASEAN its identity with Southeast Asia.

Wealthy but tiny Brunei Darussalam deals with the world through ASEAN, as well as on its own, thus amplifying its voice, as well as that of ASEAN, in the world. After the end of the Cold War and the settlement of the Cambodian conflict, Viet Nam sealed its place in Southeast Asia with its membership in ASEAN. Small, land-locked Laos can, through ASEAN, better manage its delicate relations with its neighbors and deal with the rest of the world with greater resonance. Myanmar’s membership in ASEAN is its primary link to Southeast Asia and the most visible manifestation of its new openness to the world.

For all of ASEAN’s progress in pulling Southeast Asia together, centrifugal tendencies remain. These tendencies arise from the great diversity of ASEAN’s membership, diversity in size, levels of development, natural and human resources, histories, cultures, languages, religions, races, economic and social institutions, political systems, and values and traditions. This
diversity is certainly greater than that of Europe or Latin America and has, moreover, been increased by ASEAN’s recent enlargement. ASEAN, therefore, must carefully nurture its cohesion. Its institutions and processes must be allowed to evolve slowly. The pace of that evolution cannot be forced.

The loose nature of the association, its informal style, and the subtlety of its processes have led many who write and speak superficially about ASEAN to disparage it as a mere “social club” or “talk-shop.” First of all, there is nothing wrong with a social club. If that club fosters enough friendship, if it has given its members enough of a stake in the association so as to preserve the peace in a region with centuries of mutual animosity and conflict, there must be some value to that club. Nor is there anything wrong with a talk-shop. Talking is certainly better than fighting. A talk-shop instills in its members the habit of talking in order to arrive at solutions to disputes and to cooperate in solving common problems. Only talk can lead to understanding, agreement and cooperation.

Talk in ASEAN has led not only to the prevention of conflict among its members but also to the setting up of the ASEAN Regional Forum. Here all the countries of East Asia and other powers which have an interest in it can consult together and build among themselves that mutual confidence that is so vital to regional peace and stability. Talk in ASEAN has led to APEC and the Asia-Europe Meeting. Talk in ASEAN has resulted in a steadily moving process toward an ASEAN Free Trade Area. Talk is necessary for the current negotiations on trade in services. ASEAN is now building an ASEAN Investment Area to draw investments from within and outside the region. Talk in ASEAN has set up an ASEAN University Network. It has led to regional cooperation in a wide range of areas — from drug-trafficking and disease-surveillance to the environment, from transport to energy, and now finance.

Some people have expressed their impatience over the ASEAN way of deciding things by consensus, presumably preferring that ASEAN decide by majority vote. Yet, most other international organizations operate by consensus. In the Council of Ministers, the major decision-making body of
the European Union, unanimity is required for decisions on many important issues. On those issues that call for weighted voting, consensus is often the rule, with a vote rarely resorted to. In any case, ASEAN is at a stage where forcing a majority decision on a minority could easily strain the fabric of the association.

It is for good historical, cultural and political reasons, in the context of Southeast Asia’s diversity, that ASEAN has so far leaned toward informal understandings and voluntary arrangements rather than toward legally binding agreements. They are also why the building of formal ASEAN institutions has been slow and gradual.

It was not until 1976, nine years after its birth, that ASEAN signed its first binding treaty, the Treaty of Amity and Cooperation in Southeast Asia. (It was also only then that ASEAN set up a small secretariat.) The treaty, worked out and concluded by the five original ASEAN members, eventually became the first formal binding agreement signed by all ten countries of Southeast Asia. Although its dispute-settlement mechanism has not been resorted to by the signatories, it is available for them to use and provides a legal framework governing relations among states in the region, mandating cooperation and the peaceful settlement of regional disputes. It thus supplements the more traditionally ASEAN way of quiet and informal diplomacy. Last July, ASEAN’s Foreign Ministers signed a protocol to the treaty that would, once ratified by all the parties, enable non-regional states to adhere to the treaty.

The next significant formal binding agreement concluded by ASEAN was the one on the Common Effective Preferential Tariff scheme for the ASEAN Free Trade Area, signed in 1992 by all ASEAN members and subsequently adhered to by the newer members. (Not coincidentally, also in 1992, ASEAN decided to enlarge and professionalize the Secretariat and empower it to take initiatives and undertake a more active role, particularly in the implementation of ASEAN economic arrangements and in the management of ASEAN cooperation in the social and cultural, as well as economic, areas.)
After a decision by the ASEAN leaders in 1995 to accelerate its timetable, the CEPT-AFTA agreement now commits ASEAN members to reducing tariffs on trade between them to zero to five percent by 2003 for the original six signatories and by 2006 for Viet Nam and 2008 for Laos and Myanmar. The member-states also have to remove quantitative restrictions on and other non-tariff barriers to such trade. In fact, by the year 2000, most of the products traded within ASEAN will be receiving the full AFTA treatment. This scheme not only creates a free trade area among Southeast Asian countries but also binds their economies closer together than ever before.

In 1996, the ASEAN economic ministers decided to set up a dispute-settlement mechanism that would cover disagreements on AFTA and other significant ASEAN economic agreements, an important step toward a more rules-based regime.

In 1995, all ten Southeast Asian nations signed the treaty establishing the Southeast Asia Nuclear Weapons-Free Zone. They are now consulting with the nuclear-weapon states on a protocol that would enable those states to commit themselves to respecting the treaty.

Apart from these formal undertakings, ASEAN has, for the most part, contented itself with informal understandings and declarations based on goodwill and good faith. As I said earlier, these have served ASEAN well in the past.

However, ASEAN may have to move toward the greater use of more formal instruments and binding commitments in the future, as developments like the financial and economic crisis and the rise of such transboundary problems as the pollution of the sea and the air press ASEAN’s members to ever closer coordination, cooperation and integration.

One of ASEAN’s first responses to the outbreak of the crisis was to reaffirm AFTA’s current timetable. This has been done by the leaders themselves and by several ministerial meetings. Indeed, the leaders last December called for the acceleration of AFTA’s implementation. And yet, the question keeps
coming up of whether the AFTA process remains alive and on track. The answer to that question is this: The ASEAN Free Trade Area is being created in order to bring about an enlarged market of nearly half a billion people, which would attract investments into the area. Why would ASEAN backtrack on AFTA at this time, when investments are precisely what the region needs to recover from the crisis?

Beyond AFTA, ASEAN members are moving ahead on negotiations to open up trade in services to one another. ASEAN has decided to establish an ASEAN Investment Area to facilitate the flow of investments among them. It has agreed to promote ASEAN as a single tourism destination. Gas pipelines and electricity transmission lines bind ASEAN economies closer together. ASEAN is negotiating agreements that would make it much easier to transport goods between and through the territories of ASEAN countries. Road and railway links crisscrossing ASEAN are on the drawing boards.

As a direct response to the crisis, ASEAN has agreed to set up a surveillance mechanism to keep an eye on the movement of capital and on shifts in economic indicators. This will serve as an early warning system to alert ASEAN ministers to impending trouble in the future. Steps have been taken to increase the use of ASEAN currencies for intra-ASEAN trade.

Like the economic and financial crisis, the forest and peat fires that raged for months in parts of Southeast Asia, mainly on the islands of Sumatra and Borneo, have pressed ASEAN into cooperative action. This ecological disaster has affected millions of hectares and tens of millions of people, mostly in Indonesia, where much of it originated. According to the World Wildlife Fund, the disaster cost, at last year’s exchange rate of 2,500 rupiah to one U. S. dollar, US$500 million in timber, US$470 million in damage to agriculture, more than US$700 million in non-timber forest products, and more than US$1 billion in indirect forest benefits like water supply, erosion control, soil formation, soil nutrient cycles and waste treatment.

But the disaster has also vividly demonstrated how trouble in one ASEAN country can severely affect others. The forest and peat fires had a sharp
impact on Malaysia, Singapore and Brunei Darussalam, particularly in terms of the damage to people’s health, the disruption of education, the danger to sea and air transport, and the setback to tourism. In tourism alone, the WWF estimates the damage at US$250 million.

The disaster set off a frenetic round of intensive consultations among ministers and other officials on short- and long-term measures to fight the fires and prevent their recurrence on the same scale. Agreement has been reached on the strengthening of the ASEAN Specialized Meteorological Center in Singapore, which supplies satellite photos of the precise locations of fires, haze and “hot spots.” Two sub-regional fire-fighting arrangements have been set up in the Sumatra-Riau area and on Borneo. A research and training center on fighting and preventing peat and forest fires has been established at the University of Palangkaraya in Central Kalimantan. All this was done with the cooperation of other governments, NGOs and international bodies, with the United Nations Environmental Programme, the Asian Development Bank and the ASEAN Secretariat in coordinating and supporting roles. With ADB support, a new unit has been put up at the ASEAN Secretariat to manage ASEAN cooperation on and external assistance for the fire and haze problem. With these efforts, we have reason to hope and expect that this problem will no longer swell to the same magnitudes that it attained in the past few years.

The cooperative work on the fire and haze problem is only one of many such examples of ASEAN cooperation on a wide array of regional problems that transcend national boundaries and impel ASEAN to take regional action and thus bring its members closer to one another.

To be sure, centrifugal tendencies remain. Not only do these arise from issues left over from history; they could also ensue from strains imposed by new ones, such as the economic and financial crisis and various transnational problems. The expansion of ASEAN’s membership has also brought greater diversity to the association.

On the other hand, consciousness of these tendencies could, in fact, move ASEAN to greater solidarity and coherence. From the beginning, ASEAN
has placed the highest priority on Southeast Asian solidarity within the association, an aspiration that is only now about to be fulfilled. ASEAN hopes to acquire greater strength not only through greater numbers but also through that cohesive mass that can come only from geographical propinquity. In this and other ways, it is certainly in the interest of all of Southeast Asia that each of the countries in the region be within the ASEAN fold rather than politically and economically adrift. In the same way that conflict among the older ASEAN members has been avoided, ASEAN can reasonably hope that discord with and among the newer ones will be averted.

The financial and economic crisis and the environmental problems, because of their gravity and scope, have, as we have seen, pushed the ASEAN countries closer together. They have also moved ASEAN’s leading personalities to deal with one another with greater frankness and openness. Similarly, the greater diversity in ASEAN arising from its enlargement requires two things of all its members: a greater effort to keep ASEAN’s cohesion and strengthen its solidarity and a greater willingness to speak more freely to one another.

Frankness and openness do not mean a license to interfere in one another’s internal affairs. After all, the principle of non-interference underpins the entire inter-state system and all international organizations, both universal and regional. But on the basis of explicit statements by some leaders and ministers and the pressures exerted by the problems that ASEAN is facing and the association’s greater diversity, one can expect interactions within ASEAN to be more intensive and more free. This is a development that has to be handled with the utmost delicacy and sophistication, if it is to foster cohesion rather than friction and disarray.

From what I have said about ASEAN, we can discern what ASEAN stands for and continues to aspire for at its core. Liberal economic policies. Open trading and investment regimes. An increasingly integrated market. Progressively more open societies. The increasing ascendancy of the rule of law. Regional security on the basis of mutual confidence, consensus, cooperation and a balance of interests. Firm opposition to the proliferation
of weapons of mass destruction. A cooperative approach to transboundary environmental problems. A growing determination to deal regionally with transnational crimes, particularly drug-trafficking.

To be sure, individual ASEAN members differ in where they are on the road to these goals; but all of them have been explicitly and collectively articulated by all nine of ASEAN’s leaders. Australia and the international community in general share these goals. In the light of our common interests, I think that ASEAN deserves the support of the international community, support first of all for ASEAN to maintain and strengthen its cohesion and solidarity, as only through cohesion and solidarity can ASEAN make steady progress toward our common goals.

ASEAN governments realize more and more clearly that today’s problems and crises - economic, financial, environmental, social, political - because of their increasingly transnational nature, have to be dealt with ever greater solidarity and ever closer cooperation. This is, however, too big an enterprise to be handled by governments alone. It is too difficult for governments to carry out without the full support of their societies and political constituencies. The support of political parties and factions, the business community, industrial and commercial groups, advocacy groups of all kinds, and the people at large has to be marshaled in the cause of ASEAN solidarity and cooperation, behind the validity of the ASEAN idea.

Wherever possible and appropriate, countries such as Australia, too, need to get behind the effort to strengthen the cohesion of ASEAN through support, for example, for the regional, in addition to the strictly bilateral, dimension of their relations with the countries of Southeast Asia.

A fragmented Southeast Asia does no good for the security of the Asia-Pacific or for the prosperity of the world. A united, cohesive and strong ASEAN is a potent force for regional peace and security and for the economic vitality of the Asia-Pacific and of the world.
The ASEAN Way and The Rule of Law

Address at the International Law Conference on ASEAN Legal Systems and Regional Integration sponsored by the Asia-Europe Institute and the Faculty of Law, University of Malaya, Kuala Lumpur 3 September 2001

I believe that it is about time that people looked upon ASEAN in terms of legal obligations and norms. People are not used to doing so, because ASEAN has never been associated with international law and treaties. ASEAN has always been regarded as a group of sovereign nations operating on the basis of ad hoc understandings and informal procedures rather than within the framework of binding agreements arrived at through formal processes.

Indeed, ASEAN has often been contrasted with the European Union – in somewhat facile fashion – in those terms. The EU regulates the relationship between the Union and its members and the cooperative arrangements among its members largely through agreements with the force of law. ASEAN has been cooperating through informal understandings that impose no legally binding obligations.

This is a bit of an oversimplification, of course. It is true to a substantial extent, although not entirely. Certainly, it was entirely true in ASEAN’s early years. ASEAN’s founding document, the Bangkok Declaration of August 1967, was a mere declaration of two pages setting forth the ends and means of ASEAN and of Southeast Asian cooperation.
The foreign ministers of the five founding states signed it. It required no ratification. It certainly was no Treaty of Rome.

The slow, cautious start of ASEAN was understandable. The five founding members still nursed historic animosities toward and suspicions of one another. It required remarkable statesmanship and a veritable act of faith on the part of ASEAN’s founders to see beyond those animosities and suspicions — deeply embedded legacies of history — and articulate and commit themselves to a shared vision and common aspirations. ASEAN’s start was, inevitably, tentative.

With the hindsight of history, we can say that this aspect of the ASEAN Way has served Southeast Asia well. By not forcing its incredibly diverse and mutually suspicious members into legally binding standards, ASEAN has done the remarkable job of moving its members from animosity to the close cooperative relationship that they enjoy today, a relationship in which violent conflict is all but unthinkable. We can say that the ASEAN Way has served ASEAN well.

Even today, thirty-four years after its founding, ASEAN adheres to the evolutionary approach, relying largely on patient consensus-building to arrive at informal understandings or loose agreements. With the recent entry of new members, ASEAN seems to be, in a way, starting over in terms of having to delicately manage the legacies of history.

It is not just a matter of history; it is also a matter of culture. Southeast Asians’ way of dealing with one another has been through manifestations of goodwill and the slow winning and giving of trust. And the way to arrive at agreements has been through consultation and consensus – mushawara and mufakat – rather than across-the-table negotiations involving bargaining and give-and-take that result in deals enforceable in a court of law. Let us not exaggerate this distinction. Much consultation and consensus-building goes into the making of the European Union, which has, in any case, been itself painstakingly gradual. Personal chemistry and trust are also important for European processes. Southeast Asians can and do engage in hard bargaining and exchanges of concessions. But historical
circumstances and culture can provide at least a partial explanation for ASEAN’s avoidance, particularly in its early days, of legally binding agreements.

**The First Treaty**

ASEAN did not conclude a legally binding treaty until the first ASEAN Summit in Bali in 1976 – the Treaty of Amity and Cooperation in Southeast Asia – almost nine years after ASEAN’s founding. The fact that it took nine years for ASEAN to convene its first summit meeting itself speaks volumes about the ASEAN Way.

It took another ten years for ASEAN to produce another agreement that carried some measure of legal obligation. This was the 1977 Preferential Trading Arrangements. Yet another ten years were to pass before ASEAN was to conclude, at the third ASEAN Summit in 1987, the Agreement for the Promotion and Protection of Investments and the agreement on the standstill and rollback of non-tariff barriers, both of which conferred legal rights and obligations upon their signatories.

In the intervening period, three industrial cooperation schemes were agreed upon – the ASEAN Industrial Projects (1980), the ASEAN Industrial Complementation (1981), the ASEAN Industrial Joint Ventures (1983) – and, later, the Brand-to-Brand Complementation Scheme (1988). And there were the 1977 ASEAN currency swap arrangement, the 1979 agreement on the food security reserve, the 1985 agreement on the mutual recognition of drivers’ licenses, and the 1986 establishment of the petroleum security reserve.

These were relatively minor agreements of a workaday, practical nature. The swap arrangement has been revivified and expanded under the 1998 Chiang Mai Initiative. I suppose the agreement on drivers’ licenses continues to be observed. The industrial cooperation agreements have been superseded by the ASEAN Industrial Cooperation scheme of 1996, which remains active. The food security and petroleum security arrangements have never been invoked. These are rather obscure agreements, but they demonstrate the need for binding instruments if economic cooperation is to have substance and real effect.
It was the conclusion, at the ASEAN Summit of 1992, of the agreement on the Common Effective Preferential Tariff for the ASEAN Free Trade Area, simply known as AFTA, that was to give substance to – indeed, we could say, launched — the economic integration of ASEAN. The agreement is very much alive. Its timetable has, in fact, been accelerated, and it is basically on track. Under this agreement, the first six signatories to the AFTA treaty – that is, the first six members of ASEAN – are legally committed to reducing tariffs on their trade with one another, with a few exceptions, to a range of zero to five percent by the beginning of 2002 or, in some cases, the beginning of 2003. The newer members are given a little more time. The tariff reductions are to be carried out through national legal enactments by each party to the agreement in accordance with an agreed schedule. More recently, the ASEAN countries agreed, formally, on an arrangement to govern delays in the inclusion of products in the AFTA scheme or suspensions of AFTA concessions under very stringent conditions.

In legally committing ASEAN’s members to reduce and eventually remove tariff barriers between them, AFTA is the first substantial step toward integrating the ASEAN market, integration that ASEAN countries have recognized as essential for making their production and commercial processes more efficient, bringing down costs, encouraging investments, and, in general, strengthening their economic competitiveness. Obviously, the AFTA commitments have to be legally binding if they are to be credible both to the member-states themselves and to the business sector.

**Extending the Logic**

ASEAN has extended this logic beyond trade in goods to the equally important realm of trade in services, like transportation, telecommunications, financial services, construction and tourism. At the summit of December 1995, ASEAN concluded the Framework Agreement on Services. The agreement is to be given flesh through sector-by-sector negotiations. The resulting agreements will be legally binding upon the parties.

At the same summit of 1995, ASEAN entered into an agreement committing its members to undertake national measures to protect intellectual property,
a move that would address another deterrent to investment as well as encourage industrial and scientific innovation.

In October 1998, ASEAN decided to allow the freer flow of investments through the ASEAN Investment Area agreement, under which each country legally undertakes to open up its industrial sector to investments from other ASEAN countries and accord national treatment to such investors.

As further measures to facilitate trade and encourage investments, ASEAN concluded, at the summit of December 1998, framework agreements on mutual recognition arrangements and goods-in-transit. The framework agreement on mutual recognition is to be carried out by agreed arrangements on specific product groups, under which ASEAN countries are obligated to recognize results of conformity assessments issued by any one of them, such as test reports, product certifications or registration approvals. Negotiations on such arrangements are at various stages today. The framework agreement on goods-in-transit is to be put into effect through nine legally binding protocols, four of which have already been concluded. Agreements on multi-modal and inter-state transport are being worked out.

Meanwhile, in 1996, ASEAN agreed on a mechanism and rules for settling disputes arising from any of the economic agreements binding the association.

On the security front, ASEAN’s leaders signed, at their summit in 1995, the Southeast Asia Nuclear Weapons-Free Zone treaty legally committing their states not to “develop, manufacture or otherwise acquire, possess or have control over nuclear weapons,” station nuclear weapons within or transport them through the treaty’s zone of application, or test or use nuclear weapons. The ASEAN states are obligated not to allow others to do so (except for port calls and airfield transit) in their respective territories. They pledged not to dump nuclear waste in the zone. They also undertook certain obligations pertaining to the non-proliferation of nuclear weapons and the peaceful uses of nuclear energy.
Legal Foundations for Integration

Two things are to be noted about the legally binding agreements that ASEAN has concluded thus far. The first is that they are overwhelmingly economic in nature. The second is that, since the conclusion of the CEPT/AFTA agreement in 1992, ASEAN has entered into such agreements with increasing frequency. This may be an indication of ASEAN’s growing realization that closer regional economic integration requires basing it on binding legal foundations if integration is to be stable, credible and effective. The commitments undertaken must be clear, firm and enforceable, and those making them cannot lightly back out of them.

As ASEAN moves into further integration, we can expect an expanded number of binding undertakings. The e-ASEAN framework agreement, which the ASEAN leaders signed in November 2000, may require legally binding agreements on such things as the authentication of signatures, the use of electronic documents in business transactions, privacy and confidentiality, and so on. The further deepening of ASEAN economic integration, involving tariff nomenclatures, product standards, policy coordination, banking and finance, transportation and telecommunications, would surely need agreements in these areas — clear and enforceable ones — and soon.

More broadly and fundamentally, ASEAN countries will have to harmonize domestic laws and regulations that govern trade and investment. This is to make sure that the regional market is a level playing field. It is to ensure that differences in domestic laws and regulations on “fair trade,” competition policy, government procurement and product standards are not used to frustrate the purposes of AFTA and the benefits of an integrated market. It is to provide the harmonized regional investment regime that investors increasingly require.

I have a sense that this developing rules-based economic regime will gradually extend to other areas of ASEAN cooperation. After all, ASEAN is more than an economic association. Already, a binding, landmark agreement dealing with the haze that periodically arises from land and forest fires in parts of ASEAN is nearing completion and may be signed
soon. I foresee ASEAN undertaking legal obligations related to such transnational regional problems as the marine environment, the preservation of biodiversity, money-laundering, trafficking in human beings, drug-trafficking and piracy.

I thus envision ASEAN as evolving into a more rules-based association – although, I hope, not excessively so. As the experience of the EU shows, regional agreements may need national legislation to carry them out. Already, the CEPT/AFTA agreement, as well as the agreement on intellectual property, requires legal enactments by the national governments in order to take effect. This would help strengthen the national legal systems of the member-states as well as the rule of law in the region as a whole.

This may be an indication of ASEAN’s growing realization that closer regional economic integration requires basing it on binding legal foundations if integration is to be stable, credible and effective. The commitments undertaken must be clear, firm and enforceable, and those making them cannot lightly back out of them.
Development for Human Dignity

Welcome address at the High-Level Conference on
Social Development in the National Development
Agenda organized by the ASEAN Secretariat and
the World Bank
ASEAN Secretariat, Jakarta, 16 January 2002

We are here to provide a forum for senior officials in ASEAN
to share their knowledge and experience in how to place
social development at the core of the national development agenda
and of the national development process.

One would think that this is self-evident, that, of course, social
development is part of the essence of national development. After all,
there can be little development if people are in bad health, are hungry,
are physically weak, if citizens are not educated, if children grow up
unhealthy, malnourished and unschooled, if women are illiterate and
oppressed. There is an even deeper, more fundamental reason. It is that
the whole aim and purpose economic, of national, development is the
fulfillment of the citizen as a human person, the fruition of national
society as a human community, that the human being is the object and
subject of development efforts. All this should be obvious, being at the
core of the nature of man and of society. And yet, as officials in the
social ministries know, it is often a struggle to place and to keep social
considerations in national planning for development.
We in ASEAN are trying to do our part at the regional level. The ASEAN health ministers have called on ASEAN to ensure that “health concerns are mainstreamed into the development effort,” envisioning that health shall be at the center of development before long. ASEAN’s labor ministers have called for a “policy environment that fosters employment creation.” We have elevated working committees dealing with youth, social welfare, labor and health to senior official bodies reporting directly to their respective ministerial forums, which now meet more regularly. At their summit last November, ASEAN’s leaders devoted a special session to HIV/AIDS, issuing a strong declaration and adopting a work program.

At the beginning of this year, the ASEAN Free Trade Area achieved its target for the original six signatories to the AFTA agreement, the target of reducing tariffs to no more than five percent – or abolishing them altogether – on practically all goods traded within ASEAN. A few weeks earlier the World Trade Organization’s ministerial meeting decided to launch a new round of multilateral trade negotiations. We in ASEAN look to regional economic integration and the liberalization of global trade to benefit our countries and peoples. But they will do so only if, through them, people’s lives are improved and their dignity enhanced.

The transcendent value of social development is, I trust, the premise from which our discussions in the next three days will proceed. This high-level conference is only one component of a coherent program. There is a series of six video conferences. We held three of them last year – on poverty, gender and labor. We plan to convene another high-level conference involving finance and economic ministries. There will be training workshops. The plan is eventually to build an electronically linked
community of practitioners and policy-makers. Already, an interactive joint Web site has been set up on the World Bank Institute’s home page. It is great that information and communications technology is being harnessed to multiply the efficacy of our efforts.

I understand that this conference aims to adopt the framework of an action plan. I trust that the action plan will embody measures that are practical and feasible, nourished by resources and experience from within the region. And I trust that these measures and the action plan as a whole will merit the support of the international community.

It is in this light that I wish the conference success.
The first thing that must be said about regionalism in Southeast Asia is that it is already upon us, whether we like it or not. It is a reality that we cannot deny. It is an inevitable trend that will engulf us to our harm unless we embrace it for our benefit.

The economic crisis of the last two years has demonstrated, as nothing else could, the reality of the integration of Southeast Asia’s economies. All ASEAN countries have suffered from the contagion to some degree or another regardless of individual circumstances.

Even countries like Laos, Myanmar and Viet Nam, whose currencies have been relatively insulated from the volatile movements of currencies elsewhere, have felt the pain of the crisis - simply because their leading markets and their primary sources of investment have been some of the most badly-hit economies in the region. At the other end, even such a well-managed and open economy as Singapore’s has been buffeted, and Singapore, as never before, has seen its markets shrink, its wages cut, its employment drop and its growth stalled.
All this is not surprising; at least not in hindsight. Investors had come to regard Southeast Asia as one investment area even before ASEAN itself officially proclaimed it as such. When trouble shook one or two ASEAN economies, investors pulled out their money from all. This regionalized perception on the part of international investors has been considered as one of the forces behind the so-called contagion effect of financial alarm that swept through Southeast Asia and beyond.

To some extent, the regionalized investor perception is justified. After all, from 1993, when the move toward an ASEAN Free Trade Area began, to 1997, the year of Southeast Asia’s financial debacle, the share of intra-ASEAN trade in total ASEAN trade rapidly rose from one-fifth to one-fourth. In absolute terms, intra-ASEAN trade expanded from US$43.3 billion to US$84.4 billion in four years, despite the fact that half of the last year, 1997, was marked by a severe downturn in economic activity.

In 1997, twelve million Southeast Asians constituted about forty percent of the thirty-one million total tourist arrivals in ASEAN. Three million migrant workers in ASEAN are from within Southeast Asia itself.

**Singapore in Southeast Asia**

Singapore has accounted for much of Southeast Asia’s growing economic integration. It serves as a trans-shipment point for much of the region’s trade in goods. It is a vital hub of air and maritime transport. It processes many of Southeast Asia’s products for export elsewhere. It is the leading provider of trans-national services for the region - banking, insurance, telecommunications. Singapore is the site of many of the regional headquarters of the world’s great corporations. At the same time, it has to bring in many of its needs from elsewhere in the region.

The share of Singapore in intra-ASEAN trade has consistently hit over forty percent since 1993, and the rest of ASEAN has bought twenty-three to almost thirty percent of Singapore’s total exports during this period. We have no firm figures for investments, but anecdotal indications point to sizeable Singapore investments in the rest of ASEAN.
People from Southeast Asia constitute a large proportion of Singapore’s labor force at all levels, invigorating its economy, enriching its culture. The National University of Singapore and other centers of intellect, like this institute and the Institute of Southeast Asian Studies, are assuming the intellectual leadership of the region in many vital fields.

Singapore’s integration with and stake in the fate of the region are just as clear in other areas. Serious conflict within any of its neighbors or between them could shake Singapore with a flood of refugees knocking at its door and in other ways. Regional instability could frighten investors away. Singapore cannot be immune to the spread of communicable diseases in the region.

**Massive Pollution**
The massive atmospheric pollution that has, periodically and with increasing gravity, blanketed and almost literally suffocated Singapore arises from land and forest fires elsewhere in the region. According to the World Wide Fund for Nature (WWF), the haze in 1997 caused S$12.5 million or US$8.8 million in short-term damage to health in Singapore. It set back Singapore tourism by S$81.8 million or US$58.4 million. It inflicted S$9.7 million or US$6.9 million in losses on Changi Airport and Singapore-based airlines. WWF calculates that the losses suffered by Singapore tourism alone could have fully funded the Community Chest in this country, which comprises fifty charities and benefits 180,000 people, for three years.

The situation of Singapore is only the most obvious manifestation of the ASEAN countries’ tightening linkages with one another, which are clear and undeniable. The question is whether the strains of economic difficulty, trans-boundary pollution and exacerbated bilateral disputes have started to unravel those linkages and severely and irreparably wounded ASEAN solidarity.

When the financial crisis and the haze pollution started to sweep Southeast Asia in the latter half of 1997, media and academic commentators in the West and even some in ASEAN, who should have known better, quickly jumped to the facile conclusion that these developments had routed ASEAN
If events in one ASEAN country are grievously hurting another, the reaction is not to descend into mutual recrimination but to intensify engagement and cooperation. If regional problems are confronting them all, the course of action is not for each country to go its own way but to work closely with the others to deal with them. Regional problems require regional solutions.

into disarray, fragmentation and even death. They declared that the ASEAN Free Trade Area had stalled, if not died.

I said then that such pronouncements flew in the face of logic and the facts.

If the growing integration of ASEAN’s economies renders each of them vulnerable to trouble - or the perception of trouble — in the rest, the thing to do is to work even more closely together to reduce everyone’s potential for trouble. If all of us are in the same boat, the thing to do at the gust of a storm is not to jump overboard but to work together to keep the vessel on even keel and steer it to safer havens.

Regional Solutions for Regional Problems

If investors have fled from the troubles of the region, breaking up the ASEAN market into little pieces will not bring them back. What will bring investors back is a larger, more integrated, more efficient market. If financial panic has swept the region, the response is not for ASEAN countries each to retreat into isolation but to step up consultations and the flow of information among them and increase their transparency to one another. If events in one ASEAN country are grievously hurting another, the reaction is not to descend into mutual recrimination but to intensify engagement and cooperation. If regional problems are confronting them all, the course of action is not for each country to go its own way but to work closely with the others to deal with them. Regional problems require regional solutions.

That is the logic.
The fact is that, in their wisdom and to their everlasting credit, that is the course that ASEAN’s leaders have decided to chart and prescribe.

Contrary to the knee-jerk speculation of many commentators, ASEAN has deepened and accelerated AFTA. For the six original signatories to the AFTA treaty, AFTA is now to be formally completed by the beginning of 2002. But because they have agreed to extend by 2000 full AFTA treatment to as much as ninety percent of products traded within ASEAN, we can say that, for all practical purposes, AFTA will have been completed in less than eight months from now. The idea is to create, within a fairly short time, a zero-tariff market of half a billion people with a regional GDP today of US$700 billion.

As with goods, so will it be with services. ASEAN’s leaders have instructed their officials to start negotiations immediately, and complete them in 2001, on liberalizing trade in services in all sectors and all modes of supply. Already, mutual commitments have been made in the seven areas of air transport, business services, construction, financial services, maritime transport, telecommunications, and tourism.

**One Investment Area**

ASEAN’s leaders have decided to open their manufacturing sectors to investments from within the region and to extend national treatment to such investments, creating what they call the ASEAN Investment Area. This would significantly advance the integration of the ASEAN economy.

At the same time, plans have been laid to bind the ASEAN nations together and ease the movement of goods among them through networks of roads, railways, gas pipelines, electricity transmission lines and telecommunications.

Rather than unraveling the fabric of ASEAN cooperation, the region’s economic troubles have, in fact, pushed ASEAN to cooperate much more closely in dealing directly with the financial and economic weaknesses that the troubles have exposed. Finance is an area of ASEAN cooperation that is quite new, but cooperation among finance ministries and central banks
is being stepped up. Systems are being set up for early warning, monitoring of short-term capital flows, peer review of country data and country policies, and joint policy formulation. A unit in the Secretariat has been established to support this effort, with technical help from the Asian Development Bank.

ASEAN’s leaders, at their summit in Ha Noi last December, endorsed these programs to hasten and deepen economic integration and financial cooperation. In the Ha Noi Plan of Action, they prescribed specific measures to carry them out. The Ha Noi Plan of Action also laid down steps for ASEAN to cooperate much more closely in making its industries more competitive in a fast-globalizing world and in improving the lives of its people. It focuses on science and technology, small and medium enterprises, social safety nets, environmental protection, food security, the fight against illicit drugs, and disease surveillance, as well as on trade, investments, infrastructure and finance. The emphasis is on training, institution-building, information exchange, the sharing and adoption of best practices, and mutual help in other ways.

ASEAN economic integration and cooperation have come a long way, a process that the global and regional economic downturn has given new momentum. However, like the proverbial cyclist, it must keep moving or crash. ASEAN’s growing closeness means that one country’s problems affect the others with increasing impact. This, in turn, requires ASEAN to move closer together still. The cycle goes on toward ever-closer inter-relationships.

**Where to Go From Here**

So, beyond AFTA, beyond services, beyond the ASEAN Investment Area, beyond the economic surveillance process, where does ASEAN go from here? What are the nature and direction of Southeast Asia’s further integration and solidarity?

I might point to a few possibilities.

For a start, ASEAN might look at how it can mobilize its own resources for some of its cooperative activities. Regional integration and cooperation
are advanced in several ways. Some involve adopting policies and coming to agreement. Others cost real money. Meetings and workshops cost money. Studies cost money. Joint promotion costs money. Training costs money. Cooperative action on the ground costs money.

Yet, over the years, a variety of factors have prevented ASEAN from marshaling its own resources for most of its own projects and activities beyond funding the ASEAN Secretariat. To be sure, ASEAN’s dialogue partners and other international organizations have been generous with their support for ASEAN projects, some for as long as twenty-five years. But external sources are limited by the decreasing levels of foreign-aid funds and by the interests and priorities of the partner countries and agencies.

More importantly, there are just some things that ASEAN has to do for itself and by itself. This would probably require national agencies concerned to set aside part of their respective budgets for ASEAN-related activities and projects. For example, ASEAN members may have to set aside resources to fund studies on the future of ASEAN cooperation, on potential niches for ASEAN in tomorrow’s industries, and on the strategic situation in East Asia, including the objectives and optimal modalities of ASEAN’s relations with Northeast Asia. ASEAN ought to devote more resources for feasibility studies for large-scale infrastructure projects to bind the region closer together in order to lay the ground for investment in them. ASEAN should be doing more to enable its newer members to integrate themselves more effectively within the association.

ASEAN has already been doing some of this. The ASEAN Fund is supporting the work of the Eminent Persons Group set up, upon the suggestion of Prime Minister Goh Chok Tong, to chart the future of ASEAN cooperation. Singapore has pledged to put up half the expected funding requirements of the study of information-technology standards and performance in ASEAN. Malaysia has underwritten the feasibility study of the Singapore-Kunming railway project. The older ASEAN members have modest technical assistance programs for the benefit of the newer members. The Secretariat itself has undertaken some of this assistance. The seed money for the ASEAN Science Fund has been put up by the
member-states. ASEAN is funding the core of the ASEAN economic surveillance process and of ASEAN efforts to coordinate the fight against haze pollution. But clearly more has to be done.

ASEAN, for example, has to put up its own resources to improve its image in the international community - an image, not too well-known to begin with, that has been battered by the financial crisis and the haze problem. ASEAN would do well to fund programs to promote ASEAN as a single tourism destination. I need not belabor the common interest all ASEAN countries have in increased tourism in the region.

Devoting real resources to ASEAN cooperation would be the ultimate demonstration of the member-states’ commitment to the regional cooperation from which they presumably benefit and which they have so eloquently espoused.

One salutary result of regional economic integration has been the rationalization of production processes across national boundaries. This has brought about greater efficiency and beneficial economies of scale. However, ASEAN cannot stop there. The logical next step may have to be taken, which is to coordinate economic and industrial policies more closely. Uncoordinated policies for integrated economies could lead to disasters in sectors such as automobiles and electronics, which account for much of ASEAN’s GDP and exports. This means the harmonization of legislation, investment conditions, accounting standards, and so on.

**Possibilities for Regional Action**

Another step that ASEAN might take on the road to greater regionalism is to open itself to the possibility of taking regional action to help a member-country deal with internal difficulties that have regional or international dimensions; assist member-countries in resolving disputes between them; and keep actions and policies of one member-country from seriously harming others. This, of course, presupposes that ASEAN members would be willing to accept such involvement by their neighbors.
Other regional associations do this all the time - the Organization of African Unity, the Organization of American States, not to mention the European Union. Indeed, ASEAN has twice involved itself in the affairs of Cambodia, and did a creditable job of it both times. However, that was before Cambodia was a member of the association. Would ASEAN have done for Cambodia what it did in the 1980s and in 1997 and 1998 if Cambodia had already been a member of ASEAN then? It is an interesting question.

For twenty years, the Philippines suffered from an armed separatist uprising in its south. Because of the problem’s perceived international dimension, the Philippines turned to the Organization of the Islamic Conference for help and not to ASEAN. There were perfectly valid, even urgent reasons for the Philippines to go to the OIC, but ASEAN was almost totally out of it. The situation moved more rapidly to a resolution after Indonesia took an active hand in it. However, Indonesia did so, not as part of ASEAN but as an additional member of the OIC committee handling the matter.

There are other examples. It has been argued that ASEAN members have not attained such a level of mutual trust as to involve the association in delicate political situations. That may be so, but such an involvement in the future might be worth looking into as a natural consequence of growing regional integration.

Regionalism is upon us. It is here to stay. The only way to deal with its problems and challenges is to strengthen and use regionalism to confront and overcome them.

A new world order has not yet arrived, in which interests are balanced and disputes adjudicated fairly under benign rules that are impartially applied and effectively enforced upon all. In the face of this, weaker states must band together regionally, strengthening their solidarity and advancing their common interests.
Resisting the Temptation

It is in this light that ASEAN member-countries must resist the temptation to give priority to reaching out to the mighty powers and the big markets as a substitute for ASEAN and regionalism. ASEAN is, of course, open, as individual countries and as an association, to the rest of the world and to the global economy. Most ASEAN countries are members of WTO, of APEC, and of ASEM, and ASEAN would like to see all its members belong to these other organizations and forums. ASEAN and its members are committed to liberal trading and investment regimes. The major industrial nations are ASEAN’s leading markets and sources of investment and technology. ASEAN recognizes the interest of outside powers in the region.

However, links with developed markets and the global economy must not be forged at ASEAN’s expense or as an alternative to it. A new world order has not yet arrived, in which interests are balanced and disputes adjudicated fairly under benign rules that are impartially applied and effectively enforced upon all.

It is all too clear that such a utopia remains far from being upon us. Until it arrives, a long, long time from now, if ever, economic power, whether of states or of corporations, will continue to have preponderant advantage. In the face of this, weaker states must band together regionally, strengthening their solidarity and advancing their common interests. There are only two alternatives. One would be the domination by more powerful states and mighty corporations. The other alternative would be the rise in a fragmented region of narrow nationalisms that are no longer viable.

There is enough common ground, fertile ground for regionalism to thrive in Southeast Asia. There are the immutable factor of geography and the common strategic interests that flow from it. Southeast Asian countries, even with the wide gaps in their levels of development, share a broad range of common economic interests. Their shores have been washed by successive waves of historical trends. We need not dwell upon their extensive cultural linkages.
Whether one likes it or not, the destinies of Southeast Asian countries lie with one another, in a common destiny that is most vividly and most effectively expressed in ASEAN.
Cooperative Peace in Southeast Asia

Opening remarks at the ASEAN-UNESCO Regional Symposium on Cooperative Peace
Jakarta, 11 September 1998

The ASEAN Secretariat is most pleased to work with the United Nations Educational, Scientific and Cultural Organization (UNESCO) on this important project within the framework of UNESCO’s “culture of peace program.”

In December 1995, the United Nations General Assembly adopted Resolution 50/173 endorsing UNESCO’s transdisciplinary project entitled “Towards a Culture of Peace.” At about the same time, ASEAN’s heads of government were holding their Fifth Summit and declaring that, “Cooperative peace and shared prosperity shall be the fundamental goals of ASEAN.”

The timing of the two declarations was not a coincidence. Both simply articulated the burning desire and aspiration of our time.

The search for peace resulted in various approaches and ways of thinking among the practitioners and scholars in this field. There is the concept of “comprehensive security,” according to which the promotion of peace requires a multi-dimensional approach. “Common security” refers to a commitment to joint survival and the achievement of security with
others and not against them. Finally, “collective security” pertains to mutual defense arrangements, which commit each party to come to the aid of any of the other parties should it come under attack.

We understand cooperative peace as the opposite of a cold peace. It takes initiatives in building mutual confidence by undertaking cooperative activities not only to maintain order but also to promote development. Cooperative peace is both a process and a goal. It creates an environment conducive to development. In turn, development helps promote a lasting peace.

But while the terms “culture of peace” and “cooperative peace” have been coined only recently, these conditions have been the ultimate aim and primary focus of the United Nations, ASEAN, and many other organizations and individuals over the years.

The value of the Culture of Peace Programme of UNESCO is that it goes beyond policy-making and institution building. It pursues a long-term approach to the question of peace through measures “to firmly anchor peace in the minds of men and women.”

On the other hand, ASEAN is founded on the universal principles of regional cooperation. ASEAN’s founding document, the Bangkok Declaration of 1967, states that “the cherished ideals of peace, freedom, social justice and economic well-being are best attained by fostering good understanding, good neighborliness and meaningful cooperation among the countries of the region already bound together by ties of history and culture”. Peaceful cooperation does not come about automatically as a function of regional organization. It evolves and flourishes in a certain environment. Toward this end, the ASEAN Concord of 1976 states that “Member states shall strive, individually and collectively, to create conditions conducive to the promotion of peaceful cooperation among the nations of Southeast Asia on the basis of mutual respect and mutual benefit.”

Cooperative peace in Southeast Asia aims to promote regional resilience based on the specific principles embodied in the 1976 Treaty of Amity and
Cooperation in Southeast Asia. These principles include: (a) mutual respect for the independence, sovereignty, equality, territorial integrity and national identity of all nations; (b) the right of every State to lead its national existence free from external interference, subversion or coercion; (c) non-interference in the internal affairs of one another; (d) settlement of differences or disputes by peaceful means; (e) renunciation of the threat or use of force; and (f) effective cooperation among themselves.

ASEAN, above all, is a state of mind.

A group of distinguished men and women of Southeast Asia met in 1994 and again in 1996 to exchange views on the state of Southeast Asian engagement. Their efforts culminated in a document entitled “Towards a Southeast Asian Community: A Human Agenda.” The Human Agenda reaffirms that communities are about people and that community-building is a process of creating a state of mind. The Human Agenda believes that the tie that truly binds is not faceless institutions and agencies, impersonal agreements and procedures, but a commitment, a sense of caring and sharing, a sense of participation and ownership, a sense of belonging and attachment; in other words, a sense of community, which can only be nurtured in the spirit of real, live human beings.

The Human Agenda affirms that, “Peace for the people is not only the absence of war, but also involves the presence of positive conditions, supportive of security of life and property at all levels and conducive to mutually beneficial exchanges among nation-states and peoples.”
ASEAN has achieved important milestones in its pursuit of lasting peace. The Declaration on the Zone of Peace, Freedom and Neutrality recognizes that all countries of Southeast Asia “share a primary responsibility” for the maintenance of peace, freedom and independence. The ASEAN Treaty of Amity and Cooperation in Southeast Asia binds the contracting parties to renounce the threat or use of force and prescribes a process for the pacific settlement of disputes. The Treaty on the Southeast Asia Nuclear Weapon-Free Zones the region’s contribution to the global campaign for the elimination of weapons of mass destruction. The Manila Declaration on the South China Sea commends peaceful, restrained and cooperative approaches to managing disputes in the South China Sea. The establishment of the ASEAN Regional Forum, consisting of all Southeast Asian countries and all ASEAN Dialogue Partners, demonstrates ASEAN’s inclusive approach to building common peace and security with its immediate neighbors and beyond. For three decades now, the spirit of ASEAN solidarity has overshadowed whatever remains of bilateral disputes between Member States.

Both the ASEAN Summit Declaration of 1995 and the relevant UNGA resolutions on the culture of peace, therefore, represent reaffirmations of a common commitment to the cause of peace. The issue is not whether such processes as the “culture of peace” and “cooperative peace” are new approaches to promoting peace or simply new expressions of the same ideals long cherished by peace-loving nations and communities. Instead, the task before us is to dwell on ways of fulfilling their common aspirations.

We understand that UNESCO has drafted a provisional programme of action on a culture of peace that is currently under consideration by the UN General Assembly. At the same time, ASEAN is formulating a plan of action to implement the ASEAN Vision 2020 that was adopted by the ASEAN Heads of Government in Kuala Lumpur in 1997. The ASEAN Leaders envision a community of Southeast Asian nations at peace with one another and at peace with the world. They see ASEAN as an effective force for peace, justice and moderation in the Asia-Pacific and in the world. The ASEAN Plan of Action shall be adopted at the Sixth ASEAN Summit that will be held in Ha Noi in December this year. I trust that the result of
this Symposium could serve as a valuable contribution to the formulation of that important document at this crucial stage in ASEAN’s history.

Cooperative peace requires a shared commitment to pursue cooperative actions at the international, regional, national and community levels. This Regional Symposium is ASEAN’s contribution. We seek not an easy road to peace. We toil to build a strong foundation that will overcome the threats to peace.

Once again, I warmly welcome you all to the ASEAN Secretariat. May you have a pleasant stay in our host city of Jakarta.
ASEAN: Building the Peace in Southeast Asia


This paper will recall the situation of conflict in Southeast Asia at the time of the founding of the Association of Southeast Asian Nations (ASEAN) and the fundamental aims of Southeast Asia’s leaders in creating ASEAN. It will describe the ASEAN approach to issues that can lead to conflict, an approach to which can be attributed the preservation thus far of regional peace. It will recount the specific instruments that ASEAN has developed toward this end. It will cite instances of cooperation with the United Nations and its agencies in peace-building in Southeast Asia. Finally, it will ask questions about the role of ASEAN in dealing with the types of conflicts that may erupt in the region in the future.

1967: A Fractured Southeast Asia

At the time of ASEAN’s founding, in August 1967, Southeast Asia was deeply and severely fractured in many ways. Indonesia had just emerged from a massive domestic upheaval and its confrontation with Malaysia and Singapore. Malaysia and Singapore had just gone through a bitter separation. The dispute between Malaysia and the Philippines over Sabah was boiling. Each country had boundary or other territorial disputes with one or more of its neighbors. Viet Nam was divided, and
war was raging between North Viet Nam and South Viet Nam, each with great-power allies and supporters. Laos and Cambodia were deeply embroiled in that war, in which the Philippines and Thailand backed South Viet Nam and the U.S. Myanmar, then Burma, had decided drastically to reduce its participation in international affairs, contending with armed conflict within its borders. In Malaysia, the Philippines and Thailand, communist insurgents with strong support from their big power patrons created a serious security threat. In other words, the entire Southeast Asian region was struggling for survival in the Cold War quagmire.

It was in these unpromising circumstances that the leaders of Indonesia, Malaysia, the Philippines, Singapore and Thailand decided to transcend their countries’ differences, raise the stake of each country in good relations and cooperation with its neighbors, and thus prevent their disputes from erupting into conflict. At the same time, they determined to disentangle the ASEAN region from the rivalries of the big powers and keep it from continuing to be an arena for open or covert big-power conflict.

**The Coming of Peace**

ASEAN was to succeed in these aims beyond all expectations. Southeast Asia has not seen open conflict between ASEAN members. Immediately after the end of the wars in Indochina in 1975, ASEAN members reached out to the re-united Viet Nam, and to Laos, leaping over the wall erected by ideology and history. Viet Nam’s intervention in Cambodia in 1978, however, placed it and ASEAN on opposite sides of the political and diplomatic fence for another decade. That fence came down with the political settlement of the Cambodian question in the Paris Peace Accords of October 1991, which both ASEAN and the United Nations, in collaboration, helped to bring about. ASEAN also supported the UN Transitional Authority in Cambodia (UNTAC) during the transition in 1992 and 1993, which paved the way for a duly-elected government in Cambodia in 1993.

In the meantime, Brunei Darussalam had joined ASEAN in January 1984, a week after it gained its independence. Viet Nam was admitted into ASEAN in July 1995, Laos and Myanmar in July 1997, and Cambodia in April
All Southeast Asian countries are now in ASEAN, as envisioned by ASEAN’s founders in 1967. And Southeast Asia is at peace, another element of the founders’ vision. ASEAN has maintained its record of no conflict between members.

The ASEAN Way

This singular achievement may be attributed to ASEAN’s approach to the conduct of relations among members, to the very character of the association. In its approach to common goals and to issues that could lead to conflict, ASEAN places a premium on dialogue and consultation in place of posturing and confrontation. It prefers quiet discussions and eschews “megaphone diplomacy” and “feel-good diplomacy.” It considers mutual respect and understanding - understanding by each member of another’s situation and difficulties - as vital to the peace and stability of the region and to the future of the association itself.

In ASEAN, bilateral issues - whether they have to do with boundaries, borders or the movement of people - are managed bilaterally, without being complicated by unnecessary regionalization or internationalization. As in the case of many other regional organizations, ASEAN’s insistence on consensus ensures that the association takes no action that threatens the vital interests of any member.

The very process of integrating the ASEAN economy, aimed primarily at productive efficiency, easier and less costly commerce, increased investments and the generation of jobs, serves to strengthen the fabric of peace by raising the stake of each ASEAN member in the prosperity of all. Thus, ASEAN has accelerated the implementation of the ASEAN Free Trade Area (AFTA), is embarking on negotiations on the liberalization of trade in services covering all services sectors and all modes of supply, and is creating an ASEAN Investment Area (AIA) and an electronic ASEAN (e-ASEAN). Under these schemes, goods, services and capital are to flow freely within the region. ASEAN has put together plans for road, railway, power, gas-pipeline and telecommunications networks. In response to the recent financial crisis, ASEAN, almost by instinct, turned to regionalism, not only integrating the regional market but also initiating common regional action
on financial matters. In the midst of the information revolution, ASEAN members and ASEAN as an organization are working together to ensure that their people have the human and institutional capacity to acquire, develop and use information and communications technology for their economic and social advancement primarily through the e-ASEAN scheme.

ASEAN cooperation in many other areas thickens the texture of regionalism and strengthens the regional identity of Southeast Asia, a circumstance that, in turn, increases the stake in regional peace and progress. Cooperation goes on in an expanding range of endeavors - education and health, labor and the status of women, social safety nets and the family, transnational crime, rural development, the protection of the environment, drug addiction and drug trafficking, science and technology, food and agriculture, small and medium enterprises. The growing networks of officials and private citizens across the region contribute to the mutual understanding and personal relationships that help strengthen the regional peace.

ASEAN members, almost by virtue of their membership, are committed to the market as the primary engine of economic growth, with its implications for the rule of law, for the integrity of economic, financial and political institutions, and for the stability of the nation. They place high importance on the development and role of the private sector, with its implications for governance and for society as a whole. At the same time, they seek to ensure that rampant capitalism does not lead to the dangerous enlargement of the economic and social gaps within the nation and within the region.

ASEAN’s four newest members have suffered immensely from the Cold War conflict and its
aftermath. As a post-conflict peace-building effort, ASEAN is giving special focus to the development of the Mekong Basin, in which all of them are located. Particular emphasis is placed on human resources development, which ASEAN considers to be the key to their economic, social and political fulfillment and their fuller integration into the Association. Infrastructure development in the Mekong region is also a high priority. ASEAN is now taking active steps towards implementing a massive project of linking Singapore and Kunming in southern China with a network of railroads.

Even as ASEAN hastens and deepens the integration of the regional economy and its cooperation in other endeavors, it has remained open to the rest of the world. Certainly, ASEAN’s trade and investment regimes are among the most open in the world. By engaging important countries in the region, ASEAN has contributed to the stability of East Asia. For almost a quarter-century, ASEAN as an association has maintained active links with its major partners through its dialogue system. It helped to found APEC and remains at its core. It initiated the Asia-Europe Meeting (ASEM). ASEAN is exerting efforts to enable Cambodia, Laos and Myanmar to join APEC and ASEM as soon as possible.

More directly related to regional peace and stability is the ASEAN Regional Forum (ARF). In this forum, ASEAN and other powers with interests in the region undertake dialogue and consultations on political and security issues in the Asia-Pacific region, engage in activities intended to build mutual confidence, and seek ways of preventing conflict in the future. The participation of North Korea in the ARF in Bangkok last July for the first time has further underscored and enhanced the efficacy of the ARF.

Another initiative of ASEAN that is gathering momentum is the so-called ASEAN+3 framework of East Asian cooperation, which involves China, Japan and the Republic of Korea. Leaders of the ASEAN+3 countries declared in a joint statement issued in Manila on 28 November 1999 their common commitment to develop cooperation in economic, financial, political and transnational fields. This new ASEAN+3 framework also indirectly creates a unique informal occasion for the three Northeast Asian countries to hold discussions among themselves. Before their meeting with
the ASEAN leaders in Singapore last November, the leaders of these three countries met among themselves over a working breakfast and agreed to upgrade their breakfast meeting into a regular annual +3 Summit. ASEAN can rightly take pride in having a part in bringing these three closer together.

**Instruments of Peace**

Although inclined to informal arrangements and tacit understandings, ASEAN nevertheless has devised a few formal instruments for the advancement of peace and stability in Southeast Asia. The Treaty of Amity and Cooperation in Southeast Asia, signed in 1976, constitutes a code of behavior for States of Southeast Asia and others to adhere to it and provides a mechanism for the peaceful settlement of disputes through regional processes. The Treaty on the Southeast Asia Nuclear Weapons-Free Zone, signed in 1995 and now in force, is ASEAN’s contribution to the cause of the non-proliferation of nuclear weapons as well as to the safety of the region. ASEAN is currently consulting with the five Nuclear Weapon States to enlist their support for the sanctity of the Southeast Asia Nuclear Weapon-Free Zone. ASEAN is also working closely with China on a regional code of conduct in the South China Sea, where there are overlapping claims of some ASEAN members and China. At the ASEAN-China Summit in Kuala Lumpur in December 1997, ASEAN and China reached a common understanding that the maintenance of regional peace and stability served the interests of all parties. The parties concerned in the South China Sea disputes agreed to resolve their disputes through friendly consultations and negotiations in accordance with universally recognized international law, including the 1982 UN Convention on the Law of the Sea, without resorting to the threat or use of force.

**Cooperating With the United Nations**

ASEAN leaders held a fruitful summit with the UN Secretary-General and leaders of UN agencies in Bangkok on 12 February 2000. They reiterated their commitment to promoting cooperation between ASEAN and the UN, especially in human-resource development.

In working intensively on regional mechanisms for financial stability, ASEAN has had the cooperation of the Asian Development Bank, the
International Monetary Fund and the World Bank. UNCITRAL and the World Intellectual Property Organization have provided useful reference points for ASEAN’s development of common standards, including those pertaining to electronic commerce and other aspects of information technology.

The United Nations, particularly through ESCAP and UNDP, the Asian Development Bank and the World Bank, have for a long time supported the development of the Mekong Basin, an area in which ASEAN has taken a particular interest. ASEAN has cooperated with UNESCO, WHO, UNEP and the Codex Alimentarius of FAO in the areas of their competence. UNDP, as a dialogue partner of ASEAN, has generously underwritten some of the most useful of ASEAN’s cooperative projects. ASEAN is now engaged in consultations with the International Atomic Energy Agency (IAEA) on ways to ensure compliance with certain provisions of the Southeast Asia Nuclear Weapons-Free Zone Treaty. ASEAN’s position on the South China Sea question has always been anchored on international law, particularly the 1982 United Nations Convention on the Law of the Sea.

In its work of building the peace, ASEAN has enjoyed the support of the United Nations and its agencies. For many years, ASEAN and the United Nations worked very closely in the successful search for the settlement of the conflict in Cambodia and the building of peace in that country. ASEAN countries have cooperated with the United Nations in building the peace in East Timor. ASEAN supported the negotiations that Indonesia and Portugal conducted under UN auspices on the future of East Timor, including the stages that immediately preceded Indonesia’s announcement, in January 1999, of its intention to put to a referendum the question of autonomy or independence for the territory. In the face of the violence that erupted after the referendum in August, ASEAN leaders, meeting in September in Auckland, acceded to Indonesia’s request for prominent ASEAN participation in the international force that the United Nations was organizing, with Indonesia’s consent, to deal with the problem. ASEAN countries are active in supporting the United Nations Transitional Authority for East Timor, with a Filipino officer and, after him, a Thai general commanding UNTAET’s military force, a Malaysian as the chief-of-staff
of the UNTAET Administration Office, and a sizeable number of Filipinos and Thais among the UN peacekeepers deployed in East Timor.

Whether in Cambodia or in East Timor, whether in the South China Sea or on nuclear weapons and disarmament, whether in the settlement of disputes or on general codes of international behavior, ASEAN has always placed itself within the framework of the United Nations and its Charter, invoking its practices and precedents, measuring itself against its norms.

**Internal Conflicts and Regional Organizations**

The experience of the last decade of the 20th century has indicated that conflicts in the 21st century are more likely to be internal than inter-state. Is there a role for regional organizations in such conflicts? Should regional organizations be equipped to offer to intervene in them? If so, at what point? More specifically, are there likely to be internal conflicts in Southeast Asia that would warrant ASEAN intervention?

ASEAN’s record and approach thus far point the way to preventing inter-state conflict and laying down the conditions for peace between and within nations, at least in Southeast Asia, but perhaps elsewhere, too. But what if conflict does occur within a country in a form and to a degree that threatens other countries in Southeast Asia? Each such case would be different from others, perhaps even radically so. In this light, what norms are there to invoke? Would there be any? Could there be any?

The wealth of experience of the United Nations may help. Herein lies the value of consultations between the United Nations and regional organizations on building the peace.

In any case, ASEAN would have second thoughts before deviating from the ways that have worked so well for the region in the conduct of inter-state relations - consensus, quiet consultations on events that affect the region, regard for national sovereignty, eschewing well-intentioned or merely ostentatious actions that could do long-term damage to large numbers of people and to the region as a whole, avoiding cures that are worse than the disease.
ASEAN is taking initiatives in helping its members cope with internal problems that have transboundary or regional impact. The ASEAN Ministerial Meeting on Haze, for example, has been organized to mobilize regional and international support to help Indonesia cope with the forest fires in Sumatra and Kalimantan. ASEAN Finance Ministers have institutionalized the regional surveillance process, with support from the ADB and the World Bank, to undertake periodic “peer reviews” of one another’s macroeconomic situations and policies. More difficult to deal with are those internal political situations that have triggered outcries from countries outside of the region and demands from civil society NGOs for ASEAN’s reaction and/or intervention. How to help its members cope with such political situations, and at the same time preserve the fragile structure of inter-state relations, indeed of regional peace and stability that has been so carefully crafted over more than three decades, remains a crucial question confronting ASEAN. This will have to be left to ASEAN to work out for itself.
Address at the ASEAN Scholars’ Roundtable organized by the Konrad Adenauer Foundation and the Singapore Institute of International Affairs Singapore, 3 July 2000

Sovereignty, Intervention and the ASEAN Way

I am gratified to have a part in your examination of the concepts of sovereignty and intervention. The tension between these two concepts is emerging as an important issue of our time. I suspect that ASEAN will have to take an increasingly closer look at it, as our economies become more integrated and our societies more interconnected.

This is why it is good that the Singapore Institute of International Affairs and the Konrad Adenauer Foundation thought of getting young ASEAN scholars together to think, together, about this emerging issue. It is the coming generation that will have to grapple with it in ASEAN.

In the history of human society, the concept of national sovereignty and the nation-state is of fairly recent vintage. Like many of today’s political institutions, the system of nation-states, together with the notion of national sovereignty, was first formally put in place in Europe, in this case by the Peace of Westphalia of 1648. The Peace of Westphalia put an end to the Thirty Years’ War and recognized the independence of each state of the Holy Roman Empire, one of the principal protagonists of that war.
While periodically fighting among themselves on their continent, the European states also competed to gain access to resources, expand their power, and bring glory to themselves through the conquest or domination of territories in the Americas, Asia, Africa and Arabia. By the 19th century, yearnings for nationhood stirred in the colonies and other areas under European domination, leading to the emergence of independent nations on the European model in much of Latin America.

Toward the end of World War I, the American President, Woodrow Wilson, issued his fourteen points, which included people’s right to self-determination, the end of colonialism and a League of Nations to prevent and counter aggression by one state against another. Ironically, the United States Senate blocked America’s membership in the League mainly on the ground that it would curtail American sovereignty.

It was not until the upheaval in international relations brought about by World War II that national sovereignty came within the reach of peoples around the world - through revolution, the withdrawal of exhausted colonial powers or the ministrations of the new United Nations. The late 1940s, the 1950s and especially the 1960s saw a parade of ex-colonies joining the ranks of independent states and the United Nations.

The right to sovereign nationhood was enshrined in the Charter of the United Nations, which proclaims among the UN’s purposes: “To develop friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples. . . .” According to Article 2 of the Charter, the UN and its members are to pursue its purposes according to certain principles, which include:

“1. The Organization is based on the principle of the sovereign equality of all its Members. . . .

“4. All Members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the Purposes of the United Nations.”
Order Out of Chaos
The universal application of the concept of national sovereignty was meant to bring international order out of the chaos of the first half of the 20th century. At the same time, the United Nations was given the right, indeed the duty, to take “enforcement measures” against any state in case of “any threat to the peace, breach of the peace, or act of aggression.”

Significantly, none of the five powers with permanent seats on the UN Security Council was - and is - subject to enforcement action by the Security Council or any other action that the power concerned deemed to be contrary to its interests. This is, of course, by virtue of the so-called P5’s right of veto, the ultimate assertion of their sovereignty. On the other hand, despite the high-minded strictures of the UN Charter, the sovereignty of many nations, particularly of the newly independent ones, was promptly violated, largely by the major powers engaged in the Cold War, when each protagonist sought to subvert the internal conditions of third countries in order to win them over to its side.

For precisely this reason, the new nation-states clung even more tightly to the notion of national sovereignty as their only legal tool to protect their newly won independence and to stay out of the Cold War. Thus, the five principles of peaceful co-existence promulgated at the 1955 Afro-Asian Conference in Bandung included “non-interference in each other’s internal affairs.”

In Southeast Asia, the Bangkok Declaration that established ASEAN proclaimed the founding members’ determination “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.”

“Non-interference in the internal affairs of one another” is one of the principles explicitly underlying ASEAN’s 1976 Treaty of Amity and Cooperation in Southeast Asia, as it did the 1971 declaration on Southeast Asia as a Zone of Peace, Freedom and Neutrality, another of ASEAN’s landmark documents.
Contrary to the assumption running through many foreign commentaries on Southeast Asian affairs today, the principle of non-interference is not unique to ASEAN. Virtually all regional associations adhere to it, it is enshrined in the UN Charter, it underpins the entire inter-state system. The reason is clear. National sovereignty and its handmaiden, the principle of non-interference, are the only conceptual bulwarks protecting the small and the weak from domination by the powerful. In the absence of a supranational government, it is indispensable to any sort of international order.

It is important to make this point, because the question is often asked: Does the conceptual validity, indeed the reality, of national sovereignty endure in today’s world of globalization, the Internet and international NGOs?

The impulse of states to dominate others remains strong. Indeed, while, as I stated in the beginning, the notion of national sovereignty is relatively new, the practice of one human group intervening in the affairs of another has been with us since human beings organized themselves in clans or tribes. The urge to intervene arose from any number of motives - access to resources, control of strategic territory, the acquisition and manifestation of power, pre-emptive self-protection.

Today, the case for intervention in the domestic affairs of states is usually presented in more idealistic and less cynical terms than they were applied during the Cold War. In the case of armed intervention, the justification now is to protect people from massive atrocities that the state either is unable to prevent or perpetrates itself. And because the principle of national sovereignty is universally recognized as a right, the need to intervene has to be reconciled with the demands of sovereignty.

**Shared Humanity**

The pressure on governments to protect people from internal violence or oppression arises from any combination of sources. A critical one is the heightened awareness among people of the humanity that they share with others in the world, a feeling magnified by technological developments in mass communications.
In remarks at a regional seminar on international humanitarian law last month, I said:

“People’s humanitarian impulse with respect to armed conflict has been intensified by the entry into the world’s living rooms of images, in living color, of rotting corpses, starving babies, stumps of limbs hacked off or blasted away, streams of desperate refugees, the physical and human devastation. Graphic descriptions and passionate advocacy on the Internet have had the same effect. Non-governmental organizations that have taken upon themselves the cause of the victims of atrocities have mastered the art of getting media attention and the skill to use the Internet.

“All this has sharpened many people’s awareness of their solidarity with one another, of the humanity that they share. If people are all equally human, certain moral norms, norms of universal justice, apply to them all.”

Skillful lobbying in open societies by exiled elements of dissident communities has played upon these humanitarian sentiments to good effect. In such societies, the pressures thus heightened have created domestic constituencies on behalf of intervention in one form or another. Sometimes these pressures go against the government’s own perception of the national interest. In some cases, governments may use humanitarian impulses as a cover for intervention that is actually undertaken for national policy objectives. On the other hand, there are also cases in which tyrants hide their cruelties behind the shield of state sovereignty.

**Intervention: Forms and Conditions**

Intervention in recent times has taken five principal forms - rhetorical and diplomatic gestures and pressures, economic sanctions, legal instruments
like the international criminal tribunals and the International Criminal Court, covert action, and armed force.

The current thinking seems to be that international intervention is justified when human rights violations by a state, or another entity exercising power, is so egregious and so broadly destructive as to call for the international community to protect the victims. The question, of course, is: Who decides? There is a tendency for powerful states or groups of them to represent themselves as the “international community.”

This is why armed intervention has to be carried out with the authority of the United Nations Security Council if a modicum of international law and order is to be maintained; indeed, if the concept of national sovereignty is to continue to protect weak states from domination by the strong.

I would add that the intervention must have a reasonable prospect of success, that the means used must be proportionate to the evil being addressed, that there are no better alternatives, that the measures taken must not inflict long-term harm on the people meant to be protected or on other countries and peoples, that the cure must not be worse than the disease.

The international community must also develop the capacity to discern whether humanitarian intervention is not being used merely for national policy purposes. The international community must be able to recognize whether intervention measures such as diplomatic pressure or economic sanctions are undertaken largely to satisfy narrow domestic constituencies irrespective of their effectiveness in attaining the proclaimed ends.

**How does all this apply to Southeast Asia?**

Some commentators have criticized ASEAN for its policy of non-intervention, as if this policy were ASEAN’s exclusive preserve. Most recently, this criticism was directed specifically at ASEAN’s alleged failure to deal effectively with the violence in East Timor, a failure, it is said, that stemmed from ASEAN’s absolutist adherence to the non-interference principle.

Let us go beyond vague, general assertions and look at the facts.
As early as 1982, the United Nations Secretary-General started to address the status of East Timor in discussions with Indonesia and Portugal. In the latter half of 1998, these discussions gained momentum, as Indonesia and Portugal seemed to be nearing agreement on a system of limited autonomy for the territory. In January 1999, President Habibie surprised everyone by declaring Indonesia’s willingness to hold consultations with the people of East Timor and ascertain whether they would accept autonomy within Indonesia. If they rejected autonomy, the East Timorese would be offered independence.

**ASEAN and East Timor**

In May 1999, Indonesia and Portugal agreed to entrust the UN Secretary-General with the responsibility for conducting the consultations. On 30 August, the consultations were held. After the results were announced a few days later, violence erupted through large parts of East Timor and grew steadily worse. On 12 September, as a UN Security Council mission to Indonesia was ending its visit, the ASEAN leaders who were in Auckland, New Zealand, for the APEC leaders meeting gathered among themselves and addressed the developments in East Timor. At that gathering, Minister Ginandjar Kartasasmita, representing President Habibie, stated Indonesia’s desire for substantial ASEAN participation in a multinational force that the UN might form, upon Indonesia’s invitation, to restore order and security in East Timor.

Shortly afterwards, the UN Security Council authorized the multinational force known as Interfet. ASEAN countries that were able to do so contributed significantly to the force. On 1 February 2000, the United Nations Transitional Administration in East Timor, or UNTAET, took over from Interfet. An ASEAN national, Lieutenant General Jaime de los Santos of the Philippines, was appointed to take command of the peacekeeping force. Some ASEAN countries contributed to UNTAET and its force to the best of their ability.

Two qualities characterized the ASEAN response to the crisis in East Timor. The first was that actions by ASEAN members were carried out within the UN framework. This was only to be expected in the light of the fact that
the East Timor issue had been before the UN for almost two decades and the UN had been facilitating the Indonesia-Portugal talks on it. Indeed, those talks were leading to agreement on autonomy for East Timor when the crisis of 1999 erupted. Moreover, under the circumstances, only the UN could legitimately and capably undertake the peacekeeping operation and mobilize the massive resources necessary for it.

The second quality was that ASEAN - and, indeed, UN - actions had to be carried out with Indonesia’s consent. In this case, ASEAN members, including Indonesia, undertook consultations, arrived at consensus, and let individual members decide what specific contributions to make to the UN effort. Any other course would not have been possible, desirable or effective.

**Dealing With Haze**

Another problem for which the policy of non-intervention was blamed was the haze that enveloped parts of Southeast Asia in 1997 as a result of land and forest fires in Sumatra and on the island of Borneo. The incidence and threat of haze is a classic example of events in one country doing great harm to others in the same region. The fires, set mostly by concessionaries as the cheapest way to clear forests for conversion to plantations, had been a growing problem, particularly in the dry periods of El Nino. However, it was only when the problem attained catastrophic proportions in 1997 that most people became conscious of its potential for grievous harm.

After this happened, ASEAN worked together to address the problem. It mobilized its own and international resources to prevent the disaster from recurring on a similar scale. ASEAN Ministers met frequently to engage in very intensive and frank discussions, reviewing the Regional Haze Action Plan, drawn up in December 1997, and giving directions to a Haze Technical Task Force on its implementation. A special unit devoted exclusively to the haze problem was set up in the ASEAN Secretariat. National Haze Action Plans and Immediate Implementation Plans were drawn up embodying detailed measures for action. These plans include the mobilization of fire-fighting teams in detected “hot spots” to prevent fires from spreading. In accordance with these plans, fire-fighting teams have conducted periodic
exercises in Sumatra and Borneo. The ASEAN Specialized Meteorological Centre in Singapore has given sharper focus to the detection of “hot spots,” disseminating its findings more extensively and more quickly.

In this program, ASEAN has received valuable support from the Asian Development Bank, the UN Environment Programme and the Australian government.

ASEAN adopted a zero-burning policy. Members of the Haze Technical Task Force, Indonesian officials and the ASEAN Secretariat met plantation owners and forest concessionaires and firmly conveyed the zero-burning policy to them. President Wahid marshaled the prestige and resources of his office to dissuade the concessionaires from their destructive activities. The central government provided substantial funds for fire-fighting operations. Last March, the mobilization of the fire-fighting arrangements prevented forest fires from spreading. Meanwhile, ASEAN is exploring the possibility of an ASEAN agreement on trans-boundary haze pollution.

Again, the ASEAN approach to this problem has been to work together, particularly with the country most directly involved, and, if necessary, in cooperation with the international community.

Today, because of population expansion, technological advances in transportation and communications, and the increasing integration of economies, developments inside one country tend to affect other countries more deeply and more rapidly than before. Perhaps, ASEAN will now have to anticipate developments earlier and

In the real world, especially in the exceedingly diverse world of Southeast Asia, a balance has to be sought - and constantly adjusted - between what is desirable and what is possible, between the ideal and the practical, between ambition and reality, between desired ends and available means, between international involvement and national sovereignty.
act upon them more quickly. In the case of the haze problem, there is now
the Haze Technical Task Force and the fire-fighting arrangements on the
ground keeping a close eye on “hot spots” and ready to respond. In dealing
with possible financial trouble in the region, the ASEAN Finance Ministers
have set up a surveillance mechanism that includes a process of frequent
peer review. ASEAN has also agreed with China, Japan and Korea to work
out a mechanism for mutual financial support in case of balance-of-
payments problems and the like. To address political developments more
expeditiously, the ASEAN Foreign Ministers are looking into a “troika”
system, as proposed by the ASEAN leaders. Other mechanisms may be
needed for other problems in other areas.

The general approach is based on dialogue, consultation, cooperation,
engagement and interaction. In the language of the current discussion,
engagement may be more “flexible,” interaction “enhanced.” But
engagement and interaction are maintained.

There is no other way. In the real world, especially in the exceedingly diverse
world of Southeast Asia, a balance has to be sought - and constantly adjusted
- between what is desirable and what is possible, between the ideal and the
practical, between ambition and reality, between desired ends and available
means, between international involvement and national sovereignty.
Compromises will have to be made. Progress would, in most cases, be
incremental. Bilateral issues are best left to the two parties to deal with,
unless they agree otherwise.

In my view, except in extreme cases in which the international community
may have to be mobilized through the United Nations, the welfare of people,
particularly in Southeast Asia today, is better served through economic
interaction and integration, through the opening of societies to one another,
than through blatant intervention and ostentatious gestures, which seldom
work anyway. Interaction, integration, cooperation - this is what ASEAN
is largely about.

There is no drama here; this is not headline stuff. But, in Southeast Asia
today, it is the only way.
Toward Expanding the Frontiers of International Humanitarian Law


The term international humanitarian law, as generally understood - or, at least, as I understand it — refers to the body of treaties, conventions, international jurisprudence, internationally recognized principles, and customs that govern conduct in armed conflict so as to limit human suffering, particularly of non-combatants.

In the 20th century, support for the concept of international humanitarian law gained momentum as a reaction to the brutalities of World War I and the atrocities of World War II. In the last decade of the century just past, efforts to expand the scope and step up the implementation of international humanitarian law gathered pace and acquired urgency in the light of three major factors interacting with one another.

The first is the pervasive reach of the media, the rise of the Internet and the growing activism and interconnectivity of civil society - all working together. The second factor is the growing consciousness among people of their common humanity and, therefore, of the existence of universal moral norms arising from human nature itself and applicable to all human persons. And the third is the persistent work of international institutions like the International Committee of the Red Cross and of the United Nations and its agencies.
People’s humanitarian impulse with respect to armed conflict has been intensified by the entry into the world’s living rooms of images, in living color, of rotting corpses, starving babies, stumps of limbs hacked off or blasted away, streams of desperate refugees, the physical and human devastation. Graphic descriptions and passionate advocacy on the Internet have had the same effect. Non-governmental organizations that have taken upon themselves the cause of the victims of atrocities have mastered the art of getting media attention and the skill to use the Internet.

All this has sharpened many people’s awareness of their solidarity with one another, of the humanity that they share. If people are all equally human, certain moral norms, norms of universal justice, apply to them all. It is called law, because it applies objectively to all. It is humanitarian, because its basis is the very nature of human beings. And it is international, because it transcends national boundaries.

It was this sharpened awareness that stirred the international community’s concern over the human impact of recent events in Bosnia-Herzegovina, in Kosovo, in Sierra Leone, in Rwanda, in Somalia - with varying reactions and degrees of success. In Southeast Asia, it is what keeps alive the humanitarian issues left over from past conflicts - the comfort women, the use of barbaric weapons in Viet Nam, genocide in Cambodia.

The work of the UN and its agencies and of other international bodies like the ICRC has grown in importance with their role in expanding, by practical means, the scope and application of international humanitarian law. This endeavor has gained legitimacy to the extent that international institutions pursue the ideal while concentrating on measures that are within the realm of the possible.

Some of the international institutions’ more recent successes have been the convention to ban anti-personnel land mines and the establishment of international criminal tribunals to bring to justice perpetrators of genocide and other crimes against humanity.
In 1996, the International Court of Justice rendered its historic Advisory Opinion on the Legality of the Threat or Use of Nuclear Weapons. In that opinion, the Court declared that the use of, or the threat to use, such weapons would generally be contrary to the rules of international law on armed conflict, particularly international humanitarian law. All ASEAN states supported the move to bring this issue before the Court, and three ASEAN members - Indonesia, Malaysia and the Philippines - appeared before the Court to argue on behalf of the proposition that using or threatening to use nuclear weapons is illegal. ASEAN states continue to highlight the Court’s opinion at the UN General Assembly.

In the same spirit, ASEAN has concluded a treaty on the Southeast Asia Nuclear Weapons-Free Zone, which is now in effect. ASEAN is currently consulting with the nuclear-weapon states on the terms of the latter’s accession to the protocol to the treaty.

**The Prevalence of Internal Conflict**

There is an added dimension to the concept and application of international humanitarian law today. This is the fact that most of the conflicts that have taken place in the past decade and are likely to take place in the foreseeable future are conflicts internal to present-day nation-states rather than wars between states.

The prevalence of internal conflict in the recent and contemporary history of warfare has pricked the conscience of humanity with a new sharpness. In inter-state conflicts, armies inflict death, injury and suffering on each other, and if, in the process, civilians and other non-combatants get in the way and get killed or maimed, well, a lot of people think, that is the nature of war. Moreover, in the case of inter-state warfare, the impact of mutual atrocities on human beings’ capacity for outrage is often blunted by national loyalty and patriotism. Yet, even in the case of inter-state conflicts, attempts have been made - notably through the Geneva Conventions - to infuse some degree of humaneness in the conduct of war.

However, atrocities committed by governments and insurgents against their own people, particularly as vividly dramatized by today’s media, intensify
in people the impulse to protect the innocent from such atrocities and, if possible, to deter governments and rebels alike from perpetrating them and thus prevent their recurrence.

Today, this has involved the controversial issue of humanitarian intervention. The United Nations Secretary-General, Mr. Kofi Annan, in his Report to the Millennium Assembly, states: “Humanitarian intervention is a sensitive issue, fraught with political difficulty and not susceptible to easy answers. But surely no legal principle - not even sovereignty - can ever shield crimes against humanity. Where such crimes occur and peaceful attempts to halt them have been exhausted, the Security Council has a moral duty to act on behalf of the international community. The fact that we cannot protect people everywhere is no reason for doing nothing when we can. Armed intervention must always remain the option of last resort, but in the face of mass murder it is an option that cannot be relinquished.”

As Kofi Annan says, “no legal principle - not even sovereignty - can ever shield crimes against humanity.” This is true, but sovereignty remains vitally important. Rogues and villains have used state sovereignty to shield themselves and their crimes. But, in a world of nation-states, a world without world government, the sovereignty of nations serves also as an essential and legitimate shield, a shield especially for weak states to protect themselves from domination by the strong.

**A Delicate Balance**

In today’s world, then, the expansion and application of international humanitarian law has to take into account the need for a delicate balance between the concept of inherent human rights and dignity on the one hand
and the essential nature of state sovereignty on the other. Both are parts of international law.

Moreover, in carrying out humanitarian intervention, care must be taken that the intervention itself does not result in other violations of human rights and in the greater suffering of larger numbers of people. Humanitarian intervention must not inflict larger damage on human beings in the longer term, or in harm greater than the evil whose end is being sought.

Our objective should be threefold. One is to enhance the capacity of the UN and other legitimate international bodies, including regional organizations, to expand the scope of international humanitarian law and strengthen its application. The second is to cooperate as closely and as broadly as possible with the international institutions in this task, ensuring that “humanitarian intervention” is not carried out merely in the pursuit of national policy objectives. And the third is to make sure that the measures taken to apply international humanitarian law are effective and proportionate to their specific objective and that they result in an improvement in the lives of the great proportion of the people concerned and for the fairly long term. The intended cure must not be worse than the disease.

Regional seminars such as this should help advance our thinking on these issues, issues that call for the utmost perspicacity, sophistication, diplomacy and good sense. Above all, they demand genuine compassion and sincerity of purpose truly in the cause of our common humanity.
A Time of Renewal

Inaugural Speech as Secretary-General of ASEAN -
Jakarta, 5 January 1998

I am sure that all of you have come into this hall filled with
anticipation of new beginnings. We come together here at the
inception of a new year, for most people a time of starting anew. We
are also at the beginning of the holy month of Ramadhan, for those of
the Muslim faith a time of spiritual renewal. It is partly by design and
partly by coincidence that the turnover of the leadership of the ASEAN
Secretariat comes at such a time.

For ASEAN, too, this occasion is a time of renewal, of a new beginning.
But, in looking forward to the new year, to a renewed life, to a new
leadership for ASEAN, we must not forget the past year, our past life,
the outgoing era in ASEAN, on all of which we must build the future.

It is in this sense that we pay tribute today to Dato Ajit Singh, who was
the first Secretary-General of ASEAN, and not only of the ASEAN
Secretariat, as was the case of the Secretaries-General before him. As
ASEAN’s first elected Secretary-General, Dato Ajit built, almost from
scratch, the Secretariat as we know it today. He assembled a superb
staff, the first to be openly recruited on the strength of merit alone. He
drew up the organization’s architecture and constructed its foundations.
He established its operational procedures. He wove its network of contacts around the world.

This is Dato Ajit’s priceless legacy not only to me but to Southeast Asia – a great staff and a functioning and dynamic organization. The ASEAN family, and I particularly, will always be grateful to him for this.

This is, of course, a time of transition. At such a time, in any organization, there is always a tendency to tinker with the structure of the organization, to make changes for the sake of change. I will resist that temptation.

But a transition, like this season, is also a time of renewal. ASEAN is faced with challenges such as it has not faced before – the challenge of enlargement, the challenge of scope, the challenge of integration, and the challenge of identity.

Suddenly, ASEAN is now an association of nine members, whereas it had only six two and a half years ago. It will, before long, be an association of ten – all ten nations of Southeast Asia. An enlarged ASEAN means not only a richer and more diverse ASEAN but also a more complex and divergent ASEAN. The challenge here is to make use of our diversity and strengthen our solidarity even more, so that our complexity and our diversity do not become centrifugal forces for us.

As the world becomes smaller, as our region becomes smaller, more and more of the concerns and endeavors of people and nations are becoming trans-national in nature. More and more areas of human activity are, therefore, becoming – or should become – the subjects of ASEAN cooperation. The challenge for ASEAN is to promote and support and manage ASEAN cooperation in these increased areas without over-stretching the resources of the association or of its member-states.

Recent events in our region and the emerging trends for the future have demonstrated the imperative of approaching ASEAN cooperation in an integrated manner. No longer can we separate financial from commercial and investment concerns, nor the environment or science and technology
from the demands of economic growth. This is the challenge of integration that faces ASEAN today.

It is time for ASEAN to raise a higher profile and project a sharper image for the association and its member-nations in the world, as well as to be better known among its own people. In good times and bad, a positive image is something that can serve us all well.

On behalf of the Secretariat, I take up these challenges, challenges posed to us by the leaders, governments and peoples of ASEAN’s member-nations and by the times in which we live.

The Secretariat takes up these challenges within the limits of the resources given us by the member-states, as we must. We do so in the light of the ability of each member to contribute to those resources and the economic difficulties currently suffered by most.

In doing so, we are fortunate in having the generous support of the government and people of Indonesia. In particular, we are lucky that, being headquartered in Jakarta, we have access to the wise counsel and guidance and long ASEAN experience of His Excellency Foreign Minister Ali Alatas. For us in the ASEAN Secretariat, there can be no better mentor and guide.

We are at the command and the service of ASEAN’s member-nations, and continue to trust in their support. We look to the cooperation of the ASEAN Ambassadors and of the Ambassadors of the Dialogue Partners in Jakarta. ASEAN has no envoys stationed in other capitals. We have to depend on the Ambassadors in Jakarta to serve as channels of communication and as valued advisers. I look forward to a time of friendship and association with you.
We rely on the Indonesian press and on the representatives of the international media stationed in Jakarta to help us convey ASEAN’s message to the people of ASEAN and of the world. We look forward to intensive interaction with you.

As I said in the beginning, Dato Ajit, to his credit and my good fortune, is leaving behind a great staff in the ASEAN Secretariat. I look to you for support, for counsel, for cooperation, for unstinting effort, for steadfast devotion to ASEAN, and, if you are open to it, for friendship.

Let us now get to work.
A happy new year to you all.
Chapter 2

Competitiveness Through Integration
On the first of January, ASEAN took a significant step toward regional economic integration, when each of the six original signatories to the AFTA agreement – Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand – had to bring down tariffs on almost all their trade with one another to 0-5 percent. This is six years earlier than the date originally set when the AFTA agreement was signed in 1992.

It is appropriate that we hear later this morning from Peter Garrucho, who signed the agreement for the Philippines as Secretary of Trade and Industry.

The tariff-reduction schedule among the six ASEAN members, which are the region’s leading trading nations, has been accelerated twice. It has been accompanied by a massive expansion of intra-regional trade – from US$44.2 billion in 1993 to US$97.8 billion in 2000. The average tariff on intra-ASEAN trade is now down to just a little more than three percent.

This milestone represents an important step toward regional economic integration, but it is only one. Much more needs to be done. Tariffs on
intra-ASEAN trade have to be brought down to zero, as ASEAN committed to do in 1999. The four newer members of ASEAN – Cambodia, Laos, Myanmar and Viet Nam – have to move faster in integrating their economies with the rest of the region. ASEAN has to be more serious about dismantling non-tariff barriers. Regional trade in services has to be opened up. Customs procedures have to be reformed and streamlined so as to keep pace with the liberalization of trade in goods. Tariff nomenclatures and product standards have to be harmonized. Seamless and competitive regional transportation networks have to be put in place. The region, for example, has to shed the outdated notion of protecting national airlines at the expense of the national economy as a whole.

Southeast Asia has no other alternative. Regional integration, in today’s world, is the only way to generate sufficient economic activity, improve efficiency, heighten competition, attract investments, and thus create jobs. No single Southeast Asian nation – not even Indonesia or Singapore – can prosper outside the framework of regionalism.

The forces of globalization require closer regional integration if Southeast Asian countries and Southeast Asian firms are to hope to be competitive in the global economy. That is obvious enough. But this imperative is made even more urgent by the disturbing trend of intensifying protectionism and trade distortion in the developed world amid its rhetorical homage to globalization and free trade.

The manifestations are clear enough. The tit-for-tat measures against steel products that began with the United States. The massive agricultural subsidies in the European Union, Japan and now the United States. Agricultural protection in the guise of quarantine regulations. The proposed preferential treatment by the United States for tuna from the Andean nations and by the European Union for tuna from former colonies of some of its member-states. The abuse of anti-dumping measures, imposing on developing countries the prohibitive costs of litigation. These short-sighted policies fortify the forces of protectionism everywhere and undermine the multilateral trading system that has been so painstakingly put together and to which ASEAN remains strongly committed.
In the face of this challenge, ASEAN has no choice but to band closer together. It would still be much less powerful than the massive continental economies, but ASEAN members would have a better chance working together than moving separately in a harshly competitive world.

Nor would ASEAN alone be enough. It has to reach out to the region beyond Southeast Asia. This is the logic behind ASEAN’s efforts to deepen its economic linkages with Northeast Asia and with Australia and New Zealand. One of the recommendations of the East Asia Vision Group created by the ASEAN leaders and those of Northeast Asia is the formation of an East Asian Free Trade Area. The officials of ASEAN and of Northeast Asia are now seriously considering this concept.

ASEAN has responded to the rise of China as an economic power by engaging the Chinese economy with confidence and seeing vast opportunities in its surge. This is the premise underlying the decision of ASEAN’s and China’s leaders to negotiate an ASEAN-China free-trade area. As President Arroyo said in Tokyo just nine days ago, combining the ASEAN and Chinese economies “would give birth to a market of 1.8 billion consumers or almost one-third of humanity. The wide variety of traditional strengths, talents and natural resources of the two areas would shape the contours of this giant consumer market. As it evolves, investment flows would be redistributed in the future.”

Building on the long-established economic relationship between ASEAN and Japan, moves are under way to form a network of deeper economic partnerships between Japan and individual ASEAN countries within a common framework. Agricultural trade remains an issue in ASEAN-Australian relations, but talks between ASEAN and Australia and New Zealand are going on to deepen their relationship, including measures to overcome the obstacles to agricultural trade.
In all of this, ASEAN knows that it must remain politically cohesive and increasingly integrated economically. This is why AFTA is important. And this is why the necessary next steps in regional economic integration must receive the support of the ASEAN business community, which stands to benefit from the regional market.

In her address at the ASEAN Secretariat in Jakarta on the 13th of November, President Arroyo declared, “What we require today is no less than a change of mindset – to use a modern cliché, a paradigm shift. We must think regional. We must truly believe that our national or corporate or personal interest lies in the destiny of the region. This is required of our business communities no less than of policy-makers. We have to cast off the kind of thinking that continues to burden many of us – the idea that we are good only for the confines of our national boundaries, whose market is to be protected as our preserve, each nation to its own. This will no longer work in today’s world, even if it ever did.”

It is ironic that the call for regional economic integration has come primarily from the business sectors of Japan and the United States. Indeed, the US-ASEAN Business Council is one of the co-sponsors of this symposium, as it was of a similar one in Jakarta last January. The Council is ASEAN’s leading advocate with the U. S. government, the U. S. Congress, the U. S. business community, and the U. S. media. It has been helpful to ASEAN and its Secretariat in countless ways. In fact, today, it has launched an online database that enables importers and exporters to look up, quickly and easily, tariff information in AFTA based on HS codes and key words. Do look up http://www.us-asean.org/aftatariffs.asp, as well as http://www.aseansec.org.

Our other co-sponsor is the Makati Business Club, which has long championed the cause of the global and regional competitiveness of Philippine business — and the cause of regional economic integration.

What we need is pressure from the ASEAN business community on behalf of the integrated regional market that ASEAN’s economies and businesses need to prosper and even survive. I hope that the ASEAN Business Advisory Council that is being set up will be such a force for Southeast Asia’s economic integration and ASEAN’s greater competitiveness.
Ten years ago, on the occasion of the fourth ASEAN summit meeting in Singapore, ASEAN’s economic ministers signed the agreement on the Common Effective Preferential Tariffs for the ASEAN Free Trade Area. The agreement embodied the commitment of the then six ASEAN member-states to set up a free trade area in the region within fifteen years. This meant reducing most tariffs on trade within the region to 0-5 percent, in accordance with an agreed schedule. This act signified a remarkable prescience on the part of ASEAN’s member-states. They knew even then that they must integrate their economies if they were to be competitive, if they were to stand a chance of flourishing, of withstanding competition, in an increasingly competitive world. And this was at the height of the Southeast Asian countries’ economic surge, before globalization became the buzzword that it is today.

Before long, ASEAN found fifteen years to be too conservative. The world was not going to stand still for AFTA. So, in 1995 ASEAN moved the target year forward by five years, to 2003. Faced with the challenge of the financial crisis of 1997-1998, the ASEAN leaders decided to advance the target further, to the beginning of 2002.
The first of January this year, therefore, marked a big milestone for AFTA and in ASEAN’s history. The first six signatories to the AFTA agreement – Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand – which are Southeast Asia’s leading trading nations, have dropped tariffs to 0-5 percent on most of the products traded among them, in accordance with the tariff-cutting schedules to which they had previously committed themselves. The lowering of tariffs to minimal levels was accompanied by a massive expansion of intra-regional trade – from US$44.2 billion in 1993 to US$97.8 billion in 2000. The average tariff on intra-ASEAN trade is now down to 3.2 percent. In 1999, ASEAN’s leaders agreed to eliminate all import duties among the first six members by 2010 and by 2015 for the newer members.

ASEAN’s newer members – Cambodia, Laos, Myanmar and Viet Nam – acceded to the CEPT/AFTA agreement upon their membership in ASEAN. They are at various stages in their respective tariff-reduction schedules.

ASEAN responded to the 1997-1998 financial crisis not by backtracking on AFTA, as some commentators hastily predicted, but by accelerating it. And ASEAN is dealing with the current global economic downturn by staying the course. It is meeting the competitive challenge from China, India and others by more deeply integrating the regional economy through AFTA and other schemes and by more closely engaging those surging economies and, in general, remaining open to the global economy.

To be sure, AFTA could do more – and should do more – to free up trade in agricultural products. It should have stuck to the timetable for liberalizing trade in automobiles in the region. But these shortcomings have to do with small parts of the total trade in ASEAN, and they are temporary. Tariffs on sensitive agricultural products will still fall to 0-5 percent. Tariffs on automobiles will drop to 0-5 percent for all ASEAN members, although a little later than originally scheduled. It is important to stress that these adjustments were made according to established ASEAN rules and international norms. In any case, no free trade area can be free of the need for flexibility in dealing with difficult and sensitive sectors.
AFTA is the centerpiece of ASEAN’s work toward regional economic integration, and integration gives Southeast Asia the strength more deeply to engage its neighbors – China, Japan, Korea, and Australia and New Zealand – as it is doing now, for the benefit of all.

The participation in this conference of Her Excellency President Megawati and His Excellency Minister Yeo and, I am sure, what they have to say demonstrate the central importance that the leaders of ASEAN give to AFTA. ASEAN’s leaders clearly recognize the fact that the impact of regional economic integration goes beyond economics; it has everything to do with peace and stability in Southeast Asia. The ASEAN Secretariat and I are deeply grateful to you, Madame President, and to you, Minister Yeo.

The representatives of the international business community who form our discussion panel this morning will shed light on how AFTA benefits business and the enormous work that remains to be done. I thank them, as I thank our sponsors, the Jakarta Post, the US-ASEAN Business Council, Ford Motor Company, PT Fluor Daniel, PT Freeport Indonesia, Daimler-Chrysler, and Goodyear Indonesia. Their support is much appreciated.
The Regional Economy, the Environment and ASEAN Solidarity

Address at Asialink, Melbourne
Australia, 19 June 2002

Just a few months before I took over as the head of the ASEAN Secretariat in Jakarta at the beginning of 1998, ASEAN was riding high in the perception of many people. The most successful regional association in the world next only to the European Union. A group of countries with economies roaring like tigers. An organization that provided a good environment for managing bilateral disputes between members. A force for stability in the region. An association that was fostering a regional identity in an area so recently divided by history.

By the time I took office, the perception had done a complete turnaround. Now, ASEAN was said to be in disarray. The association was ineffectual. It was irrelevant. Its ambition to create a regional free-trade area would inevitably collapse. Its members would be at one another’s throat. And so on and so forth.

This image reversal largely arose from three developments – the financial crisis of 1997-1998, the haze episodes arising from land and forest fires in Indonesia at about the same time, and the rapid expansion of ASEAN’s membership in the period 1995-1999.
I propose to take these three developments one by one. I will recall what the media and the commenting classes had to say about ASEAN in relation to them. I will then describe the role that ASEAN actually played and what it did to deal with them. I will, finally, suggest what else ASEAN could have done about those events and what it might be doing about their continuing effects.

First, the financial crisis. It is now common knowledge and conventional wisdom that the crisis was caused by a combination of two things — the volatility of global short-term capital movements and the vulnerability of the so-called emerging economies to such movements. In hindsight, we now know that the crisis was silently building up. But at that time, partly because of confidence in the region’s economic resilience – a confidence that was, as it turned out, misplaced – ASEAN as an institution did not address the problem. But, of course, neither did others. Financial cooperation in ASEAN was limited largely to meetings among finance ministers and central bankers on the sidelines of the annual conclaves of the IMF and the World Bank and of the Asian Development Bank. ASEAN had a currency swap arrangement among the five original members, but it was small, at US$200 million, and it had been all but completely ignored.

Perhaps, ASEAN should have anticipated the crisis and should have done what it is doing now. But nobody else did – not the IMF, not the World Bank, not the ADB, not the United States, not the European Union, not Japan, certainly not the individual ASEAN member-states.

The quickness with which the crisis spread in Southeast Asia – from Thailand to Indonesia, the Philippines, Singapore and Malaysia, and also, indirectly, to ASEAN’s newer members – shows how integrated the ASEAN economy had become, at least in the eyes of fund managers and other portfolio investors. But then the crisis also hit Korea, Taiwan and Hong Kong, and leaped to Russia and Brazil.

The media and other commentators immediately castigated ASEAN as ineffectual, pointing to its feet of clay, because ASEAN did not foresee the
crisis and failed to do anything to prevent it. The commenting classes, as far as I know, never specified what ASEAN should have done to prevent the crisis or how ASEAN could have anticipated it – or who, indeed, could have prevented or anticipated it.

**Responding to Crisis**
What ASEAN did do to help its member-states recover from the crisis and prevent similar crises from recurring was basically two things – deepen regional economic integration and expand financial cooperation among themselves and with China, Japan and Korea, even as individual members worked with the IMF and others as they saw fit.

The commenting classes, as you may recall, were proclaiming the death of the ASEAN Free Trade Area at the hands of the financial crisis. Such prophecies of doom were, of course, contrary to logic as well as the facts. The long-term safeguard against economic crises, ASEAN’s leaders knew, was to strengthen the region’s competitiveness by integrating its economy more swiftly and more deeply as well as undertaking internal economic reforms.

Thus, in 1998, the leaders advanced to the beginning of 2002 the date when tariffs on trade among ASEAN’s first six members and its leading trading nations would drop to 0-5 percent. They also set a target for eliminating tariffs altogether on most intra-ASEAN trade. They agreed to expedite the negotiations on the liberalization of trade in services. Under the new ASEAN Investment Area, investments in almost all sectors would move freely within ASEAN. ASEAN has just about finished drafting an agreement to ease the flow of tourists within and into ASEAN. We are streamlining customs procedures and harmonizing product standards. We are working on schemes to facilitate transport within ASEAN and on master plans for an ASEAN power grid and a trans-ASEAN gas pipeline network. As directed by the leaders, we are laying down a “road map” for the further integration of the ASEAN economy.

At the same time, ASEAN has significantly stepped up its cooperation in finance. The ASEAN swap arrangement has been expanded to include all
ten ASEAN members and to raise the amount involved to US$1 billion. A network of bilateral currency swap and repurchase agreements is being built among ASEAN members, China, Japan and Korea. So far, six such agreements have been concluded, involving a total value of US$17 billion, with eight more in various stages of negotiation. ASEAN finance ministers conduct a peer review of the regional economy at least twice a year on the basis of a regular surveillance report put together by the ASEAN Secretariat with help from the ADB.

This is what ASEAN has been doing to deepen economic integration and cooperation, partly in response to the financial crisis, but largely on the basis of its members’ appreciation of their overall long-term interests. ASEAN should do more, of course. The removal of tariffs on intra-ASEAN trade should be done faster and sooner. The newer members should move more quickly in their tariff reductions. Member-states should view the liberalization of trade in services within ASEAN as critical to the integration of the regional economy rather than as a subject of bargaining a la WTO. This is particularly important in air services, telecommunications, financial services, and tourism. The peer review of the regional economy could be more trenchant. A regional mindset should be more intensively cultivated in the business community as well as among policy-makers.

However, to say that ASEAN should be doing more to strengthen the regional economy and buttress its competitiveness is not to say that ASEAN has done nothing about it.

**Dealing with Haze**

At about the same time as the financial crisis, several ASEAN countries suffered from episodes of haze pollution arising from land and forest fires, largely in the Borneo and Sumatra provinces of Indonesia. As was widely observed, the haze had a severe impact on health, tourism and agriculture, as well as the environment, in parts of Indonesia and the neighboring countries. The commenting classes insisted that ASEAN “interfere” in Indonesia, then in the throes of the economic, and consequent political, crisis. People called on ASEAN to make Indonesia stop the fires, even though some of the fires – not all – were due to natural causes, specifically the El
Nino phenomenon. Again, the commentators did not say how ASEAN would do this or how Indonesia could suddenly do something in the circumstances.

In fact, ASEAN has done some pretty concrete things. First, let us put the land and forest fires in Indonesia in perspective. Going by what one read about this in the popular press, one might have thought that Southeast Asia is the only place where forests burn. Yet, we know that Brazil, California, parts of Canada, eastern Russia, Mongolia, parts of Africa and, of course, Australia have in recent years seen the burning of large tracts of forests. The difference is that the man-made causes in Indonesia seem to be on a larger scale than in the other places.

So, what has ASEAN done? ASEAN responded to this disaster, with its potential for recurrence, on a broad front, covering monitoring, prevention, and the mitigation of the effects of the fires that do occur. ASEAN quickly organized a haze technical task force that put together a regional action plan, which was supplemented by national action plans, to give direction to the ASEAN response. The entire effort is supervised by a special body of ministers that meets frequently. A dedicated unit was set up at the ASEAN Secretariat for this purpose.

To keep track of potential fires the ASEAN Specialized Meteorological Centre in Singapore has been strengthened. Its report is updated daily, and one can see it on a special Web site, Haze Action Online. ASEAN adopted a zero-burning policy and mobilized local communities in carrying it out. We also sought the cooperation of local governments, plantation owners and forest concessionaires in enforcing it. Fire-fighters in the region were trained and put on alert through the sub-regional fire-fighting arrangements for Sumatra and Borneo. The rapid exchange of information and many implementation measures are being coordinated at the ASEAN Secretariat. Studies are being undertaken on this immensely complex and difficult problem.

**A Landmark Agreement**

Last week, in Kuala Lumpur, the ASEAN environment ministers signed a landmark agreement on trans-boundary haze pollution committing member-
states to cooperate in controlling sources of land and forest fires, establishing early warning systems, and exchanging information and technology. A country in which trans-boundary haze pollution originates is obligated to respond promptly to a request for information or consultations by a state or states that are or may be affected by the pollution. The signatories are to take legal and administrative measures to implement their obligations under the agreement, including their obligation to facilitate the transit through their territories of personnel, equipment and materials involved in fire-fighting, search and rescue, and similar activities.

In all of this, ASEAN has been helped by the Asian Development Bank, the UN Environment Program, the UN Development Program, the Global Environment Facility, numerous non-governmental organizations, and individual governments, including Australia’s. Unfortunately, while the problem of the haze has received much media attention, little coverage has been given to the solutions.

Clearly, at the national level, Indonesia bears much of the responsibility for preventing and controlling land and forest fires, but it is an enormous task. Indonesia is confronted with a problem that arises partly from global weather conditions, partly from the intractability of established practices, and partly from ingrained political-business relationships. The solutions will take time. But what Indonesia has going for it is ASEAN and international support as well as a renewed commitment to deal with the problem. At the World Conference and Exhibition on Land and Forest Fire Hazards which Malaysia and the ASEAN Secretariat organized in Kuala Lumpur last week, Indonesia recalled the successful prosecution of several people charged with open burning in that country.

ASEAN itself is now much better prepared to cope with this regional environmental and development problem. What needs to be done is to persist in carrying out the commitments in the regional and national action plans and comply with the ASEAN agreement just signed. This involves, centrally, the enactment and enforcement of national laws and national and regional leadership.
Expanding ASEAN

In the period when ASEAN was coping with the financial crisis and the haze pollution problem, it admitted to membership the four nations of Southeast Asia still outside the association – Viet Nam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. More potshots were taken at ASEAN, in this case for expanding too fast with the admission of countries with economies weaker than the six other members. Some of the criticism was aimed specifically at the admission of Myanmar, whose political arrangements and practices were objectionable to influential constituencies in a few countries outside the region.

In fact, the membership of the four countries was long overdue. In the Bangkok declaration of August 1967, the five founding members envisioned ASEAN as being “open to participation” of all Southeast Asian countries. The fulfillment of this vision was considerably delayed by the division of Southeast Asia, a division partly induced by the Cold War. That division ended with the political settlement in Cambodia, from which Vietnamese troops had withdrawn in 1989. It was a rare moment for the consolidation of Southeast Asia.

Misgivings were raised about a “two-tier ASEAN.” However, for ASEAN, Southeast Asian solidarity is a strategic imperative. Its collateral effects will just have to be dealt with. The only thing worse than a two-tier ASEAN is a two-tier Southeast Asia – one in ASEAN and the other outside it. ASEAN’s response to the “two-tier” problem is not to keep out the weaker economies of Southeast Asia but to bring them in, seek to integrate them in ASEAN, and help close the development gap between them and the older members.

I have discussed three examples of how ASEAN has acted on problems that confronted it in the past five years and changed ASEAN’s image in the process: on the economy, the after-effects of the 1997-1998 financial crisis; on the environment, the haze episodes; and in the political realm, the expansion of ASEAN’s membership.
We are doing this through what ASEAN’s leaders have dubbed the Initiative for ASEAN Integration. It is a program that covers infrastructure, information and communications technology, human resource development, and capacity building for regional economic integration. A work plan of specific projects in each of these areas has been worked out and adopted by the newer members themselves, for endorsement by all of ASEAN next month. We will seek, at a forum in August, to form partnerships in various combinations for carrying out these projects. I hope that Australia will be a leading participant.

I believe that this is the only effective way of helping the so-called CLMV countries achieve a better life for their people through regional and international cooperation. It is the positive way, the constructive way. I believe that the way of confrontation and isolation is counter-productive. On the other hand, being part of ASEAN and its culture of economic openness and tight linkages with the rest of the world can lead to the further opening of the CLMV’s economies, the strengthening of the rule of law, and the development of the political structures for bringing these about. ASEAN has to keep at this, and the CLMV countries themselves will have to respond with the necessary policies.

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I hope that in this discussion I have given an idea of what ASEAN has done, its approach to the issues, what it can do, and what it did not intend to be or do. I have also hinted at what else ASEAN should be doing and the promise that it holds beyond its already considerable achievements.
The public discussion of regional economic integration in Southeast Asia in the past three years has been burdened by two myths.

The first myth is that the financial crisis would lead to the crippling, even the death, of AFTA and the consequent evisceration, and even the break-up, of ASEAN.

The second myth is that the delay in the transfer by one country of finished or knocked-down cars into the AFTA scheme would constitute a devastating setback for AFTA, if not for ASEAN itself.

First, the myth about the financial crisis destroying AFTA. Almost as soon as the crisis struck, many commentators predicted — almost in glee — that the ASEAN countries would retreat into protectionism, into isolationism, that AFTA would break up. It would be every country for itself.

Such predictions flew in the face of logic, of ASEAN’s words, and of ASEAN’s deeds. They went against what would logically be expected and against what actually happened.
Apprehensions over AFTA’s death as a result of the crisis went against all logic. If ASEAN needed anything in those difficult times, it was investments, particularly foreign direct investments. The way to attract investments was to move faster on creating a big, regional, integrated market, which investors, particularly in these times, generally prefer to small, national, fragmented economies. It made no sense for the ASEAN countries, having gone so far on the road to a free trade area, suddenly to reverse course. It would have been self-destructive.

The ASEAN commitment to AFTA and to regional economic integration was exactly what ASEAN’s leaders re-affirmed at the height of the crisis. At their summit in December 1997, they issued the ASEAN Vision 2020 statement, in which they committed themselves “to moving towards closer cohesion and economic integration” and resolved to “advance economic integration and cooperation” by, among other measures, “fully implement(ing) the ASEAN Free Trade Area and accelerat(ing) the liberalization of trade in services.”

The next year, in December 1998, the ASEAN leaders declared: “We reaffirm our commitment to the greater integration of our economies as a primary expression of our cooperation and solidarity.

“ASEAN will keep its markets open as it recognises that the key to strengthening and stabilising the region’s currencies and economies is to attract long-term investments. ASEAN reaffirms its commitment to trade and investment liberalisation and facilitation, at the multilateral and regional levels, and will continue to undertake concrete measures towards these objectives.

“We resolve to implement, as scheduled, the ASEAN Free Trade Area (AFTA) and all approved programmes and projects. In addition, we seek to further accelerate AFTA and expedite the implementation of the ASEAN Industrial Cooperation Scheme (AICO). We shall open up our investment regimes through the launching of the ASEAN Investment Area (AIA), which will enhance the attractiveness of the region as an investment destination through the application of consistent investment laws and policies.”
**Bold Measures**

To carry out their resolve, the ASEAN leaders, on the same occasion, announced a series of special measures. One of these was AFTA’s acceleration. In what they called their Statement on Bold Measures, the leaders affirmed: “In order to regain business confidence, enhance economic recovery and promote growth, the ASEAN Leaders are committed to the realisation of the ASEAN Free Trade Area (AFTA). . . . To enhance further economic integration of the region, the Leaders also agreed to further liberalise trade in services.”

I quote the ASEAN leaders at some length to emphasize that ASEAN has not been lacking in clear statements of policy. Those were the words, but many outside observers did not hear — or listen. What the leaders actually did was to accelerate AFTA, but many outside observers did not seem to notice.

At that same summit in 1998, ASEAN agreed to advance AFTA’s completion, for the six original signatories to the AFTA agreement, from the then target year of 2003 to 2002. This meant that tariffs of the six countries on products traded among them in the AFTA scheme would be brought down to anywhere between zero and five percent by the beginning of 2002. This is just a little over a year from now. Moreover, by 2000, at least 90 percent of their total tariff lines would be within the 0-5 percent zone, accounting for more than 90 percent of intra-ASEAN trade, a target that has already been exceeded. Individually, each country would bring down to 0-5 percent the tariffs on at least 85 percent of the products on its Inclusion List by this year and 90 percent by 2001. The member countries also agreed to eliminate tariffs altogether as soon as possible and accelerate the transfer into the Inclusion List of products not yet in it.

**Modification of Concessions**

These decisions were made almost two years ago, and they are being carried out. Yet, the notion persists that AFTA has been derailed. This impression has been reinforced by the well-publicized proposal of one ASEAN member to delay the transfer into its Inclusion List of finished or completely knocked-down automobiles. The idea is being spread that the acceptance of this proposal would deal a fatal blow to AFTA.
Let us look at this issue in perspective.

First, the proposal involves only completely built-up and completely knocked-down vehicles and has nothing to do with car parts. Secondly, it is limited to trade involving Malaysia. Trade between other parties to AFTA is not directly affected. Thirdly, the proposed delay will be limited in its timeframe. Finally, the products involved account for less than two percent of intra-ASEAN trade.

In a couple of days, the ministerial-level AFTA Council will sign a protocol laying down some stringent rules to govern such modifications of concessions. These rules are patterned after Article XXVIII of GATT and, therefore, accord with international practice. Invocation of the protocol requires negotiations with affected parties and could entail compensation. Its application would be transparent and rules-based. It would be limited to situations of real difficulty.

AFTA’s tariff-cutting schedule is essentially on track. But it is, of course, not enough. AFTA is not just about tariff-cutting. It also calls for the dismantling of non-tariff barriers. Here, it gets more complicated, as those barriers come in many disguises – not just in ASEAN, not just among developing countries, but, perhaps especially, in the developed countries. ASEAN is keeping a watchful eye on such devices and striving patiently to do away with them.

Nor is removing barriers enough. Economic integration requires making trade smoother and easier. Customs, for example. To be effective, AFTA
has to be administered at ports of entry, by customs. This means the training of customs officials. ASEAN is doing that jointly. ASEAN is streamlining customs procedures. It is planning to adopt the post-audit clearance system. ASEAN is harmonizing its tariff nomenclatures, the harmonized system to be implemented starting in 2002.

ASEAN is also making it easier to trade specific products, sector by sector, through mutual recognition arrangements and the harmonization of regulations, product standards and safety norms. The process has begun with respect to cosmetics, pharmaceuticals, and electrical and electronic equipment.

ASEAN is not stopping at trade in goods. Following the leaders’ explicit instructions, ASEAN is moving on the much more complex endeavor of liberalizing trade in services, putting together a package of commitments, beyond those that they have made in WTO, to remove restrictions on certain modes of trade in services.

**Easing Transportation**

In facilitating trade, priority is given to transportation. Removing tariff and technical barriers to trade would have little effect if goods could not physically cross national boundaries with ease and dispatch. ASEAN has put in place an agreement to ease the overland transport of goods between two ASEAN countries through a third ASEAN country. It is also working on agreements on multi-modal transport and inter-state transport.

ASEAN has identified twenty-three priority routes for the upgrading and development of the trans-ASEAN highway system. Three days from today, ASEAN’s leaders will receive the completed feasibility study on the Singapore-Kunming railway. The plan is to connect the existing railway lines in mainland Southeast Asia to form one system linking ASEAN to southern China.

ASEAN is progressively liberalizing air transport, working on a multilateral air transport agreement that should lead eventually to an open-skies regime. ASEAN’s energy agencies and companies are formulating master plans for
the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline Network so as to improve the region’s energy security. Telecommunications interconnectivity is being worked out.

ASEAN is working together to pull Southeast Asia into the information age, something that we hope will further strengthen ASEAN’s cohesion. A public-private task force is helping ASEAN working groups to create a regional electronic space that encompasses infrastructure, e-commerce, free trade in information and communications technology goods and services, people’s IT skills, and the development and use of IT in government and society as a whole. Japan and multinational companies are supporting this effort. At their summit in Singapore three days from today, ASEAN’s leaders will be signing the e-ASEAN Framework Agreement to provide the political impetus and the formal basis for ASEAN’s move into cyberspace.

Much work is going on to integrate the ASEAN economy in many ways and dimensions. A great deal of this work is quiet and does not interest people very much, although some corporations are intensely watching it. It is plodding, patient, slow work — often, too slow. But it is going on, and, as it progressively integrates the ASEAN economy, it has a real impact on companies operating in ASEAN and on the lives of its people.

It also has implications broader than the purely economic. But that is another story.
The Philippines in the ASEAN Free Trade Area

Address before the Manila Rotary Club
Manila, 7 March 2002

The first of January this year was some kind of milestone in ASEAN’s history. It was the target date for the ASEAN Free Trade Area to be essentially achieved. Of course, free trade areas are never complete as long as they are made up of sovereign states; even the European Union is still a work in progress toward a more perfect union. In the case of ASEAN, the first of January 2002 was the date on which tariffs on goods traded within ASEAN – with some exceptions – were scheduled to drop to within a range of zero to five percent.

Around the beginning of the year, there were two reactions among those who were aware of AFTA’s realization. One group of people asked: why was there no fanfare to mark the historic milestone? And another group asked: why did it catch us by surprise?

The answer to both questions is the same, and it is that the AFTA target of 0-5 percent tariffs on intra-ASEAN trade had been substantially achieved well ahead of schedule. This is why there was no particular observance of AFTA’s formal realization, and why some people were surprised. As early as 2000, most of the tariff lines on goods traded within ASEAN, representing almost 90 percent of intra-ASEAN trade,
were already in the 0-5 percent range. So, basically, nothing really happened on the first of January 2002, because what was to happen had already, in essence, happened.

Of course, the four newer members of ASEAN – Cambodia, Laos, Myanmar and Viet Nam—are given a few more years to achieve the 0-5-percent target for their tariffs on ASEAN imports. But the six older members – Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand – do most of the trading in ASEAN. In this light, we can say that AFTA is basically done.

Let us go back to the time when the AFTA process was launched, to 1992. At that time, the then six ASEAN countries were at the height of their prodigious economic surge. The ASEAN economies were looked upon as the model for developing countries – development-minded, export-oriented, open to foreign investment, private sector-driven. Nevertheless, with remarkable foresight, ASEAN’s leaders decided that they must integrate their economies into a regional economy if they were to face and survive the enormously fierce competition that was to come. They agreed that they would create an ASEAN Free Trade Area by progressively cutting the tariffs on goods traded among them, beginning in 1993, until they were, with some exceptions, at a level no higher than five percent by 2008. In 1995, ASEAN decided that fifteen years was too long and advanced the target date for AFTA by five years, to 2003. In response to the 1997-1998 financial crisis, ASEAN’s leaders decided to advance AFTA’s end-date still further, to the beginning of 2002. This was contrary to many instant commentaries at the time, which predicted that the financial crisis would finish AFTA, as ASEAN members looked inward and turned protectionist.

An Integrated Regional Market
The idea here is that, by lowering barriers to trade among its member-countries, ASEAN is creating an integrated regional market. This makes economies more efficient through a better division of labor, through the benefits of economies-of-scale. It stimulates healthy competition, lowering costs. It enlarges the “domestic” market. The region thus becomes more attractive to investors, creating more jobs. It is, of course, not enough to
integrate the regional market to attract investments. The investment climate of each ASEAN country has to be nurtured and strengthened. But an integrated ASEAN market is demanded by more and more investors, particularly in measuring the ASEAN countries’ attractiveness as an investment destination against, notably, the megamarket of China.

The progressive reduction of tariffs to minimal levels under AFTA has been accompanied by a massive expansion of intra-ASEAN trade – from US$44.2 billion in 1993 to US$97.8 billion in 2000, from which, as we will see, the Philippines has benefited in terms of exports to other ASEAN countries.

As I said earlier, AFTA continues to be a work in progress. The five percent tariffs allowed under AFTA, although minimal, still constitute barriers to intra-ASEAN trade. Thus, in 1999, ASEAN agreed to abolish tariffs altogether by 2010, at least among the first six signatories to the AFTA agreement.

Market integration, however, is about much more than tariff-cutting. Other barriers have to be removed. For example, ASEAN has adopted a set of harmonized tariff nomenclatures to make the processing of traded goods easier. We have to do away with duplication of product testing and certification. ASEAN is working on mutual recognition arrangements among member-countries, so that product tests in one ASEAN country will be acceptable in other ASEAN countries. This work is being done in electrical and electronic equipment, telecommunications equipment, cosmetics, pharmaceuticals, and prepared food. Common rules on sanitary and phytosanitary measures have to be worked out.

The transportation of goods and people within ASEAN has to be made easier and less expensive. Trade in services, including financial services, telecommunications, and tourism, as well as air services, has to be considerably liberalized, at least among ASEAN countries. Because this undertaking is much more complex than the freeing up of trade in goods, the process has been rather slow.
The Word from President Arroyo
Where does the Philippines stand? Let us hear from President Arroyo. When the President visited the ASEAN Secretariat in Jakarta last November, she declared:

“Our response to renewed economic adversity should be to deepen further the economic integration of our region.

“This means several things. Maintaining, if not accelerating further, the AFTA timetable. Identifying impediments to trade and investments – and removing them. Taking effective measures to make trade and investments as easy as possible and as inexpensive as possible. Fulfilling our dream of a seamless transportation network within ASEAN for the freer flow of goods and people. Interlinking our telecommunications systems. This means opening up our services sector to one another – transportation, communications, financial services, commercial and professional services. Making a serious effort to develop our capacity to harness the power of information and communications technology, and working together in this vital area. . . .

“What we require today,” she continued, “is no less than a change of mindset – to use a modern cliché, a paradigm shift. We must think regional. We must truly believe that our national or corporate or personal interest lies in the destiny of the region. This is required of our business communities no less than of policy-makers. We have to cast off the kind of thinking that continues to burden many of us – the idea that we are good only for the confines of our national boundaries, whose market is to be protected as our preserve, each nation to its own. This will no longer work in today’s world, even if it ever did.”

The progressive reduction of tariffs to minimal levels under AFTA has been accompanied by a massive expansion of intra-ASEAN trade – from US$44.2 billion in 1993 to US$97.8 billion in 2000, from which, as we will see, the Philippines has benefited in terms of exports to other ASEAN countries.
Fears have been expressed about the ability and readiness of Philippine industries, products and companies to compete in an integrated regional market. The specter has been raised of whole industries, or at least companies, being wiped out by a flood of goods more cheaply and more efficiently produced in other ASEAN countries.

I would like to make one point here. We often hear from those who fear being hurt. Those who thrive and benefit almost always stay quiet. And there are Philippine industries and Philippine firms that have gained from ASEAN and thrive in AFTA, and the Philippine economy is benefiting from it. Let the figures speak. From 1993 to 2000, the Philippines’ exports to other ASEAN countries grew almost seven times, more than 650 percent. Those of Indonesia increased by about 118 percent, those of Malaysia less than 90 percent, and those of Thailand less than 80 percent. The share of the ASEAN market in the Philippines’ total exports more than doubled from seven to 15.7 percent. For Indonesia’s exports, the ASEAN share expanded from 13.6 to 17.5 percent and, for Thailand’s exports, it rose from 16 to 21 percent, while in the case of Malaysia it dropped from 28 to less than 25 percent.

We have heard some Philippine firms plead for protection from regional competition because of the disadvantages they say they suffer, alleging bad government policies, lousy infrastructure, expensive power and telecommunications, peace and order, red tape, corruption, the low purchasing power of the domestic market.

**Strengthening Competitiveness**

The remedy for these alleged ills is not protection from competition, which hurts other industries as well as consumers. The remedy is to strengthen the competitiveness of Philippine industries and firms by doing something about those things that weaken their competitiveness. If policies are bad, change the policies. Build and upgrade the infrastructure. Do what it takes to lower the cost of power and communications. Improve peace and order. Remove red tape. Reduce corruption. Straighten out the extremely lopsided distribution of income. Do something about the educational system. In other words, get the government’s support, not its protection. Support strengthens, protection weakens.
Surely, the Philippine business community does not lack either the political clout or the resources to take action and to apply pressure on policy-makers so that the chains hobbling the economy’s competitiveness are removed – its competitiveness for markets and investments. President Arroyo cannot do it by herself.

Of course, competition has to be fair. If one’s trading partner dumps goods in the domestic market, there are anti-dumping remedies available; but dumping has to be proved, and the remedy has to be against real dumping and not simply against better and cheaper products. Within the AFTA framework itself, there are provisions on safeguard measures similar to those of WTO. But it would be wise for ASEAN governments to invoke these only rarely and only with the entire economy in mind, not just the interests of a favored few.

We have to remember that regional economic integration is being pursued in order to attract investments and stimulate economic activity in ASEAN. But where in ASEAN will the investments flow and economic activity generated? Which countries in ASEAN will benefit more? It is those countries that have attractive investment environments, those that are plugged into the regional economy, not those that drag their feet on the way to an integrated regional market and are unwilling to compete.

In any case, as we have seen, some sectors in the Philippines are benefiting, even thriving, from regional economic integration, despite the alleged obstacles. Perhaps, they should speak out. As President Arroyo urged last November, the thing to do is to look outward, think regional, if not global. We need the region to hone industry’s efficiency and achieve economies of scale in order to strengthen the economy’s competitiveness in an increasingly competitive world.

Philippine industry has to be competitive as ASEAN integrates further, abolishing tariffs and liberalizing services; even more, as ASEAN begins to negotiate a free trade area with China. ASEAN is embarking on this, because it sees the rise of China not only as a competitive challenge but also as an enormous opportunity. Now, as soon as ASEAN’s and China’s
leaders announced their intention, voices were immediately raised denouncing the very idea of a free trade area with China. I suggest that before leaping to conclusions we wait until the proposed free trade arrangement takes discernible shape. Negotiations have not even started, but they will soon. The Philippines certainly will have a voice in them, and the Philippine business community will have a chance to influence the Philippine position. But that influence will have to be exerted in the cause of stronger competitiveness and fairness and not on behalf of stifling competition through protection.

Judicious support is needed for stronger competitiveness and a robust economy. But protection will only weaken competitiveness, harm related industries and the workers in them, damage the welfare of consumers – that is, all of us – and sap the nation’s economic strength.
ASEAN has always placed great value on the role of the private sector in economic growth - the role of ASEAN’s own private sector and the role of private foreign investment in ASEAN. As a matter of development strategy, ASEAN governments and ASEAN itself have deliberately cultivated a climate in which private trade can flourish and private investment can make profit. The private sector has responded by driving ASEAN’s phenomenal growth for two decades. The encouragement of private business activity remains central to ASEAN’s approach to development. It is at the core of ASEAN’s strategy for economic recovery and sustained growth.

Indeed, ASEAN was formed on the premise of a strong private-sector role in economic development and in its relations with the rest of the world. Even those countries that have come into ASEAN with centrally planned economies have done so in the midst of opening up their economies to market forces, to the private sector and to foreign investment. Today, they are fully committed to the basic ASEAN policy of harnessing the economy to the energy of private enterprise. It is in this light that we value every opportunity that we can get for consultations between governments and private business.
ASEAN conducts our dialogue today on increasingly solid ground. Last March, ASEAN’s finance ministers projected growth rates for the region to average somewhere between 4.5 and five percent. The international financial institutions - the IMF, the World Bank and the Asian Development Bank - have had periodically to revise upward their growth estimates for ASEAN.

The exports of the six older members of ASEAN alone — Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand — have been surging — by 7.7 percent from US$316.6 billion in 1998 to US$341.1 billion in 1999. Imports grew at the same rate, from US$259.5 billion in 1998 to US$279.5 billion in 1999.

The surge in imports reflects a rise not only in production requirements for export but also in domestic demand, including for housing, commercial property and automotive products. According to the ASEAN Federation of Automotive Industries, automobile sales in Indonesia, Malaysia, the Philippines and Thailand rose 67 percent, from 273,000 units in the first half of 1999 to 456,000 units in the first half of 2000. In Indonesia, car sales jumped 455 percent during that period, from about 24,000 to about 127,000 units. The automotive industry estimates that the demand for automobiles in the six major ASEAN markets - Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam — will hit 1.4 million units in 2003 and 1.6 million units in 2004, considerably surpassing the levels before the financial crisis.

**Investment Flows Into ASEAN**

Foreign direct investment flows into ASEAN were at the healthy level of US$16.9 billion in 1999, with investments from the United States soaring more than seven times from 1998 to 1999, mostly in the form of reinvestments and cross-border mergers and acquisitions. However, for various reasons, total FDI in ASEAN dropped by 14 percent from 1998 to 1999. We see better prospects for 2001 and thereafter, as the ASEAN economies recover and further integrate — and are seen by investors to recover and further integrate — as opportunities for mergers and acquisitions grow, and as investment flows are stimulated by the continued
strength of the U. S. economy, the growth of the Japanese and Korean economies, and the maintenance of Taiwanese attention to Southeast Asia.

An important point to remember is that most large ventures already established in ASEAN did not leave the region even at the height of the crisis; in fact, many of them expanded their facilities, taking advantage of lower asset values and weaker national currencies.

In the midst of the resumption of economic growth, inflation has been kept under control. Interest rates are down. Financial reserves are up, although some currencies have weakened. Reforms in the financial and corporate sectors continue, although with ups and downs. ASEAN’s finance ministers, among themselves and together with those of China, Japan and the Republic of Korea, are strengthening the monitoring of economic developments and policy measures in the region. They are setting up a mechanism for providing resources to countries in the region that may find themselves in balance-of-payments difficulties.

ASEAN economic integration has, as you know, been accelerated. The ASEAN Free Trade Area will be completed, for the six original signatories to the AFTA treaty, by the beginning of 2002. This means that, in just a little over a year from now, most of the goods traded within ASEAN will have tariffs of no more than five percent or none at all. Even today, 85 percent of tariff lines in the AFTA scheme already are in that minimal-tariff zone, representing more than 90 percent of goods traded among ASEAN countries. No one can ask more of a regional association. By next year, average tariffs on goods traded under the AFTA scheme will be down to less than four percent from 4.43 percent today. All electrical and electronic goods are in the AFTA inclusion lists of the six original signatories to the agreement. Average duties on them are already in the minimal range. The first six signatories to the AFTA treaty aim to abolish all import duties on trade among them by 2010. Non-tariff barriers are also being dismantled.

In the meantime, the ASEAN Industrial Cooperation scheme, or AICO, gives immediate full AFTA treatment to products traded within ASEAN by companies operating in two or more ASEAN countries. As you may
know, most of the companies taking advantage of the AICO scheme are Japanese. Most of these Japanese concerns are automotive companies. A few of them are electrical and electronics firms.

**A Rules-Based System**

Earlier this month, the ASEAN economic ministers adopted, for signing next month, a set of rules for dealing with products that a certain AFTA party may find difficulty in moving to the AFTA scheme. The rules are based on international norms and practice. They would not only provide objectivity and transparency in dealing with such cases; they would also impose stringent conditions for resorting to them. So far, only Malaysia has indicated any definitive intention of resorting to this mechanism - only for completely built-up and completely knocked-down cars and only for a short delay.

The ASEAN market for services is also being integrated, with several sectors at various stages of negotiation. ASEAN is creating an ASEAN Investment Area, in which each ASEAN country opens up and gives national treatment to other ASEAN investors, including joint ventures between ASEAN and foreign companies.

ASEAN is also being bound together and its economy further integrated by physical infrastructure projects — the road and highway network, the seaport and airport network, the ASEAN power grid, and the gas pipeline network. ASEAN is working on the interconnectivity of telecommunications and the standardization of telecommunications equipment. These projects both present enormous opportunities for investment and would stimulate other forms of investment and economic activity.

In any event, all ASEAN countries are committed to the integration of their economies as a principal way of strengthening their competitiveness in a globalized economy, where competition for investments as well as markets is becoming more and more intense.

At the same time, ASEAN is determined to build up its competitiveness in the industries of the future, in the knowledge industries, in enterprises
involving information and communications technology. Part of this effort is the adoption this month of an e-ASEAN framework agreement for signature by ASEAN’s leaders next month. The program includes the legal and policy environment for the development and use of information and communications technology for e-commerce, for government, and for human and social development. It involves the free movement of ICT goods and services and the training of ASEAN’s people in this field. The Japanese Government has given clear indications of its desire and readiness to be deeply involved in ASEAN’s endeavors in this area. ASEAN seeks and welcomes this Japanese collaboration.

In sum, the steady and accelerated integration of the ASEAN economy, the resumption of its growth, the development of the regional infrastructure, and ASEAN’s commitment to the industries of the future provide new and fertile ground for ASEAN and Japan to further deepen their already strong links. Those links go back many decades. They are deep and wide-ranging. New opportunities are now opening up for making those ties deeper and stronger than ever before. I am confident that our roundtable today will contribute substantially to this for the benefit of all.
Efficient, reliable and inexpensive telecommunications are essential to the conduct of most businesses, quite apart from the convenience that it gives to people's lives. This is why investors consider the reliability and cost of telecommunications as a critical factor in investment decisions. This consideration often spells the difference between profit and loss.

This is more true today than ever before. Again, I do not need to tell this gathering of the crucial role of telecommunications in the development and use of information technology. ICT, in turn, is taking an increasingly useful part in doing business and in improving people’s lives.

The leaders of ASEAN are keenly aware of the growing importance of information and communications technology. Last November, they signed, themselves, the e-ASEAN Framework Agreement. At the top of this initiative’s list of concerns is the establishment of the ASEAN Information Infrastructure. The others are the facilitation of e-commerce, the liberalization and facilitation of trade in ICT goods and services, investments in the production of ICT goods and the
provision of ICT services, the development of human resources and capacity building in ASEAN societies, and the use of ICT for improved government services.

Although the ASEAN leaders acknowledge the importance of ICT for commerce and industry, they view ICT not as something only for big business. As leaders responsible for all their people, they insist that the benefits of ICT must be accessible and affordable to most of the people. The advantages of ICT, therefore, must be available to small farmers as well as to large plantations, to small and medium enterprises as well as to big corporations. It must enable everybody — in the rural areas as well as in the cities, the poor as well as the rich — to link up with the global storehouse of knowledge that is the Internet and to communicate with others around the world. ICT must be used for more effective education, informal as well as formal. The power of the Internet must be harnessed to allow all, including the poor, to have access to the best medical care available. We in the Secretariat are promoting a project called e-Farmers, which would allow small farmers to use ICT for marketing their produce. It is essentially a commercially driven operation run by the private sector. Not only is it meant to increase farmers’ incomes; the facilities set up for the purpose can be used for education, public health and other social purposes.

In response to calls for the widespread use of ICT, the question is often asked: how can most people in the developing countries have access to the Internet when computers and connections through telephone wires are so expensive and the people have such low incomes?

The answer, of course, is to bring down costs. First, open the telecommunications sector to more competition. Many countries, including some in ASEAN, have found, to their peoples’ delight, how much telecommunications costs have come down and services improved by ending monopolies and letting in competition. The old view that telecommunications are a public utility that must be a protected monopoly has been giving way to the recognition that telecommunications companies are businesses providing service to other businesses and to individual consumers and must
be subject to competition in order to bring costs down and quality up. Governments’ role in this regard is being transformed from a protector of monopolies to a protector of consumers and of the economy at large.

Keeping costs down and the quality of service high is even more important today, when the Internet and other uses of information technology are so dependent on telecommunications facilities. I am told that one of the reasons for the high casualty rate among Internet service providers is the steep rates of telephone service. In ASEAN, one factor is the fact that as much as 70 percent of intra-ASEAN traffic has to be routed through certain developed countries far away. The distance entailed raises the cost. The answer is obviously to set up within the region an Internet exchange with integrated content caching and mirroring facilities, so as to increase efficiency and lower costs, as called for in the e-ASEAN agreement. We in the ASEAN Secretariat have proposed a project that will do precisely that. The project was recently endorsed by the appropriate ASEAN bodies. It is called ARIX, for ASEAN Regional Internet Exchange. We are working with the private sector on it, and we have met with Internet service providers from around the region.

People also ask how the widespread use of ICT in developing countries is possible when large segments of the population in those countries “have never heard a dial tone.” It is, of course, expensive to run telephone lines to remote villages. The relatively thin population density and low incomes in those areas make such land lines uneconomic to lay and operate. Telephone lines are also expensive by nature, because they are meant to carry voice signals, which require a higher capability than data transmission. Wireless connectivity should thus be encouraged and promoted where the cost entailed in installing land lines would be prohibitive. Region-wide, ASEAN governments might consider dedicating common radio frequencies for intra-ASEAN communications. This would bring down equipment cost and thus consumer charges. I understand that this is technically feasible.

The ASEAN leaders clearly recognize that much of the promotion of ICT can be done best on a regional basis. In defining the ASEAN Information Infrastructure, they explicitly called for interconnectivity within ASEAN, technical inter-operability, high-speed direct connections among ASEAN
countries, developing ASEAN content, and regional Internet exchanges and Internet gateways, including regional caching and mirroring.

The ASEAN leaders know that their countries must cooperate, among themselves and with others, in developing the human resources necessary to develop and use information and communications technology. ASEAN has begun by undertaking an assessment of the needs of the ASEAN countries in this regard, particularly the newer members. The next phase is to conduct actual training.

The ASEAN countries must enact laws to govern ICT and make sure that they are regionally harmonized. So far, only four ASEAN countries have laws covering electronic commerce. Another country has a bill still to be enacted. They are largely based on the model suggested by the United Nations Commission on International Trade Law. Other ASEAN members are working on their own legislation. The ASEAN Secretariat has put out a booklet that contains a matrix comparing the provisions of the four existing laws and the draft bill with one another and with those of the UNCITRAL model law. The other countries ought to expedite their own legislation.

The e-ASEAN Framework Agreement calls for mutual recognition arrangements for ICT products in accordance with international standards. This would make trade in such products much easier and less expensive. The ministers will be considering today the mutual recognition arrangement for telecommunications equipment adopted by the ASEAN Telecommunications Regulators’ Council. The speedy implementation of this MRA would be a significant step for the e-ASEAN initiative.
Information and communications technology is a powerful tool for binding our region together, just as it is bringing the world together in a global village. This also means that we must work together to acquire that technology, develop it and use it not only to bring us together but for the good of our people.

Clearly, ASEAN telecommunications ministers, working together, have a central role in this great undertaking. This, to me, is the significance of the launch today of the ASEAN Telecommunications Ministers Meeting.
The Japanese Traveler and the Attractions of ASEAN

Statement at the opening of the Workshop for Visit ASEAN Campaign sponsored by the Japan Centre Osaka, 28 September 2001

According to the World Travel and Tourism Council, tourism accounts for ten percent of the global economy and eight percent of employment worldwide. Tourism makes up four percent of ASEAN’s combined GDP.

Japanese have been enthusiastic travelers, especially in the past 35 years, and increasingly so. In 1965, the year after the Tokyo Olympics, 158,000 Japanese traveled overseas. Last year, 17.8 million Japanese did. Large as this number is, it represents only slightly over 14 percent of Japan’s more than 125 million people. And many of these 17.8 million are repeat travelers. Last year, the number of Japanese visitors to ASEAN hit more than 3.7 million, the highest level ever. ASEAN thus accounted for about 20 percent of Japanese overseas travelers. That is a respectable share, but there is surely much room for a substantial increase in absolute numbers, if not in the percentage share.

Southeast Asia, as we all know, is a natural attraction for the Japanese traveler. We have a balmy climate. Our fine beaches are, for the most part, accessible all the year round. It so happens that beaches attract 40 percent of Japan’s tourists. We have year-round golf on splendid
and inexpensive courses. We have luxuriant wildlife – lush and special plants, unusual animals, flora and fauna that one cannot find anywhere else in the world. Our cultures are rich, colorful, fascinating and diverse. We have some of the best hotels in the world.

And then, as the Japanese would put it, there are An, Kin, and Tan. What do these watchwords mean?

An means inexpensive. Indeed, we are. When we recall that it took 360 yen to buy one U.S. dollar in 1965, we realize how inexpensive Southeast Asia has become for Japanese travelers. There is some fantastic shopping to be done, aside from the low cost of everything else.

Kin means close to Japan. No place in Southeast Asia is more than seven hours from Osaka. Most places are much less than that.

Tan means short stay. The hard-working Japanese would not dream of being away from work even for a week. Packages of three nights and four days would offer an unforgettable ASEAN experience – shopping in Singapore, orang utans in Borneo, the fascinating lifestyle of Bali, the monuments of Java and Siem Reap, the temples of Thailand and Myanmar, culture, golf and beaches everywhere – all within a few hours of one another.

This is why it is time to think of ASEAN as one destination – or at least parts of ASEAN as one tour package. ASEAN’s attractions are not only richly varied; they also complement one another, as I have just pointed out. One could do the sub-regions – the growth area of Brunei, eastern Indonesia, East Malaysia and southern Philippines; the triangles of western Indonesia, southern Thailand and northwestern Malaysia; the triangle of Indonesia, Malaysia and Singapore; and, of course, the Mekong Basin.

All this is at the heart of the message that we are sending out in the Visit ASEAN Campaign, which we launched last January. This campaign means to promote ASEAN as one tourism destination. We have taken out 30-second TV spots on CNN and BBC in Europe. We are planning to do the same thing in the Asia-Pacific region, including, we hope, on Japanese
television. We are producing printed materials on ASEAN as a travel destination, some of them in Japanese, thanks to the ASEAN-Japan Centre. With support from the Japanese government, a Japanese company is working on a study on cruise tourism in ASEAN. We expect the study to be completed next month. We continue to hold the ASEAN Tourism Forum every year, a highly successful meeting point for buyers and sellers.

**Liberalizing Travel**

We are liberalizing travel by land, sea and air throughout ASEAN, and we are making a big push for greatly improving and integrating transportation in the region – the Singapore-Kunming Rail Link, the ASEAN highway network, the dredging of the upper reaches of the Mekong to ease travel on that great river.

We in the ASEAN Secretariat are determined to promote this thinking: Air services are an essential tool for the movement of people and goods. It must, therefore, be freed from unnecessary constraints and serve travelers with the greatest frequency, with the most convenience, and at the least cost, made efficient by competition within and across national boundaries. The flags of air carriers should matter less.

Please let us know what else we can do to make it easier and more interesting for Japanese tourists to enjoy the attractions of Southeast Asia. This is a central purpose of this workshop. I thank the ASEAN-Japan Centre, always the pillar of ASEAN-Japan cooperation, for organizing it, and I thank the ASEAN Foundation for its financial support.

This is why it is time to think of ASEAN as one destination – or at least parts of ASEAN as one tour package. ASEAN’s attractions are not only richly varied; they also complement one another.
Japanese companies have for a long time - since the 1950s - been using Southeast Asian countries as a site for profits, cost-effectiveness, and global competitiveness. Japanese firms have located their operations in Southeast Asian countries for their low-cost but productive labor, to be where needed raw materials can be extracted, to gain access to domestic markets that are getting bigger and richer, as production platforms for the markets of the world.

In this, the Japanese Government has been exceedingly helpful to Japanese companies, as well as to the Southeast Asian countries. This help has come in the form of trade financing, loan guarantees, assistance in the development of infrastructure where the companies are located, and the cultivation of good political relations between Japan and Southeast Asia. Of course, Southeast Asia has benefited, too, in terms of jobs, foreign exchange, business partnerships, access to the Japanese and world markets, and the transfer of technology.

In recent times, this beneficial relationship has hit some snags. Japanese investments in ASEAN have gone down in value, and their share in
total foreign direct investment flows into ASEAN has diminished. On the basis of balance-of-payments data, Japan’s share of FDI flows into ASEAN was but 5.4 percent in 1999, behind the European Union and the United States, as against 13.5 percent in 1998. Meanwhile, U. S. investments in ASEAN swelled by seven-and-a-half times from US$1.1 billion in 1998 to US$9.4 billion in 1999, mostly by way of reinvestments and mergers and acquisitions.

This downturn has had an impact on the trade between ASEAN and Japan. Japan remains one of ASEAN’s three leading trading partners, but its share of ASEAN’s trade has been diminishing since the early 1990s. Japan’s share of the imports of ASEAN’s six leading trading nations - Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand - shrank steadily from almost 25 percent in 1993 to less than 18 percent in 1998. The share of the Japanese market in the exports of the same six countries went down from 15 percent in 1993 to less than 11 percent in 1998. The result is that by 1999 Japan had slipped to third place among all of ASEAN’s trading partners, behind the United States and the European Union.

There are several reasons for this. Two of the broadest are the slump in the Japanese economy and the financial crisis of 1997-1998 in most of Southeast Asia.

Now, the Japanese economy seems to be picking up. The economies of Southeast Asian countries are recovering faster than expected. But other, equally important things have also been changing. These changes have been transforming the investment climate in Southeast Asia, the opportunities for investment there, and the factors that determine decisions on such investments.

**New Developments**

Now is, therefore, a good time to take stock and try to peer into the future. I suggest that we look at four areas where new developments are taking place that are relevant to long-term investment decisions. These are:

- the growing integration of the ASEAN economy;
- the expansion and diversification of ASEAN;
• the progressive openness of ASEAN economies; and
• the growth and potential of information and communications technology.

ASEAN’s commitment to regional economic integration should be clear to all. The ASEAN Free Trade Area is now substantially with us, with more than 85 percent of tariff lines in the AFTA scheme already in the minimal-tariff zone. This represents more than 90 percent of goods traded among ASEAN countries. By the beginning of 2002, in just a little over a year from now, most of the goods traded within ASEAN will have tariffs of no more than five percent or none at all. By next year, average tariffs on goods traded under the AFTA scheme will be down to less than four percent from the 4.43 percent today. The first six signatories to the AFTA treaty intend to abolish all import duties on trade among them by 2010. Non-tariff barriers are also being dismantled.

ASEAN has adopted a mechanism, based on international rules and practice, to deal with any delays in the transfer to the AFTA inclusion list of products supposed to be included during the current period. ASEAN countries are streamlining and harmonizing customs procedures. They are entering into mutual recognition arrangements on product standards and otherwise harmonizing them. The liberalization of trade in services within ASEAN is being negotiated. The sectors involved are in various stages of negotiation.

The integration of the ASEAN economy is producing a market of half a billion people, close to half the population of China, with a gross domestic product equivalent to that of China. This should be an important factor in decisions on investment in ASEAN.

Another significant factor is the expansion of ASEAN to embrace all of Southeast Asia. An ASEAN of all ten countries of the region is not only a fulfillment of the vision of ASEAN’s founders; it is not only a stronger force for regional stability. It also gives investors more choices in deciding where to locate their operations for the increasingly integrated ASEAN market or for production for export elsewhere in the world. Whether a potential investor looks for high-technology capability, efficiency in services,
abundant raw materials, or low-cost labor, the investor can find it in one or another ASEAN country.

ASEAN is making a special effort to upgrade the skills of the people of the newer members and build their institutional capacity. Work is also being done to promote the development of their infrastructure. In much of this, ASEAN is working closely together with others in the international community, particularly with Japan.

**Opening to the World**

ASEAN economies are steadily opening up. All are committed to the liberalization of the domestic economic regime, to market forces as the energizer of growth, to the critical role of the private sector in economic development. Thus, they are on the steady path of liberalization, privatization and de-regulation. This is a matter both of unilateral policy choice and of the obligation to the World Trade Organization on the part of those ASEAN countries that are already members of WTO and of those aspiring to enter it.

Moreover, ASEAN is moving toward new forms of linkage with other countries and regions, individually or collectively. In some cases, free trade areas are being explored; in others, broader, deeper and more comprehensive relationships. Examples are the recently initialed Singapore-New Zealand Agreement on a Closer Economic Partnership and the recently announced start of negotiations on a Singapore-Japan Economic Agreement for a New Age Partnership. Another is the trade agreement between Viet Nam and the United States. ASEAN and Australia and New Zealand have just agreed to develop a much closer and more comprehensive relationship between them.

The process of expanding and deepening cooperation between ASEAN and China, Japan and the Republic of Korea - the process known as ASEAN+3 - is rapidly gaining momentum. The ASEAN+3 finance ministers have embarked on solid cooperative undertakings. These include the joint monitoring of financial and economic movements in East Asia and in the world and a network of currency swap and repurchase agreements to make
resources available to countries in balance-of-payments difficulties. The ASEAN+3 economic ministers have agreed on priority areas for cooperation and the guidelines for carrying it out. ASEAN’s particular relationship with Japan has been moving forward, with its own forums for financial and economic cooperation.

These novel forms of external relationships for ASEAN have profound implications and present rich opportunities for Japanese investors in ASEAN. Such potentials and opportunities beckon particularly in the exciting area of information and communications technology and other knowledge industries. Japan has, in recent years, surged in IT use and capability, finding lucrative niches in this fiercely competitive but wide-open field.

At the same time, ASEAN is determined to join the information age, get into cyberspace, and form e-space in ASEAN, or e-ASEAN. The ASEAN economic ministers have just adopted, for the ASEAN leaders’ signature next month, an e-ASEAN agreement that is to provide the framework for this determined venture into the information age and into cyberspace. This endeavor involves the adoption and harmonization of laws and policies to stimulate the development and use of IT for commerce and for social purposes. It entails the training of ASEAN’s people to enable them to use and develop IT. It envisions free trade in IT goods and services, which should offer opportunities for Japanese suppliers of such goods and services. It calls for the standardization and harmonization of IT products and processes. Again, this presents a rich potential for Japanese products and technology.

An ASEAN of all ten countries of the region is not only a fulfillment of the vision of ASEAN’s founders; it is not only a stronger force for regional stability. It also gives investors more choices in deciding where to locate their operations for the increasingly integrated ASEAN market or for production for export elsewhere in the world.
Not least, the development and use of IT requires the freer flow of ideas and people. This entails new business and human relationships, new procedures, new modes of thinking, new ways of doing things on the part of governments, business, and other institutions, as well as individuals.

I am convinced that these factors - ASEAN’s economic integration, its expansion, its steady opening to its neighbors and the rest of the world, and its embrace of IT - offers virtually unlimited potential for the resurgence of ASEAN-Japan economic relations, including Japanese investments in ASEAN.
A Regional Outlook for ASEAN Business

Address at the luncheon hosted by the ASEAN Business Forum
Singapore, 22 July 1999

I served in Kuala Lumpur in the early 1990s. Not very many years have gone by since then, but it seems so long ago, things have changed so much. In those days, ASEAN had only six members. It was still divided from other states in Southeast Asia by the Cambodian conflict, which was moving slowly to a political settlement. The large flows of Indochinese refugees troubled relations across the region.

But the economies of ASEAN members were growing at a fast clip. Their businessmen were brimming with confidence as if there were no limits to rapid growth. Fund managers around the world were falling all over themselves to invest in and lend money to ASEAN countries. New skyscrapers were rising every day, transforming the skyline of every ASEAN capital. Massive tracts of land were being leveled and turned to make way for shiny new housing developments and golf courses. Factories were sprouting on erstwhile rice fields. Thousands of cars were pouring onto city streets, creating traffic jams of legendary proportions. Young people, cellular phones to their ears and their eyes on stock prices, were fired up with confidence in their own bright future.
Today, ASEAN has ten members, with all countries of Southeast Asia in Its regional embrace. The ASEAN bond has brought a new stability to the region, brightening the prospects for enduring peace. It has engendered a new confidence that disputes will be settled amicably and peacefully and that all of Southeast Asia will at last be working for common purposes.

However, ASEAN has also been shaken to its core by a massive financial and economic upheaval, not entirely of its own making. Rapid growth turned to economic regression. Asset values, hitherto skyrocketing, plummeted to unprecedented depths. Incomes, hitherto soaring, precipitously dropped. Millions were plunged into relative poverty, many more millions into absolute poverty. Factories closed down. Construction stopped. Sources of financing - domestic or foreign - dried up. Entire financial systems were ravaged. The old ways of doing business were called into question. The very foundations of the so-called “Asian miracle” were undermined.

I need not go on. You know much better than I do the lurid details and the severe impact of the so-called “Asian financial crisis.”

Today, signs of economic recovery are brightening the regional scene. Growth has gone positive. Exports are rising. Inflation is under control. Interest rates are down. Stocks are up. Currencies seem to have stabilized.

At the same time, an understandable caution has crept into economic projections and into investment and lending decisions. There seems to be a feeling that economic growth may be slower this time, at least at first. The old self-assurance arising from easy money and the efficacy of short cuts seems to have gone. But there is also a feeling that growth this time may be based on sounder foundations and may thus be of a more enduring quality. The old ways of doing business may no longer work as well as before. New ones may work better.

**New and Firmer Foundations**

This subdued confidence and cautious optimism apparently rest on the perception that, while the financial upheaval has indeed shaken the
economic structures and business culture of Southeast Asia to their core, this same development has brought about responses that may lay new and, hopefully, firmer foundations for Southeast Asia’s economies.

These responses have taken place at the national and regional levels. The national responses consist of reforms in the economic structures and financial systems. These reforms are generally in the direction of wider openness, increased competition, greater transparency, higher professionalism in management, a greater degree of objectivity in financial and business decisions, the primacy of law and rules, and reduced possibilities for undue intervention by the state. I will not go into these in detail. Again, you know about them more than I do. All I will say on them is that ultimately - and obviously — the success of the national reforms will depend on their persistent, steady and consistent implementation. They will depend on the perception of actual and potential business partners and other economic actors with regard to the seriousness with which they are pursued.

Equally important is the regional response. One thing that the Financial crisis has brought home to Southeast Asia’s policy-makers and business leaders, as nothing else could, is the transformation that the global economy has undergone. Leaps in information, transportation and communications technology have made artificial national barriers to Trade and capital flows not only less and less effective but, in fact, more and more counterproductive and even destructive. It has become clear that, if individual economies are to thrive or even survive in an increasingly and unavoidably competitive world, they have to coordinate, cooperate and integrate as regions. This means states have to cooperate regionally, economies have to integrate regionally, and the business community has to operate regionally.

The ASEAN Direction
This is one of the most important lessons imparted to ASEAN and to the rest of the world by the financial crisis. And it is precisely the direction that ASEAN has set for itself, for its governments and for its business enterprises.
First, in order to help ensure that the financial crisis does not happen again, ASEAN has set up an economic surveillance process, based in the ASEAN Secretariat and supported primarily by the Asian Development Bank. In this process, finance ministers and central bank governors and their officials exchange information and insights on macroeconomic developments and economic measures being undertaken in one another’s country. In this way, they are alerted to any impending problems, and they can encourage one another to persist in reforms.

Of top importance in ASEAN’s response to the challenges of the financial upheaval and of globalization has been its decision not only to persist in regional economic integration but to accelerate it. Contrary to the instant predictions of so-called experts, ASEAN’s leaders not only reiterated their commitment to the ASEAN Free Trade Area; they decided to advance its completion.

When the then-six ASEAN members first agreed upon it in 1992, they scheduled the ASEAN Free Trade Area for completion in 2008. A few years later, they advanced it to 2003. Late last year, in the aftermath of the financial crisis, and to the surprise of many, ASEAN’s leaders moved it forward by one year. This means that, by the beginning of 2002, the products of the six original signatories of the AFTA treaty under AFTA coverage will be subject to tariffs of only 0-5 percent. The newer ASEAN members are given a little more time, having entered into the treaty some what later than the others.

However, the ASEAN leaders, at their summit in Ha Noi last December, also decided that, by the beginning of 2000, ninety percent of AFTA products, representing ninety percent of all intra-ASEAN trade, would be in the 0-5 percent tariff category. Moreover, each original signatory pledged to put 85 percent of its AFTA products in that category. This means that, in a little more than five months from now, AFTA will have been substantially completed, creating a market of half a billion people with a combined gross domestic product of US$700 billion.
**Freer and Easier Trade**

Meanwhile, under the ASEAN Industrial Cooperation scheme, or AICO, products of cooperative production processes between companies operating in two or more ASEAN countries receive full AFTA treatment immediately. As of the 19th of July, sixty-two applications have been received, thirty have been approved, and nine are being processed. The companies involved have names like Matsushita, Denso, Toyota, Honda, Volvo, Sony, Nestle, Isuzu, Mitsubishi, Hitachi, Nissan, and Ford.

Not only are tariffs going down. AFTA is now turning its attention to removing quantitative restrictions and other non-tariff barriers to trade. These barriers include technical and physical obstacles as well as policy measures. ASEAN is making trade easier and smoother by the standardization of customs procedures, the harmonization of product standards, the conclusion of mutual recognition arrangements, and similar measures.

As with trade in goods, so will it be for trade in services. ASEAN is now laying the conceptual framework and negotiating parameters for negotiations on trade in services, such as transportation, construction, financial services, business services, telecommunications and tourism.

Barriers to investments are also being brought down. Under the ASEAN Investment Area, for instance, ASEAN countries are committed to opening their manufacturing sectors to ASEAN investors and extending national treatment to such investments. Exclusions are to be phased out by 2003.

The rapid opening of ASEAN economies to one another, the creation of an integrated regional market, has given rise to anxiety in a few industrial sectors and enterprises in ASEAN, mostly those that have been artificially protected from competition for a long time. They fear injury from massive competition from the products of neighboring countries. The bogey of “cheap imports” is being raised.

However, regional competition works both ways. An enterprise in one ASEAN country is gradually subjected to competition from the products
of other ASEAN countries, but at the same time its own products can now more freely compete in the other ASEAN countries. Looked at in this way, regional integration becomes less a threat than an enormous opportunity. There is a massive market of half a billion people with a combined GDP of US$700 billion out there.

**Making Good in a Larger Market**

A bigger market intensifies competition. It brings about Greater economies of scale. It improves efficiency. It lowers costs in terms both of production inputs and of services. An integrated market on a regional scale opens up larger opportunities for countries and industries in it, opportunities to sell their products and acquire capital goods and raw materials at less cost, for the benefit of all.

Because of these advantages, ASEAN greatly brightens its chances of attracting investments into the region. An ASEAN location provides investors with platforms for the production of goods and services to be marketed in the entire region.

Other regions have a similar idea, exploiting the advantages of Regional integration, competing with ASEAN countries for investment funds. There is the European Union, the most advanced example of regional economic integration. There is the European Free Trade Association of non-EU members. There are the North American Free Trade Area and the Closer Economic Relations between Australia and New Zealand. Among the developing regions, there are Mercosur in South America and the Common Market for Eastern and Southern Africa that is emerging. The South Asia Association for Regional Cooperation and the South Pacific Forum are planning to start their own regional free-trade arrangement by 2001.

Opening up at this stage to regional competition in AFTA helps ASEAN enterprises prepare for the inevitable and fast-approaching competition on a global scale. To be competitive, on a regional or global scale, ASEAN enterprises need a regional outlook.
In this light, a retreat into protectionism as a response to the crisis and in the face of globalization does not make much sense. Protectionism is a dead-end street. It restricts choices and increases costs for consumers — that is, all of us — as well as for companies. It will only make the country that resorts to it fall farther and farther behind its neighbors.

There may be specific cases of a genuine threat of real injury to an enterprise, and not just a fear of competition from cheaper and better products. In such cases, ASEAN economic agreements - and, for that matter, WTO — provide legitimate remedies, such as bilateral negotiations on the case at hand, WTO and AFTA dispute-settlement mechanisms, and anti-dumping measures.

**The Global Competition**

Opening up at this stage to regional competition in AFTA helps ASEAN enterprises prepare for the inevitable and fast-approaching competition on a global scale.

To be competitive, on a regional or global scale, ASEAN enterprises need a regional outlook. Their marketing programs must encompass the whole region and not just a narrow protected market. Internally, management has to be more professional. With the support of governments, the skills of management and of the work force have to be upgraded to levels required by the industries of today and of the future. Again with government support, physical and institutional infrastructure has to be greatly improved - transportation, telecommunications, financial services - which in themselves would benefit from competition. Needless to say, government decision-making and government services have to be more efficient and transparent and honest.

As we have seen, regional economic integration has been a necessary response to the financial crisis, a condition for the lasting recovery of the regional economy, and a pillar for the competitiveness of the region’s enterprises. If that is so, then ASEAN’s private sector has a vital interest in the steady progress of such integration. Its support is critical for the efforts of ASEAN’s governments to move regional economic integration forward.
Regional economic integration requires the regionalization also of ASEAN business. ASEAN enterprises have to strengthen their networks across the region. If markets are becoming regional, business linkages have to be regional, too. The ASEAN Business Forum is a fine example of such networks and linkages. But ASEAN enterprises cannot stop at the formation of broad business communities like the ASEAN Chamber of Commerce and Industry and the ABF. ASEAN sectoral industry clubs have been active in motor vehicles, cosmetics, chemicals, pharmaceuticals, and others. They have effectively interacted with individual ASEAN governments, with ASEAN committees and with the ASEAN Secretariat. ABF can help develop such sectoral groups as well as strengthen the ASEAN business community as a whole. The ASEAN Secretariat stands ready to support such efforts.

The Private Sector in the New Members

Neither can business networking stop at the borders of the older ASEAN members. If the huge market that is ASEAN Ten is to be exploited to full advantage, the horizons of ASEAN business must expand to embrace the newer ASEAN members as well as the old. This means strengthening the private sector in the newer members. The world of globalization and regionalization and its unforgiving requirement for competitiveness demand that the private sector play the primary role on the economic stage. It has become clear, even before the financial crisis, that, generally speaking, state enterprises, or private enterprises unduly reliant on direct political patronage, cannot hope to be competitive in the region or in the world. Economies that are driven primarily by such enterprises cannot hope to catch up with the rest of the region, let alone with the rest of the world.

A responsibility that the ASEAN Business Forum can take upon itself, I suggest, is to help develop the private sector in all ASEAN members. A strengthened and effective private sector in all ten countries of Southeast Asia is essential for the regionalization of business that the coming century requires and for the effectiveness of regional economic integration. The fulfillment of this responsibility is in the vital interest of ASEAN's businesses, the ASEAN member-countries, and the people of Southeast Asia.
Energy has always had an important place in ASEAN cooperation. The beginnings of a Southeast Asian power grid date back to 1966, when Laos and Thailand concluded a power-exchange agreement. Similar agreements were signed in 1978 between Malaysia and Thailand and between Malaysia and Singapore. In 1981, ASEAN established a task force involving the heads of ASEAN power utilities and authorities to cooperate in setting up the ASEAN Power Grid.

In 1994, ASEAN commissioned a regional study on the Master Plan on Natural Gas Development and Utilization. The study was completed in June 1996 with technical assistance from the European Union. The study showed that trade in gas by pipeline could bring high returns on investment and recommended a trans-ASEAN gas transmission network of 8,000 to 10,000 kilometers requiring an investment of US$10-15 billion over the period from 2000 to 2020. Work on the Trans-ASEAN Gas Pipeline project is spearheaded by ASCOPE, through a task force chaired by Petronas.

Two of the fourteen power interconnection projects envisioned between ASEAN countries are now operational. They are the ones between
Malaysia and Singapore and between Malaysia and Thailand. In addition, Laos has long-term contracts to sell hydropower to Thailand and Viet Nam, and Cambodia is to import power from Laos, Thailand and Viet Nam.

Now, more than ever, energy has taken a vital part in Southeast Asia’s economic integration. Partly as a response to the financial crisis, ASEAN has been pushing that integration with ever-greater vigor, and energy is part of it. ASEAN is convinced that the way to stimulate economic activity and draw investments back into the region is not to constrict the regional market but to integrate and thus enlarge it. The way to deal with the challenge of globalization is for national economies to coalesce into regional markets.

Contrary to the predictions of instant analysts, ASEAN has accelerated the implementation of the ASEAN Free Trade Area. AFTA is now to be officially completed by the beginning of 2002 for the first six signatories to the AFTA treaty and shortly thereafter for the rest of ASEAN. Indeed, for all practical purposes, AFTA is now with us, with ninety percent of goods covered by AFTA to be subject to no more than 0-5 percent tariffs in less than three months from now.

The ASEAN Industrial Cooperation scheme, under which the products of companies operating in two or more ASEAN countries enjoy full AFTA treatment immediately, has been made even more liberal. ASEAN’s leaders have directed the launching of a new round of negotiations on trade in services. Each ASEAN country has resolved to extend national treatment to investments in its manufacturing sector from other ASEAN countries. Any exceptions are to be phased out by 2003. Capital for investments in manufacturing is now to flow freely within ASEAN.

**Binding ASEAN Together**

In ASEAN’s view, however, regional economic integration does not stop at policy measures. Integration does not stop at cutting tariffs, removing non-tariff barriers, reducing obstacles to investment, and easing restrictions on trade in services.
For ASEAN, integration also means binding its members together through infrastructure facilities, principally in transport, communications and energy. These are the lifeblood and nervous system of an integrated regional economy. They make trade in goods and services and capital flows possible and easier. Their availability and efficiency are a major factor in investment decisions. They themselves are the subjects and objects of trade and investment. Their construction and operation stimulate economic activity.

Energy is a natural area for linking ASEAN countries to one another. Some ASEAN countries are energy exporters; others are importers. Some have the capital to develop energy resources and facilities; others lack it. Energy technology can be profitably shared.

ASEAN has proven reserves of 22 billion barrels of oil, 227 trillion cubic feet of natural gas, 46 billion tons of coal, 234 gigawatts of hydropower, and 20 gigawatts of geothermal capacity. One estimate says that ASEAN accounts for two percent of the world’s oil reserves and three percent of global coal and gas reserves. In 1996, ASEAN contributed about four percent and consumed about 2.5 percent of the world’s energy production.

Energy makes up a large chunk of the export earnings of Brunei Darussalam, Indonesia and Malaysia. These three ASEAN countries account for 55 percent of the world’s production of liquefied natural gas. Singapore is a leading oil-refining and -trading hub. It is the third largest refining center after Rotterdam and Houston and ranks third behind New York and London as an international oil-trading hub.

ASEAN already has the fourth largest electricity network in Asia, after China, Japan and India, with installed capacity of 76 gigawatts, which is now expected to resume its rapid growth. ASEAN can profitably utilize up to US$90 billion between now and 2005 in capital expenditures for power generation, transmission and distribution. In addition to the 5,565 kilometers already built in ASEAN, some 7,000 kilometers of gas pipelines are being planned in anticipation of the expected demand for natural gas of 38-69 billion cubic meters per year by 2020.
Requirements and Opportunities

Such mammoth requirements offer great opportunities for profitable investments. These investments, in turn, together with the expanded availability of energy, would spur economic activity and employment, which would hasten Southeast Asia’s economic growth. At the same time, as the day approaches when reserves of fossil fuels run low, alternative sources of energy will have to be developed. This will require massive investments and tremendous opportunities in terms of equipment, human resources, and technology.

ASEAN’s energy sector obviously presents enormous opportunities and requires huge resources. Intra-ASEAN linkages in this sector offer much potential benefit, both in themselves and as a component of ASEAN economic integration. It is in this light that ASEAN’s leaders placed heavy stress on energy linkages in the Ha Noi Plan of Action that they adopted last December. The leaders directed ASEAN to ensure the security and sustainability of energy supply. They urged the efficient utilization of natural energy resources and the rational management of energy demand, with due consideration of the environment. In concrete terms, they called for the early realization of trans-ASEAN energy networks, specifically the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline.

In compliance with the leaders’ directives, the ASEAN Energy Ministers, in their 17th meeting last July, adopted the ASEAN Plan of Action for Energy Cooperation 1999-2004. For the first time, all ten Southeast Asian countries are involved in ASEAN energy cooperation.
The ASEAN Plan of Action for Energy Cooperation covers six areas — the ASEAN Power Grid, the Trans-ASEAN Gas Pipeline, coal, energy efficiency and conservation, new and renewable sources of energy, and energy policy and the environment.

The plan of action envisions fourteen power interconnection projects to be developed to form the bulk of the regional grid. The integrated approach that has been worked out for planning electricity interconnections in the Greater Mekong Sub-region is to be expanded to all of ASEAN. The energy ministers project a master plan for the short-term development of the Trans-ASEAN Gas Pipeline, with feasibility studies of individual interconnection projects between ASEAN countries as an initial step. This would include addressing the legal, institutional and technical issues involved.

An ASEAN Forum for Coal has been formed to promote the use of clean-coal technology for rural electrification, private investments in the development of coal resources, and trade in coal within ASEAN. The energy plan of action seeks to set up a system for labelling electrical products manufactured and marketed in ASEAN to reflect their energy efficiency. This would be part of the program to promote energy efficiency and conservation.

The plan of action sets out measures to foster the exchange of expertise and technology among ASEAN manufacturers of products using new and renewable sources of energy and to foster their utilization, particularly in the rural areas. Finally, the plan includes a comprehensive energy cooperation program and a regional energy outlook and analysis. It envisions joint studies on energy issues and ways of building the capacity of member-states to put together energy outlooks and policy analyses.

The newly-established ASEAN Centre for Energy, which is located in Jakarta and works closely with the ASEAN Secretariat, is spearheading the implementation of the ASEAN Plan of Action for Energy Cooperation. ASCOPE, of course, the re-named ASEAN Forum on Coal and the Heads of Power Utilities/Authorities are at the center of these efforts.
The ASEAN Secretariat is happy to support the work of ASCOPE, ACE, and the rest. This is in compliance with the ASEAN leaders’ mandate to hasten the integration of the ASEAN economy and to make energy linkages part of that integration. It is in keeping with the leaders’ directive for ASEAN to cooperate in mobilizing the energy sector to spur the region’s lasting recovery and sustained growth.
We are all gathered here - we from ASEAN and you from Japan—to take a look at ASEAN together. We are today to take a look at ASEAN as a regional economy, not as separate economies. To be sure, each ASEAN member-country is represented here, but they are here in solidarity as an association. We have come to meet with you as ASEAN.

We are fortunate in having this mission led by Her Excellency Dato Seri Rafidah Aziz, Minister of International Trade and Industry of Malaysia, about whose commitment to ASEAN and to the idea of regionalism there is no doubt.

First of all, I must echo what many observers of the ASEAN economy have been saying of late: the economic crisis is behind us, we are now back on the road of rapid growth, and we are taking measures, national and regional, to ensure that we remain on the path of growth. We also remain committed to regional economic integration and openness to the world. ASEAN is once again a region of great opportunity.
ASEAN is moving steadily toward being a truly integrated economy. Trade barriers are going down. Tariffs on almost all products traded by ASEAN’s leading trading nations will be down to 0-5 percent in less than two years. With a few exceptions, tariffs will be zero not very long after that. Even now, products of companies with related operations in two or more ASEAN countries may now flow freely in the region with tariffs of at most five percent or none at all. Many Japanese companies have taken advantage of this scheme. Non-tariff barriers are being removed.

Trade among ASEAN countries is being made much easier with the harmonization of standards and procedures. Infrastructure linkages - transport, energy and telecommunications - are being expanded and strengthened.

Thus, ASEAN is fast becoming unified as a market, indeed as an economy. This means that a company that produces or otherwise operates out of one ASEAN country has all of Southeast Asia as its market. It is a market of half a billion people with a gross regional product of US$800 billion, a region of rich and diverse natural and human resources. It is a market that is back on the road of economic growth.

Because ASEAN is engaged with and open to the global economy, a company producing in ASEAN is well positioned in the international marketplace, selling to and buying from the world market with increasing ease and to growing advantage.

ASEAN is a region of great diversity, diversity among its member-nations and within them. The member-nations and parts of nations are at different levels of development. They are endowed with a great variety of natural resources. Their people have diverse kinds and levels of human skills. The prospective investor in ASEAN has a wide range of choices of location in accordance with the requirements of the line of business and where the greatest profit is to be gained.

Investments can now flow much more freely within ASEAN, with investors from one ASEAN country given access to and national treatment by other
ASEAN countries. A Japanese investor in joint venture with ASEAN investors can benefit from these privileges in what is now called the ASEAN Investment Area.

Many Japanese investors and business people have long recognized the natural economic ties between Japan and Southeast Asia, ties based on complementary endowments, geographical proximity and cultural affinity. For decades, trade has flowed in ever-rising volumes between Japan and Southeast Asia to the benefit of both. Japan is today, and has been for a long time, ASEAN’s leading trading partner and biggest market. For decades, Japanese investments have moved to Southeast Asia to the advantage of both. Japan accounted for nineteen percent of the total approved foreign direct investment in manufacturing projects in ASEAN from 1980 to June 1999. Japan provided twenty percent of net foreign direct investment flows into ASEAN in all sectors from 1995 to June 1999. Clearly, among developing countries and regions, ASEAN has been a prime destination for Japanese investments. To a great extent, ASEAN’s trade with and investments from Japan are intimately related to each other, with Japanese investors in ASEAN exporting to Japan and trading with one another, as well as with the world.

Industrial development in ASEAN makes the potential for trade and investment relations with Japan even greater. As Japan re-structures its economy and ASEAN’s economies develop and further integrate, Japanese investments in ASEAN and Japanese trade with ASEAN will change in character as well as rise in level. The opportunities are expanding for many more Japanese industries and many more Japanese companies - big, medium and small.
Later in the day, we will see more vividly and discuss in greater detail the nature and magnitude of these opportunities.

In the meantime, it is for me to thank the Ministry of International Trade and Industry of Japan, the ASEAN Centre and JETRO for sponsoring this event. I thank the ASEAN Embassies in Tokyo for their support. I thank the Ministry of International Trade and Industry of Malaysia and the Malaysia Industrial Development Authority for the work that they have devoted to this endeavor. Finally and not least, I wish to pay tribute to Her Excellency Dato Seri Radidah Aziz for her excellent leadership of this mission, both onstage, here, and behind the scenes.
The Impact of the Economic Crisis on ASEAN: A Blessing in Disguise?

Keynote address at the opening of the Seventh ASEAN Editors’ Conference, Wisma Antara, Jakarta, 12 April 1999

What is the impact of the financial and economic crisis on ASEAN?

When the crisis broke into public view, the answer was immediate. The “observers” and “analysts” perennially quoted in the media had their answer: Surely, the ASEAN countries will now retreat into their own nationalistic shells. They will build protectionist walls around them. They will pursue their own national interests. To each his own. Forget ASEAN solidarity. Forget ASEAN cooperation. The “observers” and “analysts,” herd-like, concluded: Surely, at the very least, AFTA - the ASEAN Free Trade Area, scheduled for completion in 2003 - is dead.

Now, what is the factual answer, as opposed to gloomy speculation?

In fact, the real impact of this experience on ASEAN has been to pull the ASEAN countries more closely together. It has opened them more widely to one another. It has strengthened ASEAN solidarity. It has intensified ASEAN cooperation. It has hastened ASEAN integration. The result has been the opposite of the public expectation, the outcome contrary to the popular prognosis.
As the “observers” and “analysts” were predicting doom for ASEAN, ASEAN’s leaders, meeting in Kuala Lumpur in December 1997, put forth their own vision for the association, their ASEAN Vision 2020. It was a vision of ASEAN “as a concert of Southeast Asian Nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development, in a community of caring societies” (italics mine).

Upon the suggestion of the Prime Minister of Viet Nam, the leaders directed ASEAN’s ministers and officials, committees, and other bodies to draw up programs of action and specific measures to move ASEAN closer to the realization of ASEAN Vision 2020, the vision of an ASEAN working together in concert, partnership and community. The ASEAN members and sectoral committees and working groups have done exactly that, with the Secretariat in a coordinating role. On the basis of their work, the leaders, meeting in Ha Noi last December, issued the Ha Noi Plan of Action.

**Spurring the Recovery**

The Ha Noi Plan of Action is a set of measures and actions that ASEAN would undertake, in cooperation and solidarity, to respond to the challenges of globalization. For the short term, it would spur ASEAN’s economies to recover and seek to protect the poor from the ravages of the crisis. For the longer term, it would preserve the environment, lay the foundations for solid and equitable development, and get ASEAN’s work better known in the world.

Some of this work, of course, had already begun even before the Ha Noi summit. ASEAN’s leaders, ministers and officials had been working out concrete ways to hasten and deepen ASEAN cooperation and integration, in consultation with the business sector and non-governmental organizations.

They took a look at the regional and global financial turmoil and its impact on the lives of the region’s people and saw what had to be done. Factories and businesses had to run at full speed again. Investments had to be brought back in. More money had to be put in the hands of people so that they
could improve their lives and buy more goods and services. Financial institutions and corporations had to be straightened out in order to foster efficiency and restore confidence in them. Monopolistic practices and favoritism had to be done away with, because the margin for the inefficiency and waste that they had brought about had been considerably reduced. The business of lending and borrowing had to be made transparent and aboveboard. The international investing community had to be persuaded that Southeast Asia remained a good place in which to invest.

Meanwhile, people, particularly the poor, had to be cushioned from the impact of the crisis. They had to have food, medical care and housing. They had to be put back to work as soon as possible. Some of their income had to be maintained. For the longer term, they had to acquire the skills and the infrastructure to prepare for the competitive rigors of a globalized economy, especially for the information-technology industry and other industries of the future. The environment had to be protected if recovery and growth were to endure.

ASEAN knew that bigger, rather than smaller, markets would make production and trade more efficient and thus attract investments better. Not even the market of Singapore or of Indonesia would be enough for many investors. The ASEAN market of close to half a billion customers would be much more attractive.

**Accelerating AFTA**

So, ASEAN did the logical and the rational thing, against the popularized expectation. ASEAN decided to move faster and deeper on the ASEAN Free Trade Area. Upon the leaders’ mandate, the ASEAN Economic Ministers have agreed to move as fast as possible in placing as many of their countries’ products as possible under AFTA coverage. They have also agreed that, for the older ASEAN members, AFTA products would have tariffs of no more than 0-5 percent by 2002. For at least 90 percent of tariff lines, tariffs would be brought down to 0-5 percent by 2000. Although there is a time lag for the newer members, the schedule has been accelerated for them, too.
This means that, for the six older ASEAN members, AFTA will be substantially completed in less than nine months. So much for the prediction of AFTA’s death.

ASEAN is moving, too, on bringing down barriers to trade in services. Already, ASEAN members have made commitments to one another on seven services sectors - air transport, business services, construction, financial services, maritime transport, telecommunications and tourism. Trade in services is a bit more complicated than trade in goods, but ASEAN has decided to open all services sectors and all modes of supply to future negotiations. Such negotiations are expected to open soon, as directed by ASEAN’s leaders, and completed by 2001.

ASEAN is also integrating itself as a single investment destination. Last October, the ASEAN Economic Ministers established the ASEAN Investment Area. Under this scheme, ASEAN countries are to open up their manufacturing sectors to ASEAN investors, each country treating their investments as if they were those of its own nationals. Any exceptions to this are to be phased out according to a short and definite schedule.

ASEAN is only too aware that investments among ASEAN members are far from enough. Investments from the richer countries have to be drawn in fast, so as to reverse the capital flight that has been one of the major effects and causes of the crisis. ASEAN has thus decided to promote investments into ASEAN jointly. At their summit in Ha Noi last December, ASEAN’s leaders agreed upon a set of what they called “bold measures” to draw investments into ASEAN.

**The Return of Investments**

The leaders not only directed that AFTA be accelerated in order to create the larger market attractive to investors. The leaders also offered further inducements to investors who submit applications this year or next. Such investors will be exempt from the corporate income tax for at least three years or given a corporate investment tax allowance of at least 30 percent. They can be 100-percent foreign-owned. They can import capital goods duty-free and have access to the domestic market. They can lease industrial
land for periods of at least thirty years. They can hire foreign personnel. This would be in addition to the incentives that each ASEAN country already offers to foreign investors.

ASEAN members know that for their economies to recover they have to bring back investments - to stimulate economic activity, create jobs and raise people’s living standards to what they were before the crisis. And to bring back investments, they have to act as one. They were seen as one when investors fled or stayed away; they have to be seen as one for investors to return.

This is one lesson that the crisis has taught Southeast Asia - graphically, painfully. Countries can no longer afford to act in isolation. Increasingly, the age of globalization has brought with it the era of regionalism. Nations that are of less than continental dimension, countries that are less than the United States, China, India or Russia in size, have to coalesce in regions if they are to thrive in a globalized economy, if they are to survive in it.

This is certainly true in the world of finance. The financial crisis that started in East Asia, in ASEAN, caught almost everyone by surprise, including most of the world’s most brilliant economists. And it quickly spread. Because of inadequate consultation among ASEAN members, no ASEAN country was sufficiently aware of the problems building up in others or of the imminent impact of those problems on themselves. There was no institutionalized mechanism for ASEAN members to compare notes on developments in their economies, particularly in their financial sectors, but in the real economy as well. There was no formal forum for the finance ministers to consult on what to do about impending or fundamental problems that they may see.

**Surveillance and Peer Review**

Now, since the onset of the crisis, ASEAN’s finance ministers, central bank governors and their deputies have greatly intensified their consultations. One of the mechanisms and bases for such consultations is the ASEAN surveillance process that the ministers established last year. Through this process, the finance ministries and central bank governors look over the developments in each of their economies and in the region as a whole.
They exchange information on the policies that they have adopted and are carrying out and subject these to peer review. In this way, they expect to deal with problems before they erupt into crises and before they spread.

The surveillance mechanism is managed at the ASEAN Secretariat, with temporary funding and technical support from the Asian Development Bank. The surveillance process entails the collection of macroeconomic data and other economic and social indicators. It involves the collective analysis and reporting of such data by the ASEAN governments. It also includes the training of officials in the conduct of this process.

The first report of the surveillance process was submitted by the so-called Select Committee of finance ministry and central bank deputies last month. The report carried a tone of cautious optimism, forecasting that growth in the region will resume later this year, but warning about potential developments elsewhere in the world that can obstruct growth.

More importantly, the report carried accounts of what each ASEAN country was doing to stimulate domestic demand, protect the poor, revitalize the financial and corporate sectors, improve transparency and corporate governance, and mobilize resources to finance growth. The finance ministers reviewed these policies and actions.

ASEAN realizes, of course, that much of the global financial turmoil arises from weaknesses elsewhere in the world and in the global financial system itself. The ASEAN finance ministers and their deputies have started close and frequent consultations with their counterparts from China, Japan and Korea, countries which are in ASEAN’s immediate vicinity and share many of its problems. Some ASEAN ministers have been active in the financial forums of APEC, ASEM, the Manila Framework group, the Group of 22 that is reviewing the international financial architecture, and the Group of 15 developing countries.

**Contributing to the Global Debate**

As their common contribution to the global debate, and in the ASEAN interest, the finance ministers have been developing a common position on
the issues arising from attempts to review the international financial system. They insist that any measures adopted to deal with the global financial turmoil must be flexible and take into account the particular situations, concerns and interests of all countries and not just of a few. The poor must be protected. Inasmuch as the private sector was involved in the problems giving rise to the crisis, the private sector must be involved in the solutions. Transparency requirements must apply to the private as well as to the public sector. Short-term capital flows must be closely monitored. From now on, the liberalization of the capital account must take into account the state of development of the domestic financial sector.

There is now open discussion of what has hitherto been unthinkable - an exchange-rate system or even a single currency. Studies have been officially mandated on these subjects.

The quickening pace of regional economic integration and financial consultations has accompanied ever-closer and wide-ranging ASEAN cooperation. Such cooperation has brought ASEAN ever more firmly together. It takes many forms - the ASEAN gas pipelines and road networks, intra-ASEAN transport arrangements, inter-connectivity in telecommunications, disease surveillance, joint action on the haze arising from land and forest fires, the fight against and prevention of drug abuse, the ASEAN University Network, and so on.

These developments in ASEAN cooperation and integration could have implications of enormous historic magnitude for our region, including political ones. I will not go into these implications now except to say that they will have a bearing
on the potential for peace and conflict within ASEAN and on Southeast Asia’s capacity to deal with its neighbors and the world beyond.

This is why ASEAN places such a high premium on Southeast Asian solidarity and why it resists so firmly any attempt by others to discriminate among its members whenever the association itself is involved.

To me, then, the most significant impact of the recent crisis on ASEAN is the spur that it has given to ASEAN cooperation, integration and solidarity. We have found in this crisis that the quickening of closer ASEAN cooperation, integration and solidarity is essential for Southeast Asia to survive and flourish in a world that, in many ways, is fast coming together.

To that extent, the economic crisis may yet prove, for ASEAN and its peoples, to be a blessing in disguise.
Since ASEAN’s founding thirty-one years ago, no disaster has hit the countries of Southeast Asia with such widespread impact as the financial crisis. ASEAN has responded to it at four levels.

At the national level, the individual countries directly affected have been undertaking the reforms and other steps that their different circumstances call for, with varying degrees of success thus far. These reforms generally have to do with closer supervision and tighter discipline of the banks, fostering greater transparency in financial and other economic transactions, promoting greater competition and leveling the business playing field. Part of the agenda are bankruptcy laws and stronger commercial codes. The rule of law is expected to be strengthened and the judiciary made more effective. There seems to be a determination to manage the external debt better.

At the bilateral level, ASEAN countries have, separately and in the ASEAN spirit, extended assistance to those in need of it. ASEAN’s heads of government have been visiting one another to offer material and financial help and share views and advice. Thailand has shipped rice to Indonesia, and the Philippines has offered medicine. In order to enable Indonesia to continue importing essential commodities, Singapore
proposed a multilateral system of guaranteeing letters of credit issued by Indonesian banks. When the developed countries declined to join the system, Singapore decided to go ahead with it on a bilateral basis. Malaysia has extended to Indonesia a standby credit of US$250 million. Singapore has offered a similar facility. Brunei Darussalam has proffered its own assistance.

At the international level, ASEAN has collectively called upon the developed countries — upon individual governments, in the Group of 7, in APEC, in the Asia-Europe Meeting — to keep their markets open to Southeast Asian countries and to maintain trade financing for them. ASEAN has urged the developed countries to encourage their banks to honor letters of credit issued by Indonesian banks and to be more accommodating in the renegotiation of Indonesia’s debt. ASEAN has reminded the developed countries and international financial institutions to take into account the need to protect the poor and other vulnerable groups in the affected societies as they prescribe programs of reform. And ASEAN has collectively encouraged China to hold the line on the renminbi.

Within the association itself, ASEAN has, at the highest level, strongly reaffirmed its commitment to regional economic integration and open regionalism, to keeping the ASEAN Free Trade Area on track and on schedule. There has been no backsliding on this beyond some minor adjustments that have little to do with the financial crisis. Indeed, at their informal summit last December, ASEAN’s heads of government called for the acceleration of AFTA’s implementation. AFTA’s completion date remains the first of January 2003 for the original six signatories, with the vast majority of traded products expected to receive full AFTA treatment by the year 2000, or only two years from now. The construction of the ASEAN Investment Area and the work on the liberalization of trade in services continue.

As part of the package of measures embodied in the so-called Manila Framework of November 1997, ASEAN’s Finance Ministers have decided to establish an economic monitoring mechanism to keep track of capital flows, the operation of their banking systems, and their macro-economic indicators. This mechanism, initially to be supported by and located in the
Asian Development Bank, is intended to serve as an early warning system for any impending problems and thus help avert a recurrence of the crisis. Officials of ASEAN’s finance ministries and Central Banks are now working on this in cooperation with the ADB and the ASEAN Secretariat.

The Finance Ministers have also endorsed the use of ASEAN currencies for the settlement of intra-ASEAN trade. The modalities for carrying this out are to be agreed upon between the trading partners concerned. As an offshoot of a private-sector roundtable convened by the ASEAN Secretariat last March, the ASEAN Bankers Association has suggested some measures to encourage ASEAN traders to use ASEAN currencies in trading among themselves. This is not about a single ASEAN currency. It is not a panacea. But it should help relieve the pressure on ASEAN countries to obtain hard currency, encourage them to trade with one another, and stimulate economic activity in general. In any case, some ASEAN countries have already been using local currencies for trade for some time.

Apart from these individual, bilateral, international and regional efforts, ASEAN has thought it best to work within the International Monetary Fund and other, broader international forums in dealing with what is, after all, a global concern.

**The Impact on Indonesia**

The devastating impact on Indonesia’s economy and society of the regional financial crisis and of the remedies prescribed for it triggered the upheaval that is transforming that country’s political system and political structure.

I believe that the international community needs urgently to get behind Indonesia in its struggle to strengthen and stabilize its currency, revive its economy, reduce inflation, hold back the rise in unemployment, and cushion the poor, mothers and infants, and the elderly from the brutal ravages of their nation’s economic difficulty. Such support would help restore investor confidence in Indonesia’s future and encourage that country in the political and economic reforms that it has started to undertake. Those reforms by themselves will not put food on the table or people back to work. They will not put milk in babies’ mouths or clothes on people’s backs. They will
not provide the medicine for Indonesia’s sick. Not by themselves and not anytime soon. Not unless generous help comes from outside. I need not emphasize the large stake that the international community has in what happens in Indonesia.

The financial crisis and the political changes in Indonesia graphically demonstrate the kind of challenges facing ASEAN today. The revolutionary nature of those challenges points the way toward the stance that ASEAN ought to take in meeting them.

**ASEAN has met momentous challenges in the past.**

ASEAN’s birth itself was a response to such a challenge. In a region divided by historic suspicions, conflicting interests, political rivalries, territorial disputes and unsettled boundaries, the leaders of five Southeast Asian countries founded ASEAN in August 1967 to ensure that sources of potential conflict were peacefully managed through personal high-level contact, constant consultation and a culture of cooperation. At the same time, ASEAN’s founding leaders placed economic and social cooperation at the forefront of the association’s stated purposes in order to give material content to Southeast Asian solidarity.

By its 30th year, in 1997, ASEAN could claim fulfillment of its original purposes. Although disputes between member-states persist, none has developed into war between them. The world has recognized ASEAN to be a force for peace and stability in the region as well as some kind of a model in regional economic integration in the developing world. ASEAN has led the international effort, early in the decade and today, to bring about a lasting political settlement of Cambodia’s problems and has, in general, represented the voice of reason and moderation in its part of the world. There is no arms race in Southeast Asia, nuclear or otherwise.

The next serious challenge to ASEAN was the end of the Cold War. The dissolution of the accustomed world of political blocs, military alliances and ideological camps led to a sense of heightened uncertainty. At the same time, the end of the Cold War presented ASEAN with the opportunity to help shape the parameters of its own security.
ASEAN’s answer was stronger solidarity within itself and the establishment of the ASEAN Regional Forum. In its short four-year life, the ARF has become the principal multilateral body for advancing the security of the region, engaging the major powers in regional security affairs. It is also a prime instrument for the ASEAN nations to have a hand in shaping the destiny of their own region. The ARF serves not only as a forum for valuable consultations on regional security issues but also as a framework for building confidence through cooperation in such practical areas as search and rescue, disaster relief, the promotion of transparency, military education and training, and other forms of defense and military interaction. It is now generally recognized that it is only ASEAN that could have gathered such powers as the United States and China, Japan and India, Russia and Korea, the European Union and Canada, Australia and New Zealand under one roof to consult and cooperate on the region’s security.

The Challenge of Globalization

Today’s great challenge is that of globalization. In prescient anticipation of this development, ASEAN’s leaders and ministers recognized early on that stronger regionalism is the only way to brace countries against the powerful winds of globalization. After experimenting with various preferential trading arrangements and industrial cooperation schemes, ASEAN agreed in 1992 to establish the ASEAN Free Trade Area and is now on the verge of completing it. AFTA’s completion will bring to reality a market of half a billion people and thus an even more attractive investment site for serious long-term investors. ASEAN members are now constructing an ASEAN Investment Area, liberalizing trade in services among themselves, and cooperating on intellectual property, which is intimately related to investments. At the same time, they are working together on a broad range of economic areas — from agriculture to tourism, from transportation and telecommunications to information technology.

Economic integration here means not only free trade and investment areas but also regional networks of highways, railways, telecommunications, power grids, and water and gas pipelines. It means sub-regional growth areas among contiguous parts of neighboring ASEAN countries like the Mekong River Basin, the Singapore-Johor-Riau Growth Triangle, and the
East ASEAN Growth Area among Brunei Darussalam, eastern Indonesia, East Malaysia and the southern Philippines. These offer enormous opportunities for long-term investment.

The force of globalization’s impact on nations’ economies and on people’s lives derives partly from the technological revolution in information and communications. The uncontrolled flow at lightning speed of short-term capital around the world, made possible by modern technology, has severely shaken many economies, including those of some developed countries.

Similarly, the technological revolution has made easier the commission of trans-national crimes like drug-trafficking, trafficking in women and children, money laundering, and international financial fraud. Modern means of transportation have facilitated the large-scale movement of people across national boundaries. Communicable diseases are more easily transmitted. The pressures of growth and international commerce, as well as individual and corporate greed, in combination with climatic phenomena, have produced the haze from peat and forest fires that has caused severe damage to the health, education, livelihood, transportation, tourism and economies of some parts of Southeast Asia. The threat to the marine environment is just as grave, if not as visible.

In all these areas, economic and social, as well as financial, Southeast Asia’s deepest concerns today have inherent regional dimensions and thus can be met only with regional, as well as national and international, efforts. Clearly, the challenge for ASEAN is how to work together, more closely than ever before, in dealing with these problems in all their unprecedented magnitude. Indeed, the very technologies that have magnified the problems to a regional scale can, if effectively used, make regional solutions easier to find by enabling contacts, communications, data sharing, coordination and cooperation to become more speedy and more efficient in marshalling regional responses.

More than technology is needed, however. New ways of thinking are called for.
Thinking Regional

ASEAN’s response to global challenges has to be not greater national assertiveness, as countries might normally have reacted in the past, but greater regional integration and cooperation. Accordingly, in an increasing number of areas, ASEAN’s political, business and intellectual leaders and other shapers of public opinion have to give greater priority to regional interests over purely national interests in their ideas, policies and acts. More and more, they have to think — and act — regional. In some cases, national prerogatives may, to some extent, have to yield to regional demands. For this, a much greater effort than ever before has to be exerted in developing a sense of community among ASEAN’s peoples and awareness of ASEAN’s work and purposes within ASEAN itself as well as in the world beyond.

In some areas, more explicit and binding rules, embodied in treaties, may be needed to complement the informal understandings that have served ASEAN so well in the past. ASEAN already has a treaty mandating the peaceful settlement of disputes and one establishing Southeast Asia as a nuclear weapons-free zone. ASEAN has binding agreements pertaining to the ASEAN Free Trade Area and is working on others covering trade in services, investments and intellectual property. Harmonizing tariff nomenclatures, customs procedures and accounting standards and procedures would certainly make doing business in ASEAN easier. Explicit rules on controlling and preventing trans-boundary atmospheric and marine pollution would help. So would formal arrangements in fighting trans-national crime.

More and more, ASEAN has to speak with a unified voice on the great economic issues of our time. The voice of one Southeast Asian country would be almost inaudible, but a collective ASEAN voice would resonate in the councils of the world, as it has done in regional-security matters and in international trade negotiations. As a response to globalization and to the East Asian financial crisis, the financial community has been talking about the need for a new architecture of international finance. ASEAN has to make a collective contribution to the intellectual content of this new architecture. Otherwise, it will once again be left to watch morosely on the sidelines as others decide the fate of its peoples. Similarly, ASEAN has to
contribute collectively to the information society that is rapidly taking shape.

Today’s global challenges call for integration not only among ASEAN countries but also among areas of ASEAN cooperation. They have made painfully clear that regional economic cooperation encompasses not only trade and industry but also finance and economic planning in one seamless whole. In response to the financial crisis, ASEAN’s Finance Ministers and Central Bank Governors and their deputies have been meeting much more frequently and with a greater sense of urgency than before. But, clearly, their efforts have to be more closely integrated with those of the ASEAN Economic Ministers, who are for the most part those in charge of trade and industry.

Similarly, trade, industry, finance and economic planning cannot be pursued independently of the environment, manpower development, science and technology, or health. All of them in turn have a strong impact on political relations and on regional security.

The requirements of such integration, or at least coordination, have serious implications for the familiar concerns with turf — within national governments and between ASEAN bodies. The traditional divisions of ASEAN activities among political, economic and “functional” areas call for a fresh look. One thing is clear: Questions of bureaucratic turf must not be allowed to get in the way of effective and comprehensive ASEAN responses to the overpowering challenges of today.

**Indonesia’s Political Storm**
The political storm sweeping Indonesia, too, arises from that potent combination of economic globalization and the technological revolution.

The voice of one Southeast Asian country would be almost inaudible, but a collective ASEAN voice would resonate in the councils of the world, as it has done in regional-security matters and in international trade negotiations.
At the same time, the effectiveness of ASEAN’s response to the new challenges facing it depends to a large extent on Indonesia. It took a national upheaval in Indonesia to bring ASEAN into being. Indonesia is by far the largest country in Southeast Asia. Its leadership role in the Non-Aligned Movement, in the Organization of Islamic Conference and in the United Nations gives it more weight in ASEAN than its size alone would warrant. What has given Indonesia great effectiveness in ASEAN is that it has used its weight not to throw it around or to bully the other members but for constructive purposes, such as in the international effort to deal with events in Cambodia and in settling the southern Philippines conflict.

Indonesia’s unique political system and mode of governance have served as something of a model for some countries in ASEAN and in other parts of the world. As Indonesia undertakes its political reforms, changing its electoral system, releasing political prisoners, leveling the economic playing field, and expanding economic and political pluralism, it will once again influence other nations as they respond to the sharpened awareness and the changing aspirations of their peoples. Indonesia’s key importance as a nation and the information and communications revolution will see to that.

As I have indicated, today’s crises and challenges call for tighter integration, closer cooperation and stronger solidarity in ASEAN. It requires a larger measure of regional consciousness than ever before, a deeper appreciation and stronger assertion of the regional interest. It is a delicate and complex enterprise, particularly in the absence in ASEAN of true supranational institutions and elaborate rules for regional behavior. In this, Indonesia’s active role is indispensable. The outcome of political change in Indonesia will thus affect the pace and direction of ASEAN’s movement to a higher plane of integration and cooperation in response to the crises and challenges facing it today.

I am confident that ASEAN will be up to it, having surmounted other challenges before. After all, the factors that made it possible for most ASEAN countries, including Indonesia, to grow rapidly for thirty years remain in place — the abiding commitment to economic openness and
regional economic integration, the high savings rates, the low debt-service ratios, prudent fiscal management that resulted in budget surpluses, balanced macro-economic policies, and, not least, people who are willing to work long hours and place a high value on education. These qualities brought about not only rapid economic growth but also a higher standard of living for the peoples of ASEAN. James Wolfensohn, the President of the World Bank, cited some statistics last March: “Three decades of more than five-percent growth. A decline in poverty from six in ten to two in ten. Income per capita . . . up four times in Indonesia, Malaysia and Thailand.” In the same week, Paul Krugman, the well-known American economist, certainly no wide-eyed optimist on Asia, predicted, “Three years from now, it won’t be a surprise to talk about growth of beyond five percent” in East Asia’s economies.

I am glad that the Far Eastern Economic Review chose to entitle this conference “Weathering the Storm.” Although this title refers to Hong Kong, I like to think that it applies to ASEAN as well. We, too, shall weather the storm.
As a non-governmental institution, PECC from the beginning advocated an inter-governmental body for economic cooperation in the Pacific. APEC is now with us, and has been for the past ten years.

PECC has remained closely linked with APEC, and APEC is the better for it. The unique tripartite composition of PECC ensures that, beyond the normal considerations and mental processes of government officials, its work is leavened by the fresh insights of academics and is anchored firmly on the ground by the pragmatic calculations of businessmen. APEC’s linkage with and support from PECC have served it well. It has been a natural and useful partnership.

ASEAN and PECC are both observers in APEC. As Bobby Romulo and I sat side-by-side at the APEC ministerial meeting in Kuala Lumpur last November, we both wondered why ASEAN and PECC had not worked closely together before, when, in fact, it had become clearer and clearer over the years that they had much to share with each other, that each could benefit from the work of the other. I hope that my participation in your meeting today will lead to a close partnership between ASEAN and PECC in the future.
Today, I have been asked to update you on the economic situation in Southeast Asia, a situation that has caused so much concern in the rest of the Asia-Pacific, and on what ASEAN is doing about it. We could also take a look at the longer term, at some of the measures that ASEAN intends to take in the next few years.

First, the situation today.

**Beginning of Recovery**
Estimates and projections available to the ASEAN Secretariat indicate that ASEAN's economies should begin their recovery this year. Indonesia’s gross domestic product, for example, is projected to shrink by 2.4 percent. This would, normally, be bad news, but it would be much better than the -13.6 percent recorded in 1998. Malaysia’s economy is expected to grow by one percent, far from the prodigious growth of the previous decade or so, but a distinct improvement over last year’s hefty contraction. The Philippine economy, after being flat last year, is projected to grow by two or 2.5 percent this year. The projection for Thailand of one percent growth would be a marked improvement over last year’s contraction of eight percent. Remarkably, Myanmar’s GDP is expected to continue to grow briskly, at 6.5 percent, and Viet Nam’s by five or six percent.

The World Bank has recently come out with even more optimistic estimates for the growth of Malaysia and Thailand this year, which the Bank is now projecting at two percent for both.

Similarly, projections for inflation this year are encouraging. Inflation in Indonesia is expected to go down from over 70 to around 17 percent, while Thailand’s is seen as diminishing from eight to three percent. The rates for Malaysia and the Philippines are projected to remain manageable at four and 8.5 percent, respectively. For Viet Nam, the average inflation rate is expected to remain at under ten percent this year. Hardly any inflation is expected in Singapore. Consequently, interest rates are forecast to fall throughout the region. Exchange rates have stabilized.
Expectations for export volumes are just as optimistic, with the global demand for semiconductors and other electronic goods expected to rise. Indonesia’s exports are seen to expand, in volume terms, by more than 20 percent after contracting by 9.4 last year. Thailand’s exports are projected to keep growing at over four percent and Viet Nam’s at over six percent. Philippine exports are expected to continue their relatively rapid growth, at 15 percent this year, somewhat slower than last year’s 17 percent. Malaysia’s exports could grow slightly, after going down last year. Some analysts expect Singapore’s export volume to contract some, but less than last year. Myanmar’s exports are seen to expand by 7.5 percent and those of Laos by a hefty 19 percent, albeit from fairly low bases.

How ASEAN’s economic performance actually turns out, of course, depends on a combination of and the interplay among three sets of factors - the national policies and reform measures that each member-state adopts, the strength of the cooperation within ASEAN, and developments elsewhere in the world.

**National Reforms**

I need not relate the details of the policies and measures that individual ASEAN countries have been carrying out to deal with the impact of the global and regional financial turmoil. They have been reported extensively in the media. I would just like to recall that, at their meeting in Ha Noi last month, the ASEAN Finance Ministers undertook “to persevere with economic and financial re-structuring to ensure sustainable growth with stability” and re-affirmed their “commitment to expediting reforms in these areas.”

What is little known is the fact that the ASEAN governments have begun to inform one another about their internal policies and reforms and have exchanged views on them. At their Ha Noi meeting, the Finance Ministers reported to one another the measures that their governments had been taking to (1) revive domestic demand, (2) protect the poor, (3) revitalize the financial and corporate sectors, (4) strengthen transparency and good governance, and (5) mobilize additional resources to finance growth.
This sharing of information is motivated not only by the heightened need for transparency; it is also a mechanism for intensified consultation and mutual encouragement. It is the beginning of the peer review that the Finance Ministers have decided to undertake.

Peer review, in turn, is part of the surveillance process that the Ministers have established to help them keep track of macroeconomic trends and other economic and social indicators - and of any unusual glitches in them - and thus alert them to any impending problems. The process is operated by a special unit at the ASEAN Secretariat with initial funding and technical support from the Asian Development Bank. The ADB has a counterpart unit in Manila that provides that support and is to train ASEAN officials in the conduct of this novel activity.

For peer review to work, the Finance Ministries and Central Banks of ASEAN have to undertake frequent and intensive consultations. It is remarkable that ASEAN’s Finance Ministers met formally for the first time only in March 1997. Before that, finance had not been in the mainstream of ASEAN cooperation. Now, however, of all ASEAN Ministers, the Ministers of Finance meet the most frequently.

**Faster Integration**

A strong and decisive ASEAN response to the financial crisis has been the acceleration of regional economic integration, although media speculation was the exact opposite. At their summit in Kuala Lumpur in December 1997, at the very time when the crisis was gathering momentum, the ASEAN heads of state and government declared very clearly:

“We will create a stable, prosperous and highly competitive ASEAN Economic Region in which there is a free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities.”

Since then, in a series of agreements and decisions, some mandated by the leaders themselves, ASEAN has taken steps to move forward the implementation of the ASEAN Free Trade Area. The date for the completion of AFTA has been advanced to 2002 for the six original signatories of the
AFTA agreement. The ASEAN Economic Ministers have agreed to push almost all traded products into the inclusion list for AFTA coverage. Of that list, 90 percent of tariff lines are to have tariffs of no more than 0-5 percent by 2000, with each country committing itself to make such tariff reductions on at least 85 percent of its tariff lines. Thus, by the beginning of 2000, or less than nine months from now, AFTA will be substantially, if not formally, achieved. ASEAN is now looking, together, into those few sectors that may encounter problems with the more rapid pace of regional free trade and into how such problems may be overcome.

Beyond trade in goods, the Economic Ministers have turned their attention to trade in services, which are a bit more complicated. They have made commitments to bring down barriers to trade among ASEAN countries in seven services sectors - air transport, business services, construction, financial services, maritime transport, telecommunications and tourism. Now, upon the leaders’ directive, they are working on a more comprehensive approach, looking to a new round of negotiations on trade in services in all sectors and all modes of supply. The round is to start this year and wind up in 2001.

ASEAN seeks to strengthen regional economic integration not only by bringing down statutory barriers to trade. Integration is also being fostered by cooperative measures to improve the operation of customs. Work is proceeding on common standards for products and processes. Transport linkages are being streamlined through landmark agreements on goods in transit and multi-modal transport. An agreement on inter-state transport...
is being worked out. Plans for road networks, railway links and trans-boundary gas pipelines have been laid.

**Attracting Investments**

The idea here, of course, is to improve the efficiency of production in ASEAN, stimulate competition, make trade easier, lower costs, create a larger market of half a billion consumers, and thus attract investments into the region - all of which have become urgent in the face of economic strains.

Beyond making trade freer and easier, the ASEAN leaders, at their Ha Noi summit, decided to take direct steps to attract investments into the region. For investments applied for in 1999 or 2000 and approved, foreign investments are to be exempt from the corporate income tax for at least three years or given a corporate investment tax allowance of at least 30 percent. They can be 100-percent foreign-owned. They can import capital goods duty-free and have access to the domestic market. They can lease industrial land for periods of at least thirty years. They can hire foreign personnel. This would be in addition to the incentives that each ASEAN country already offers to foreign investors.

The leaders also agreed to waive the 30-percent national-equity requirement for investments under the ASEAN Industrial Cooperation scheme for the 1999-2000 period. As you will recall, AICO is a scheme under which products of companies operating in two or more ASEAN countries immediately receive full AFTA treatment. A number of large Japanese and European multinational companies, many in the automotive industry, have already taken advantage of the scheme.

ASEAN members, of course, know that economic recovery in the region does not depend only on them, individually or as a region. At their meeting last month, the Finance Ministers expressed their confidence that “1999 will witness improved economic prospects for the region.” They cited the “return of stability in the foreign-exchange markets; rising current account surpluses and a build-up of reserves; substantial decline in domestic interest rates; easing of inflationary pressures; recovery in stock markets;
improvement in consumer sentiment; levelling-off in the contraction of industrial production.”

**External Challenges**
But they also acknowledged several external factors - “challenges,” they called them - that could hinder economic recovery - “the risk of rising protectionism, a sharp reversal in the US stock market, weakness in the Japanese economy, exchange rate misalignment of major currencies, and uncertainty of external financial flows.”

They, therefore, resolved to “adopt a more proactive role at various international and regional fora to ensure that (ASEAN’s) interests and priorities are given due consideration in any proposal to reform the international financial architecture.” The Ministers then laid down the ASEAN positions on several issues involved in the review of the financial architecture.

For the longer term, ASEAN has set its sights on rural development, small and medium enterprises, entrepreneurial training, the development of technology, including information technology, and the protection of the environment, as well as on the continued attraction of investments and financial cooperation.

The Ha Noi Plan of Action, which ASEAN’s leaders issued at their summit last December, mandates the steps to be taken in those areas, now, for the fulfilment of the 1997 vision, beyond those that are already being undertaken. The ASEAN Ministers, committees and other bodies, together with the ASEAN Secretariat, have been working on specific activities and their expected concrete outcomes in carrying out these mandates.

On investments, for example, studies are to be undertaken on impediments to investment in ASEAN countries and how to eliminate them. A common ASEAN approach to statistics on foreign direct investment is to be worked out. Ways of encouraging technology transfer are being looked into. The impact of the liberalization of investment flows on certain specific industries is to be analyzed.
ASEAN is determined to build the ASEAN Information Infrastructure, and studies on its shape and contents are to be carried out.

In the new area of financial cooperation, studies are being proposed on capital account liberalization, the monitoring of short-term capital flows, the facilitation of cross-border financial flows, and the development of common financial practices and standards. An exchange-rate system and even an ASEAN currency are to be explored. Networking among development banks in the region is envisioned.

**Small and Medium Enterprises**
ASEAN is paying particular attention to small and medium enterprises. A match-making workshop involving ASEAN SMEs and those of other countries is being planned. Ways of attracting investments in SMEs specifically are being pursued. A regional export financing and credit guarantee scheme, and even an investment fund, for SMEs are under consideration.

In order to harness the region’s human resources for productive activity and improve people’s lives, cooperative programs are to be worked out to develop the skills and spirit of entrepreneurship and the capacity for self-employment. ASEAN countries are to cooperate in their efforts to impart productive skills to women and out-of-school youth.

Among measures to raise the level of science and technology in the region are the development of a technology scan mechanism and a system of technological competitiveness indicators.

On the environment, apart from the work currently being done, ASEAN intends to set up an environmental database and public information program. Ways of sharing environmental technology are to be developed.

**Cushioning the Social Impact**
In order to help cushion the impact of this and future economic downturns on people’s lives, ASEAN is devising programs to improve the region’s capacity to design social safety nets and to assess the social impact of economic and other setbacks.
The growing problem of caring for the elderly and the disabled is to be addressed, and particularly prevalent communicable diseases are being dealt with in cooperation. More ways of fighting the manufacture of, trafficking in and abuse of illicit drugs are being worked out.

These are just a few of the activities that ASEAN is going into in dealing with the economic and social problems that are emerging today. ASEAN cannot do it all by itself. Most of it has to be done in collaboration with ASEAN’s dialogue partners, other countries, international institutions, foundations, and other non-governmental organizations. The ASEAN Secretariat is convening on 6 and 7 May a forum among these agencies to identify the areas where collaboration can be productively undertaken.

Trade and investment liberalization, facilitation and promotion, transportation and communications, cooperation in finance, industrial cooperation, small and medium enterprises, information technology, human resource development, the development and transfer of technology. If these sound familiar to PECC as areas for regional cooperation, then they indicate the extent to which ASEAN and PECC can and ought to work together.

PECC is doing much useful work in these areas. A certain amount of overlap with what ASEAN is doing cannot be avoided, but we can reduce wasteful duplication if we consult more closely with each other and cooperate with each other. We can begin by letting each other know what we are working on, as we are doing today. We can share the results of our studies. We could even work together on certain issues.

For example, PECC is doing studies on the state of the automotive industry in the region, a sector of great interest to ASEAN. PECC has also offered to work with ASEAN on developing the ASEAN Information Infrastructure.

Seven ASEAN members belong to PECC. Many of our objectives coincide. We work for the same purposes, which are the breaking down of barriers between economies, expanding economic opportunities, nurturing the spirit of cooperation among the countries of the Pacific, and improving the lives of our peoples.
The work of Customs in ASEAN have assumed an even greater importance at this time of great challenge for our region. When the first shock of the currency crisis hit the economies of Southeast Asia, people around the world started to wonder whether the ASEAN nations, particularly those most affected by the crisis, would remain steadfast in their commitment to regional economic integration and economic openness to the rest of the world. They asked themselves whether, in reaction to the crisis, they would now start cowering in their own isolationist and protectionist shells, or at least slow down the pace of integration and opening.

ASEAN’s members had achieved their rapid growth by deciding to adopt liberal economic policies, lowering and dismantling barriers to trade and investment, pushing resolutely toward an ASEAN Free Trade Area, and moving to the forefront of the great global wave of trade and investment liberalization.

ASEAN’s members could give credit to their liberal and open policies for their economic success. The question was: Would they now blame those same policies for the severe setback to their economies and
abandon them in favor of more timid and restrictive ones? Would they at least retreat into greater caution and waver in their commitment to AFTA and on their enthusiasm for WTO and APEC?

ASEAN’s leaders have responded with a resounding no. At their second informal summit, in Kuala Lumpur last December, ASEAN’s heads of state and government gave us their categorical negative reply. Not only did they not weaken in their resolve or waver in their commitment to economic integration and liberalization. They re-affirmed that resolve and that commitment in ringing tones. Not only that. They even called for the acceleration of the CEPT process and for the earlier achievement of AFTA.

This was not a matter of bravado or of recklessly choosing to live dangerously in an economically dangerous world. It was a calculated, rational response to the new economic situation in East Asia.

Our leaders knew, in their wisdom, that the long-term response to the currency and financial crisis afflicting their economies was to draw in investments of the long-term kind, investments in productive facilities that turn out goods and services, create jobs, stimulate trade, and earn incomes for their countries and peoples. And they knew that the way to bring back investments was to enlarge their markets faster through more rapid integration and open them wider to the world.

Obviously, ASEAN’s customs services have a vital role to play in the maintenance of our countries’ commitment to AFTA and other stages of trade liberalization and thus in this particular response to the economic crisis from which we are now seeking to recover. If AFTA and other forms of trade liberalization mean, first of all, the lowering of tariffs, these measures can be effective only to the extent that the customs services are effective and efficient in their application.

You have already done much in this regard. You have made much progress in simplifying and harmonizing customs procedures. You have given greater consistency to tariff nomenclatures and valuation systems. In 1996, you set up a Green Lane for products under AFTA treatment. You might now
expand the scope of the Green Lane to include all products from ASEAN countries. You could make it even more effective by reducing clearance times and simplifying procedures further. You could institute more modern customs techniques like pre-clearance or pre-release of goods for the Green Lane. Indeed, the Green Lane, which is currently restricted to ASEAN products, could be a useful testing ground for the application of sophisticated customs methods, with the view to their eventual adoption for multilateral use.

Our customs services could align their procedures to internationally accepted customs standards, conventions and practices. This would not only advance our efforts toward regional uniformity but also help to integrate our economies with the rest of the world, enhancing our competitiveness, building confidence, and thus attracting investments. It would also contribute to efficiency in doing business and thus help significantly to cut costs. Efficiency and cost-effectiveness are what we need as we look toward the recovery of our economies. I recommend that you study this seriously.

Last year, you adopted a bold and far-seeing Vision 2020. Last December, ASEAN’s leaders issued a statement of their Vision 2020 for our region.

As you begin to implement your Vision 2020, you might start work on an action program — say, for the next five years — which you could submit to our leaders in time for the Sixth ASEAN Summit in Ha Noi next December.

Such an action program would help advance an important component of our leaders’ Vision 2020. At the same time, it would show the world
that ASEAN is serious and determined about dealing with today’s crisis in real and concrete ways.

In this sense, your work in ASEAN is vital to Southeast Asia’s economic recovery and to the prosperity and welfare of its people.
Among ASEAN’s leading purposes are the progressive integration of the member-countries’ economies and ever-closer cooperation among them. These would create a larger market, provide the conditions for economies of scale, offer opportunities for the pooling of resources, promote greater efficiency, lay the setting for networking among businessmen, and so on. This is obviously good for ASEAN business. As businessmen are the main beneficiaries of ASEAN integration and cooperation, so must they be - - and are — the central actors in this process.

ASEAN’s leaders have repeatedly stressed the central place of the role of the private sector in ASEAN. It is in compliance with this mandate that we have made close contact and cooperation with the private sector one of the top priorities of my stewardship of the ASEAN Secretariat.

This is the position that I conveyed to some of the Philippines’ top business leaders over lunch in Makati two weeks ago. It is the commitment that I have affirmed to Mr. Bakrie and Mr. Sentosa. It is the message that I give to you today.
This is no mere lip service to an ASEAN commitment that is repeatedly made. We are putting it into practice. Two weeks ago, we convened a roundtable among ASEAN’s leading business associations and business-related professional organizations. Its purpose was to examine, from the point of view of the private sector, the financial turmoil ravaging our region’s economies and businesses and to begin working out measures for ASEAN’s private sector to undertake itself or to recommend to ASEAN’s governments.

ASEAN-CCI was among the first associations that we contacted, and its representatives were among the most active and productive participants in the roundtable. The ASEAN Bankers Association and the ASEAN Business Forum also took part. So did the ASEAN Federation of Accountants and the ASEAN Forum of Credit Rating Agencies.

We thought that, since ASEAN businesses were, in one way or another, involved in and affected by the financial problem, they had to be part of the solution.

We brought in two excellent resource persons. One was Dr. Yilmaz Akyuz, Chief of Macroeconomic and Development Policies in the United Nations Conference on Trade and Development in Geneva. The other was Mr. Manuel Montes, senior fellow of the Institute of Southeast Asian Studies in Singapore, author of a booklet entitled “The Currency Crisis in Southeast Asia.”

The roundtable decried the severe effects of the financial crisis on ASEAN business and called for the restoration of stable exchange rates as a priority. At the same time, the participants expressed their concern that some of the monetary measures being adopted in the region were “far too tight.” They committed themselves to supporting the efforts of ASEAN governments to restore confidence and financial stability. They pledged to work together with the public sector while promoting cooperation within the private sector. In particular, the roundtable supported the use of ASEAN currencies in intra-ASEAN trade, the establishment of an ASEAN monitoring mechanism for the regional financial situation, and the ASEAN governments’ commitment to accelerate ASEAN economic integration and liberalization. The participants agreed to harmonize accounting and auditing standards and practices to
improve transparency and to ensure greater accountability and the reliability of corporate financial information. They asked the ASEAN Secretariat to help organize future forums on cross-sectoral and specialized subjects, including a symposium on servicing corporate debt.

We in the ASEAN Secretariat look forward to continuing to work with this forum and with the ASEAN private sector generally on this critical matter.

ASEAN’s governments, of course, have themselves been, on an emergency footing, working feverishly on the situation - individually, bilaterally, within ASEAN as a group, and with others in the international community.

Internally, the ASEAN countries affected have been working on the reform and strengthening of their financial and economic institutions, structures, rules and procedures. The ASEAN heads of government and ministers have been visiting each other with unprecedented frequency to consult and to offer assistance in the form of commodities, financial support, policy and technical advice, and moral encouragement. ASEAN’s leaders, ministers and officials have been meeting intensively to address the crisis and devise measures to deal with it. They have sought and obtained the support of the international financial institutions, APEC, the governments of the Group of 7, China, and the European Union, as manifested in the outcome of last weekend’s Asia-Europe Meeting in London.

ASEAN’s Finance Ministers, in their meeting in Jakarta on the 28th of February, agreed on two specific measures to deal with the financial problem. One is the use of ASEAN currencies in the settlement of intra-ASEAN trade, which had been proposed by two or more of ASEAN’s leaders. The other is the establishment of an ASEAN monitoring mechanism to serve as an early-warning system for future financial problems.
The Finance Ministers approved and encouraged the use of ASEAN currencies for intra-ASEAN trade, with the specific modalities to be agreed upon by each pair of trading partners. This scheme will, of course, work only if the private sector, private traders, are willing to accept rupiah, ringgit, pesos and baht as payment for their exports instead of US dollars. Obviously, ASEAN’s governments and Central Banks must make it attractive for the private sector to accept regional currencies in place of US dollars, but the private sector needs to make clear what it would take to make it worthwhile for them to do so. As a result of the roundtable at the ASEAN Secretariat, the ASEAN Bankers Associations will pursue this subject at its Council meeting on 17-18 April in Singapore. ASEAN-CCI, particularly those members who are significantly involved in intra-ASEAN trade, would do well to contribute ideas and suggestions to the development of this scheme. The scheme is not a cure-all. It is no panacea. But it should help in encouraging more trade among ASEAN countries, relieve somewhat the pressure on ASEAN traders to acquire US dollars for trade, and stimulate economic activity within the region.

The other initiative is the setting-up of the monitoring mechanism. This had been recommended in the Manila Framework drawn up last November by Finance Ministry and Central Bank deputies of six ASEAN countries, Canada, China, Hong Kong, Japan, Korea, New Zealand and the United States, plus the IMF, the World Bank and the Asian Development Bank.

The Finance Ministers decided that the monitoring system s to be operated initially within the ADB. The mechanics are now being worked out. If all goes well, it should start operations before very long. The ASEAN Secretariat is deeply involved in this process.

Like the use of ASEAN currencies for intra-ASEAN trade, the monitoring mechanism has to have the support of the private sector if it is to work. The core of the system would be a set of macroeconomic and financial indicators that would be regularly collected and monitored by the ASEAN Finance Ministers. The indicators are to serve as an early-warning system to alert the Ministers to any impending imbalance in a member-country. Obviously, a great deal of information needs to be made available, much
of it from the private sector. The cooperation of the private sector is, therefore, essential for the monitoring mechanism to function.

I am certain that the monitoring mechanism will receive the private sector’s support and cooperation, since the mechanism is meant to prevent financial crises from developing in the future, and that is in everyone’s interest.

The world’s and the region’s attention has been focused on the financial crisis. As I said earlier, ASEAN has responded directly to the crisis through closer cooperation and mutual support. However, the broader process of ASEAN economic integration and cooperation has not been neglected. Indeed, part of ASEAN’s response to the financial crisis has been not only to maintain but, indeed, to accelerate this broader process. ASEAN’s heads of government, Finance Ministers and Trade and Industry Ministers have categorically and publicly reaffirmed their commitment to this. They know that the enduring way to strengthen and stabilize the region’s currencies and economies is to attract long-term investments by assuring those investments of larger and more open markets.

In the five years since the launch of the Common Effective Preferential Tariff scheme leading to the ASEAN Free Trade Area, almost 49,000 tariff lines have been included in the CEPT system, representing 82 percent of all tariff lines of the nine ASEAN countries. The average tariff rate is now down to slightly over five percent from almost 13 percent in 1993.

At the same time, ASEAN has stepped up efforts to make trading easier among its members, particularly through the elimination of technical barriers to trade and the harmonization of customs rules and procedures. The elaboration of the rules and disciplines governing the operation of the CEPT scheme should lead to a firmer rules-based system for ASEAN commercial interaction.

The effect of CEPT-AFTA has been quite dramatic. Exports of the original six signatories to the AFTA agreement to one another grew by almost 29 percent annually from 1993 to 1996. Within the first six months of 1997 alone, intra-ASEAN trade swelled from US$36.8 billion to US$44.8 billion, or by 22 percent.
As I indicated earlier, ASEAN has responded to the financial crisis by deciding to accelerate the AFTA process. ASEAN’s heads of government issued a mandate to this effect during their informal summit last December. The governments are now working on several ways in which this could be done. One is to reduce the number of products on the list of general exceptions and/or the sensitive lists. Another is to reduce the CEPT tariff rates to zero to five percent by 2000 and/or to zero by 2003.

The acceleration of AFTA’s implementation goes beyond tariff-reductions. It also involves other ways of liberalizing trade and making it easier for all. With ASEAN-CCI’s help and advice, ASEAN has also adopted the ASEAN Industrial Cooperation scheme, which extends full AFTA treatment to the products of a project located in at least two ASEAN countries and approved by them for inclusion in AICO. After some delay in starting its implementation, 26 AICO applications have been submitted and, of these, two have been approved.

The AICO scheme has since been modified to allow more investors to participate in the scheme. Unlike the original arrangement, AICO approval can now be granted even to applicants who have not yet invested in the region. The pre-investment approval will specify in detail the terms and condition that must be fulfilled by the investor. What this means is that an investor whose decision or commitment depends upon the assurance that his intended AICO arrangement will be granted approval can now submit his proposal to the national authorities of the participating countries before making the actual investment. Once pre-investment approval is given, the investor must make the actual investment within one year. Upon the establishment of the investment, the investor submits his official application for the AICO arrangement. The application will be approved almost automatically, provided that it is substantially the same as the one submitted at the pre-investment stage.

The private sector — ASEAN-CCI in particular — may wish to contribute ideas, from the point of view of business practitioners, on ways of comprehensively accelerating the AFTA process that would give balanced benefit to the region’s businesses, economies and peoples.
ASEAN cooperation is being intensified in other, broader, bigger ways. During their fifth summit meeting in Bangkok in 1995, ASEAN’s leaders decided to hold annual summits — two informal meetings between the triennial formal summits. In December this year, the sixth formal summit will take place in Ha Noi. The leaders have decided that the time is now past for declarations, and that it is time for concrete measures of implementation. The leaders, therefore, expect to agree on a plan of action to carry out the ASEAN Vision 2020 statement that they issued at their summit in Kuala Lumpur last December. This plan of action could include ways of achieving market integration in ASEAN that would encompass not only trade liberalization but also the development of transport and communications networks. It could also include a program on information technology. So could the development of the Mekong Basin.

The projected Ha Noi Plan of Action and, in general, the accelerated progress of ASEAN cooperation should offer enormous opportunities to the private sector — opportunities to contribute ideas and proposals for the plan of action itself, and opportunities for investment and other forms of profitable participation.

ASEAN-CCI has a vital role to play in all this — the initiatives for preventing the recurrence of financial crises, the acceleration of ASEAN integration and cooperation, and the opportunities extended by summit actions.

ASEAN-CCI is the recognized channel of communication between ASEAN governments and the private sector. It has done great service in this regard in the past. The challenges of today should invigorate ASEAN-CCI to carrying out its unique mandate more energetically in the future.

ASEAN itself depends on it.
Transport: Linking ASEAN Together

Statement at the Fourth ASEAN Transport Ministers Meeting
Singapore, 9 September 1998

We meet today in the midst of a severe downturn in the economies of the region. The response of our leaders to this crisis has been to reaffirm their commitment to regional economic integration. This means not only keeping the ASEAN Free Trade Area on track and strengthening it. A vital part of that integration is linking our economies and societies more closely and more strongly together by building, upgrading and improving transport networks among our countries, making them work better and less expensively.

The work of the ASEAN Transport Ministers thus contributes substantially to ASEAN’s economic and social integration. And it does so in concrete and tangible ways. The agreement on the recognition of inspection certificates of commercial vehicles that the Ministers will sign tomorrow is an example of this. So are the goods-in-transit agreement that is to be concluded later this year and the multimodal and inter-state transport agreements which are due for implementation in the future.

The primary role that road networks and railway links are taking in the development plans for the Greater Mekong Sub-region underlines
the importance of transport in ASEAN’s work. So does the ASEAN members’ commitment to liberalizing air services regimes in the region. Air transport and maritime transport are among the leading sectors covered by the current ASEAN negotiations on trade in services.

This is, of course, of enormous importance for the economies of our countries and the lives of our people. Transport is not just about infrastructure. It is not just about facilities and facilitation. It is, above all, about building an integrated ASEAN economy. A more closely integrated economy, in turn, is essential for restoring and reinforcing confidence in the prospects of our region, and thus for pulling in the investments that are essential for the recovery of our economies. At the same time, good and efficient transport makes contact between people quicker, smoother and more pleasant. The work of this ministerial forum thus helps greatly in binding ASEAN’s economies closer together and in building the ASEAN community that is so vital for the future of our nations.

ASEAN’s economic integration and cohesion are also vitally important for ASEAN’s unity, now that our association has expanded to nine members from the seven that we had only four years ago. We can only be gratified by the active involvement of Laos and Myanmar, as well as of Viet Nam, in the work of this forum and thus in ASEAN’s closer economic integration.

Transport is so important to ASEAN cooperation and integration that it ought to occupy a prominent place in the Ha Noi Plan of Action, which our leaders are expected to issue at their 6th Summit in December this year. The Plan of Action is designed to translate the ASEAN Vision 2020 into action through concrete measures to bring ASEAN’s economies onto the path of economic recovery.
We shall be completing the implementation of the Transport Plan of Action by the time of the 6th Summit in December. As the Ministers know, the ASEAN Secretariat, on behalf of the senior transport officials, will soon embark on a Japanese-assisted study to develop the 1999-2004 Transport Plan of Action. This should be entirely consistent with the larger Ha Noi Plan of Action. In this way, the transport sector shall help bring about the recovery of ASEAN’s economics, the closer integration of the economies and societies of ASEAN, the building of a true ASEAN community, and a significant improvement in the lives of the people of ASEAN.

In this way shall the transport sector contribute to the fulfillment of ASEAN Vision 2020.
Tourism in ASEAN: Removing the Barriers

Statement at the Third Meeting of ASEAN Tourism Ministers
Bangkok, 23 January 2000

To me, the promotion of tourism in ASEAN has three parts: investment in tourism facilities, the removal of barriers to tourism, and the competitive marketing of ASEAN tourism.

**Investment in Tourism**
The need for tourism infrastructure, physical or human or institutional, and for investment in it is obvious. On orders issued by ASEAN’s leaders at their summit in Manila last November, ASEAN is undertaking joint investment missions to Japan next month and to Europe and the United States somewhat later. I am confident that our tourism organizations are ensuring that the missions will be carrying with them proposals for specific, concrete investment projects in tourism.

In this regard, the ASEAN Tourism Investment Guide, launched at last year’s ASEAN Tourism Forum, is most helpful. I trust that the Guide will be used well and reach as many potential investors as possible. In this light, I hope that it can be translated into Japanese and into other languages useful for the purpose.
Obstacles to Tourism

Another part of promoting tourism is removing obstacles to it. One obstacle is policies and attitudes that belong to the past. These include those that pertain to regulations on the entry of visitors. In some countries, such policies and attitudes need to be re-examined and updated. Tourism ministries and national tourism organizations ought to be at the forefront of this effort.

Another obstacle is the restrictions imposed by most countries on civil aviation. Clearly, most tourists will not go to a country if they find it too difficult, too expensive, too long or too tedious to get there. Ideally, tourism industries and national airlines should be working together to promote tourism; but, if one had to make a choice, I would favor the tourism industry, which benefits so many more people, over the airline, which should, in any case, compete with others in the business.

Yet another obstacle is placed in the way of the free movement of human resources in the tourism industry. Tourism is basically a service industry, and the best people, of whatever nationality, or particularly of ASEAN nationality, should be allowed more freedom to work in a country’s tourism facilities and render the best service to visitors. Employing the best people in such facilities would be crucial in bringing in tourists and other visitors, as well as in developing the country’s human resources for tourism through the transfer of skills. This would, in turn, generate jobs in many other sectors of the economy. We ought to point this out to our employment and immigration authorities.

ASEAN’s leaders have issued instructions to step up negotiations to liberalize trade in services in ASEAN. Tourism is the one sector in which all ASEAN countries have indicated commitments for liberalization. Recently, the ASEAN Economic Ministers decided that the sectoral committees are primarily to carry out the negotiations in their respective sectors. In the case of tourism, this task falls on the national tourism organizations. Tourism is a particularly complex area for such negotiations, as it involves more than one sector and more than one “mode of supply.” The sooner
and the faster we make progress in the negotiations the sooner and the faster will we remove barriers to tourism.

In terms of barriers to travel, I wish to point out that freedom to travel works both ways. If we are to promote intra-ASEAN travel, the outflow, as well as the inflow, of people within ASEAN should be made easier. Some countries may now find that restrictions on outbound travel could stand some relaxation. I know that the issue of the exit tax has been raised many times in the past and that a couple of ASEAN countries have problems with its removal. But, in the spirit of intra-ASEAN tourism and people-to-people contact, I think it now deserves another look.

**Marketing Tourism**

Finally, marketing. In the economic and other sectors, ASEAN has found that, in this globalized and competitive environment, individual ASEAN countries cannot afford to go it alone. Increasingly, they must work together and move together. In this light, marketing ASEAN as a single destination is the way to go. It is good not only for the cause of ASEAN cooperation but also for the tourism industries of ASEAN members.

This is why Visit ASEAN Millennium Year 2002, as the centerpiece of ASEAN tourism promotion for the coming three years, has the full support of the Secretariat. I trust that the campaign will avoid the shortcomings of Visit ASEAN Year 1992. The decision to hire a world-class advertising firm and a top-notch public relations agency is essential for the campaign’s prospects of success. I know that the utmost care will be taken to see that we engage the best outfits - or a combined one.

Specifically, there is great potential for ASEAN-Japan cooperation in promoting tourism into ASEAN. I am glad that the NTOs are working on this. Here, I should like to state our appreciation for the support of the ASEAN Promotion Centre in Tokyo, particularly in the tourism sector. In turn, I urge our tourism authorities to encourage their governments to support the APC. Contributions to the Centre come back to ASEAN in the form of promotion activities on ASEAN’s behalf.
Plans are well advanced for the workshop for ASEAN and Korean travel agents in Seoul later this year. I hope that many in the travel trade of both sides will participate in it. I also hope that, in addition to marketing their respective countries, ASEAN participants will keep in mind ASEAN as a single destination in this, as well as in other, promotional activities.

We in the Secretariat have finished the ASEAN Map, and its distribution has begun. I know that the NTOs are as intent as we are in seeing that the map reaches a large number of potential travelers and those who help them make their travel decisions. We would like to see the map translated into languages critical to our work. This should help not only in the promotion of tourism but also in the enhancement of ASEAN’s international image.

The television spot for international broadcast could be even more helpful in this regard. We are fortunate to have the UNDP’s substantial support for this endeavor. It is now for us to raise the resources still needed to make this important project a reality. I hope that, in determining the placement of the spot, we will not lose sight of the considerable importance of the United States not only as a rich source of tourism but also in terms of its influence on world public opinion. I also hope that, in each case, the spot uses the language most effective for the target audience.

Under the direction and guidance of the NTOs and their task forces, the Secretariat has developed the concept of a tourism web site and database. With the support of all, we aim to create a good web site and database and find creative ways to hyperlink them to sites where they will do the most good in terms of promoting tourism, including the travel web sites of the major international media.
Cruise tourism is an activity still undeveloped in ASEAN. With the mandate of ASEAN’s leaders, the NTOs and the senior transport officials are jointly working on a proposal for a study of cruise tourism for the region. I trust that the results of the study and subsequent action on it will take into account the potential benefits for all ASEAN members and will encourage the participation of as many world-class cruise companies as possible.

Finally, in the three years to the end of VAMY 2002, two major sporting events will be taking place in our part of the world - the Summer Olympics in Sydney this year and the World Cup in Japan and Korea in 2002. ASEAN would do well to tap into the flow of massive numbers of people from all over the world for these events.
Our people are seeing the beginnings of the recovery of ASEAN’s economies. Projections of economic growth are constantly being revised upward. Inflation is slowing down. Interest rates are dropping. Exchange rates are stabilizing. Exports are expanding. Investor and consumer confidence is rising. Hope is returning to our people.

However, our people’s hopes can be justified only if we can assure them, especially the poor, that economic recovery will mean not only better-looking balance sheets for banks and corporations but also the restoration of their livelihoods and incomes. They can really take heart only if they are convinced that future economic difficulties will not again so severely ravage their lives.

In our countries, the number of jobless continues to rise, and wages continue to fall in real, if not absolute, terms. Women have been disproportionately hit by the wave of retrenchments. Our governments have found themselves with less money to protect the environment and look after the health of our families. We are less able to invest in developing the skills of our people. As a result, we are in danger of losing a whole generation of skilled workers who are so essential for
the development of our economies and societies. In some cases, the loss of jobs, the drop in incomes and the erosion of hope have led to social tensions and political strains, which could have serious consequences for the region as a whole.

We can credibly reassure our people only if we deal, and are seen to deal, with these problems now. We must convince the workers and the poor that never again shall they be the first to be hit by economic turmoil and the last to gain from economic recovery.

For a while, we in ASEAN and the international community tended to respond to the economic crisis with a pre-occupation with macroeconomic indicators, the so-called economic fundamentals, corporate debt, financial re-structuring, bankruptcies, the welfare of creditors, and other purely economic considerations.

Fortunately, it eventually became clear that it was neither politically nor socially nor morally acceptable for economic measures to be undertaken without regard for, and even at the expense of, the poor. More fundamentally, governments and international institutions came to realize that the onrush of economic liberalization, deregulation and globalization, while unleashing salutary productive forces, could wreak havoc on societies and on people's lives. A consensus thus emerged that any recovery effort must include, at its core, measures to cushion communities and families from the harsh impact of economic shocks and financial volatility. The realization has dawned upon policy-makers that economies cannot recover without revived consumer demand, which depends to a large extent on the income levels of workers. Decision-makers have opened their eyes to the fact that we cannot speak of competitiveness for the future, and thus of enduring and stable growth, if our workers do not have their skills upgraded.

**A Caring Society**

Accordingly, social safety nets, social protection systems, job-creation, and skills-training have risen in priority on the agendas of national governments, international institutions and ASEAN itself for the economic recovery of our region. The social dimension has gained increasing prominence, albeit
slowly and late, in the policies of states, in the programs of the international financial institutions, and in discussions of the Group of 22, the Group of 7, and similar groups. Non-governmental organizations have helped push social considerations to the forefront. ASEAN itself came early to the advocacy of this more comprehensive and more compassionate approach.

As early as their summit of December 1997, ASEAN’s leaders envisioned - and here I quote from the ASEAN Vision 2020 - “a socially cohesive and caring ASEAN where hunger, malnutrition, deprivation and poverty are no longer basic problems; where strong families as the basic units of society tend to their members, particularly the children, youth, women and elderly; and where the civil society is empowered and gives special attention to the disadvantaged, disabled and marginalized and where social justice and the rule of law reign.”

The Ha Noi Plan of Action of December 1998, which would implement the ASEAN Vision 2020, calls for action on rural development and poverty eradication and on social safety nets and for measures to advance the protection and wellbeing of women and children. It urges the enhancement of the capacity of the family and the community to care for the elderly and the disabled.

In terms of ASEAN cooperation specifically in labor and employment, the Ha Noi Plan of Action highlights ways to promote self-employment and entrepreneurship, employment of the youth, occupational safety and health, and the training of women.

**Protecting the Poor**

In drawing up the outlines of the ASEAN position on the reform of the international financial architecture, ASEAN’s finance ministers have insisted that any such reform must include measures to protect the poor. As part of the peer review process under the ASEAN economic surveillance system, the finance ministers have had to inform one another of what their governments were doing to protect the poor.
At your meeting last year, the ASEAN Labour Ministers agreed to develop a work program to deal with the issues of labor and employment arising from the crisis. In response, the ASEAN Secretariat has prepared, with the cooperation of the United Nations Development Programme, the draft of a “sub-program” encompassing the following:

- The sharing and exchange of experiences and best practices in designing social protection and social security systems;
- The promotion of tripartite cooperation in economic re-structuring, including the strengthening of tripartite institutions and of mediation and conciliation machinery; and
- The enhancement of capacity for designing programs and policies on employment generation.

The Secretariat submitted this sub-program for possible funding at the ASEAN Development Cooperation Forum which the Secretariat organized last week. The forum brought together ASEAN’s dialogue partners, international financial and development institutions, foundations and other interested parties to consider areas of cooperation with ASEAN. The concepts in the sub-program elicited considerable interest at the forum.

I am pleased to report that the two projects carried out under the UNDP ASP-5 Sub-Programme on Human Development are now approaching completion.

The project to establish an ASEAN Occupational Safety and Health Network has resulted in a four-year plan of action on occupational health and safety, which has been endorsed by the ASEAN Sub-committee on Labour. The signing of a memorandum of understanding, now being prepared, will formally establish the network. The Secretariat proposed a pilot training activity for funding at the ASEAN Development Cooperation Forum.

It is time for ASEAN to begin looking into the building of more formal social protection systems to supplement the more traditional safety nets provided by families and communities.
The other project, the ASEAN Regional Project on Informal Sector Development, has produced a plan of action, which is now being refined and finalized.

Looking farther into the future, perhaps it is time for ASEAN to begin looking into the building of more formal social protection systems to supplement the more traditional safety nets provided by families and communities. We have to prepare early for future demand for such social protection systems so as to ensure that, when the need arises, and it will surely arise, we can quickly put them in place. This is the only way, if our societies are to have better chances of absorbing the impact of future economic troubles, if the recovery of our economies is to be sustained, and if social peace in our nations is to be preserved.

With all this in mind, I am sure that the work of ASEAN’s labor ministers will continue to contribute significantly to ASEAN’s economic recovery, to a better life for our people, and to the creation of the ASEAN community of caring societies envisioned in ASEAN Vision 2020.
E fforts to develop the Mekong Sub-region far antedate ASEAN. The Mekong Committee was established under the auspices of ESCAP as early as 1957. The sub-region can thus be said to be a pioneer in regional cooperation in Southeast Asia.

Even after ASEAN’s founding, for many years, only Thailand among the Mekong riparian states was an ASEAN member. The GMS forum itself was initiated in 1992. In 1994, the ASEAN Economic Ministers and Japan’s Ministry of International Trade and Industry launched their efforts to develop Cambodia, Laos and Myanmar. In April 1995, the Mekong Committee was transformed into the Mekong River Commission. All of this took place before Viet Nam, Laos, Myanmar, and Cambodia came into ASEAN.

Now, all five Southeast Asian riparian states belong to ASEAN, constituting half the membership of the association. Their membership in ASEAN has given cooperative development in the Mekong Sub-region a new dimension, a new context, added strength, an added advantage.
ASEAN and GMS share the same purposes. They both pursue cooperative development as a fundamental objective. They both seek to foster a good climate and set the necessary conditions for investment and other economic activity.

Now, ASEAN makes available a broader regional framework in which GMS can carry out its work. Many GMS infrastructure projects are part of ASEAN-wide programs. Many ASEAN and GMS activities overlap. ASEAN deliberately directs some of its own activities, particularly those in human resource development, to its four newest members, all of which happen to be in GMS. ASEAN has, in fact, used GMS as a framework for its determined push to integrate its four new members more closely and more quickly with the rest of ASEAN.

At the same time, many ASEAN programs, especially those in infrastructure, human resources and the environment, could be implemented with greater focus and at a more rapid pace when carried out in the smaller area and context of GMS. These ASEAN programs could thus move forward more quickly with GMS as the sub-regional vanguard.

An Integrated Market
In GMS and in the broader setting of ASEAN, the development of infrastructure and human resources and the protection of the environment provide the necessary elements for private-sector investments and trade. The ASEAN framework provides something more, and that is the policy context that can make business activities more efficient, more productive and more profitable.

For example, the ASEAN Free Trade Area. Tariffs on most products traded within ASEAN are now down to no more than five percent or soon will be. Non-tariff barriers are being dismantled ASEAN-wide. Products of companies operating in two or more ASEAN countries under the ASEAN Industrial Cooperation scheme can be freely exchanged across national boundaries for further processing. Customs procedures are being coordinated, regulations and standards harmonized. Trade is thus made freer and easier. In this way, ASEAN is being steadily integrated in one huge market of half a billion people with a gross regional product of almost
US$800 billion. An investor in any of the ASEAN members in GMS has, therefore, this large integrated market for his products. Negotiations have been, or are about to be, launched on trade in services in several critical sectors, including air and maritime transport, financial services, telecommunications and tourism. Again, suppliers of services in those sectors in GMS will have all of ASEAN for their market.

As part of the same move toward closer economic integration in ASEAN, investments from an ASEAN member now have access to and are extended national treatment by other ASEAN countries. Exceptions from this are to be phased out within a specific timeframe. Thus, Singaporean or Malaysian or Thai investors, whether by themselves or in joint venture with others — provided there is sufficient ASEAN equity — can freely invest in GMS.

The GMS states, as ASEAN members, are parties to binding ASEAN agreements, such as the Common Effective Preferential Tariff leading to the ASEAN Free Trade Area, the agreement on the ASEAN Investment Area, and the ASEAN Framework Agreement on Services. ASEAN also has a dispute-settlement mechanism applicable to all ASEAN economic agreements. This means that the GMS states are fully integrated in ASEAN’s rules-based trading and investment system. For example, each ASEAN country is required to adopt legislation binding that country to specific tariff reductions in order to fulfill its obligations in the tariff-reduction schedule agreed upon in the AFTA-CEPT system. Their participation in ASEAN agreements thus helps establish a predictable and transparent legal environment for business and investment in the GMS countries. This should be most welcome to businessmen and investors, whose worst nightmares are sudden reversals in the government policies affecting them.

From the beginning, ASEAN based its economic strategy on the free market. Efforts to integrate the newer members with the rest of ASEAN are helping them make the transition to free markets.

**Infrastructure Linkages**

The ASEAN economies are being integrated not only by removing barriers to trade and investment between them, not only by facilitating trade and
investment flows. They are also being bound together by infrastructure linkages. Because they are not separated by ocean, the GMS members of ASEAN are perhaps in a stronger position to set up, expand and strengthen these linkages.

ASEAN’s land transport program has an obvious and specific relevance for GMS. Most of the nine priority road projects of GMS have become integral parts of the ASEAN Highway Network, a scheme just recently formalized. The routes identified for the Singapore-Kunming Rail Link, conceived and pursued under ASEAN auspices, coincide with those projected for GMS. ASEAN has concluded or is soon to conclude framework agreements on the facilitation of goods in transit, multi-modal transport, and inter-state transport. Laos, Thailand and Viet Nam have worked out an even more comprehensive agreement covering transit, inter-state and multi-modal transport and also passengers, which shows how sub-regional arrangements can help to advance regional endeavors more rapidly. Another example of GMS moving ahead is the agreement on river transport among China’s Yunnan Province, Laos, Myanmar and Thailand to promote trade and tourism along the Mekong.

ASEAN is pushing a trans-regional energy network consisting of the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline. The scheme, of course, covers the GMS part of ASEAN, with six of the fourteen power interconnection projects located in GMS. Several power-purchase agreements among GMS countries are in place, clearly requiring interconnection. The security and sustainability of power supply that these programs foster would be of great benefit to investments in GMS.
In the vital realm of telecommunications, ASEAN is cooperating in broadband interconnectivity covering the policy and regulatory environment, universal access, technical standardization and harmonization, data security, intellectual property rights, and cooperative applications. The aim is to ensure seamless roaming of telecommunications services and to ease intra-ASEAN trade in telecommunications equipment and services. In GMS, there are now ten sub-regional transmission projects. These projects are to be implemented in two phases in order to expedite the development of backbone transmission lines in GMS.

**Leapfrogging the Stages of Growth**

ASEAN work on telecommunications interconnectivity has clear implications for the development of e-ASEAN. According to this concept, which ASEAN’s leaders have endorsed, e-ASEAN would pull together and integrate ASEAN members’ efforts in information and communications technology. It would involve inter-connectivity, with its own high-speed backbone. It would seek to harmonize policies, regulations and standards in information and communications technology within ASEAN. A combined public-private sector task force has been organized to bring e-ASEAN to reality. In the context of GMS, information and communications technology could help ASEAN’s newer members to leapfrog the normal stages of economic growth and enter the information age.

This requires a massive drive for the development of human skills to enable ASEAN, including GMS, to build the knowledge industries and knowledge societies that are the key to the future. A major part of ASEAN’s efforts to integrate its newest members into the association is focused on human resource development in GMS.

In the building of institutions, the development of human skills, and the transfer of technology, GMS has the benefit of ASEAN’s system of dialogue cooperation with strategic partners. This system can help mobilize resources for and direct international attention to the Mekong Sub-region. Specifically devoted to GMS are the ASEAN-Mekong Basin Development Cooperation forum, in which all of ASEAN engages China at the ministerial level, and the AEM-MITI Economic and Industrial Cooperation Committee, a body
of ASEAN and Japanese trade and industry ministers that retains from its origins its focus on the development of GMS. The forum among ASEAN, China, Japan and the Republic of Korea, which has been convening at several levels, including the summit, is taking a special look at developing GMS. The GMS members of ASEAN stand to benefit from the intensifying cooperation between ASEAN and the Closer Economic Relations between Australia and New Zealand.

In sum, investors and businesses in GMS have as their market all of ASEAN’s steadily integrating economies and have their choice of production platforms in ASEAN for marketing to the world. ASEAN’s growing infrastructure linkages in transport, energy and telecommunications, much of which is centered on GMS, both facilitate the conduct of business and present opportunities for investment. ASEAN’s economic integration and its infrastructure and human linkages, particularly the boundary-transcending power of information technology, make GMS much bigger than it geographically is.

The synergies between ASEAN and GMS programs of development thus offer immense potential for growth and profit. But governments can only put up the setting for business and investments to flourish. Business people are the real actors, giving substance to development, creating wealth out of our region’s rich natural and human resources. The ASEAN Secretariat has the mandate to work closely with the private sector, listening to its views, working out its responses, including its complaints, and raising them with ASEAN’s decision-makers.

The synergies among governments, international institutions, the ASEAN Secretariat and private business are what this workshop is all about.

WWF calculates that Indonesia could have used its lost resources to provide basic sanitation, water and sewage services for forty million people, or one-third of its rural poor. WWF estimates that the losses suffered by Singapore tourism alone could have fully funded the Community Chest in that country, which comprises fifty charities and benefits 180,000 people, for three years. Malaysia could have financed
Here was a disaster that arose largely in one ASEAN country but did damage to others as well as to itself. In this way, it was a test of the ASEAN countries’ ability and willingness to deal cooperatively with problems in one country that severely affected its neighbors.

An essential part of the Regional Haze Action Plan is the National Haze Action Plan that each ASEAN country agreed to develop as an obligation to the region. Each country’s National Haze Action Plan requires it to describe, with utmost transparency, what it plans to do to combat the fires and haze. Here is a model of how ASEAN countries work together, each within its national sovereignty, to tackle a common problem as a joint endeavor for the good of all. It is a model that offers itself for emulation in how ASEAN can approach a problem arising from within one country but affecting others, a model of reconciling the tension that is increasingly encountered between the requirements of national sovereignty and the need for regional action.

all of the federal government’s social programs for the last three years out of the resources that it lost to the fires and haze.

As the haze problem wrought dramatic damage to Southeast Asia, many people looked to the ASEAN response to this crisis - and to the financial upheaval that hit the region at the same time — as a test of the association’s solidarity and capacity for cooperation. Here was a disaster that arose largely in one ASEAN country but did damage to others as well as to itself. In this way, it was a test of the ASEAN countries’ ability and willingness to deal cooperatively with problems in one country that severely affected its neighbors.

ASEAN’s response was the Regional Haze Action Plan that the ASEAN Ministers of Environment endorsed in 1997. Under this plan, all ASEAN countries would work together to deal with this common problem, with the help and support of others.
On the basis of the regional and national haze action plans, two sub-regional fire-fighting arrangements, one for Sumatra and the other for Borneo, have been put together. These arrangements would allow one country to use another’s fire-fighting personnel and equipment if a fire gets too big for one country to handle. They would provide for prior customs and immigration clearances and an integrated chain of command for fire-fighters operating in areas at risk.

The joint regional technical assistance project of ASEAN and ADB, which began operations in April 1998, has worked out the operational and implementation plans and procedures for the Regional Haze Action Plan and assisted member-countries in developing such plans and procedures for their own National Haze Action Plans. It has also drawn up detailed implementation plans for the sub-regional fire-fighting arrangements.

In the process, a massive amount of information on transboundary haze pollution was generated, gathered and processed by a multidisciplinary team of international experts together with the special Project Management Unit at the ASEAN Secretariat. This information is now readily accessible in the draft operationalized version of the Regional Haze Action Plan which this workshop expects to review and refine.

The periodic haze phenomenon is again entering a critical period. The ASEAN Specialised, Meteorological Centre in Singapore has confirmed that around mid-April this year the current unusual wet conditions entered a terminal phase. If the El Nino-related three-year cycle holds, the onset of what is called the series of El Nino Southern Oscillation events could take place as early as September 2000. Obviously, the work on preventing and mitigating the fires cannot end.

Meanwhile, the ADB-funded RETA project is scheduled to close in September 1999, beyond its original one-year life. In order to continue the RETA’s core functions, ASEAN has established in the Secretariat a coordination and support unit for the Regional Haze Action Plan. An officer and support staff are dedicated to this responsibility.
Clearly, neither that small contingent nor the other resources available to the Secretariat are anywhere near a level adequate to deal with such a massive problem as the transboundary haze pollution. A major part of the new unit’s work is to help mobilize and coordinate external resources. Much is expected of the international community, as the impact of the haze on the ozone layer and on other parts of the global environment is, above all, a global problem.

Much, too, is expected of ASEAN itself, as the origins of the problem are in the ASEAN region, and the region has the primary responsibility for grappling with it.

In this light, the importance of this workshop is obvious - its importance to the global environment, to the health and livelihood of the people of Southeast Asia, and to the reputation of ASEAN.

It is in this spirit that I wish this workshop success.
Chapter 3

Partnership in the Global Community
A New Culture of Cooperation in Asia and the Pacific

ASEAN considers these consultations to be of great value to the Association and its members. They give ASEAN and the other sub-regional associations of Asia and the Pacific an opportunity to learn from one another about how we can better promote regional cooperation and how our organizations can cooperate among themselves for the good of all.

All of our organizations were founded to foster political, economic, social and cultural cooperation within our respective sub-regions. Developments over the years have progressively reinforced the validity of this goal. The globalization of markets has, in particular, brought home to all of us the reality that individual national economies are no longer capable of operating on their own in an increasingly integrated and competitive global marketplace.

Similarly, each of our organizations has been working to prevent conflict, promote political consultations, balance strategic interests, and thus ensure peace and stability in our subregions. Environmental pollution, drug-trafficking and other transnational crimes and the demand of modern industry for human skills respect no national boundaries and thus require the utmost cooperation.
For us in ASEAN, the ravages of the crisis in capital markets, have impelled us to hasten the integration of the regional economy. We have done this principally through the ASEAN Free Trade Area and through the development of regional infrastructure. We have moved forward in liberalizing trade in services. We have decided to open, in concert, our industries further to foreign investment.

Our neighbors in other parts of Asia and the Pacific are driven by similar forces. This is why we consult with one another today. We have gathered here in Kathmandu to learn from one another how we, as associations of nations, manage and confront such forces and take advantage of and benefit from them. At the same time, we meet to explore how our associations themselves can cooperate with one another. We shall seek ways to work with one another in dealing with the crisis that is affecting us all. We are to discuss how to promote trade and industrial linkages between us. How, we shall ask ourselves, do we overcome the gaps in knowledge and lack of contacts that hinder our business and industrial leaders from forming profitable ties and common ventures?

Problems of the environment and of crime, such as drug-trafficking, respect no national borders; neither do they observe boundaries between regions or sub-regions. We should discuss how our associations could cooperate with one another in these areas. Surely, we can share one another’s strengths in education and expertise as we seek to help our peoples acquire the skills that they need for the industries of the future.

We need not meet too often for this purpose. We can exploit the facilities of modern technology to carry out our cooperative endeavors, regularly consulting one another’s web sites and perhaps linking them together, communicating by electronic means, and so on.
The important thing is that we now know one another personally and can get in touch without much trouble. Let these contacts lead to a growing network of familiarity and goodwill among our officials, traders, industrialists, scientists, journalists, cultural leaders, and students, in a new culture of cooperation in Asia and the Pacific.

It is in this spirit that I look forward to our deliberations.
ASEAN and Germany – Natural Partners

Address before the Deutsches Forum
Jakarta, 30 April 2002

We in ASEAN have, for a long time, valued our relationship with Germans and Germany. The German Government, aside from its own national contributions, has been most supportive of the European Union’s cooperation with ASEAN. Some of the German foundations, particularly the Hanns Seidel Foundation, have been most active and generous in their support for ASEAN activities. And some German companies have been in the region for a long time; ASEAN has benefited from their financial resources, their technology, their industrial experience, and their management abilities.

Indeed, in the world that we live in today, in the global economy that we inhabit together, Germany and ASEAN should be natural partners – Germany with its industrial might, financial resources, and technological power; ASEAN with its record of high growth, now resuming, its large population, its productive and largely inexpensive labor force, its immense natural resources, its market-oriented policies, its integrating economy.

The United States and Japan, for decades, and, increasingly, China and Korea, have recognized this. ASEAN is the United States’ third largest
export market outside of NAFTA, behind only the European Union and Japan; it is also Japan’s third, after only the United States and the European Union. The U. S.’ exports to ASEAN are three times its exports to China. According to the US-ASEAN Business Council, American investment in ASEAN is larger than that in Mexico or Brazil. It is more than twice the U. S. investment in Hong Kong, six times that in Korea, and seven times that in China and Taiwan.

In contrast, for the period 1995-2000, Germany accounted for only three percent of all foreign direct investment in ASEAN, as compared to Japan’s 16 percent, the United States’ 15 percent, and the 13 percent from other ASEAN countries. German investments in ASEAN are even less than those of Hong Kong and Taiwan. Among members of the European Union, Germany’s share of investments in ASEAN in the period 1995-2000 was smaller than that of the Netherlands or the United Kingdom. It was smaller even than Switzerland’s. German investments made up only ten percent of net foreign investments in Malaysia, seven percent of those in Indonesia, 2.5 percent of those in Thailand, two percent of those in the Philippines, one and a half percent of those in Singapore, and less than one percent in the rest of ASEAN.

German exports to the ASEAN market have not been doing better. German exports to Indonesia in 2000 were less than Australia’s, less than a quarter of Japan’s, a little more than a third of the United States’, and 60 percent of Korea’s. In the same year, Germany’s exports to Singapore were less than Korea’s, 40 percent of China’s, 21 percent of the United States’, and 18 percent of Japan’s. From January to September 2001, Malaysian imports from Germany were less than those from Korea or Australia, just over half those from China, 23 percent of those from the United States, and 20.5 percent of those from Japan. In that same period, German exports to the Philippines were only 40 percent of Korea’s, 36 percent of China’s, 15 percent of the United States’, and 13 percent of Japan’s.

Among EU members, from 1995 to 1997, Germany was by far the biggest exporter to ASEAN until it was surpassed again by the United Kingdom in 1998, when German exports to ASEAN dropped to just a bit more than a third of the 1997 level.
Opportunities in ASEAN

The German record clearly reflects less than the potential of ASEAN for German trade and investment. ASEAN has a population of half a billion, almost half that of China or India. It has a gross domestic product about the size of China’s. Its economy is now growing again, at the rate of 5.5 percent in 2000. Although the region’s GDP growth slowed to 2.8 percent in 2001 largely because of the slowdown in the global economy, ASEAN’s finance ministers have projected growth to accelerate by 3.5 to four percent this year. Individual ASEAN economies give the investor a wide range of choices – from the high-tech, efficient service economy of Singapore to the low-wage and abundant manpower of Indonesia and Viet Nam to the rich natural resources of most of the ASEAN countries.

Wherever an investment is located in ASEAN, it has all of Southeast Asia as a market because of the increasing integration of that market. This is why it is becoming possible to speak of an ASEAN market, even of an ASEAN economy. As of the beginning of this year, pursuant to the ASEAN Free Trade Area, the goods traded among ASEAN’s six leading trading nations, with some exceptions, have tariffs of no more than five percent or none at all. This accounts for more than 90 percent of intra-ASEAN trade.

The creation of a regional market in Southeast Asia was long anticipated by many important multinational companies. There may not be much promise in setting up a manufacturing plant in a single country, particularly when the plant is cost-effective only with large production volumes. But when tariff barriers are eliminated, economies of scale are created, making large investments economically sensible.

Let me illustrate this point with an example, the car industry. In ASEAN, tariffs on completely built-up and completely knocked-down units have historically been set very high, as many countries in the region sought to develop or encourage a domestic car industry. Under AFTA, ASEAN countries are required to bring down their intra-regional tariffs on cars to within 0-5 percent by 2002 or 2003. The ASEAN auto market is substantial. Auto sales in Indonesia, Malaysia, the Philippines, Thailand and Viet Nam for the year 2001 are estimated to have been more than 970,000 units,
with the volume projected to reach 1,440,000 by the middle of this decade. Although Japanese companies have historically dominated ASEAN markets, the creation of AFTA opens up opportunities for other vehicle manufacturers. This is why AFTA has drawn the interest of the major US and European automotive companies. Ford and GM have already made substantial investments in the Philippines and Thailand.

ASEAN has an industrial cooperation scheme called AICO, in which companies with related operations in two or more ASEAN countries ship their products to one another at the minimal AFTA tariff rate of 0.5 percent. Such companies have been enjoying for several years the benefits of an integrated ASEAN market. Right now, they are mostly Japanese companies, mostly in the automotive and electronic sectors. The only European firms in the AICO scheme are Volvo and Nestlé. None are German.

**Infrastructure Linkages**
The ASEAN economy is being integrated not only by the removal of trade barriers but also by infrastructure linkages – transport, energy, telecommunications.

A feasibility study has been completed for the Singapore-Kunming Rail Link, a project that envisions the linking of mainland Southeast Asia’s railways to one another and to Kunming in southern China. That rail network will extend the existing Singapore-to-Thailand railway to Cambodia, and thence through Viet Nam to Kunming, with spur lines into Laos and Myanmar.

Southeast Asia has substantial sources of energy of various types – oil, gas, coal and hydro. The ASEAN power grid being developed aims to make the delivery of energy more reliable, ensure a market for ASEAN suppliers of power, and provide energy security to the energy-deficit members. The trans-ASEAN gas pipeline network, parts of which are already in place, supports the same objectives by tapping the great natural gas deposits of Indonesia and Myanmar.
Work is being done to ensure telecommunications inter-connectivity in ASEAN and the compatibility of telecommunications equipment. Related to this is the e-ASEAN initiative, which is meant to pull ASEAN into the information age, into cyberspace. The e-ASEAN framework agreement, signed by ASEAN’s leaders in November 2000, commits ASEAN to this goal. The agreement covers the establishment of the ASEAN Information Infrastructure and the legal and policy environment for electronic commerce. It commits ASEAN to the liberalization of trade in information and communications technology products and services and of investments in the ICT sector. It calls for the development and use of ICT for the delivery of government services and for social purposes. For all this, institutions will have to be developed and the people of ASEAN trained. The e-ASEAN initiative also envisions this.

The infrastructure linkages and the development of ICT will not only make trade easier and encourage investments; they also represent enormous investment opportunities – the railway project, roads and highways, the power grid, the gas pipelines, telecommunications, information and communications technology. Their development requires consultants, financing, materials, equipment and technology.

**The Promise of Information Technology**

Information and communications technology has particularly great promise. In 2001, ASEAN had 37 million mobile phone subscribers and 13.7 million personal computers. These represent great leaps from only two years before, in 1999, when the region had only 14.5 million mobile phone subscribers and 10 million PCs. With a population of half a billion, the 2001 figures translate into 74 mobile phone subscribers and 27.4 PCs per one thousand people. In 1999, ASEAN had 6.2 Internet subscribers per one thousand
people, as against two in 1997. In contrast, Germany in 2001 had 686 mobile phone subscribers and 336 PCs for every thousand people. In that same year, 38.4 percent of German households were connected to the Internet. The point is not so much that ASEAN is far behind Germany in information and communications technology; it is that, with the e-ASEAN initiative, ASEAN has enormous potential for growth, as current growth rates already show, and tremendous opportunities for German suppliers of ICT products and technology.

ASEAN economic integration is being strengthened not only by the unification of the ASEAN market but also by intensified cooperation in areas like finance.

ASEAN’s finance ministers have been undertaking frequent consultations in order to keep a collective eye on the economic situation in the region and help avert a recurrence of the financial crisis. In a system of surveillance and peer review, they keep track of financial and economic movements in the region and encourage one another as they take national measures to strengthen their financial systems and other sectors of their economies. ASEAN has expanded the currency swap arrangement under which the ASEAN countries make financial resources available to a member that may find itself in financial trouble. ASEAN has engaged China, Japan and Korea in a network of bilateral currency swap and repurchase agreements meant to strengthen the financial safeguards.

Even as it deepens the integration of its market, ASEAN remains open to the world. We are now working on ways to strengthen our economic linkages with our neighbors to the North – China, Japan and Korea – in what is called the ASEAN Plus Three process, a process that is gathering surprising momentum. We are devising ways to link the ASEAN economy more strongly with those of our neighbors to the South, Australia and New Zealand. As trade barriers go down between ASEAN and its neighbors, German and other European investors in ASEAN will see their markets considerably enlarged.
The message from ASEAN is this. ASEAN and Germany are natural partners. ASEAN with its population that is larger than the European Union’s, its GDP that is equal to China’s, its resurgent growth, its integrating economy, its openness to the world, the strategic importance of foreign trade and foreign investment in its economy, its confidence in market forces, its hard-working people, its rich natural resources, the projected expansion of its infrastructure, its embrace of the information age. And Germany with its economic size, its industrial might, its financial resources, its scientific and technological power, the superb quality of its products and services, its central and leading place in the European Union.

The German community in Indonesia, here in ASEAN’s largest member, knows this more than anybody else. This is a message that I would like to see the German community here convey, forcefully and as frequently as possible, to the German public and the German business sector. It would be good for both ASEAN and Germany.
ASEAN, like the EU, has maintained its unbroken record of peace among its members. In a world of turmoil and conflict within regions, this is a remarkable record. The Treaty of Amity and Cooperation in Southeast Asia has been in place for twenty-five years as a code of behavior for the region and a mechanism for the peaceful settlement of disputes. Southeast Asia is now a nuclear weapons-free zone. ASEAN is consulting with the five nuclear-weapon states, including the two in Europe, on their accession to the protocol to the nuclear weapons-free zone treaty. ASEAN is negotiating with China on a code of conduct for the South China Sea, pending the resolution of the disputes in that vital area.

The ASEAN Regional Forum is now a going concern as a venue for countries in East Asia and others with interest in it, including the European Union, to discuss issues of regional security. In Ha Noi last month, exchanges among senior officials of ARF reflected a remarkable consensus on an extraordinarily wide range of issues – the urgency of resuming the dialogues on Korea, support for the territorial integrity of Indonesia, assistance for East Timor and the probable necessity of a continued United Nations presence there beyond independence, and
the absolute need for good and stable relations among the major powers in Asia and the Pacific. The situations in Cambodia, Indonesia, Myanmar and Papua New Guinea were openly discussed, including subjects normally considered as internal to those countries. Contentious issues like the South China Sea and the United States’ ideas on missile defense were touched upon without rancor or confrontation. The participating officials charted directions for extending the ARF process from the present stage of confidence-building to the area of preventive diplomacy and for expanding the role of the ARF chair.

The ASEAN-Plus-Three process, which links China, Japan and the Republic of Korea to ASEAN, is gaining momentum. Although focused primarily on economic and financial cooperation, the deepening linkages in East Asia contribute, too, to the peace and stability of the region.

**A Sense of Regional Security**

I think that it is right to begin a discussion of the business opportunities in ASEAN by scanning the security environment in the region. That environment, after all, plays a major role in trading, investment and financial decisions. The current environment tells us that the prospects for peace and stability are bright. The momentum for dialogue on the Korean peninsula – between North and South Korea and between North Korea and the United States – seems to have resumed. The disputes in the South China Sea are being contained and managed through consultations. Despite the excitement occasioned by recent events in Hainan and the continuing contention over Taiwan, China and the United States seem pragmatically to give primacy to their common interest in a stable relationship.

A general sense of regional security has no doubt helped in Southeast Asia’s recovery from the 1997-1998 financial crisis. The regional economy grew by 3.4 percent in 1999 and 5.3 percent in 2000, a remarkable turnaround from the *contraction* of 4.4 percent in 1998. The ASEAN finance ministers, however, expect growth to slow down in 2001 to anywhere between three and five percent largely on account of the drop in the expansion rate of the U. S. economy, the continuing stagnation of that of Japan, and the slower-than-expected growth of Europe.
The ASEAN economies are responding by stimulating consumer demand and government spending. There is scope for this. Budget deficits are manageable. Other than Brunei Darussalam and Singapore, which had surpluses, the ASEAN countries had deficits in 2000 ranging from two to 5.8 percent of gross domestic product, or an average of 3.5 percent. Inflation has been kept low, with the average inflation rate dropping to 2.5 percent in 2000 from 9.7 percent in 1999.

External debt has declined considerably since 1997, but remains substantial, with US$334 billion outstanding. Bank re-structuring is making progress, and ratios of non-performing loans are going down, although still fairly high.

The ASEAN finance ministers now meet frequently in a process of surveillance and peer review to keep a collective eye on the movements of the regional and national economies and to encourage one another in their economic and financial reforms.

Internal reforms are continuing not only in the form of the financial and corporate re-structuring forced upon the ASEAN economies by the financial crisis but also in terms of the new attention being given to rural development, the upgrading of human resources, and other measures to diffuse the distribution of incomes and strengthen ASEAN’s capacity to plug itself into the knowledge economy.

**Integrating the Regional Economy**

Not least, ASEAN is moving forward on integrating the regional economy. The ASEAN Free Trade Area is on track, contrary to widespread, misinformed speculation about AFTA’s demise at the height of the financial crisis. Already covered by the AFTA treaty are 98 percent of the products of the six original signatories to the treaty, which are the region’s leading trading nations. By the beginning of 2002, or a little over six months from now, these products will have intra-ASEAN tariffs of no more than five percent or none at all. Even today, 85 percent of the products in the inclusion list are in the 0-to-5 percent range. In 2000, the average intra-ASEAN tariff on these products was 3.74 percent, down considerably from the 12.8 percent in 1993, when the AFTA process started.
ASEAN is also seeking to bring down non-tariff barriers to intra-regional trade. We are seeking to harmonize product standards. Here, we are getting the EU’s valued support. We are seeking to streamline transportation and communications networks. ASEAN is also integrating the regional economy through infrastructure linkages, particularly in the Mekong Basin, where ASEAN’s newer members are located. A feasibility study for the Singapore-Kunming Rail Link has been completed. China has offered to finance part of the proposed highway from Bangkok to Kunming through Laos, a component of the ASEAN highway system. Master plans are being developed for an ASEAN power grid and a trans-ASEAN gas pipeline network. Here are opportunities for European investment.

ASEAN’s leaders have recognized the importance of information and communications technology for their nations’ development. They realize that if their countries do not develop and use ICT they will fall further behind the nations that do. The ASEAN countries also know that they have to work together in this – as ASEAN and within ASEAN first of all, but also with China, Japan and Korea, and with the essential participation of the private sector.

ASEAN has decided to use ICT as a principal instrument for narrowing the development gap within ASEAN, as well as between ASEAN and the developed world. It is with this in mind that ASEAN’s leaders initiated the concept of e-ASEAN. Institutionally, this work is being done through an e-ASEAN Working Group of officials and a combined public sector and private sector e-ASEAN Task Force.

Basically, what they are doing is assessing the state of the ICT infrastructure in ASEAN, with a view to filling the gaps, which, for most of ASEAN, are considerable. They are working on laws and policies, in a coordinated way, to make clear what rules are to govern the conduct of e-commerce, questions of privacy and taxation, and so on, and to facilitate the use of ICT for business.

ASEAN aims to liberalize trade in ICT goods and services in the context of AFTA and the current series of negotiations on trade in services. It is seeking to promote the use of ICT for more efficient government services.
and greater transparency in government transactions and for social purposes like education and public health. We are developing partnerships with the private sector for the use of ICT for agricultural trade.

An assessment is being undertaken of the needs of ASEAN countries in terms of human resources for ICT. They are cooperating in the training of their human resources, which is the key to ICT and the knowledge economy, the economy of the twenty-first century.

Information and communications technology is thus another critical element in the integration of the ASEAN economy and of the region as a whole. ASEAN’s drive in this area presents yet another opportunity for European participation.

**Competing for Investments**

By integrating the regional economy, ASEAN seeks to attract investments into the region, knowing that, in a globalized economy, investments look for sizeable, efficient domestic markets and platforms for producing for the global marketplace. We must keep in mind that the population of ASEAN is almost half that of China, and its combined gross domestic product is about the same magnitude as China’s.

Commentators have been pointing in ominous tones to the surging Chinese economy as a damaging competitive challenge to ASEAN, particularly after China’s entry into the World Trade Organization. Investments are lured into China – to some extent away from ASEAN – by China’s large domestic market and inexpensive land and labor. ASEAN and China look to the same export markets – the United States, Japan and Europe. They export similar manufactured products – electronics, electrical appliances and machinery, textile and apparel, and toys.

And yet, ASEAN looks at China’s admission into WTO positively and, indeed, has supported it from the very beginning. Like many other countries, ASEAN finds it extremely important for China to grow and operate within the rules of the global trading system through WTO. More than this, ASEAN views the Chinese economy as an opportunity. China’s economy
represents a growing — and, in many cases, new — market for ASEAN exports, provided it continues to grow and open up. It offers an opportunity for ASEAN investors, assuming that the investments are protected by international rules and possibly by bilateral investment-protection agreements. As the Chinese market opens further to ASEAN exports, ASEAN becomes more attractive to investments. As China’s economy grows, it could eventually be a source of investments for ASEAN. The challenge of China has served to help prod ASEAN into undertaking internal reforms, more rapidly integrating the regional economy, and taking other measures to strengthen its competitiveness.

Indeed, ASEAN more than welcomes China’s growth and participation in the global trading system. ASEAN seeks to link its economy more closely with that of China. An experts group formed upon the initiative of Chinese Premier Zhu Rongji held its inaugural meeting recently. Its mandate is to recommend ways of deepening the economic relationship between ASEAN and China, including a possible free trade area between them. As I said in Guangzhou earlier this month, “With sufficiently close links between the ASEAN and Chinese economies, investors in China or ASEAN could, in effect, have the economies of ASEAN and China as a potential market, a market of 1.7 billion people.” A similar process is taking place between ASEAN and Japan.

If one takes a broader and longer-range view of these developments, one can see that the reforms, although extremely difficult and uneven by virtue of political and social factors, are irreversible and making significant progress. Popular pressures and intra-regional and external competitive forces impel those reforms. The commotions that are roiling the political scene in some countries are, to my mind, part of the transitions in these countries to more open, freer, more pluralistic, more competitive, more rules-based — in sum, more democratic — and ultimately more stable societies.
ASEAN Plus Three
The ASEAN-Plus-Three process, to which I referred earlier, is gaining momentum. The finance ministers and central banks of the thirteen countries of East Asia have been meeting at every opportunity. They are cooperating in the monitoring of the regional economy, training and research. Above all, on top of the multilateral currency swap arrangement within ASEAN, ASEAN-Plus-Three is putting together a network of bilateral currency swap and re-purchase agreements, several of which have already been concluded. Such a network is intended to make available financial resources to participating countries that find themselves in impending trouble and thus help avert a future financial crisis. Other forms of ASEAN-Plus-Three cooperation are focusing on the development of the Mekong Basin and on information and communications technology. Parallel groups of officials and eminent private individuals are working out recommendations for ASEAN-Plus-Three cooperation and an East Asian community, including a possible free trade area in this larger region.

Southeast Asia’s strengthening linkage with Northeast Asia is a prime example of ASEAN’s determination to expand its economic horizons beyond the region’s integrating economy. But it is not the only one. ASEAN is also deepening its economic ties with Australia and New Zealand. American business continues to be strongly engaged in the Southeast Asian economy, and the new administration in Washington has signaled a renewed readiness to relate more closely to ASEAN as a group.

Recent developments in Southeast Asia, as filtered through the mass media, have evoked a certain wariness in some members of the European business community about engaging in the region. The 1997-1998 financial crisis exposed weaknesses in the financial and corporate structures and practices of East Asia, as well as in the international financial system. This has led to the institution of measures for reform in those structures and practices. However, many have expressed their impatience over the pace of those reforms. Political turmoil in a number of Southeast Asia’s major economies has injected a degree of uncertainty in the region as a whole.
If one takes a broader and longer-range view of these developments, one can see that the reforms, although extremely difficult and uneven by virtue of political and social factors, are irreversible and making significant progress. Popular pressures and intra-regional and external competitive forces impel those reforms. The commotions that are roiling the political scene in some countries are, to my mind, part of the transitions in these countries to more open, freer, more pluralistic, more competitive, more rules-based — in sum, more democratic — and ultimately more stable societies.

What we see in ASEAN, therefore, is a region that is stable and secure. An economy that is regionally integrating, with good prospects for stable growth because of its deepening integration and the internal reforms that are taking place. An expanding market with growing links with China, Japan and Korea and with Australia and New Zealand. A region that, for the most part, maintains close ties with the United States. It is a region that has benefited from a broad range of historical, cultural and commercial links with Europe. The European Union has been for a long time been ASEAN’s second largest export market and a leading source of investments and technology, and there is potential for much more. In ASEAN, we see countries that are evolving into more open and more stable societies. Such a region obviously presents larger opportunities for European business — for trade, for investments, for services, for technological exchanges.

It is a region that is a strong and worthy partner for Europe.
ASEAN today faces challenges unprecedented in our history as an association, indeed in the history of Southeast Asia.

ASEAN countries are buffeted by the wrenching adjustments that they have had to make in dealing with the current global and regional economic upheaval. They have had to try mightily to cushion their peoples from the full impact of that upheaval. At the same time, they have had to work to maintain their competitiveness in a globalizing world. They have had to grapple with the regional threats posed by the destruction of the environment, trans-national crime and the international trafficking in drugs. And they have had to devise new ways to foster peace and stability in the context of the emerging configuration of power in East Asia.

ASEAN’s response to these challenges is clear. That response is to strengthen the solidarity of Southeast Asia. Less than a week ago, Cambodia formally joined the ASEAN family, making its solidarity firmer. ASEAN’s response is to deepen its economic integration, to accelerate the completion of the ASEAN Free Trade Area, to move forward the liberalization of trade in services, to create the ASEAN
Investment Area, to bind the region through road networks and gas pipelines and electricity grids. ASEAN’s response also is to tighten cooperation in protecting the poor, in health and education, in science and technology, in environmental protection, in the struggle against the debilitating scourge of illicit drugs.

In the face of difficulty and challenge, regionalism is the only way. There is no alternative. This has been the insight and the decision of ASEAN’s leaders.

This is no mere declaration of intent on their part. In Ha Noi last December, ASEAN’s leaders decided on concrete measures to give substance to their insight and carry out their decision. These measures are tied together in the Ha Noi Plan of Action.

Some of the measures in the HPA are mutual commitments of national action. Others embody collective decisions for collective action. Still others constitute cooperative, regional actions that are open to collaboration with others.

If ASEAN is anything, it is not inward-looking. It is outward-looking. It is open to trade, economic links and security dialogues with others. It welcomes cooperation for development with other countries and groups of countries and with other international organizations.

It is for this purpose, the purpose of cooperation for development, that we are gathered here today. This forum provides the opportunity for us to identify, together, areas for such cooperation.

These areas are clearly indicated in the Ha Noi Plan of Action. The major significance of the HPA is that it gives a firm coherence and definitive direction to ASEAN cooperation - ASEAN’s cooperation within itself and with others. Where coherence and direction were lacking in the past, the Ha Noi Plan of Action has now supplied them for ASEAN and its partners to follow.
The areas for cooperation that we are considering today can be grouped under three general headings:

- economic recovery and greater economic integration;
- mitigating the social impact of the economic crisis; and
- the environment and human development.

Some of these areas entail the training of people. Others call for urgently needed studies. Some involve the formulation of action programs. Others require various forms of technical assistance.

We have distributed in advance some project briefs to you. They indicate what we in the Secretariat and ASEAN’s committees and working groups have in mind in pursuit of the leaders’ mandate from Ha Noi. These are just examples; they are by no means exhaustive. We hope to discuss them and other possible activities with you later today, tomorrow and beyond.

I wish to thank especially Minister Ginandjar for honoring us with his presence today. We thank him for consenting to give the keynote address at this forum. Minister Ginandjar is at the core of ASEAN economic cooperation, a pillar of ASEAN economic integration. His presence in this forum signals the support of ASEAN’s political leadership for our endeavor in the next two days. So does the presence of ASEAN’s ambassadors in Jakarta and of representatives from ASEAN capitals.

Your presence manifests your countries’ and your organizations’ interest in what ASEAN is doing and the value that they place on collaboration and partnership with ASEAN. We in ASEAN thank you for that.

With the Ha Noi Plan of Action as our guide, we in this forum will be charting, in a coherent and purposeful way, the course of our collaboration and partnership for years to come.

In the face of difficulty and challenge, regionalism is the only way. There is no alternative.
“Will ASEAN be like the EU?” This question reminds me of the statement that one of Southeast Asia’s leading intellectuals, Dr. Noordin Sopiee, made not so long ago. He said that ASEAN suffers from a severe problem, and that is the problem of always being compared to the European Union, being always measured against the standards of the EU.

This is both flattering and troubling.

It is flattering, because it indicates that ASEAN has gone so far as a regional association that it is possible to compare it to the EU and judge it by EU norms. At the same time, it is troubling, because it raises expectations to unattainable heights. People tend to expect ASEAN to do what it cannot do and what it was never meant to do. In the process, they tend to lose sight of what ASEAN has done and what it can do.

I will, even now, give my answer to the question that this discussion asks. My answer is that ASEAN will never be like the EU, but within the parameters of the realities of the region, the circumstances of the association’s origins, its present condition, and its likely situation in
the future, it will be doing more and more of the things that the EU has done to promote peace, economic integration and growth, social development, and general human welfare - in different ways, at a different pace, but in the same general direction.

The question “Will ASEAN be like the EU?” is like the one that Professor Higgins asks in My Fair Lady: “Why can’t a woman be more like a man?” — a plaintive question uttered in extreme frustration.

To ask such a question of ASEAN and the EU is similarly futile and could be frustrating. In many ways, ASEAN is not like the EU, probably never will be, as women will always be different, in many ways, from men.

We all know the forces that impelled the EU’s formation and shaped its character. We all know the historical, cultural and ideological foundations that have made it possible for the EU to take the shape and direction that it has. It is these unique forces, circumstances and foundations that have made the EU unique. The EU Web site forthrightly states: “The European Union is built on an institutional system which is the only one of its kind in the world.”

ASEAN, on the other hand, is like most other regional associations in the world. It is a voluntary association of sovereign states that do not yield their sovereignty to a central authority. It has no parliament, no court of justice, no court of auditors. It has no common currency, no central monetary authority. It has no common set of external tariffs or trade policies and regulations. Each member, and not the association as a whole, negotiates trade agreements with other countries. Its citizens do not move freely within the region. Its secretariat is no European Commission, having no supranational authority or responsibility. It is certainly smaller, its budget and personnel complement a tiny fraction of those of the Commission.

And yet ASEAN has gone so far ahead of many other regional associations that, as I stated earlier, it is now, somewhat impatiently, being compared with the EU itself.
For all practical purposes, ASEAN is now a free trade area, or very close to becoming one. In less than a year, tariffs on practically all goods traded in ASEAN will be down to five percent or less or none at all. Efforts to liberalize intra-ASEAN trade in services are underway. Tariff nomenclatures and product standards are being harmonized to make trade easier. ASEAN is cooperating to streamline customs procedures and transport regimes. Negotiations have started on liberalizing intra-regional trade in services. Investment flows within and into ASEAN are being freed up. Work is being done to link all the countries of mainland Southeast Asia - and southern China — through a railway network, a highway system that will ultimately cover more than 33,000 kilometers, and improved navigation on the Mekong River. Plans are being laid for an integrated power grid and a network of gas pipelines to provide energy security for all. All this is being done to promote trade, stimulate economic activity, draw in investments, and improve people’s lives.

Partly as a response to the financial crisis of 1997-1998, ASEAN has stepped up cooperation in financial matters. This is being done primarily through a surveillance and peer review process, in which the finance ministers collectively monitor economic developments and financial movements in the region and encourage one another in national reform and regional cooperative measures. The ASEAN currency swap arrangement has been expanded and enlarged, and it is being strengthened by a network of bilateral currency swap and repurchase agreements with China, Japan and Korea.

ASEAN has recognized the importance of information and communications technology in today’s economy, and it is determined to harness the power of ICT through the e-ASEAN initiative. The initiative seeks to promote the development of the necessary infrastructure, largely by encouraging the private sector. It aims to lay down the legal and policy environment for e-commerce. It is committed to liberalizing trade and investments in ICT goods and services. It encompasses the building of institutions and the development of the required human resources.

With the help of the EU, the Asian Development Bank and other countries and institutions, ASEAN has dealt cooperatively with the problem of haze
pollution arising from land and forest fires in parts of the region. It has closely cooperated in steps to conserve biodiversity. It is working jointly to foster public education on the value of protecting the environment and on how to bring it about.

ASEAN cooperates closely in the surveillance of contagious diseases, in the control and prevention of HIV/AIDS, in the fight against drug-trafficking and drug-addiction, in safety and health in the workplace. Its decisions on these areas are not legally binding, but they are a matter of public commitment by their governments, and that is good enough for ASEAN for now.

The areas of such cooperation have rapidly increased in recent years. The resulting network of official and personal interaction among ASEAN's governments, business communities and other sectors - at various levels and in various fields — has strengthened the sense of community in the region despite the relative paucity of formal institutions and legal instruments, so that today conflict between ASEAN members is all but unthinkable.

Last month, I pointed out at a meeting of regional associations with the United Nations Secretary-General in New York: “This singular achievement (the absence of inter-state conflict in ASEAN) may be attributed to ASEAN's approach to the conduct of relations among members, to the very character of the association. In its approach to common goals and to issues that could lead to conflict, ASEAN places a premium on dialogue and consultation in place of posturing and confrontation. It prefers quiet discussions and eschews ‘megaphone diplomacy’ and ‘feel-good diplomacy.’ It considers mutual respect and understanding - understanding by each member of another’s situation and difficulties - as vital to the peace and stability of the region and to the future of the association itself.

“In ASEAN, bilateral issues - whether they have to do with boundaries, borders or the movement of people - are managed bilaterally, without being complicated by unnecessary regionalization or internationalization. As in the case of many other regional organizations, ASEAN’s insistence on
consensus ensures that the association takes no action that threatens the vital interests of any member.

“The very process of integrating the ASEAN economy, aimed primarily at productive efficiency, easier and less costly commerce, increased investments and the generation of jobs, serves to strengthen the fabric of peace by raising the stake of each ASEAN member in the prosperity of all.”

Yet, it is important to remember in all this that ASEAN remains a region of great diversity - in size, levels of development, natural and human resources, histories, cultures, languages, religions, races, economic and social institutions, political systems, and values and traditions. This diversity is certainly greater than that of Europe or Latin America and has, in fact, been increased by ASEAN’s recent enlargement.

As I stressed in a lecture in Australia more than two years ago, “ASEAN, therefore, must carefully nurture its cohesion. Its institutions and processes must be allowed to evolve slowly. The pace of that evolution cannot be forced. It is for good historical, cultural and political reasons... that ASEAN has so far leaned toward informal understandings and voluntary arrangements rather than toward legally binding agreements. They are also why the building of formal ASEAN institutions has been slow and gradual.”

Will ASEAN be like the EU? Most likely not. At least not exactly. As the EU itself acknowledges, it is unique as a regional organization and will probably remain so. But we can expect domestic and external forces, the logic of globalization, and the imperatives of regionalism to move ASEAN to resemble the EU more closely than it does today, and as ASEAN evolves, more closely than we can foresee today.

We need only to recall that it was not until 1976, almost nine years after the association’s founding, that ASEAN held its first summit meeting. It
was only then that ASEAN concluded its first binding agreement, the Treaty of Amity and Cooperation in Southeast Asia, which serves as a code of behavior for the parties to the treaty, commits them to the peaceful settlement of disputes and provides a mechanism for settling disputes. The treaty has never been invoked, but it is there. It was also at that summit that a small secretariat was established. Today, ASEAN’s leaders meet at least once a year.

It was not until 1992 that a formal agreement bound the ASEAN countries to create a free trade area, the timetable for which has been accelerated a number of times. A similar agreement, on the free flow of investments within and into ASEAN, was concluded in 1998. These and all other ASEAN economic agreements are governed by a dispute-settlement process.

ASEAN’s leaders signed the treaty on the Southeast Asia Nuclear Weapons-Free Zone in 1995 as ASEAN’s contribution to the non-proliferation of nuclear weapons and to the security of the region. It is now consulting with the five nuclear-weapon states on the protocol by which those states can accede to the treaty.

Nevertheless, most of ASEAN’s processes remain informal, most of its understandings non-binding in a legal sense. Given the circumstances, it is the only realistic way to go for now in most cases.

For example, ASEAN as a group is now holding discussions with China on a code of conduct for the South China Sea, but such a code will be a declaration of political intent rather than a legally binding instrument.

ASEAN’s military chiefs meet socially and informally. ASEAN countries exchange students in their military academies. But, of course, ASEAN is no military alliance. It does not embark on peacekeeping operations. It has no armed forces at its disposal, does not undertake joint military exercises or joint military planning. It has no common foreign and security policy.

ASEAN took the lead in the settlement of the Cambodian conflict in the early 1990s. It had a prominent role in the International Force for East
Timor and is active in the UN Transitional Authority for East Timor, including its peacekeeping and security forces. But in both Cambodia and East Timor ASEAN military participation has consisted of voluntary contributions by individual members within the framework of UN actions.

ASEAN initiated the ASEAN Regional Forum seven years ago to engage the major powers and others with interests in the region, including the European Union, in consultations and dialogue on political and security issues affecting the Asia-Pacific. The latest participant is North Korea. ARF is obviously not a military alliance and cannot be one. It is not even anywhere near the Organization for Security and Cooperation in Europe. But ARF seeks to build mutual confidence through regular consultations and joint activities and develop a capacity to prevent conflicts through diplomacy. The possibility of engaging in conflict-settlement is under study and will probably remain there for some time.

Meanwhile, ARF measures for building confidence, such as the publication of defense white papers, a regional registry of conventional arms, joint training in disaster relief, in de-mining, and in search and rescue, exchanges between defense colleges, and visits by high-ranking defense and military officials, help to strengthen security and stability in the Asia-Pacific. ARF meetings also afford opportunities for bilateral or plurilateral contacts among members on live political and security questions.

It is clear from all this that ASEAN falls short of where the EU is today. However, it is equally clear that ASEAN is moving, as it must, toward closer economic integration and tighter, firmer, more institutionalized collaboration on a growing host of transnational issues that beset the region as a whole. The pressures of globalization, the forces of technology, the growing interdependence of economies, the heightened competition for markets and investments, and the increasing severity of transnational problems demand it.

Now that the ASEAN Free Trade Area is about to become reality, the question is being asked: After AFTA, what? There is some unofficial talk of forming a customs union provided the technical problems can be
overcome. The integration of markets for services, in all their complication, is under serious discussion. It is no longer unthinkable to talk about a common currency, although it is still limited to academic circles and officials speaking in their personal capacity. Short of that, some degree of monetary policy coordination may be desirable. ASEAN’s leaders have already called for the greater use of regional currencies for the settlement of trade between ASEAN members.

ASEAN is now working on a possible agreement on preventing and controlling the haze pollution that has caused so much damage to parts of Southeast Asia in recent years. Similar formal agreements could be forged on other areas of the environment.

Common regulations may be agreed upon with respect to various forms of transportation, professional accreditation, and the treatment of food, medicine and chemicals that are traded across national boundaries. In all this, ASEAN can learn much from the experience of the EU - perhaps not where the EU is today but at earlier stages of its evolution.

Eventually, ASEAN may develop agreed norms of governance, as the EU and several other inter-state associations have done.

Will ASEAN be like the EU? Most likely not. At least not exactly. As the EU itself acknowledges, it is unique as a regional organization and will probably remain so. But we can expect domestic and external forces, the logic of globalization, and the imperatives of regionalism to move ASEAN to resemble the EU more closely than it does today, and as ASEAN evolves, more closely than we can foresee today.
ASEAN and Japan: A Partnership for a Critical Time

To develop and present ASEAN as a single investment destination at a time of regional financial crisis is, I believe, an act of the highest statesmanship, an act of the sharpest responsiveness to the needs of the times. While the nature and cause of the financial crisis continue to be debated, it has made one thing clear, and that is the extent to which the economies of East Asia have become integrated. If the problem is regional in scale, the solution must be regional in scope. The opportunities, too, must be viewed from a regional perspective.

The fact is that long-term investments are the only enduring instrument for the countries of Southeast Asia to extricate themselves from their current economic difficulties. This is why I say that this seminar on long-term investment in the ASEAN region is so timely, even if, from a superficial point of view, some may look at the present crisis to be a bad time in which to talk investments.

ASEAN has long recognized that, in today’s world, regional economic integration is the only way for the countries of Southeast Asia to compete for those investments. ASEAN knows that the economies of scale — and the opportunities for lower costs and higher profits — offered by
regional economic integration are a potent attraction for long-term investments. This is why, even in the midst of the regional financial troubles, ASEAN has re-affirmed, at the highest level, its commitment to regional economic integration, its pledge to accomplish the ASEAN Free Trade Area, or AFTA, on schedule.

Japanese corporations have responded to such inducements for investment. In Fiscal Year 1994, the year after AFTA was launched, ASEAN received 12.4 percent of Japan’s total foreign direct investments of 4.28 trillion yen. In Fiscal Year 1997, ASEAN accounted for 14.7 percent of Japan’s much larger FDI flows of 6.62 trillion yen. Viewed from another angle, ASEAN received 65 percent of Japanese investments in Asia in Fiscal year 1997.

Surveys by JETRO and the Export-Import Bank of Japan show a direct link between the rise of Japanese investments in ASEAN and the attractions of regional economic integration, with Japanese firms building their strategies around regional arrangements and the establishment of regional integrated production networks. The result is that, for Japanese firms in ASEAN, returns on investment have been one of the highest in the world. Twenty-five percent rates of return on investments in the region have been common.

ASEAN knows this linkage between regional economic integration and long-term investments. It knows the vital importance of such investments in the struggle for economic recovery. Accordingly, the ASEAN response to the financial crisis has been to renew its commitment to regional economic integration and to openness to the global economy. ASEAN’s leaders affirmed this commitment at their informal summit in Kuala Lumpur last December. ASEAN ministers have repeatedly re-affirmed it since then.

Specifically, ASEAN remains committed to the completion of AFTA on schedule — by 2003 for

If the problem is regional in scale, the solution must be regional in scope. The opportunities, too, must be viewed from a regional perspective.
its original six signatories, with the vast majority of products subject to AFTA treatment by the year 2000, or less than two years from now. Currently, 45,715 tariff lines, or 82.7 percent of all tariff lines of the nine ASEAN members, are subject to tariff reductions to 0-5 percent and to the elimination of quantitative restrictions and other non-tariff barriers.

Aside from making intra-ASEAN trade more free, the ASEAN countries are also making it easier. Work is being vigorously undertaken, for example, in the harmonization of tariff nomenclatures, customs valuation, customs procedures and accounting standards.

Freer and easier trade within ASEAN has shown results that speak for themselves. From 1993, the first year of AFTA’s implementation, to 1996, intra-ASEAN exports grew nearly 100 percent from US$43.26 billion to US$80 billion. Intra-ASEAN trade increased 28.3 percent a year during that period, while total ASEAN exports rose only 18.8 percent a year. As a percentage of ASEAN’s trade, trade among ASEAN countries expanded from 21 percent in 1993 to 25 percent in 1996.

To supplement AFTA and contribute to its acceleration, ASEAN has devised the ASEAN Industrial Cooperation scheme, or AICO, which extends full AFTA treatment to complementary products of companies located in at least two ASEAN countries. The majority of companies that have applied for AICO approval happen to be Japanese, many of them involved in automotive parts or consumer electronics. This fact speaks highly of the alertness and flexibility of Japanese firms. Several applications have already been approved.

AFTA will in itself create a market of half a billion people, surely a strong attraction to investments. However, ASEAN goes beyond creating a larger market. It is working on measures directly to encourage investment in ASEAN as a single destination of capital. In a few months, I expect ASEAN member-states to sign an agreement leading to the establishment of an ASEAN Investment Area by 2010. In this area, investment opportunities will be created, impediments to investment all but eliminated, and the cost of investing and operating considerably lowered. The scheme will do this
by making investment flows easier, liberalizing investment regimes, and providing for the joint promotion of investment opportunities.

ASEAN economic integration is more than the liberalization of trade and investment regimes. It also means linking ASEAN together through highway networks, railway lines, power grids, and gas and water pipelines. It means sub-regional growth areas among contiguous parts of neighboring ASEAN countries, such as the Mekong River Basin development program, the Indonesia-Malaysia-Singapore Growth Triangle, which is an expansion of the original SIJORI, the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), and the East ASEAN Growth Area among Brunei Darussalam, eastern Indonesia, East Malaysia and the southern Philippines (BIMP-EAGA). These offer enormous opportunities, for Japanese investments and markets for Japanese industrial products. They also give Japan a chance to stimulate industrial and consumer demand in ASEAN through government and private investments. Such a rise in demand would surely be in the interest of both ASEAN and Japan.

As I indicated earlier, more than any other country, Japan is aware of the attractions and opportunities for Japanese investments in ASEAN. However, with ASEAN suffering a severe economic downturn, the Japanese investor may well ask: Would not investing in ASEAN be throwing good money after bad? The answer is no.

First of all, all ASEAN countries have been carrying out the structural reforms necessary to stabilize their economies and put them back on the path of growth. Some countries have begun these reforms lately and others much earlier; some have undertaken them in cooperation with the IMF and others have done so on their own. These reforms generally have to do with closer supervision and tighter discipline of the banking system, fostering greater transparency in financial and other economic transactions, promoting greater competition, leveling the business playing field, managing the external debt more effectively, and strengthening the rule of law. In some countries, where they are called for, the reforms have gone deeper, into the political system itself.
These reforms have already begun to show results. Currencies are stabilizing, inflation is getting under control, and confidence is gradually being restored.

At the same time, ASEAN has responded to the financial crisis with closer cooperation and stronger solidarity. It has renewed its commitment to regional economic integration, to liberal trade and investment regimes, to AFTA and the ASEAN Investment Area. ASEAN has intensified its cooperation in financial matters. Among the measures that ASEAN’s Finance Ministers have agreed upon is the establishment of an economic monitoring mechanism, which is to keep track of capital flows, the operation of the banking systems, and the macro-economic indicators. This mechanism is intended to serve as an early-warning system for any impending problems and thus help avert a recurrence of the crisis.

ASEAN has endorsed the use of ASEAN currencies in settling intra-ASEAN trade transactions on the basis of bilateral payments arrangements. Malaysia, which has had previous experience in such arrangements, has already reached an agreement with the Philippines. ASEAN has also indicated its receptiveness to the use of the yen in its trade with Japan.

All these measures — national and regional — will contribute substantially to the general stability and cohesiveness of the region and to the prospects for its recovery and growth. This should fortify the sense of confidence of those Japanese investments that are already in ASEAN.

In scanning the current state and future prospects of investments in ASEAN, we must not forget those qualities that enabled the ASEAN countries to achieve amazingly high growth rates for thirty years. Those qualities remain in place.
regional economic integration, the high savings rates, prudent fiscal management, which resulted in frequent budget surpluses, balanced macro-economic policies, and, not least, people who are willing to work hard and place a high value on education. These brought about not only rapid economic growth but also a higher standard of living for the peoples of ASEAN. James Wolfensohn, the President of the World Bank, has cited some statistics: “Three decades of more than five percent growth. A decline in poverty from six in ten to two in ten. Income per capita . . . up four times in Indonesia, Malaysia and Thailand.” At about the same time, Paul Krugman, the prominent American economist, predicted, “Three years from now, it won’t be a surprise to talk about growth of beyond five percent” in East Asia’s economies.

Japanese investments, with the backing of the Japanese Government, helped to bring about this record and this potential by making use of the qualities that are the strength of ASEAN’s economies and societies — to the benefit of both ASEAN and Japan.

There is no reason why Japan cannot continue to do so — and do more. After all, those qualities remain in place. Moreover, forty percent of Japan’s market is in Asia, much of it in ASEAN. To help revive the market and stimulate demand in ASEAN would be very much in Japan’s interest. To invest in ASEAN would not only contribute to that revival but also exploit the production platform that ASEAN offers for the good of all.

And let us not overlook the fact, as many have done, that the yen has actually appreciated against ASEAN currencies over the past year. For example, from May 1997 to June 1998, the yen appreciated against the Malaysian ringgit by 42 percent, against the Thai baht by 48 percent, and against the Indonesian rupiah by 410 percent.

At the same time, with the support of the Japanese private sector, the Japanese Government could take certain policy measures to help return ASEAN to the road of rapid growth. It could open Japan’s markets wider to ASEAN products. We might note the fact that the share of ASEAN in Japan’s imports declined from 15 percent in 1993 to 12.6 percent in the
first half of 1997. A senior ASEAN minister recently suggested a new Japanese GSP program for Japan’s neighbors. Japan ought to maintain trade credits for ASEAN countries. The Japanese Government could encourage Japanese banks to be accommodating in the re-negotiation of the debt of ASEAN countries. And Japan could, of course, stimulate domestic demand for imports from ASEAN.

ASEAN acknowledges with gratitude the generous help that Japan has extended to ASEAN countries in response to the crisis — from its contributions to the IMF to the supply of food and medicine. It would be just as helpful to ASEAN if Japan could continue to have confidence in ASEAN and express that confidence concretely in the form of investments.

Japan will find that such confidence will be more than justified and such investments amply rewarded.
The continuing interest of the US-ASEAN Business Council in our part of the world is not surprising. The companies that are represented here today are by-words - household words, most of them - in American business. The over four hundred member-corporations of the US-ASEAN Business Council epitomize America’s industrial, commercial and financial vigor and strength, as well as her global outlook - qualities so evident today. These corporations are in ASEAN for the long haul. Their interest in our part of the world is long-term. They are not fair-weather friends, running away with their money at the first sign of trouble. They are serious and dependable partners.

They also, as Americans say, put their money where their mouth is, supporting projects to promote trade and investment between ASEAN and the United States. For example, the US-ASEAN Business Council has been underwriting for several years now the regular tours around the United States of U. S. Ambassadors to the ASEAN countries and of ASEAN Ambassadors in Washington. On each tour, the Ambassadors go to several cities around the country drumming up interest among corporations, cities and states in doing business with ASEAN.
I recall my own encounters in the past five years with the US-ASEAN Business Council - at the ASEAN-US Forums in Bandar Seri Begawan, Washington, D.C., and Batam. I also had the chance to meet with leaders and members of the US-ASEAN Business Council in Ball in January 1996, when the ASEAN-US Forum for that year had to be deferred because U.S. Government officials were snow-bound in Washington. What struck me in these encounters was the strong commitment expressed by the Business Council’s leaders to internationalism in business, to open economies, to America’s economic engagement with the world, particularly with Asia. They reaffirmed this same commitment at the First ASEAN Business Summit in Jakarta last March.

Since then, some important developments have taken place in ASEAN, some good, some bad.

The worst things of course, is the currency and financial upheaval, with its impact on trade and investment flows.

But, being in ASEAN for the long haul and capable of a more than superficial assessment of the area’s long-term prospects, solid investors and corporations do not overlook the many positive developments that have unfolded.

Among these developments is ASEAN’s enlargement. With the admission of Laos and Myanmar in July last year, ASEAN now has nine members, which, in 1996, had a combined population of 483 million, a total GDP of US$838 billion, and total exports of US$338 billion. The ASEAN market is now as large as China’s, and, according to the WTO, ASEAN is fourth in the world in exports, behind only the European Union, the United States and Japan.

We are now only five years away from the completion of the ASEAN Free Trade Area. 42,252 tariff lines - more than ninety percent of all ASEAN tariff lines - have already been included in the Common Effective Preferential Tariff scheme leading to AFTA. Since 1993, when CEPT started, average tariffs on the products involved have fallen by half, from 12.76 percent to 6.38 percent today.
The result is that exports among ASEAN countries grew from US$43.26 billion in 1993 to almost US$80 billion in 1996, an average yearly growth rate of 28.3 percent. In the process, intra-ASEAN exports rose from almost 21 percent to 24.7 percent as a share of total ASEAN exports.

The ASEAN states last June concluded initial negotiations to liberalize trade in services. They agreed on a package of commitments in such areas as tourism, air transport, maritime transport, telecommunications, and business services. They will start carrying out these commitments on 31 March 1998.

The new ASEAN Industrial Cooperation scheme, or AICO, has enhanced the advantages of putting up manufacturing facilities in the ASEAN countries. Under the scheme, which became operational in November 1996, products manufactured by participating companies can immediately enjoy the 0-5 percent CEPT tariff rates instead of waiting for 2003. The AICO scheme has generated much interest from such companies as Matsushita, Toyota, Denso, Honda, Sony, and Goodyear. About twenty applications are now being processed in the automotive and electrical-appliance sectors.

ASEAN has also agreed to establish the ASEAN Investment Area. This entails jointly promoting ASEAN as a single investment destination, facilitating investment applications and procedures, and liberalizing investment regimes.

At the same time, ASEAN’s Finance Ministers and Central Bank Governors, by themselves and together with the IMF and supportive countries like the United States, have been addressing the financial crisis disturbing the region.
With such cooperation, ASEAN is confident that these difficulties will be overcome before long.

With the expansion of ASEAN, the acceleration of AFTA, the special treatment of AICO investments, and the liberalization of trade in services and of investment regimes, investors and corporations operating in ASEAN for the long term will find in ASEAN an even more hospitable climate for investments.

My colleagues in the Secretariat look forward to a productive exchange of ideas with you on these prospects.
The expanding and deepening relationships between ASEAN and China today reflect the fact that ASEAN figures large in China’s engagement with the world. In the light of the current regional configuration of power, the strategic imperative of close ASEAN-China linkages and interaction is evident. Geography mandates them. Geography, too, and historical and cultural ties have impelled the growing commercial exchanges between ASEAN and China, once economic and political barriers have begun to come down.

As one indicator, trade between ASEAN’s six older members and China has been expanding steadily – from less than US$8.9 billion in 1993 to US$32.6 billion in 1999 – or a leap of three and a half times in six years. The figures would be even more impressive if one were to include the trade with China of ASEAN’s four newer members.

As trade and other economic linkages between ASEAN and China grow, they have also become active competitors – for markets and, above all, for investments. Many people have raised the warning, in dire tones, that China will become an even more formidable competitor, especially for ASEAN, once China enters WTO.
That is true. But there is nothing wrong with competition. Competition is what globalization is all about. It is what commerce is all about. It is what economics should be all about. Competition – free competition – is not bad or necessarily frightening, provided it is fair. Let us look at the positive side of competition.

The opening-up of the Chinese economy not only makes more formidable the challenge of China as a competitor of ASEAN for investments and export markets. It also presents a tremendous opportunity, offering a large – in many cases, new – market for ASEAN exports, for products of companies operating in ASEAN.

Another reality is that countries and regions, no less than people, strive to improve and strengthen themselves, are pressured to become competitive, if there is competition. In ASEAN, the prospect of heightened competition from China and elsewhere will impel ASEAN member-countries to shore up their strengths and fix up their weaknesses. Not least, growing competition from China and others will push ASEAN into hastening the integration of the regional market. Large, integrated markets – not small, fragmented ones – are what attract investors. This is the major impulse for ASEAN’s determination to achieve the ASEAN Free Trade Area earlier than originally scheduled.

Rising competition, especially from China, and the lessons learned from the 1997-1998 financial crisis have pushed ASEAN members into doing precisely those things that build up their competitiveness – undertaking financial and corporate reforms, strengthening the rule of law, improving transparency, embracing information technology, and, not least, integrating the ASEAN market at a faster pace. They are reviewing their competitive
strategies. Prime Minister Thaksin Shinawatra of Thailand, for example, in a recent speech in Hong Kong, called on ASEAN corporations to collaborate among themselves in jointly exploiting overseas markets.

Most ASEAN countries still have some way to go to complete the reform process – as does China. But we are getting there.

All this is behind ASEAN’s unwavering support for China’s entry into WTO from the very beginning. This is in addition to ASEAN’s desire, a desire shared by much of the world, for China to grow and compete within the rules of the international trading order.

Now, there are certain things about ASEAN that people tend to overlook. ASEAN, which now comprises all of Southeast Asia, has half a billion people, almost half the population of China. It has a combined gross domestic product about the size of China’s. The regional market is integrating to a level approaching the actual integration of the Chinese market.

The ASEAN Free Trade Area is, substantially, now a reality. In less than seven months, it will have achieved its target of zero-to-five-percent tariffs for the trade among the six original signatories to the AFTA treaty, which are the region’s principal trading nations. Even today, more than 90 percent of ASEAN’s trade is in the zero-to-five-percent tariff range. Product standards are being harmonized, and other measures to make trade easier are being undertaken. ASEAN has ambitious programs for railway and highway systems, an electric power grid, and a gas pipeline network to further integrate the region’s economy.

At the same time, ASEAN is determined to forge closer economic links with China. Economic ministers of ASEAN and China have formed an experts group to further deepen the economic relations between ASEAN and China, relations that are already increasingly close. A possible ASEAN-China free trade area is part of the scope of the experts group’s work. With sufficiently close links between the ASEAN and Chinese economies, investors in China or ASEAN could, in effect, have the economies of ASEAN and China as a potential market, a market of 1.7 billion people.
There is a larger dimension to this. It is what is known as the ASEAN-Plus-Three process. It is the process that aims at deepening the relations among ASEAN, China, Japan and the Republic of Korea. It is being driven by the ASEAN-Plus-Three Summit, which has been meeting every year since 1997.

The process has advanced most rapidly in financial cooperation. The ASEAN-Plus-Three finance ministers and central banks have agreed to set up a network of bilateral currency swap and repurchase agreements. This system is intended to avert a crisis arising from short-term liquidity problems by making financial resources available to countries that may find themselves in sudden trouble; for example a critical balance-of-payments problem. Substantial agreements have already been reached on bilateral swap arrangements between Japan and Malaysia, between Japan and Thailand, and between Japan and Korea. Others are being worked on. The ASEAN-Plus-Three finance ministers are also forging cooperation in research, in training, and in the monitoring of the regional economic situation.

The ASEAN-Plus-Three foreign ministers have been meeting at least once every year to review and consult on live political and security issues in East Asia.

Meanwhile, an East Asia Vision Group of eminent personalities is completing its work and will submit to the ASEAN-Plus-Three Summit in Bandar Seri Begawan in November this year its recommendations on the future direction of East Asian cooperation. One of those recommendations could be for an East Asian free trade area. An East Asia Study Group of senior officials has been formed to work on these recommendations and to examine ways of deepening the relations among the countries of East Asia within the ASEAN-Plus-Three process.

Apart from the benefits of cooperation in financial and economic matters, the expansion and deepening of the relations among the countries of East Asia have served as a way of managing the strategic dynamics in the region and thus as a force for peace and stability in this part of the world.
It is partly in the context of East Asia and partly in the context of globalization, as well as in the bilateral context, that ASEAN-China relations must be seen. As the economies of ASEAN and China get increasingly interlinked, businesses have an increasingly wide choice of where to set up operations for the ASEAN, the Chinese, the East Asian or the global marketplace. Each of ASEAN’s members and China have their own strengths as production platforms. If present trends continue, businesses operating in them will have the entire region for their market, provided the East Asian economies continue to open up and the opportunities they offer are wisely used.

When viewed and carried out in this light, the strengthening of the linkages, as well as of the competition, between ASEAN and China bears enormous promise for the peoples of ASEAN and China and for the enterprises operating in them. The dynamics between ASEAN and China as competitors and partners will then prove of tremendous benefit to all.
The report of the ASEAN-China Experts Group entitled “Forging Closer ASEAN-China Economic Relations in the 21st Century”, sets out areas for enhanced cooperation, including trade and investment facilitation measures, and the establishment of a free trade area between ASEAN and China within 10 years, with special and differential treatment and flexibility for the newer ASEAN members.

At their meeting two days ago, the Leaders of ASEAN and China gave their general endorsement to this report and directed the Ministers and officials to work out ways of carrying out its recommendations. The report will be on the ASEAN Web site soon.

I will try to make a few brief points. The first is the fact that China’s economy has surged to become one of the leading economies of the world, in what has been a veritable economic miracle.

Another fact, and this is related to the first, is that the Chinese economy is fast opening to the world. China’s imminent membership in the WTO will lock this process in. China’s growth and opening present formidable challenges for ASEAN and others, but they also offer tremendous
opportunities. And it is because of these opportunities that ASEAN has supported China’s WTO membership from the beginning. Even if ASEAN and China were merely to treat each other on a most-favoured-nation basis under WTO rules, each would still have to respond to the challenges and seize the opportunities. The proposed free trade area would in some cases magnify the challenges and in some cases enlarge the opportunities.

The Government of China, the individual governments of ASEAN, and ASEAN as a group, are taking policy measures so as to manage the challenges better and to enhance the opportunities. But governments can only set the policy environment and the policy parameters. It is business enterprises that do the actual business transactions, so that they have to be the ones to actually respond to the challenges and they are the ones to seize the opportunities. Perhaps, mindsets will have to be changed. Industries and companies will have to restructure, and new industries may even have to be created. For ASEAN businesses, there will surely be intensified Chinese competition in third countries, and in the ASEAN market itself. But they would also have before them the massive and fast-growing market of China. At the same time, Chinese firms would have expanded opportunities for both trade and investment in ASEAN. In order to do this effectively, business firms of both sides must have contacts, must network and must cooperate. It is in this light that I welcome the launching of the ASEAN-China Business Council, fittingly enough on the occasion of the visit of Premier Zhu Rongji to Indonesia, one of ASEAN’s founding members.
I think that the setting up of the Council is essential for the necessary contacts for networking and to match the growing cooperation between ASEAN and China in the governmental sphere. The Council must not stop at getting organized. It must be active. It must work hard together. It must help to produce actual business transactions, large and small. Not least, I am quite sure that the governments of ASEAN and China will look to the Council for policy advice.

In other words, I think that the Council should exercise the leadership that is its primary purpose. The setting up of the Web site is a good start. I am also glad to see that the ACBC is planning to set up its own Secretariat.

I must point out that this Secretariat will only be as effective as the amount of responsibility, authority and resources given to it. The Secretariat must be able to give the support and take the initiatives that are expected of it and it must in turn be fully supported.

For our part, I wish to assure you of the ASEAN Secretariat’s full cooperation and support, and it is in this spirit that I wish the Council success.
New Challenges for the ASEAN-New Zealand Dialogue

Wellington, 20 October 1998

New Zealand has been a dialogue partner of ASEAN for twenty-three years. Through more than three decades, ASEAN and New Zealand have had a very fruitful and relatively trouble-free relationship. Our cooperation has covered quite specific fields and has been made up of concrete endeavors. We have worked together on practical projects that have benefited both our peoples. Today, we begin to examine how to adjust these endeavors so as to make them even more beneficial. We begin to explore possible new areas for further cooperation. We do this in the face of the new situation that confronts the peoples of ASEAN and New Zealand as fellow-inhabitants of the great Asia-Pacific region.

The 14th ASEAN-New Zealand Dialogue takes place in the midst of the economic crisis that has arisen from the breakdown in capital markets and has hit the ASEAN nations particularly hard. Among other effects, the impact of the crisis on ASEAN has reduced ASEAN’s capacity to import goods and services from New Zealand and to invest in New Zealand. Actual trade figures show this.
Individual ASEAN nations have been making the necessary adjustments in their institutions, practices and policies. They have been taking the necessary steps to mitigate the economic and social impact of the crisis on themselves and their peoples. ASEAN itself, as an association, has responded with collective measures. They have established a surveillance process for keeping track of macroeconomic indicators and capital flows so as to alert themselves to impending trouble in the future. They have taken steps to make possible and encourage the greater use of ASEAN currencies for intra-ASEAN trade.

Above all, contrary to popular expectations, ASEAN has re-affirmed its commitment to regional economic integration and, indeed, has decided to hasten it. ASEAN has repeatedly expressed its determination not only to push ahead with the completion of the ASEAN Free Trade Area but to accelerate it. Earlier this month, the ASEAN Economic Ministers agreed on specific measures to bring this about. Not only that. ASEAN is moving ahead on its negotiations on freeing up trade in services. It has decided to open up its industries further to foreign investments. The Economic Ministers just signed the framework agreement on the creation of the ASEAN Investment Area for this purpose.

At the same time, ASEAN remains open to the rest of the world, through World Trade Organization (WTO), through the Asia-Pacific Economic Cooperation (APEC), and in its own self-interest.

However, ASEAN cannot deal with the economic crisis by itself. The crisis, after all, has its roots at least partly in the international financial system. A global problem needs global solutions. This suggests a further area for ASEAN-New Zealand cooperation, and it is in making a substantive contribution to the international debate on the global financial system within the context of globalization. After all, ASEAN and New Zealand worked
together in founding the ASEAN Regional Forum (ARF) for the cause of regional peace and stability. ASEAN and New Zealand worked together in setting up APEC, a unique forum for the liberalization and facilitation of trade and investment and for economic and technical cooperation. We can build on these achievements by expanding the scope and deepening the intensity of ASEAN-New Zealand relations.

It is with this in mind that I wish the 14th ASEAN-New Zealand Dialogue success.
We are, of course, in an age of globalization. We are moving toward a globalized economy, fitfully, unevenly, but progressively, for better or for worse.

We in ASEAN think that it is for the better, in spite of globalization’s imbalances and inequities, particularly if we are assiduous in reducing the inequities and injustices of the process and its results. ASEAN’s economies have surged, over the past thirty years, on the basis of their openness to one another and to the rest of the world. Indeed, one can say that the principles of the free market have been at the very foundation of the association.

In any case, globalization is here with us — the process, if not its full realization. Barriers to trade and capital movements are coming down. Technology is allowing business people and companies to hurdle many of the barriers that remain. Corporations are merging across national boundaries and across continents. Their ownerships are losing their national identities.
This process of economic integration is taking place within regions - at varying paces. It is taking place globally - in fits and starts, but in the clear direction of a global marketplace. Competition is greater than ever before - between companies, between nations, and between regions - although the potential for, if not, in some cases, the actuality of, monopolistic domination is ever-present. For the first time in almost a century, it can be said, with little qualification and with little exaggeration, that the world is becoming one big market.

In such an age, in such a world, Germany and ASEAN should be natural partners - Germany with its industrial might, financial resources, and technological power; ASEAN with its record of high growth, now apparently resuming, its large population, its productive and largely inexpensive labor force, its immense natural resources, its market-oriented policies, its integrating economy.

The United States and Japan, for decades, and, increasingly, China and Korea, have recognized this. Taken together, ASEAN is the United States’ third largest overseas export market; it is also Japan’s third, after only the United States and the European Union. According to the US-ASEAN Business Council, American investment in ASEAN is larger than in Mexico, Brazil or Japan. It is more than twice the U. S. investment in Hong Kong, six times that in Korea, and seven times that in China and Taiwan.

In contrast, Germany accounts for only three percent of all foreign direct investment in ASEAN, as compared to Japan’s 17 percent, the United States’ 13 percent, and the 14 percent from other ASEAN countries. Among members of the European Union, Germany’s share of investments in ASEAN in the period 1995-1999 was smaller than those of The Netherlands, the United Kingdom, and even Switzerland, although in 1999 Germany led the rest of the European Union in investments in the manufacturing sector.

German exports to the ASEAN market have not been doing better. German exports to Indonesia are less than half those of Japan or the United States. To Malaysia, they are less than 20 percent of those from Japan or the United States. They are 13 percent of American exports and 14 percent of
Japanese exports to the Philippines. U. S. exports to Singapore are five times those of Germany; Japan’s are only a little less than that. Japanese exports to Thailand are five and a half times those of Germany, and American exports three times. Singapore’s exports to Viet Nam are four times more than Germany’s. However, Germany trades with ASEAN more than any other country in Europe.

The German record clearly reflects less than the potential of ASEAN for German trade and investment. ASEAN has a population of half a billion, almost half that of China or India. It has a gross domestic product about the size of China’s. Its economy is now growing again, at the rate of 3.2 percent in 1999, a rate that is expected to accelerate this year to close to five percent. ASEAN’s exports have been surging. Exports of the six older members of ASEAN alone - Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand - grew by 7.7 percent from US$316.6 billion in 1998 to US$341.1 billion in 1999. Imports increased by the same rate, from US$259.5 billion in 1998 to US$279.5 billion in 1999. Individual ASEAN economies give the investor a wide range of choices - from the high-tech, efficient service economy of Singapore to the low-wage and abundant manpower of Indonesia and Viet Nam to the rich natural resources of most of the ASEAN countries.

**An Integrating Market**

Wherever an investment is located in ASEAN, it has all of Southeast Asia as a market because of the increasing integration of that market. This is why it is possible to speak of an ASEAN market, even of an ASEAN economy.

By the beginning of 2002, the goods traded among ASEAN’s six leading trading nations, with some exceptions, will have tariffs of only five percent or none at all. This is less than ten months from today. Even now, more than 90 percent of these six countries’ tariff lines that are covered by AFTA are within the 0-5 percent zone, accounting for more than 90 percent of intra-ASEAN trade. For all practical purposes, the ASEAN Free Trade Area is now in place, just a little over eight years after the tariff-cutting process and other regional trade liberalization measures started in 1993.
The creation of a regional market in Southeast Asia was long anticipated by many important multinational companies. There may not be much promise in setting up a manufacturing plant in a single country, particularly when the plant is cost-effective only with large production volumes. But when tariff barriers are eliminated, economies of scale are created, making large investments economically sensible.

Let me illustrate this point with an example, the car industry. In ASEAN, tariffs on completely built-up and completely knocked-down units have historically been set very high, as many countries in the region sought to develop or encourage a domestic car industry. Under AFTA, ASEAN countries are required to bring down their intra-regional tariffs to within 0-5 percent by 2002/2003. The ASEAN auto market is substantial. Auto sales in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam for the year 2000 are estimated to have been more than 735,000 units, with the volume projected to nearly double by the middle of this decade. Although Japanese companies have historically dominated ASEAN markets, the creation of AFTA opens up opportunities for other vehicle manufacturers. This is why AFTA has drawn the interest of the major US and European automotive companies. Ford and GM have already made substantial investments in the Philippines and Thailand.

ASEAN has an industrial cooperation scheme called AICO, in which companies with related operations in two or more ASEAN countries ship their products to one another at the minimal AFTA tariff rate of 0-5 percent. Such companies already enjoy the benefits of an integrated ASEAN market. Right now, they are mostly Japanese companies in the automotive or electronic sectors. The only European firms in the AICO scheme are Volvo and Nestle. None are German.

For the first time in almost a century, it can be said, with little qualification and with little exaggeration, that the world is becoming one big market.
Infrastructure Linkages

The ASEAN economy is being integrated not only by the removal of trade barriers but also by infrastructure linkages - transport, energy, telecommunications.

A feasibility study has been completed for the Singapore-Kunming Rail Link, a project that envisions the linking of mainland Southeast Asia’s railways to one another and to Kunming in southern China. That rail network will extend the existing Singapore-to-Thailand railway to Cambodia, and thence through Viet Nam to Kunming, with spurs from Viet Nam into Laos and from Thailand into Myanmar. ASEAN is now identifying priority segments and working out ways of financing their construction.

Southeast Asia has substantial sources of energy of various types - oil, gas, coal and hydro. The ASEAN power grid being developed aims to make the delivery of energy more reliable, ensure a market for ASEAN suppliers of power, and provide energy security to the energy-deficit members. The trans-ASEAN gas pipeline network, parts of which are already in place, supports the same objectives by tapping the great natural gas deposits of Indonesia and Myanmar. Just recently, a major pipeline connecting Indonesia’s Natuna fields to Singapore was inaugurated by President Abdurrahman Wahid and Prime Minister Goh Chok Tong.

Work is being done to ensure telecommunications inter-connectivity in ASEAN and the compatibility of telecommunications equipment. Related to this is the e-ASEAN initiative, which is meant to pull ASEAN into the information age, into cyberspace. Last November, the ASEAN heads of government themselves signed the e-ASEAN framework agreement, which commits ASEAN to this goal. The agreement covers the establishment of the ASEAN Information Infrastructure and the legal and policy environment for electronic commerce. The

Even as it deepens the integration of its market, ASEAN remains open to the world.
agreement commits ASEAN to the liberalization of trade in information and communications technology products and services and of investments in the ICT sector. It calls for the development and use of ICT for the delivery of government services and for social purposes. For all this, institutions will have to be developed and the people of ASEAN trained. The e-ASEAN initiative also envisions this.

**Investment Opportunities**

The infrastructure linkages and the development of ICT will not only make trade easier and encourage investments; they also represent enormous investment opportunities - the railway project, roads and highways, the power grid, the gas pipelines, telecommunications, information and communications technology. Their development requires consultants, financing, materials, equipment and technology.

Information and communications technology has particularly great promise. In 1998, ASEAN had just 8.4 million mobile phone subscribers and 7.4 million personal computers. With a population of half a billion, these figures translate into 16.6 mobile phone subscribers and 14.7 PCs per one thousand people. In contrast, Germany in 1998 had 169.6 mobile phone subscribers and 279 PCs for every thousand people. The point is not so much that ASEAN is far behind Germany in information and communications technology; it is that, with the e-ASEAN initiative, ASEAN has enormous potential for growth, and tremendous opportunities for suppliers of ICT products and technology.

ASEAN economic integration is being strengthened not only by the unification of the ASEAN market but also by intensified cooperation in areas like finance.

ASEAN’s finance ministers have been undertaking frequent consultations in order to keep a collective eye on the economic situation in the region and help avert a recurrence of the financial crisis. In a system of surveillance and peer review, they keep track of financial and economic movements in the region and encourage one another as they take national measures to strengthen their financial systems and other sectors of their economies.
ASEAN has expanded the currency swap arrangement under which the ASEAN countries make financial resources available to a member that may find itself in financial trouble. ASEAN has engaged China, Japan and Korea in a network of bilateral currency swap and repurchase agreements meant to strengthen the financial safeguards.

Even as it deepens the integration of its market, ASEAN remains open to the world. We are now working on ways to strengthen our economic linkages with our neighbors to the North - China, Japan and Korea - in what is called the ASEAN Plus Three process, a process that is gathering surprising momentum. We are exploring ways to link the ASEAN economy with those of our neighbors to the South, Australia and New Zealand. As trade barriers go down between ASEAN and its neighbors, German and other European investors in ASEAN will see their markets considerably enlarged.

The message from ASEAN is this. ASEAN and Germany are natural partners. ASEAN with its population that is larger than the European Union’s, its GDP that is equal to China’s, its resurgent growth, its integrating economy, its openness to the world, the strategic importance of foreign trade and foreign investment in its economy, its confidence in market forces, its hard-working people, its rich natural resources, the projected expansion of its infrastructure, its embrace of the information age. And Germany with its economic size, its industrial might, its financial resources, its scientific and technological power, the superb quality of its products and services, its central and leading place in the European Union.

The partnership between Southeast Asia and Germany has long roots in the past. It is time to strengthen and enrich the substance of that partnership for the benefit of both. The opportunities beckon. It is for business enterprises to seize them.
ASEAN and Russia: The Potential for Business

Keynote Address at the First ASEAN-Russia Business Forum
Kuala Lumpur, 13 April 2000

ASEAN admitted Russia as a full dialogue partner in 1996. ASEAN did so in recognition of Russia’s strategic importance to this part of the world. A vast portion of Russian territory lies in Asia, with its eastern shore meeting the western edge of the Pacific. Russia is the second leading nuclear power and is a permanent member of the United Nations Security Council. At the same time, Russia has regarded ASEAN’s role as critical to the affairs of the Asia-Pacific. Regional security was a key agenda item in the two annual senior officials consultations held so far, in 1998 and 1999.

The dialogue relationship was forged with the realization by each side of the economic potential of the other. Russia has incredibly vast and rich mineral, timber and other natural resources. It has a very high level of science and technology. It has an immense industrial base. At the time of its admission as an ASEAN dialogue partner, Russia had started to allow its economy to be governed by market forces and had opened it to the global economy. Its industries had begun to be privatized, its economy to be deregulated. At the same time, Southeast Asia’s economies were surging. ASEAN as an association was showing the way in how to push regional economic integration as a tool for dynamic growth.
Sure enough, in 1996, the year that Russia became an ASEAN dialogue partner, ASEAN exports to Russia leaped to almost US$3.2 billion. ASEAN imports from Russia hit more than US$2 billion. However, in 1997, ASEAN exports to Russia plunged to US$876 billion, to a little over US$500 million in 1998, and to a piddling US$117 million in the first half of 1999. ASEAN imports from Russia dropped to US$1.1 billion in 1997, to US$567 million in 1998, and to US$377 million in the first half of 1999. It would be safe to attribute this to the economic troubles on both sides - the drop in consumer demand, the financial strains, the decline in industrial production, the dwindling of investments.

Now, things are turning around, on both sides. Two weeks ago, the ASEAN Finance Ministers estimated that ASEAN would grow by 4.7 to 5.5 percent this year. This would be a marked improvement over the 4.6 percent contraction in 1998 and the positive growth of 4.4 percent last year. Exchange rates have stabilized, with the ringgit, the baht, the peso and the rupiah, currencies hardest hit by the crisis, experiencing minimal fluctuations from the first half of 1999 to February this year. Inflation is at single digits throughout the region, allowing interest rates to go down substantially. Consumer and industrial demand is rising steadily. For example, industrial electrical consumption and automobile sales have increased considerably.

On the part of Russia, the recent elections and the smooth transfer of power have given the country new, vigorous leadership under President Putin, leadership that seems able to put in place the right setting for dynamic growth.

ASEAN as an association has expressed keen interest in Russia’s renowned advances in science and technology, particularly in the almost fifty areas that ASEAN has identified, ranging from waste water treatment to food safety and quality, from solar energy to coal technology, from haze monitoring and modeling to disaster management. However, cooperation has stalled because of lack of financial resources. The economic recovery on both sides should warrant another look at these very useful - even vital - areas for mutually beneficial cooperation.
Meanwhile, prospects for the renewed expansion of trade are rising again. This time, Russia should be looking at ASEAN as one integrated market, as the ASEAN Free Trade Area nears completion and the ASEAN Investment Area takes hold. It is a market with fully half the population of China and the same level of GDP as China’s. At the same time, Russia should be considering ASEAN’s great diversity, its rich variety of natural and human resources, and its different levels of development. This diversity gives Russian traders and Russian investors a large number of choices in an integrating regional economy that is again on the path of sustained growth.

For ASEAN, Russia has always been a vast market whose full potential has yet to be explored, exploited and fulfilled. Deputy Prime Minister Klebakov has outlined Russia’s strengths and potentials and the areas in which Russia is interested in cooperating with ASEAN, where it thinks the prospects for such cooperation are greatest, and from which both sides can draw most benefit.

Now is the time to step up the contacts between the two sides. The ASEAN and Russian governments have provided the policy setting. They have given official encouragement. Actual business transactions and interactions have to be carried out by the private sectors - firm to firm and person to person.

This is why this First ASEAN-Russia Business Forum is most timely indeed.
A dialogue is nothing if it does not foster closer understanding between the interlocutors. In fact, the word “dialogue” literally means an exchange of knowledge. And the lecture series is precisely that. I hope that today I can contribute to this exchange of knowledge that is a vital part of our dialogue, of the relationship between ASEAN and India. And I thank the Indian Government for this opportunity and for its hospitality. ASEAN also appreciates the role of RIS in the Lecture Series. A better Indian focal point could hardly be found.

The partnership between India and ASEAN member-countries, of course, goes back a long way, at least in multilateral diplomacy. India and most countries in Southeast Asia have, since the 1950s and the 1960s, taken similar positions — indeed, have often coordinated their positions — at the United Nations, in the Group of 77, in the Non-Aligned Movement, and in international economic forums. India was a leading force in the Bandung conference of 1955. The power of Indian political and economic philosophy influenced much public policy in the developing world, including many in Southeast Asia.

Yet, it was only in 1995 that India became a Dialogue Partner of ASEAN, eighteen years after ASEAN initiated its pioneering system of dialogue
partnerships. Today, India fits easily in that system, and one wonders why it became an ASEAN Dialogue Partner only five years ago. There is a good reason for this.

The ASEAN dialogue system started out in the 1970s on the basis of the Dialogue Partners’ capacity to extend official development assistance to the ASEAN member-countries. This is why, until 1991, ASEAN’s Dialogue Partners were all from the developed world — Australia, Canada, the European Union, Japan, New Zealand and the United States. In the 1970s and part of the 1980s, the substance of the dialogue system was largely the development assistance that flowed from the Dialogue Partners to ASEAN.

The ASEAN dialogue system has since expanded, deepened and broadened. This is a reflection of and a response to the momentous and inter-related changes that have taken place in the ASEAN nations, in the foreign-policy outlook of the Dialogue Partners, and in the relations among nations in the Asia-Pacific region.

With their rapid economic expansion and growing economic openness, the development of the first six ASEAN members has been fuelled more and more by trade and investments and less and less by foreign aid. To be sure, the four newer ASEAN members and one or two of those hardest hit by the recent financial crisis continue to need development assistance; but, by and large, such assistance figures far less prominently in the economic strategies of ASEAN members as well as of the donor nations.

At the same time, in the traditional donor nations, aid programs are now motivated more by humanitarian and domestic political considerations than by compelling strategic calculations. The Cold War has ended, and the power configuration in the Asia-Pacific is in flux. The strategic situation requires multilateral consultation, bilateral dialogue and political engagement and no longer firm alliances cemented by relationships of economic as well as military dependence. Trade and investments flow much more freely around the world, driven by market forces and, with rare exceptions, no longer by political and strategic concerns.
Adjusting to these new realities, ASEAN has altered its dialogue system so as to embrace nations that have strategic roles to play in the region or can engage ASEAN in comprehensive economic relationships. Thus, South Korea became a full Dialogue Partner in 1991, India in 1995, and China and Russia in 1996. In the ASEAN Regional Forum, ASEAN is engaged in political and security dialogue and consultations with all the Dialogue Partners and, more recently, with Mongolia and North Korea, as well as with Papua New Guinea, ASEAN’s lone observer.

**A Rightful Place for India**

On strategic, economic and political grounds, India has a rightful place in the ASEAN dialogue system as it is today, with as strong a claim to that position as any of the other Dialogue Partners.

For many centuries, Indian civilization has deeply influenced the cultures of all of Southeast Asia. Large Indian communities live among the people of Southeast Asia. India has participated constructively in United Nations activities in Indochina. With Myanmar’s admission into the association in 1997, India now has a common land border with ASEAN. The ASEAN Regional Forum has benefited from India’s long experience in global security affairs. In recent years, India has deliberately fostered a “Look East” policy in foreign affairs, including resolute efforts to strengthen ties with ASEAN as a group. ASEAN, of course, welcomes this, as it considers India to have a strategic role to play in the region. As an expression of the “Look East” policy, the Prime Minister of India is now on a visit to two ASEAN members.

In the past, many Southeast Asian countries and India shared a common view of international economic relations. They viewed with dismay how the international terms of trade were moving progressively in favor of the developed countries, which produced and exported mainly manufactured goods, and against the developing countries, which produced and exported raw commodities. India, Southeast Asia and other developing countries sought to redress this situation by protecting and nurturing so-called infant industries that produced for the domestic market as many as possible of the goods that they used to import from the developed countries.
At around the time of ASEAN’s founding in 1967, the members of the new association had begun to come to the conclusion that the protectionist, import-substituting regime of economic development had reached its limit. Protectionism was breeding inefficient industries, whose products had a limited market at home. They decided that, in order to enlarge their markets and thus generate more jobs, they had to go for the global marketplace, putting their foremost asset — their abundant and inexpensive labor — to good use in international competition. At the same time, opening the domestic market to foreign investment attracted financial resources, technology, modern production methods, and so on. In many cases, competition resulted in lower prices. The Southeast Asian countries thus acquired a stake in an open global marketplace — in terms of market access for their own exports, the salutary effects of competition in their domestic markets, and the freer flow of foreign direct investment. One can actually say that ASEAN was, to some extent, founded on the principles of the free market.

The Indian economy had a longer protectionist, import-substituting, planned and regulated phase. India used this opportunity to develop industries of great economic, scientific and social significance. Pharmaceuticals, food processing and certain types of advanced industry are outstanding examples. Since 1991, however, India has been gradually opening up its market, de-regulating its economy, and privatizing some public sector enterprises. Many sectors of the economy have been opened to foreign investment, and market forces given freer play.

**Common Economic Interests**

ASEAN and India have thus, once more, found common economic interests — in free markets and in the freer flow of foreign direct investments. But

On strategic, economic and political grounds, India has a rightful place in the ASEAN dialogue system as it is today, with as strong a claim to that position as any of the other Dialogue Partners.
they also recognize a common stake in ensuring that free markets in goods, services and capital benefit countries like them and all the people within them.

It is from this standpoint that they are to deal with today’s phenomenon of globalization. At its most basic, globalization means the free flow of goods, services, capital, information and labor. Theoretically and at its most ideal, it is the most efficient use of the factors of production for the good of all.

It is in this sense that almost all countries have come to accept globalization as desirable, or even inevitable — at least as far as most goods and most services are concerned. This is why almost countries that are still outside the World Trade Organization want to come in — from China and Russia to Laos and Cambodia. Nations believe that, on balance, it is better to be in than out.

However, it has also been pointed out that globalization, as carried out so far, is inequitable, at least in its results — inequitable between some developed countries and most developing countries, and between sectors in the same country. As currently practised, globalization means opening markets to the goods of the leading industrial nations, such as high-technology products and financial services, while developed-country markets are closed to the goods that the least developed countries are most capable of producing, like garments and textiles. It allows certain developed countries to use their massive resources to subsidize their agricultural exports in unfair competition with those of other countries. It has enabled strong countries to abuse anti-dumping measures.

Within nations, the free international flow of goods, services, capital and information and the competition that it fosters tend to widen the gap between those who live in the cities and those who live in the countryside, between workers in the industrial export sector and the knowledge industries and those who work in subsistence agriculture, between the skilled and the unskilled, between the educated and the illiterate, between those who can enjoy the increasingly broader choice of consumer goods and those who live from hand to mouth.
What We Can Do

All these points have been made abundantly by many who know much more about these things than I do, most recently in Seattle, in Davos, in Washington, D. C., and in Bangkok, and in many meetings that I have attended. The question is: what can countries like India and ASEAN members do about it?

At the international level, they must continue to cooperate in pressing for access to the developed markets of those products in which developing countries are most competitive. They must work together for the dismantling of pernicious agricultural-export subsidies and anti-dumping abuses. They must join their voices in calling for the better international management of volatile short-term capital flows, and for the relief of the world’s most indebted nations. They must jointly press for the more effective and substantive transfer of technology from the multinational corporations that operate in their midst. They must more strongly seek a bigger voice in the international trading and financial systems. They must, together, keep up the pressure.

Even as we work to make the international trading and financial systems fairer and more equitable, we have to do what it takes to make ourselves more competitive in the world — in terms of markets, services and investments. Whether the international system is fair or not, whether the international playing field is level or not, countries like ours have to gird themselves for the rigors of the international competition that is so vital for the health of the global economy and of individual economies.

Integrating ASEAN

In ASEAN, one of the ways in which we seek to strengthen our competitiveness is to hasten and deepen the integration of our economies. We in ASEAN have recognized that the only way to compete for markets and investments in a globalized economy is to create the large integrated market that foreign direct investments seek. Such investments would take into account the large domestic consumer base that an integrated market represents. They would also factor in the economies of scale that would strengthen their competitiveness in the global marketplace.
For all practical purposes, the ASEAN Free Trade Area is now in place, a market with a population half the size of India’s and with a gross domestic product of the same magnitude as China’s. We are now working on integrating the ASEAN market for services. We have opened each of our economies almost completely to investments from other ASEAN countries, including joint ventures with outside investors. The great diversity of ASEAN’s economies gives the investor a wide choice of where in ASEAN to invest.

Beyond trade and investment, the recent financial crisis has forcefully brought home to ASEAN governments the necessity of cooperating closely in financial matters. We have set up a system of joint surveillance of our economies, including periodic peer reviews by finance ministers and mutual encouragement in the pursuit of economic and financial reform. We have expanded and strengthened the currency swap arrangement through which ASEAN members are to provide financial resources to one that may suffer temporary financial difficulties.

ASEAN recognizes the fast-growing importance of information and communications technology. It is resolutely working toward creating e-ASEAN, toward enabling ASEAN’s people to develop and use that technology the better to compete economically and otherwise to improve their lives. Last November, ASEAN’s leaders signed the e-ASEAN agreement, which commits their countries to cooperate in providing the legal and policy environment for the development of information and communications technology and of e-commerce, liberalizing trade in ICT goods and services, harmonizing standards for ICT products and processes, training people in the new technologies, laying the ASEAN information infrastructure, and fostering the use of ICT to improve government services and in education, health, rural development and other social purposes.

ASEAN knows that it must integrate the markets of Southeast Asia, cooperate financially and get into the information age if it is to have a chance of competing with continent-sized nations like India and China and with free trade areas that are rising elsewhere in the world.

Regional market integration and regional cooperation are necessary for nations to thrive – or even survive – in a globalized economy; but they are
not enough. Regional arrangements can only do so much. Each nation has to do for itself what only sovereign nations can do – ensure that people have the productive skills, the physical health and the economic means to contribute to and benefit from economic development. Quite apart from its inherent value, the quality of a nation’s people – and of its governance – in most cases determines the strength of its economy. This is particularly true in today’s globalized economy, where knowledge and intellectual skills have an increasingly large role.

For a nation, this means essentially a single-minded endeavor to lift the quality of mass education, including that of women and girls, to provide training in the skills needed in today’s industries, to open up access to knowledge and information, to set up social safety nets for times of national or personal crisis, to improve public health care, to accelerate rural development, to raise the incomes of the poor to a level that provides a decent living and expands the domestic market.

ASEAN is cooperating in some of these areas – in the training of women and out-of-school youth, in the design of social safety nets, in rural development. But regional cooperation can do little more than foster the exchange of information, of best practices, of technical help. The basic and controlling decisions have to be made at the national level. Essentially, such decisions involve the re-allocation of resources and other items of national policy, and only sovereign nations can make them. The devotion of resources to education, training, health and nutrition requires moving money into these vital areas and out of other activities – and using that money efficiently and honestly. Social safety nets by their very nature demand the transfer of resources from one social sector to another. Attention to rural development may mean a shift of national priorities. Each nation has to decide for itself how to manage the flow of information, if it does so at all, and how to connect with the rest of the world.

**The Role of Democracy**

This clearly cannot be left to the workings of the market. The state has to intervene. But, in most cases, the state will intervene on behalf of education, training, health, nutrition, social safety nets, and rural development – and
devote the necessary resources to them — only if it is pressured to do so, only if rural folk, women, workers, consumers, and the public at large are mobilized on behalf of their own and their families’ interests. Such mobilization can happen only in a democracy – democracy, to be sure, in a form suitable to each country’s circumstances – but democracy nevertheless; genuine democracy, in which the people participate in their own governance, have their voices heard and their interests taken into account, where government and corporate processes are transparent, where government and corporate leaders are accountable – where, I might add, the rules are enforced equally on all and nobody, no party, is above the law.

It is in this light that the concept of democracy and its role in development has to be examined and re-examined – in the light of its substance and achievement rather than of its form and trappings, in the light of both principle and pragmatism.

Here, I invoke the penetrating insight of that eminent son of India, Amartya Sen – the insight that weaves through much of his distinguished work, his insight into the truth that the exercise of personal freedom and of political and civil rights is not only a good in itself but is an important instrumentality for economic development and the improvement of human welfare.

For validation, we need not look farther than Sen’s own country, this country. India has many problems – illiteracy, the disadvantaged status of many women, rural poverty, undernourishment, the bureaucratic legacy of a controlled economy. But Indian democracy, imperfect though it may be, places India in position to deal with the challenges of development and globalization and exploit their promise. ASEAN, too, is headed that way, proceeding at different paces and taking different forms, to be sure; but it has to be headed that way. It is the only way.
Areas for Cooperation and Dialogue

Here, then, are vital areas for ASEAN-India cooperation and dialogue, for two-way learning, mutual understanding and, where appropriate, common action.

Economic ties are, of course, the usual and obvious starting point for links between countries and regions. For many years, trade and investment between ASEAN and India have been severely hampered by the lack of knowledge and contact between the business communities and by the differences in ways of doing business. The trade with India of the first six ASEAN members more than doubled in the three years from 1994 to 1997, from US$3.5 billion to US$8.9 billion, dipping to US$7 billion and US$7.7 billion in 1998 and 1999. Yet, even at its peak, ASEAN’s trade with India was less than two percent of the region’s total trade.

The business communities certainly have to do the trading and investing, but the public sector can help spread updated information about business conditions and opportunities. Perhaps, trade facilitation measures being adopted in ASEAN could be extended to India. These include customs coordination, product harmonization, and mutual recognition arrangements. At the policy level, we could learn from each other how most effectively to harness the forces of the market, to plug into the global economy, and to deal with globalization.

A joint study is currently being done on how to establish linkages between India and the ASEAN Free Trade Area. A similar study has been completed with respect to the closer partnership between AFTA and the Closer Economic Relations of Australia and New Zealand. Others are contemplated on ASEAN-China and ASEAN-Japan economic linkages. Such studies could shed light on one another’s subject and, considered jointly when the time comes, could form the basis of an overarching system of easier trade flows and other economic relations in the Asia-Pacific.

A great success story has been the development of India’s pharmaceutical industry, which has given to India’s people the blessings of effective and affordable drugs. ASEAN countries, some of which are plagued by the high prices of essential drugs, could certainly learn from India’s experience
in this area, including its adaptation of the pharmaceutical industry to the issue of trade-related intellectual property rights, or TRIPS. The ASEAN Working Group on Technical Cooperation on Pharmaceuticals could serve as the vehicle for ASEAN-India cooperation.

Information Technology is another obvious area for ASEAN-India cooperation. India has swiftly acquired fame for its software industry. ASEAN has its e-ASEAN program. For all of India’s success and despite pockets of achievement in ASEAN, both India and ASEAN, except for Singapore, lag far behind the developed countries in terms of the usage and penetration of IT. ASEAN and India could work together in evaluating their state of readiness for the digital age and identify areas where action is needed and what action to take. This effort could include an index of readiness and an annual progress report. ASEAN and India ought to cooperate in the absolutely essential endeavor of producing the necessary critical mass of trained personnel through the maximum use of the private sector. ASEAN and India could establish a process of consultation on the use, experimental to begin with, of IT for education, health care, employment, small and medium enterprises, and rural development. Because IT is evolving, and evolving fast, we might set up channels for the regular exchange of experience and information on IT developments.

Similarly, ASEAN and India could cooperate in laying the scientific basis for specific policies pertaining to the issue of the trade in and consumption of genetically modified organisms.

Cooperating in Human Development

India and most ASEAN countries face the same problems of human development, of developing the human potential for productive work and a fulfilling life. India and ASEAN countries have scored brilliant successes and suffered massive failures in different areas. I have already cited India’s pharmaceutical industry as something for ASEAN to learn from. Indian advances in medical research, particularly in tropical medicine, are well known. ASEAN could benefit from cooperating with India in the surveillance and control of communicable diseases, especially those that ASEAN has identified to be of urgent priority.
Similarly, ASEAN and India have broad scope for cooperation in training their people to survive and thrive in an economically competitive world. ASEAN and India have started programs of cooperation in higher education and in an impressive range of scientific and technological fields, many of them esoteric, all of them useful. However, mutual learning in mass education and in the training of women and out-of-school youth would be useful, too.

As a consequence of the recent financial crisis, ASEAN has of late been devoting attention to social safety nets and has adopted an action plan for this purpose. ASEAN and India could learn from each other in the design, assessment and implementation of social protection programs. Cooperation in information technology could include the use of IT and the extension of modern telecommunications for rural development and the empowerment of rural folk.

Finally, India and ASEAN countries could share their experiences in and their approaches to questions of public and corporate governance, the transparency of official and business transactions, and the people’s participation in public life. The importance of these questions has become much clearer in a globalized world in the information age. They are also delicate questions, and they have to be addressed with due regard to nations’ sensitivities and their particular histories and other circumstances. But they ought to be addressed — at least, initially, at the academic level.

Most of the cooperative measures that I have indicated are modest ones, and perhaps for that reason practical. I believe that they will help enrich the texture of ASEAN-India relations and give substance to them. I am confident that I speak for ASEAN when I say that ASEAN values immensely India’s strategic engagement in our part of the world. I am sure that India will also find its involvement with Southeast Asia useful to itself. This is both because of Southeast Asia’s inherent value and because such an involvement will help to strengthen and enlarge India’s ties to East Asia, a part of the world that is of great strategic and economic importance to it.

For both sides, this is the ultimate significance of the ASEAN-India dialogue partnership.
Beyond this geographic proximity, which is important in itself, the destinies of Hong Kong and Southeast Asia are closely intertwined. As an open and free economy, an open and pluralistic society based on the rule of law, and a well-run administrative and economic entity, Hong Kong has valuable lessons to impart to Southeast Asia. As a place that is steadily building a knowledge society and a technological economy, Hong Kong can show the way for Southeast Asia. At the same time, Southeast Asia offers a growing and integrated market for Hong Kong goods, Hong Kong services and Hong Kong investments.

Hong Kong and Southeast Asia have a common interest in the stability of the East Asian region. They have a common stake in the ability of Hong Kong, ASEAN and the other countries of this area to deal effectively with a globalizing world economy and with the international financial system. Hong Kong and Southeast Asia will both benefit from rising living standards for all the people of this region.

ASEAN has definite contributions to make to the advancement of these common interests. In my view, ASEAN can best make its contributions in the following ways:
1. Fostering a stable regional security environment;
2. Advancing regional economic integration;
3. Promoting economic openness to the world; and

How is ASEAN doing in these critical tasks?

**Promoting Regional Security**

In promoting regional security, ASEAN, mainly through the ASEAN Regional Forum, has engaged the regional states and other major powers in addressing together the security concerns of our part of the world. They are doing this by holding regular consultations and by building mutual confidence through dialogue and practical cooperative measures. This does not sound dramatic or exciting until you think of the alternative. ASEAN looks forward to developing ARF as an effective instrument for preventing conflict and, eventually, the settlement of disputes.

One outstanding issue in Southeast Asia is the conflicting territorial and jurisdictional claims in the South China Sea. Territorial disputes are often intractable, and those in the South China Sea seem to be more so than most, involving, as they do, maritime jurisdictions, varying interpretations of history, disparities in power, and differences in perceived strategic interests.

ASEAN has finally succeeded in engaging China in discussions on a regional code of conduct for the South China Sea. ASEAN hopes that under such an agreed code of behavior China and the Southeast Asian countries will commit themselves to specific measures to avoid conflict, reduce tensions, promote cooperation, protect the marine environment, and prevent crime in the South China Sea. Three weeks ago, ASEAN and Chinese officials undertook consultations on the proposed code. They identified the elements on which they agree and pinpointed those issues on which they continue to differ. They agreed to meet again to see whether they can narrow their differences. Pending the resolution of the fundamental issues, a regional code of conduct, if respected and observed by all, would serve the interests of all, the interest of regional stability above all.
Advancing Regional Integration

Partly in response to the recent financial crisis, ASEAN has of late been accelerating the process of regional economic integration. It is quickening the pace of the ASEAN Free Trade Area, or AFTA. By the beginning of 2002, or in less than twenty-one months, about 90 percent of intra-ASEAN trade will have tariffs of no more than five percent or none at all. Even now, trade within ASEAN is close to this AFTA target. Even now, products of companies with related operations in two or more ASEAN countries receive the full AFTA treatment under the ASEAN Industrial Cooperation scheme, AICO. Some of the region’s biggest companies, most of them Japanese and none from Hong Kong, have benefited from this arrangement. We would like to see more companies take advantage of it, including smaller ones and including those from Hong Kong.

ASEAN has started the process of negotiating the liberalization of trade in services, including financial services. Trade within ASEAN is being made easier through the increasing harmonization of product standards and of customs rules and procedures. ASEAN is seeking to turn the region into one investment area, the ASEAN Investment Area. As part of this effort, ASEAN countries have agreed to open up their economies to ASEAN investors, and others in joint venture with ASEAN investors, and to extend national treatment to them.

The region is intent on binding itself more strongly with road networks and transport arrangements, with regional electric power grids and gas pipeline networks, and with telecommunications interconnections. Much of this work is focused on the Mekong Basin, both as a natural geographic unit for development and as a vehicle for pulling up ASEAN’s newer members, all of which are in the Mekong Basin, to the economic level of the older ones.

All of this — an integrated market, open investment regimes, infrastructure development, and so on — should make ASEAN’s economies considerably more efficient and productive and attractive to investment. The Hong Kong business community ought to look into the many opportunities that an integrating ASEAN offers.
Promoting Economic Openness

While integrating its own economy, ASEAN remains open to the rest of the world. It is now exploring with Australia and New Zealand the possibility of a free trade area between them and AFTA. Cooperation between ASEAN and China, Japan and the Republic of Korea has been gaining momentum within the so-called ASEAN Plus Three framework. Forums have rapidly multiplied among these thirteen countries of East Asia to work out measures to advance substantial cooperation among them. These include annual summits and regular meetings of foreign ministers, trade and industry ministers, finance ministers, deputy finance ministers and deputy central bank governors, and senior officials in various sectors.

Relations between ASEAN and China are expanding steadily. The South China Sea is just about the only issue between them. China is one of the countries with which ASEAN as a region has the most active relationship. Trade between ASEAN and China is growing fast, hitting more than US$27 billion in 1999, from less than US$9 billion in 1993. In this light, ASEAN has from the beginning supported China’s entry into the World Trade Organization. As a special region of China with superior facilities and long experience in trading, shipping and finance, Hong Kong can play an even greater role today as a bridge between ASEAN and China than it has already done.

ASEAN remains at the core of APEC, a force for keeping APEC faithful to its original purposes — not only the liberalization of trade and investment, but, just as importantly, the facilitation of trade and investment and economic and technical cooperation. Seven ASEAN members are active in pursuing the goals of WTO in a balanced and fair way. We hope that Hong Kong will continue vigorously to support the entry of Cambodia, Laos and Viet Nam into WTO.

Beyond this geographic proximity, which is important in itself, the destinies of Hong Kong and Southeast Asia are closely intertwined. Hong Kong and Southeast Asia have a common interest in the stability of the East Asian region.
Regional Solutions for Regional Problems

In one sense, ASEAN has been integrating its economy as a matter of deliberate policy. In another sense, the forces of globalization and the power of modern technology are impelling that integration. The contagion effect of the recent financial crisis has shown how investors and fund managers have come to regard Southeast Asia as, to a substantial degree, an integrated economy. The financial turbulence was thus a regional problem requiring regional measures to prevent its recurrence — at one level within ASEAN, at another level among East Asian countries.

One of ASEAN’s first regional reactions to the crisis was to accelerate economic integration, through AFTA, the ASEAN Investment Area, and other schemes, in order to stimulate trade and attract investments. ASEAN launched the process of liberalizing and facilitating trade and investment in financial services on a regional basis.

ASEAN set up a surveillance mechanism, run out of the ASEAN Secretariat and supported principally by the Asian Development Bank. Through this mechanism, ASEAN finance ministers, in a process of peer review, exchange views on the regional economic situation, brief one another on their national economic conditions and on the policy measures they are undertaking, and encourage one another in their efforts at reform. Such a review was conducted eleven days ago in Bandar Seri Begawan.

At that meeting, the finance ministers also decided to build a regional framework for the development of the ASEAN bond market in order to deepen the region’s capital markets. They agreed to adopt internationally accepted standards and practices in accounting, auditing and disclosure. At a meeting with their counterparts from China, Japan and the Republic of Korea in Chiangmai next month, the finance ministers will be discussing a mechanism to monitor international capital flows within the region and a possible regional financing arrangement for use in times of crisis. Depending on the shape that it takes, Hong Kong can have a place in this endeavor. After all, as a leading financial center, Hong Kong was part of the Manila Framework of 1997.
Even earlier than the financial turbulence, ASEAN has recognized that the threat to the environment transcends national boundaries and must be dealt with collectively. But this fact was brought home to ASEAN with full force when, in 1997, the haze rising from forest and peat fires in large parts of Indonesia threatened the health, economies and living conditions of neighboring ASEAN countries. ASEAN responded by polishing off the regional haze action plan crafted in 1995 and worked out detailed implementation arrangements involving monitoring, prevention and firefighting. The fires that blazed again earlier this year put ASEAN’s response to the test. The operation of the plans and pre-arranged reactions seems to have worked well, with the full participation of the Indonesian Government.

The onset of the information age is raising challenges to ASEAN’s future competitiveness, challenges that will, again, test ASEAN’s ability to act together to face common difficulties and seize new opportunities. ASEAN’s leaders have recognized that the best way to position the countries of Southeast Asia in cyberspace is to work together as ASEAN in order to achieve economies of scale, integrate and enlarge the market, develop region-wide infrastructure, and learn from one another. For this purpose, an e-ASEAN task force of government and private-sector representatives has been established to carry out the leaders’ mandate. It will be developing a work program for all sectors involved. It will draft an e-ASEAN agreement on the policy environment for the knowledge industries to flourish, including free trade in goods, services and investments in those industries. It is identifying pilot projects to get e-ASEAN off the ground. I suggest that technologically competent Hong Kong can have a significant role to play in this enterprise.

As ASEAN enters the information age, it has become increasingly clear that the development of human resources - education, training and health — holds the key to the region’s competitiveness as well as to the wellbeing of its people. ASEAN has been focusing cooperation with its dialogue partners on this crucial area. Hong Kong, too, has much to contribute to this partnership, which would, at the same time, strengthen the ties between the people of ASEAN and the people of Hong Kong.
ASEAN is also strengthening its cooperation in combating trans-national crime, including drugs, money laundering, and trafficking in human beings. Here, too, there is much room for cooperation between ASEAN and Hong Kong.

**Conclusion**

I have summed up what ASEAN has been doing to advance our common interest - Hong Kong’s and ASEAN’s - in the stability and prosperity of our region in this new era of economic globalization and technological revolution.

ASEAN countries have kept the peace among themselves. This is no mean achievement. ASEAN as an association has also provided venues for addressing the major regional-security issues of our time. But powers mightier than the Southeast Asian states have a heavy responsibility also for regional peace and stability.

ASEAN has speeded up regional economic integration to stimulate trade and investment and link up the region together for greater efficiency and productivity. This, in ASEAN’s view, is the only way to compete in a globalized economy. At the same time, ASEAN has remained open to the world, with growing ties especially to its neighbors to the North and the South.

ASEAN has shown the way in acting together to deal with common challenges - in matters of finance, the environment, trans-national crime, information and communications technology, and the development of human resources.
In all this, ASEAN and Hong Kong can forge productive partnerships. Hong Kong could look closely into the investment opportunities in ASEAN’s integrating market and in the growing regional infrastructure, particularly in the Mekong Basin. Hong Kong and the ASEAN countries could coordinate their moves more closely in forums in which they belong, like APEC and WTO. There is ample room for cooperation in matters of finance. Potential synergies exist in e-commerce and other areas of information and communications technology. Hong Kong and ASEAN could help each other in the vital endeavor of human resource development. Combating trans-national crime is a natural area for cooperation.

I suggest that ASEAN and Hong Kong explore mechanisms and muster the will to work more closely together for the goals that we share and cherish.
ASEAN and the Andean Community: Cooperating in the New Millennium

Speech at the 1st Symposium on ASEAN-Andean Cooperation in the New Millennium
Bangkok, 8 May 2000

The Association of Southeast Asian Nations and the Andean Community are, geographically, as far apart as any two regions can be. Yet, as I read a short history of the Andean Community and the Act of Cartagena, I was struck by the similarities in the basic responses of the two regional organizations to the challenges of our times. In a sense, this shows how small the world, particularly the developing world, has become.

It has now become trite to say that the challenges of our times are essentially those of globalization, but it is true. A combination of policy and technology, interacting with each other, makes it so.

The globalization of the market is the first phenomenon. Goods and, increasingly, services flow much more freely around the world, although problems of market access, particularly the accessibility of developed-country markets to the products of developing countries, remain formidable. This raises a direct challenge to the competitiveness of economies such as those of Southeast Asia and the Andean region. The surge of information and communications technology has substantially reinforced the trend of globalization and challenged developing
countries to either develop and use that technology or lag farther behind. The globalization of capital markets has not only exaggerated the volatility of capital movements but has also exacerbated the potential for the rapid spread of its impact across regions and around the world.

At the same time, the speedy rise of information, communications and transportation technology has made possible the growth of transnational crime and the quick transmission of disease. The threat to the global and regional environment continues to grow. The danger of nuclear armaments remains. All of us need to nurture regional security and regional stability.

To all these challenges, the response of Southeast Asia and the Andean region has been the same. It has been to strengthen regional solidarity and regional action, even as we cooperate in global programs to address the same challenges.

**Competitiveness Through Integration**

Like the Andean Community, we in Southeast Asia are fortifying our competitiveness through deeper economic integration, which would ease the flow of trade, lower the cost of production and of doing business, enlarge the “domestic” market, and thus attract investments. We are well on the way to completing the ASEAN Free Trade Area. Tariffs on practically all products traded within ASEAN are now down to five percent or less or none at all. More will be reduced to those levels in less than two years. Tariffs will be abolished on almost all products shortly after that. We are dismantling non-tariff barriers. We are harmonizing customs procedures and product standards. We jointly promote tourism.

Investments should now move freely within ASEAN, with each ASEAN country opening most sectors to other ASEAN investors — and their foreign partners — and extending national treatment to them. Any exceptions will be phased out within ten years. Southeast Asia is being bound closer together by infrastructure linkages — road and rail networks, regional power grids, gas pipeline networks, and telecommunications connections.
ASEAN recognizes the vital importance of information and communications technology to today’s economy and society. We are, therefore, developing what is called e-ASEAN, an integrated program for the development and use of information and communications technology. The program encompasses policy harmonization, the legal environment, product standardization, liberalization of trade in ICT goods and, possibly, services, training, and the use of ICT for social purposes like education, medicine and rural development.

**Open to the World**

Like the Andean Community, ASEAN remains open to the rest of the world and is strengthening its ties with other countries and regions. ASEAN is now embarked with Australia and New Zealand in an effort to expand its long-established bonds with these southern neighbors. We maintain extensive relations with the European Union at various levels, in numerous sectors and in many forms. The United States remains a top trading and investment partner of Southeast Asia.

Not least are our rapidly expanding and deepening ties to our great neighbors to the North — China, Japan and the Republic of Korea. Last November, in Manila, the ASEAN leaders and those of the three Northeast Asian countries issued a statement declaring their resolve to strengthen cooperation in East Asia. The annual meetings of our foreign ministers are now to be institutionalized. Only last week the trade and industry ministers of East Asia met for the first time, in Yangon, and charted nine areas for devising concrete measures to solidify our economic relations. Two days ago, the finance ministers of Southeast and Northeast Asia gathered in Chiangmai, in this country, and agreed to establish a mechanism to support one another in times of emergency and otherwise work together in the pursuit of financial stability and strength, including the closer monitoring of short-term capital flows. In this regard, it is interesting to note that a Latin American Reserve Fund, an instrumentality of the Andean Community despite its name, has been in operation for around twenty years now.

Deeper financial cooperation is one step that ASEAN has taken in direct response to the financial crisis from which our economies are now
recovering. Part of this is an economic surveillance process in which the ASEAN governments review the region’s economic progress and the development of their economic policies, and encourage one another in the reforms that each is undertaking. We are working together to develop regional bond markets, strengthen our financial institutions, and improve governance in our public and corporate sectors.

As economic globalization has both improved the prospects for development and raised challenges for international action, the communications and transportation revolution that has brought the world closer together has given a regional dimension to many human problems. Among instances of this are transnational crime and communicable diseases. ASEAN has stepped up its cooperation in combating transnational crime, like trafficking in illicit drugs and in human beings, through closer networking and the strengthening of regional mechanisms. ASEAN is intensifying its cooperative surveillance of communicable diseases like HIV/AIDS and tuberculosis.

Natural phenomena, rapid economic growth and human greed have conspired to threaten and, in too many cases, damage the fragile environment of many regions. The regional environment is, therefore, a central focus of ASEAN cooperation, primarily the seas and the air that we share. Southeast Asia and the Andean region have both been victims of the El Nino climatic phenomenon. In the case of Southeast Asia, El Nino, together with deliberate human action, has raised the propensity for forest and land fires to be ignited in parts of our region, gravely affecting the lives of people in neighboring countries. ASEAN is cooperating, together with other countries and international institutions, in monitoring the threat, preventing fires and fighting them when they do occur.
Through all these programs for economic and social cooperation runs our recognition of the need to undertake common efforts to develop the skills and the capacity of our people, our human resources. We do so not only to enrich the lives of our people, raise their incomes and fulfil their human potential. We do so also because we know that, in a globalized economy, our competitiveness lies largely in the capacity and skills of our people and the effectiveness of our institutions. Human resource development lies at the heart of ASEAN’s participation in efforts to develop the Mekong Basin, which we consider as an instrument for integrating our newer members more fully into ASEAN.

**Nurturing Regional Security**

Like the Andean countries and their neighbors in the Americas, ASEAN has concluded a treaty to make the region a nuclear weapons-free zone as its contribution to the safety of its people and to a nuclear weapons-free world. Just as the signatories to the Treaty of Tlatelolco of 1967 engaged, long ago, the commitment of the nuclear powers to the treaty, ASEAN is now in consultation with the nuclear-weapon states on a protocol through which those powers can associate themselves with the Southeast Asia Nuclear Weapons-Free Zone.

ASEAN has the Treaty of Amity and Cooperation in Southeast Asia, which serves as a code of conduct for the region and provides a mechanism for the peaceful settlement of disputes. ASEAN has established the ASEAN Regional Forum and continues to take the lead in its endeavors. The forum serves as a venue for ASEAN, its neighbors, the major powers and others with interests in the region to consult on issues of regional security and, eventually, to prevent conflicts, if not to settle them.

ASEAN is undertaking all this in pursuance of ASEAN Vision 2020, a statement of our leaders’ goals for ASEAN that they issued in 1997. The specific measures for attaining the vision in the first six years are set forth in the Ha Noi Plan of Action, which the ASEAN leaders adopted in 1998. I have read the Act of Cartagena, which the Eleventh Andean Presidential Council issued in May last year. I am gratified to note how closely its purposes and elements run in parallel with those of ASEAN Vision 2020.
and the Ha Noi Plan of Action. This should not be surprising, for both regions are faced with similar challenges and both have taken the route of deeper regional integration and closer regional cooperation in dealing with those challenges.

Indeed, in many ways, the Andean Community is ahead of ASEAN in this respect. The Andean Community has its Court of Justice, which celebrated its twentieth anniversary last year. It had removed all tariffs, without exception, by February 1993, the year when the ASEAN Free Trade Area was just beginning its tariff-reduction exercise. A “perfect” Free Trade Zone has thus been put in place. The Andean Community has adopted a common external tariff, the process starting in 1995. Last February, the Andean Community decided to form, by 2005, an Andean Common Market, where goods, services, capital and persons freely circulate. It has agreed on a common investment regime. In 1996, the legal framework for an Andean satellite system was adopted. The Andean Community already has an open-skies policy for air transport within the region.

The Andean Development Corporation, which started operating in 1970 and now has assets worth more than four billion U. S. dollars, is a corporate entity that finances development projects in both the public and the private sectors. It has far outstripped in its lending much larger financial institutions like the Inter-American Development Bank, the World Bank and the International Financial Corporation.

The Andean Community also aims to define a common foreign policy and has worked out a plan of action for this purpose. The Secretary-General of the Community can take legal action against member states that are deemed to have violated their commitments in the Community.

**Regional Differences**

ASEAN has none of these. The reason lies in the divergences in the histories, the political relationships, the degrees of cultural commonality and the economic situations of the two regions. Nevertheless, ASEAN can learn much from the Andean Community, particularly in the light of our common interests.
Learning from each other ways to deepen regional integration and cooperation could be one pillar of the interaction between ASEAN and the Andean Community that we begin today. Another is identifying a few areas in which the two associations can usefully cooperate.

In doing this, we must guard against excessive ambition. Not least, we must refrain from envisioning numerous additional meetings, of which ministers and officials on both sides already have a surfeit. In other words, we have to be practical.

To begin with, let each of us who are involved here encourage other officials, businessmen and academics in each of our regions to make a conscious effort to learn more about developments in the other. Technology has made available to us convenient ways for doing this. The Andean Community has, in www.comunidadandina.org, an excellent web site. It has thoughtfully placed an English version at the disposal of those who do not read Spanish. ASEAN, in www.aseansec.org, has a web site, also in English, that we are constantly trying to improve.

Secondly, we could identify focal points on each side for information exchange on matters of common concern and similar experience. These could include, for example, the handling of the El Nino phenomenon, the preservation of biodiversity, the fight against the trafficking in drugs, arms and human beings, dealing with money-laundering, the possibilities for further economic integration, the pursuit of financial cooperation, the potential for regional institutions, and modes of interaction with outside powers.

Thirdly, in the light of our many common interests, we could take advantage of the many international forums in which Southeast Asian and Andean countries participate together in order to consult on and, if necessary, coordinate policy positions. The foreign ministers of both regions are normally in New York for the General Assembly every year. They could meet by themselves when there are issues of interest to both or in the larger context of the ASEAN-Rio Group meetings. Other UN forums provide other opportunities, like UNCTAD, which Bangkok hosted last February.
The Group of 77 is another convenient venue. The World Trade Organization and other Geneva-based organizations and processes could be the focus of consultations should they be necessary. All ASEAN members and all Andean countries take part in the East Asia-Latin America Forum.

**Channels of Communication**

The two Secretariats could open channels of communication between them for the management of this process. Again, technology makes this easy, convenient and fast. The two Secretaries-General could discuss this further today. We could pursue it again at the meeting of regional organizations being convened by the UN Secretary-General next month. We could have at least yearly face-to-face contact in New York at the time of the regular session of the General Assembly.

With these modest initial steps, we could seek ways of cooperating to advance the interests that we share and, in the process, the welfare of our peoples. At the same time, we might discover potentials for trade and investment that our private sectors could exploit to the profit of all.
will begin with an understatement: The past year has been difficult for the global economy. The APEC economies have not been spared. ASEAN has not been spared. Hardly had the ASEAN economy started to recover from the financial crisis of 1997-1998 than the unexpected downturn in the American economy stopped ASEAN’s growth almost dead in its tracks, the American economic that is a principal market for ASEAN as for most of the world. Japan, stagnating for the better part of a decade, and the European Union, growing more slowly than expected – these two major markets for ASEAN have not been able to take up the slack.

And now, in the United States, the mass murder of so many innocent people by international terrorists. We cannot measure the loss of a single human life. We cannot put a price on a human tragedy of such magnitude as the one that occurred on September 11. We cannot fathom the evil of the deed that caused it. ASEAN has, on several occasions, condemned this massacre and conveyed its sympathies to the American people and the families of the victims.
Nevertheless, we cannot avoid feeling the economic impact of this tragedy, which has aggravated an already bad economic situation. Some ASEAN countries, like many other countries around the world, are no strangers to terrorism. But the fact that a single series of acts of terrorism could hurt on such a scale the most powerful nation in the world has gravely diminished the sense of security of us all, a sense of security, moreover, on which much economic activity depends. And the damage done to an economy that is the leading market for the world has grievously injured us all.

This shows once again and in such tragic terms how the world has become one — in an economic no less than in a human sense. The international community’s response has been not to retreat into the false safety of isolation but to work more closely together. Against international terrorism, humanity has mustered a remarkable solidarity. In the face of continuing economic adversity, the countries of the world seek to bring down barriers to trade, investments and technology and proclaim their willingness to help the weaker among them strengthen their capacity to compete.

This is what APEC is all about.

This is what ASEAN is seeking to do on a regional scale.

ASEAN’s members are of the conviction that the way to overcome their difficulties of the moment and compete effectively in the world is not to wall themselves off against one another and against the world but to integrate the regional economy so as to enlarge the regional market, foster competition, achieve economies of scale, attract investments, and promote efficiency and growth. ASEAN remains open to the rest of the world. The integration of the regional economy and its continuing openness are
ASEAN’s supreme contribution to APEC’s purposes and to the integration of the global economy.

We are creating the ASEAN Free Trade Area. Already, in the case of the six original signatories to the AFTA agreement, which are the region’s leading trading nations, tariffs on 90 percent of the products included in the AFTA process have gone down to the 0-to-5 percent level, well before the target year of 2002. We are removing tariffs altogether on information and communications technology products over the next few years. The ASEAN Industrial Cooperation scheme has attracted a growing number of multinational companies. ASEAN has harmonized its tariff nomenclatures. We are concluding mutual recognition arrangements on a number of product groups.

We are creating the ASEAN Investment Area, within which investments are to flow freely and treated without discrimination. In fact, our leaders have directed the acceleration of its fulfillment.

We are binding the region closer together through transportation and energy linkages. We are seeking to link the countries of mainland Southeast Asia and southern China with a highway network and a railway. We have a framework agreement to facilitate the flow of goods-in-transit. We have drawn up the texts of agreements on multi-modal and inter-state transport. Master plans are being worked out for the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline Network.

ASEAN has unequivocally embraced information and communications technology. Our leaders themselves signed the e-ASEAN Framework Agreement embodying that commitment. Regional pilot projects have been endorsed, several of which are in operation. Comparative studies on e-commerce laws are being undertaken. An e-readiness assessment exercise has been completed, indicating the level of each ASEAN member-country’s state of readiness for the information age and containing specific recommendations for national or regional action to ascend the ladder of e-readiness.
Like APEC, ASEAN recognizes the supreme importance of the development of human resources for steady, equitable and sustainable growth. We place high priority on HRD in our cooperation both among ourselves and with others, including members of APEC.

We have been working together on the protection of the environment, including the management of coastal zones and the preservation of our region’s immense bio-diversity. We have been carrying out programs for the prevention of the periodic haze caused by land and forest fires and the mitigation of its impact should such fires occur. A landmark agreement on trans-boundary haze pollution is nearing completion.

Between 1995 and 1999, ASEAN’s membership grew from six to ten. A major endeavor of ASEAN, and of its cooperation with others, is the effort to raise the level of development of the newer members and integrate them into the regional economy. A preferential trading scheme is being worked out between older and newer members. Technical cooperation is being undertaken between them. In this context, the development of the Mekong Basin, where all the new members are located, is receiving concentrated attention.

ASEAN remains open to the global economy. More than that, it is seeking to strengthen its linkages with other countries and regions, with its neighbors above all. It is in this context that ASEAN has supported China’s membership in the World Trade Organization from the beginning, seeing in China’s rapid economic growth an opportunity as well as a healthy competitive challenge. It is also in this context that ASEAN is deepening its ties with China, Japan and the Republic of Korea, all APEC members, in the ASEAN+3 process. ASEAN+3 cooperation in the financial sphere is gaining momentum. The East Asia Vision Group is ready with its recommendations on how to move East Asian cooperation forward. Joint
studies are being undertaken on how precisely to strengthen the economic relations between ASEAN and China and between ASEAN and Japan in the face of present challenges and in anticipation of future opportunities. A similar process is taking place between ASEAN and the Closer Economic Relations of Australia and New Zealand, both members of APEC. The United States remains a major economic partner for ASEAN.

In all of this, ASEAN is an active and willing building block for the global economic structure that APEC is helping to construct. Indeed, ASEAN was one of APEC’s founders. It is, therefore, somewhat of an anomaly that three of ASEAN’s members remain outside of APEC. We hope that Cambodia, Laos and Myanmar can fully participate in APEC as soon as possible.

ASEAN is dealing with the challenges of a rapidly, even suddenly changing global economy with a spirit of solidarity and singleness of purpose. It is resolved to integrate the regional economy and strengthen its economic ties to the rest of the world.

It is in this spirit that ASEAN – its members and its secretariat – takes part in APEC’s work.
In a real sense, the ASEAN Free Trade Area can be said to be a building block for the fulfillment of the goal that APEC set for itself in Bogor in 1994 - eventual free trade among its members, which in turn is part of the global effort to bring down barriers to international trade.

In Ha Noi in November 1998, ASEAN’s leaders decided that, to go faster still on the AFTA road, the original six signatories of the AFTA treaty, which happen to be ASEAN’s leading trading nations, would drop their tariffs on one another’s products to 0-to-5 percent at an accelerated pace — on at least 85 percent of the products on their Inclusion Lists by 2000, on 90 percent by 2001, and on all such products by 2002. In November 1999, the leaders agreed to eliminate all import duties among the original signatories by 2010, and by 2015 in the case of ASEAN’s newer members.

Some flexibility is built into the process. Part of that flexibility is the protocol to be soon formally adopted to allow members to modify its concessions in a particular sector. Based on Article XXVIII of GATT, the protocol lays down stringent conditions for such modifications of
concessions. It ensures that decisions on them are rules-based, transparent, limited in time, and fair to all concerned, and that resort to the protocol would be extremely rare.

The growing integration of ASEAN’s economy is manifested in the expansion of intra-ASEAN trade. After declining considerably in the aftermath of the financial crisis, intra-ASEAN exports rose 7.6 percent from US$68.8 billion in 1998 to US$74.4 billion in 1999, although this is still lower than the level before the crisis. In 1999, the total exports of the six older members of ASEAN increased 7.7 percent from US$316.6 billion in 1998 to US$341.1 billion in 1999. With the regional economy growing again, imports surged, too, also by 7.7 percent, from US$259.9 billion in 1998 to US$279.5 billion in 1999. Much of this increase is accounted for by imports from APEC members Korea, Russia and Canada.

In close accord with the APEC agenda, ASEAN has been stepping up the facilitation of trade. We begin with customs. ASEAN is undertaking the joint training of customs officials covering many aspects of their work, including risk-management. It is streamlining customs procedures. It is implementing the WTO Valuation Agreement. It is adopting the post-audit clearance system. ASEAN’s customs agencies are making available to importers pre-clearance and pre-entry classification services. ASEAN is harmonizing its tariff nomenclatures at the eight-digit level, the harmonized nomenclatures to be implemented starting at the beginning of 2002.

In line with a framework agreement, ASEAN is developing mutual recognition arrangements for products traded within the region, beginning with cosmetics, pharmaceuticals, and electrical and electronic equipment. ASEAN is harmonizing product regulations for cosmetics and pharmaceuticals, product standards for twenty product groups, and safety standards for seventy-two.

ASEAN is also moving on the liberalization of trade in services. In consultation with services suppliers and professional associations, member countries are now putting together a package of commitments for negotiations on the removal of restrictions on the cross-border supply of
services and services consumption abroad. Trade in services will be progressively liberalized with respect to commercial presence and the presence of natural persons.

ASEAN has decided to create an ASEAN Investment Area to allow and encourage the free flow of investments within the region. In a process similar to APEC practice, member countries have completed their individual action plans to liberalize, facilitate and promote investments among them and from outside the region.

To support the freer flow of goods, services and investments within the region, ASEAN is giving priority to the development and efficiency of land transportation. An agreement on goods in transit has been concluded, and the seven implementing protocols are being finalized. Regional and national transit transport coordinating bodies are being set up. Officials are now working on inter-state transport and multi-modal transport agreements.

ASEAN has identified twenty-three priority routes for the upgrading and development of the trans-ASEAN highway network over the next ten years.

The feasibility study for the Singapore-Kunming railway link has been completed and will be presented to ASEAN’s leaders a week and a half from today. Certain segments of the envisioned railway network have, of course, been operating for a long time. The plan is to fill the gaps, so that it links the countries of mainland Southeast Asia among themselves and with China, an APEC member.

ASEAN is steadily liberalizing air transport, working on a multilateral air transport agreement to carry out ASEAN’s competitive air services policy that is to lead eventually to a regional open-skies regime.

ASEAN has resolved to embrace information technology and help its members and the region as a whole move into the information age. ASEAN’s leaders are expected to sign the e-ASEAN framework agreement later this month. The agreement was put together by the e-ASEAN Task Force, a high-level group of government specialists and representatives of the private sector strategically involved in information and communications technology.
It encompasses the ASEAN information infrastructure, the facilitation of e-commerce, the liberalization of trade in ICT goods and services and of investments in ICT, capacity-building, human resource development, and the promotion of the development and use of ICT in government and society as a whole. The Task Force and the official-level e-ASEAN working group are developing short-term and long-term measures to carry out the agreement, including pilot projects for immediate implementation by governments and business enterprises. ASEAN is working closely with a number of APEC members on this.

ASEAN has always placed high priority on the ECOTECH pillar of APEC. Within itself, it views human resource development as an essential tool for narrowing the gap between the levels of development of its members. Cooperation in HRD covers methods for the upgrading of workers’ skills, the cultivation of entrepreneurship, the training of women and youth in productive skills, the promotion of science and technology, the acquisition of aptitude for information and communications technology, and the building of capacity for managing ASEAN economic integration. Again, in this, ASEAN is benefiting from the cooperation of some APEC members.

Finally, a word on the gender issue, which has received increasing attention from APEC. The Ha Noi Plan of Action (HPA) issued by ASEAN’s Leaders in December 1998 calls for the full implementation of the Convention on the Elimination of All Forms of Discrimination Against Women, as well as of the Convention on the Rights of the Child, and other international instruments concerning women and children. The HPA urges the ASEAN Network for Women in Skills Training to step up its work of enlarging the

In a real sense, the ASEAN Free Trade Area can be said to be a building block for the fulfillment of the goal that APEC set for itself in Bogor in 1994 - eventual free trade among its members, which in turn is part of the global effort to bring down barriers to international trade.
capacity of disadvantaged women to join the work force. ASEAN is collaborating on measures to deal with crimes related to the trafficking in women and children. The ASEAN Sub-committee on Women monitors the implementation of the 1988 ASEAN Declaration on the Advancement of Women and publishes a report on it every three years.

ASEAN has been liberalizing and promoting trade in goods, trade in services, and the flow of investments, creating a free trade area and one investment area. It is streamlining the administration of customs and tariffs and harmonizing product standards. It is developing and facilitating road and rail transport and opening up air services to increased competition. It is bent on developing information and communications technology and promoting its use. It is cooperating to upgrade its people’s skills. It is fostering the protection of women’s rights and the advancement of their status.

In all of this, ASEAN is doing its part to advance APEC’s purposes. As a force behind the founding of APEC, ASEAN is committed to do so.
ASEAN remains committed to sustaining regional and global trade and investment liberalization. But it also insists on a greater balance in the agendas of both APEC and WTO. This means taking into account the concerns of their developing-country members. It includes building the capacity of the developing countries to participate in the global liberalization process in a way that gives them real benefits. More than half of APEC’s member-economies, after all, are developing countries, accounting for the bulk of the population of the Asia-Pacific. The preponderance of developing-country members is even greater in WTO.

These countries will continue to take a positive view of trade and investment liberalization and give it more enthusiastic support only if they are able more fully to partake of its fruits. This includes their technical and organizational ability to do so.

ASEAN has a strong interest in seeing APEC continue to be a force for trade and investment liberalization not only in Asia-Pacific but in the world. But APEC can sustain this role only if it takes the lead in ensuring a more even sharing of benefits among its members. This means, for
one thing, a greater balance between liberalization and what in APEC is known as economic and technical cooperation or ECOTECH. Only in this way can APEC maintain its full relevance to its developing member-economies.

This proposition ought to form an important message that these meetings of APEC Ministers and APEC Leaders will send out from Auckland to the rest of the world. It ought to be a cornerstone of APEC 2000, when one of ASEAN’s members, Brunei Darussalam, takes on the challenge of leading APEC into the next millennium.

ASEAN itself has found it necessary to maintain this same balance, as it membership expanded over the past five years to include four of the world’s least-developed countries — Cambodia, Laos, Myanmar and Viet Nam. At the regional level and at the bilateral level, ASEAN has extended technical assistance to its newest members — in customs, standards and services, for example — in order to enable them to catch up with the pace of regional economic liberalization. The ASEAN experience suggests that the benefits of regional integration must accrue to all if the process of liberalization is to be sustained. It suggests that the pace of integration can even be hastened without stress if a deliberate effort is undertaken to enhance the capacity of the less-developed members to take part.

Over the past year, ASEAN economies have begun the long climb back from the worst economic crisis that they have experienced since ASEAN’s founding. Each member-country has taken policy initiatives and undertaken reform measures in order to return their economies to the road of growth. These steps have begun to take effect. But ASEAN as a region also reacted to the crisis in a way that confounded some popular predictions. Instead of sliding back into protectionism or slowing down regional economic integration, ASEAN decided, as a principal response to the crisis, to accelerate regional integration and strengthen regional cooperation.

The regional response is built on three important pillars: a) faster and deeper regional economic integration and liberalization, b) closer financial cooperation, and c) addressing the social impact of the crisis.
**Hastening Integration**

At their Sixth Summit, held in Ha Noi last December, ASEAN’s leaders moved forward the completion of the ASEAN Free Trade Area from 2003 to the beginning of 2002. They announced the launching of a new round of negotiations on trade in services covering all modes of supply and all services sectors. They agreed to enhance the ASEAN Industrial Cooperation (AICO) scheme by liberalizing national equity requirements.

It should be noted that the ASEAN leaders made these decisions in the midst of the worst economic downturn that ASEAN has known. In so doing, they sent out a clear and substantive signal of ASEAN’s strengthened commitment to regional economic integration.

In line with APEC's goal of free and open trade and investments by 2020 in the Asia-Pacific region, ASEAN has agreed that the ultimate target of AFTA should be zero tariffs. ASEAN is now deciding on the precise date to achieve it. In any case, it will be earlier than APEC's target date for developing countries.

Integrating ASEAN as an investment area and otherwise improving the region’s investment climate have been an important ASEAN response to the economic downturn. ASEAN investors can now invest in the manufacturing sector in any member country and given national treatment, subject to certain exclusions, which shall be phased out by 2003. Non-ASEAN investors in the manufacturing sector can enjoy special privileges if they come in between now and the end of 2000. These privileges include tax exemptions or allowances, full foreign equity ownership, duty-free imports of capital goods, domestic market access, and at least 30-year leases for industrial land. They can also hire foreign personnel and enjoy speedy customs clearance. These privileges are additional to the incentives that each ASEAN country already offers to foreign investors.
Closer Financial Cooperation

A second pillar of ASEAN’s response to the crisis has been closer cooperation in financial matters. A major component of this is the establishment of the ASEAN Surveillance Process. Under this scheme, ASEAN is developing an early warning system to keep track of macroeconomic trends and enable early detection of any threatening developments in a member’s economy. Part of the process is the peer review, in which ASEAN ministers and their deputies exchange views on developments in their economies. They consult one another on measures that they are undertaking to strengthen their economies, mitigate the impact of the crisis, and jointly formulate policy responses to impending problems. Together with the early warning system, the review serves to guard against future crises by providing an opportunity to take early unilateral or collective action to counter potential disturbances. It also promotes closer coordination of macroeconomic policies and facilitates peer support and, in some cases, peer pressure for necessary economic and financial reforms. The first peer review was conducted early this year.

In an effort to further strengthen its financial system, ASEAN has agreed to adopt and implement sound international financial practices and standards. Capital markets will be deepened, particularly the bond market, to provide a wider variety of instruments with longer maturity and ample liquidity. ASEAN has resolved to improve corporate governance significantly. Learning its lesson from the crisis, ASEAN intends to ensure that capital account liberalization is properly sequenced so as to allow the freer flow of capital while cushioning the impact of sudden shifts in capital flows. This is part of the position that ASEAN’s finance ministers have taken in calling for reforms in the international financial architecture.

Social Impact of the Crisis

The third pillar of the ASEAN response has been to resolve to minimize the social cost of the crisis. At the Sixth ASEAN Summit, the ASEAN leaders recognized that the financial crisis “has a social dimension, with the poor and vulnerable segments of our societies being the most adversely affected. In this regard, we will ensure that efforts to safeguard the interests of the poor form an integral part of our reform efforts.”
ASEAN has established a Task Force on Social Safety Nets, which is now implementing the ASEAN Action Plan on Social Safety Nets. At the regional level, two projects on social safety nets are currently being worked out - one to develop methodologies for the rapid identification of localities and population groups that are most affected by economic downturns, and the other on the design and delivery of social safety net programs.

There seems to be a general consensus in the international community that the worst of the crisis is now behind ASEAN, albeit with a measure of caution. Some key indicators tend to support this cautious optimism.

ASEAN and its member-countries are determined that this time their growth is sustainable. This is why they are persisting in the necessary reforms. This is why they are calling for reforms in the international financial system. But they also know that they have to raise their level of competitiveness for the coming century. In today’s world, this means acquiring the capacity to take fuller advantage of globalization and the wider scope for competition that it presumably provides. In today’s world, this, in turn, requires the development of the relevant human skills and the human potential.

This is why in APEC and in WTO, as well as in ASEAN itself, the development of human resources and technical cooperation must take a central place. ASEAN trusts that this concern, and other interests of developing countries, are given the attention that they deserve. ASEAN hopes that APEC will give these concerns of its developing-country members a strong push in WTO and in its own activities.

Only thus can APEC maintain the balance that it must have if it is to retain the full commitment of all its participants.
Chapter 4

ASEAN Faces the Future
ASEAN Vision 2020: Challenges and Prospects in the New Millennium

Remarks at the Eighth Southeast Asia Forum
Kuala Lumpur, 15 March 1998

I have been asked to speak on “ASEAN Vision 2020: Challenges and Prospects in the New Millennium.” It so happens that, in the past eight months, the countries of Southeast Asia have been confronted by three challenges that they have never had to face before – the financial crisis, the haze across parts of the region, and Cambodia.

Each in its own way, these three challenges foreshadow the nature of the challenges that will likely face Southeast Asia in the first few decades of the new millennium. They have shown how the conditions and destinies of the Southeast Asia countries are interwoven with one another. They point to the shape of the challenges of the future, and they will have to do with how, more and more, the problems facing Southeast Asian governments and societies are becoming regional and trans-national in scope. Increasingly, events in one country affect the lives of people in the others. Thus, increasingly, ASEAN will have to summon regional, cooperative solutions for problems that are, more and more, regional in scope. Indeed, the way in which ASEAN is dealing, and has to deal, with its most outstanding problems today sheds light on the way in which ASEAN will and must handle its problems in the new millennium; that is, in a coordinated, cooperative way.
ASEAN’s challenges are increasingly regional in scope; its prospects are and must be of stronger regional solidarity and cooperation.

So far, what I have said seems to be self-evident, even trite; but hitherto, in many areas, some in ASEAN seem to pay mere lip service to the ideal of regional solidarity and cooperation. They act as if they did not truly believe in the need for regional responses to regional problems. Now, the financial crisis, the haze problem and the Cambodian question have brought home to all of us the need to forge a stronger sense of unity in ASEAN if our most serious problems are to be addressed.

**The Financial Crisis**

First, the financial crisis. If there is anything that has shown – once and for all – how seamlessly interwoven the fates of the countries of Southeast Asia have become, it is the financial crisis that has swept the region, infecting all countries with small regard for the objective conditions in each individual country. Movements in the exchange rate for the currency of one country have affected the values of the currencies of the other countries. The level of investor confidence in one economy has influenced the level of confidence in all.

The very same international agencies of high repute, which generalized about the East Asian economic miracle with scant regard for the underlying weaknesses in some East Asian economies, have now taken to generalizing about an East Asian rot with little regard for the underlying strengths of some economies. The same financial institutions that shoveled loans onto East Asia’s economies now wring their hands and shake their heads over newly discovered fundamental defects in those economies.

On the surface, such generalizations betray a lack of sophistication and are unjustified. At a deeper level, they must be taken as part of the reality. First, the generalizations about the region that have swept the investor community, by their very nature, shape perceptions – the famous herd instinct, if you will – and therefore the level of confidence. They thus take on the character of a self-fulfilling prophecy. Secondly, the generalizations are valid to the extent that Southeast Asian economies have succeeded in becoming integrated.
Intra-ASEAN trade now accounts for about twenty-five percent of ASEAN’s total trade. Any weakening in an ASEAN country’s capacity to import can diminish to one degree or another the market for the other countries’ exports. For some ASEAN countries, particularly the newer members, other ASEAN countries are important sources of investments. ASEAN nations account for more than half of foreign direct investments in Laos and Myanmar. The economic slowdown in capital-exporting ASEAN nations cannot but reduce the flow of such investments. Similarly, tourists from ASEAN countries themselves have been an increasingly important portion of tourism in ASEAN. In 1996, of the 28.6 million tourist arrivals in ASEAN, 11.2 million, or almost 40 percent, came from within ASEAN itself. Hence, the reduction in the capacity of ASEAN nationals to travel has hurt tourism in all ASEAN countries.

The financial crisis has thus brought to the fore an emerging irony in ASEAN: The very integration envisioned and long regarded as a source of strength can be a point of weakness.

ASEAN can address this irony in two ways. One is to hesitate and slow down or pause, if not retreat or reverse course, on the road to further economic integration, as individual economies seek to avoid being contaminated by the economic and financial troubles of others. At the very least, each country could attempt to bolster its balance-of-trade and safeguard its own jobs by protecting its industries and entire economy from competition from its neighbors. The other way is to proceed and, indeed, advance faster on the road of integration and cooperation, while ensuring that closer and faster integration is further developed as a source of strength and its potential as a point of weakness diminished.

Increasingly, ASEAN will have to summon regional, cooperative solutions for problems that are, more and more, regional in scope. Indeed, the way in which ASEAN is dealing, and has to deal, with its most outstanding problems today sheds light on the way in which ASEAN will and must handle its problems in the new millennium; that is, in a coordinated, cooperative way.
When the financial crisis struck with full region-wide force, there were voices – there still are some – that expressed concern over the possibility that the ASEAN countries would retreat from their hitherto resolute progress in the direction of economic liberalization and openness and regional solidarity and cooperation, or even reverse course or at least waver in their commitment to these goals.

The ASEAN countries, at the highest levels, early on firmly rejected this option. Indeed, they categorically and resoundingly re-affirmed their commitment to a trade and investment regime that is increasingly integrated in ASEAN and open to the rest of the world. Not only that. They resolved to speed up even further the process of internal and external liberalization.

In the joint statement on the financial situation which they issued at their second informal summit in Kuala Lumpur last December, the ASEAN heads of government “reaffirmed their commitment to maintain an open trade and investment environment in ASEAN, including through the accelerated implementation of the ASEAN Free Trade Area (AFTA), the ASEAN Investment Area (AIA) and the ASEAN Industrial Cooperation (AICO) scheme. They agreed that in view of the present situation, every effort should be made to remove barriers to trade and to promote greater intra-ASEAN trade and investment.”

At their meeting in Jakarta on 28 February, ASEAN’s finance ministers reiterated the leaders’ commitment to an open trade and investment environment and to the early realization of AFTA, the ASEAN Investment Area, the ASEAN Framework Agreement on Services, and the ASEAN Industrial Cooperation scheme. They also re-affirmed their commitment to the WTO liberalization process and the success of the negotiations on financial services.

At the working level, officials are actively working out ways of accelerating the AFTA process further. This means not only the faster reduction in tariff rates, which is already going on, but other measures as well. These include reducing further the already small number of products excluded from AFTA treatment, removing technical barriers to trade, and streamlining and
harmonizing customs rules and procedures. ASEAN’s leaders have renewed their determination to bring to full reality an ASEAN Investment Area by 2010. By that time, legal and administrative impediments to investments will have been removed or greatly reduced, and ASEAN industries, with a few exceptions, will be open to all investors.

ASEAN’s reaction to the financial crisis has, therefore, been an even stronger commitment to economic openness, in the first place to faster and closer economic integration within ASEAN. This has arisen not from mere ideological reflex or a stubborn philosophical idealism. It is, rather, a pragmatic, rational response.

ASEAN’s leaders knew that what their besieged economies need for their enduring recovery are investments from within and from outside ASEAN, investments in productive enterprises, investments of the kind that stay for the long term and not those that take flight at the first sign of trouble. They knew that strength in the competition for such investments can be achieved only in an enlarged integrated market and not by retreating into the old fragmented markets and narrowly-based economies of the past.

Thus, ASEAN has responded to the financial crisis with greater solidarity. This solidarity has taken the form not only of a stronger commitment to faster economic integration but also other ways of cooperation.

There has been a misunderstanding of the ASEAN response to the financial crisis. In an article entitled “ASEAN’s Failure” in a recent issue, The Economist charged that “the financial turmoil has also shown up the inadequacy of the region’s own self-help mechanisms” and concluded that the “‘ASEAN way’ no longer works.”

Being based in Europe, The Economist’s view of regional associations may have been influenced by the example of the European Union. Like many people, its writers and editors have come to expect ASEAN somehow to act distinctly from its member-states. But ASEAN is not that kind of association, with supra-national bodies like the European Commission and the European Parliament.
At the same time, ASEAN is more than an association of states. It is also a process, a spirit, a state of mind. Nor is ASEAN a closed, exclusive club. It is open to cooperation with others. Its dialogue system of relating to other countries and groups is unique in the world. So is its role in APEC and the Asia-Europe Meeting (ASEM), where the participation of ASEAN countries is both coordinated and individual. So are its ability and willingness to act with other countries and groups of countries in varying combinations as the situation calls for.

Thus, the ASEAN response to the financial crisis has taken many forms—concerted action as a group, bilateral cooperation in the ASEAN spirit, ASEAN’s actions with others – in various combinations.

After a series of consultations, among themselves – all together and bilaterally — and with other countries and institutions, ASEAN has established a monitoring and surveillance mechanism as an early-warning system for impending financial and currency problems. Such a mechanism should in the future help ASEAN countries to avoid crises like the one ravaging their economies today. Initially, for the first year or two, this mechanism is to be located at the Asian Development Bank and operated with ADB’s assistance. ASEAN has also endorsed the use of ASEAN currencies for intra-ASEAN trade, with specific modalities to be worked out by the pair of countries undertaking the trade. This should to some extent reduce the pressure on ASEAN countries to secure hard currencies for trading purposes.

At their Jakarta meeting two weeks ago, Southeast Asia’s finance ministers placed ASEAN’s weight behind their call for greater flexibility in the application of conditions in the IMF’s programs for ASEAN countries. At the same time, they urged the IMF to speed up the implementation of those programs. They called on the Group of 7 to open their markets to ASEAN’s exports, to be more “proactive” in cooperating with ASEAN countries, and to encourage their banks to maintain credit support for ASEAN economies. They urged Japan to take the lead in pulling the region out of the crisis and encouraged China in its decision not to devalue the renminbi. Not least, they “urged the international financial institutions
and concerned agencies, in devising their support programmes, to take full account of the need to protect the poor, particularly in terms of education, health and livelihood.”

The leaders of individual ASEAN countries themselves have been visiting one another, helping one another with advice, counsel and resources, including financial support, rice and medicine, while working out ways of cooperatively dealing with the crisis. Whether in a full ASEAN setting or bilaterally between countries, discussions within ASEAN have been candid and open, if polite, but not public.

Recognizing that the private sector is deeply involved in the financial crisis, the ASEAN Secretariat is organizing a round-table discussion, at which business leaders of ASEAN can exchange views on the crisis, develop ways in which the business sector can contribute to its resolution, and recommend measures to ASEAN governments. The Secretariat is also initiating a comprehensive study of the impact of the crisis on livelihood, employment and other aspects of the wellbeing of people, lest the social and human repercussions of the crisis be neglected in the search for financial and economic solutions.

**The Haze Problem**

ASEAN has approached the haze problem in a similar mode, combining actions by ASEAN as a whole, bilateral cooperative undertakings, and cooperation with others.

The forest and peat fires that started in one country from a combination of natural and man-made causes last year seriously affected other countries in ASEAN. Similar fires have flared up again this year and threaten to have similar effects.

Again, ASEAN has launched frequent consultations, with ministers meeting once every two months for the sole purpose of discussing the haze problem. These consultations have resulted in a comprehensive Regional Haze Action Plan encompassing preventive measures, regional monitoring and firefighting, with each area under the leadership of one ASEAN country. Some
ASEAN countries are giving help to other ASEAN countries on a bilateral basis. At the height of last year’s haze, some ASEAN countries cooperated by pooling firefighters, equipment, and assistance in cloud-seeding to induce rain. The ASEAN Specialised Meteorological Centre in Singapore has been of great assistance in frequently supplying the authorities in the countries affected with satellite photographs of haze, fires and “hot spots,” electronically linking national meteorological agencies together, and sponsoring technical workshops among them.

In a meeting on 25 February, ASEAN ministers agreed to use the fires in East Kalimantan to test the Regional Haze Action Plan, especially the part related to fire-fighting, including the use of external assistance. Indonesia and Malaysia are to carry out their bilateral agreement on fire- and haze-prevention and control. ASEAN’s Haze Technical Task Force is to identify long-term needs, such as for research and technology transfer, as well as immediate requirements for combating existing fires. With the Ministers’ approval, the ASEAN Secretariat has entered into an agreement with the Asian Development Bank for substantial technical assistance for strengthening ASEAN’s capacity “to prevent and mitigate trans-boundary atmospheric pollution,” including the possible establishment of a regional forest-fire research and training, center in Indonesia.

Again, discussions within ASEAN have been frank, and they have been effective, probably because their contents are not publicly disclosed.

The haze problem is only the most prominent and most dramatic of the environmental challenges that ASEAN expects to face in increasing numbers and gravity. Many of these challenges, particularly as they pertain to the marine and atmospheric environment, are essentially trans-boundary in nature and hence require regional solutions.

The Cambodian Question
The regional effects of internal developments in a Southeast Asian country are another challenge which, in the case of Cambodia, ASEAN has begun to confront. Future historians will probably look back on this stage of ASEAN’s history and note that, for the first time, ASEAN took action on
what could be validly considered as an internal development in a Southeast Asian country. To be sure, this was not the first time that ASEAN had been involved in Cambodia, but in the 1980s and the early 1990s, the problem of Cambodia had to do mainly with foreign intervention and big-power maneuvering. Today’s Cambodian problem is essentially internal to Cambodia, but with regional resonance and repercussions.

When, in the first week of July 1997, Cambodia’s Second Prime Minister effectively removed and replaced the First Prime Minister and moved against his followers, ASEAN deferred Cambodia’s admission into the association. Since then, ASEAN has led the international insistence that the Cambodians settle their disputes mainly through free, fair and credible elections. ASEAN, primarily through the Troika of Indonesia, the Philippines and Thailand, has worked with the Cambodian parties and other interested countries, which call themselves Friends of Cambodia, in encouraging the holding of such elections and thus the restoration of peace, stability and normalcy to that country.

ASEAN has felt compelled to get involved in Cambodia in this fashion not out of a desire to interfere in a neighbor’s internal affairs, but because of the regional repercussions of developments in that neighbor. Such repercussions arise precisely from the fact that Southeast Asian countries have become inter-linked more closely than ever before. ASEAN has to make sure that no unstable element intrudes into its midst, that de-stabilizing forces such as refugee flows do not shake the rest of the region, and that no change in leadership or form of governance by violent means is encouraged.

ASEAN countries continue to regard as sacred the principle of non-interference in one another’s internal affairs. The surest way of unraveling ASEAN is for its members to interfere in one another’s domestic affairs.

However, ASEAN has now shown a willingness to express or demonstrate concern over internal developments in one country – whether they be economic upheavals, environmental disasters or political change – if they are likely to spread to others, to produce results that are intolerable to
neighbors’ well-being, or to legitimize violent methods of effecting internal change. At the same time, ASEAN has also shown that its preferred method of manifesting concern is that of friendly, quiet advice, searching but respectful questions, and mutual assistance, rather than that of public posturing or intrusive action.

At the same time, in terms of regional security, the ASEAN Regional Forum will have to develop further in the three stages originally envisioned for it - confidence-building, preventive diplomacy and conflict-resolution. To be sure, ARF’s progress has to be gradual, evolutionary and subject to consensus, but move it must, if it is not to atrophy.

The Prospects

The nature of the problems which ASEAN has had to deal with in the past eight months and ASEAN’s response to them point to the kinds of challenges that ASEAN is likely to face in the first decades of the coming millennium and the approach that ASEAN is likely to take in responding to them. The challenges will generally arise from the increasingly regional scope of the problems which ASEAN countries will be confronting in the economic, the environmental, the social and the political realms. The response will, accordingly, have to be regional, in the form of closer ASEAN solidarity and cooperation.

ASEAN must strengthen its solidarity, or it will drift apart. ASEAN’s enlargement from six to seven and then, last year, to nine members has brought to ASEAN a greater diversity of cultures, attitudes, styles, and ways of governance. This diversity brings with it inherent centrifugal tendencies and the potential for strain. ASEAN must exert even greater effort to fortify its solidarity and cooperation if it is to prevail over such tendencies.
The financial crisis has dramatically demonstrated how closely ASEAN’s economies are bound together. As ASEAN’s leaders have repeatedly directed, ASEAN members must work together more closely than ever before and bind their economies even more tightly together, if they are to manage the affairs of an increasingly integrated regional economy. This means not only accelerating the tariff-reduction process among themselves but also making it easier to trade with one another, creating a single investment area and a single tourist destination, and opening the way to greater and smoother flows of capital, services and, to some extent, people within the region. This means physically integrating Southeast Asia through strong and efficient transportation and communications links. It means, not least, coordinating economic and financial policies to a greater extent than ever before. Some of these measures would require adjustments in domestic policy and legislation.

In an increasingly global world economy, ASEAN members realize that they must work more closely as a group in international negotiating forums if they are to have any influence in shaping the emerging architecture of the global economy and the new structure of international finance. Otherwise, they will have to resign themselves to having their destiny determined by others.

Growing trans-national problems, notably those pertaining to the marine and atmospheric environment and cross-border crimes, are susceptible only of regional solutions, which means more intensive ASEAN cooperation in a broader range of areas. Agreed, enforceable rules and, at the very least, serious codes of conduct will probably be required in the future to deal effectively with these problems.

It is becoming clear that ASEAN solidarity also means ASEAN manifesting its concern over apparently internal developments in some members – whether they arise from ethnic conflict, political violence, or economic upheaval – if such developments threaten to spill over to neighboring countries. Such spillover effects may be in the form of contagion of the problem itself or refugees in massive numbers or severe economic repercussions or a serious impact on regional stability.
In this sense, ASEAN is emerging as a true community or even family. There are differences within the family, even serious ones; but there is also the underlying consciousness that, in some cases, the problem of one is the problem of all, that the group must stick together the better to deal with the world outside, and that, as in a family, the troubles of one can legitimately be the concern of the rest. Because the Southeast Asian community will be more closely integrated, a new equilibrium may have to be sought between national sovereignty and regional purpose. Precise rules may have to govern more of the many modes of ASEAN cooperation. ASEAN’s institutions may have to be strengthened to keep pace with a more closely integrated ASEAN and more intensive ASEAN cooperation.

In the ASEAN Vision 2020 statement that they issued at their second informal summit in Kuala Lumpur last December, ASEAN’s leaders projected the emergence of such a Southeast Asian community in the first two decades of the next millennium. It is up to the officials, the business leaders, the scholars, and all the people of ASEAN to bring that vision to reality.
Regional Economic Integration: The Challenges Ahead

In 1967, in this very city, ASEAN was founded for three interlocking and ambitious objectives - regional peace, stability and prosperity. From the beginning, economic cooperation was to be a key to achieving these threatening to wipe out the hopes of Southeast Asia’s people for a better life. Disputes among the nations of the region continued to unsettle it.

In these unpromising circumstances, the countries of Southeast Asia set their minds, their labors and their resources on the development of their economies. At the same time, it became increasingly clear that their national programs for development and prosperity would be strengthened and made more effective by openness to and cooperation with the rest of the world, particularly and above all within the region. Economic cooperation would give each member of the new association a stake in the economic wellbeing of the others and thus serve as a potent force for regional peace. This was the logic of the European Communities and the European Common Market. Firmly locking their economies together would bind together the core nations of Europe so closely that the wars that had so ravaged the continent for centuries would be unthinkable in the future. At the same time, peace among
nations and economic progress for their peoples would bring about a measure of stability that would make further development possible.

Thus, ASEAN laid down programs of cooperation in industry, minerals and energy, in finance and banking, in transport and communications, in food, agriculture and forestry. The ASEAN countries devised schemes like the ASEAN Industrial Projects and the ASEAN Industrial Joint Ventures. They set up the Preferential Trading Arrangements.

They used such programs, schemes and arrangements not only to help their own national development efforts but also to build confidence among themselves, develop personal relationships among their leaders, and cultivate a sense of regional identity among their peoples.

**AFTA Is Born**

After many years, they realized and decided that these tentative and modest measures for regional economic cooperation - nobody dared talk of economic integration in those days - were not enough. Looking to the future, the ASEAN leaders knew that these measures would not be enough to bring about the economic efficiencies and attract the investments essential for their countries’ continued development.

At their fourth summit, in Singapore in 1992, ASEAN’s leaders decided to move ASEAN to an entirely new stage in their countries’ economic relations, to make the leap from cooperation to integration, by resolving to transform the region into a free trade area. In fifteen years, tariffs on goods traded within ASEAN, with some exceptions, would be eliminated or reduced to a maximum of five percent. This commitment would be subject to legally binding schedules of tariff reductions. Most exceptions would be phased out according to fixed timetables.

The objective was to create an integrated ASEAN market for trade in goods. Such an enlarged market would attract investments much more effectively than the much smaller national domestic markets. It would thus be a further stimulus for growth. It would also raise, for ASEAN members, the stakes in one another’s purchasing power and economic progress.
In four years, from 1993 to 1997, the value of intra-ASEAN trade almost doubled, from less than US$44 billion to more than US$85 billion, from less than 21 percent to almost 25 percent of total trade. Largely on account of the financial crisis, these figures dropped to US$71 billion and 22 percent in 1998, rising again in 1999. They are still well above pre-AFTA levels. This dramatic rise in intra-ASEAN trade cannot be attributed entirely to AFTA, of course, but AFTA's significance is such that many of the world's largest companies have displayed extraordinary interest in AFTA's progress.

If AFTA is good for ASEAN in economic and other terms, why wait for 2008 for its completion? Asking themselves this question, ASEAN’s leaders, meeting in this city in December 1995, decided to advance AFTA’s completion date to the beginning of 2003. A few months later, ASEAN adopted the ASEAN Industrial Cooperation scheme, or AICO, in which products of companies operating in two or more ASEAN countries would enjoy the full AFTA treatment immediately.

In 1997, the international financial crisis struck Southeast Asia particularly hard. Immediately, the usual instant commentaries predicted that, as a result of the crisis, ASEAN countries would retreat into isolation, that ASEAN would fall into disarray, that AFTA was dead. Such speculations, some of it evidently arising from herd instinct, were made in defiance of logic and without waiting for the facts to unfold.

**AFTA Speeds Up**

What ASEAN needed at a time of economic contraction and diminished investor confidence was to regain that confidence and bring investments back in. In the face of this reality, the logical thing to do was to deepen and expand and accelerate regional economic integration instead of hollowing it out, constricting it, or slowing it down. That was the logic. The fact was that, in 1998, at their summit in Ha Noi, the ASEAN leaders again advanced the completion date of AFTA, this time by one year, to the beginning of 2002 for the six original signatories to the AFTA agreement, with the later signatories given a few more years to adjust to regional free trade.
The beginning of 2002 is just a little over a year from now. Already, more than 85 percent of tariff lines for goods traded under AFTA are in the minimal 0-to-5 percent zone, representing more than 90 percent of the value of intra-ASEAN trade. Next year fully 90 percent of tariff lines will drop to that zone. By 2010, all tariffs among the original six are to be abolished. ASEAN countries are also committed to removing non-tariff barriers among them. Even today, average tariff rates for goods traded within AFTA are down to a low 4.4 percent and should be less than four percent next year.

To be sure, the financial crisis has brought particular difficulty for some specific industries in individual ASEAN countries. ASEAN is ready to make allowances for the relief of such industries, but these are strictly circumscribed as to scope, timeframe and other conditions.

Dismantling trade barriers is, of course, not enough. Trade must be made easier as well as freer. Thus, ASEAN has been working on the harmonization of tariff nomenclatures, the compatibility of product standards, mutual recognition arrangements, and the streamlining of customs procedures. Nor is it sufficient to free up and facilitate trade in goods. Services are becoming a larger and larger part of ASEAN’s economy. Services are also a much more complex area to deal with than merchandise trade. But they, too, are now subject to liberalization negotiations, sector-by-sector.

ASEAN is seeking to increase its attractiveness to investments by integrating itself as a market for goods and services. It is also doing this by directly allowing investments to move freely within ASEAN. Under the ASEAN Investment Area agreement, each ASEAN country opens itself up to investments from other ASEAN countries and extends national treatment to those investments. The few exclusions are to be phased out according to an agreed, binding and short timetable. Impediments to investments are being removed. ASEAN has also begun to promote itself jointly as one investment area in Japan, the United States and Europe.

ASEAN’s economies are being bound closer together through infrastructure linkages. ASEAN is planning the consolidated expansion of the already
ASEAN ministers have begun to conduct such dialogues with increasing frequency and intensity, as they respond to the challenge of regional economic integration beyond free trade areas, investment areas and financial policy coordination. This is for them a matter of regional solidarity. And that is what ASEAN is about.

extensive road network on mainland Southeast Asia covering a total of 33,480 kilometers. It is working out the protocols for the implementation of the agreement to facilitate the treatment of goods in transit. Agreements on multi-modal transport and interstate transport are in the works. The feasibility study on the completion of a railway from Singapore to Kunming in southern China has been completed, and a decision on the precise route out of several alternatives should be made soon. For the power grid on the mainland, two out of the fourteen projected interconnections are already in operation. The trans-ASEAN gas pipeline network should, as it moves to completion, progressively help to ensure the region’s energy security. Cooperative measures are being taken to make possible telecommunications interconnectivity in ASEAN and the standardization of telecommunications equipment. The question now is how to package these infrastructure projects as attractive opportunities for investment.

**Into the Information Age**

ASEAN is taking economic integration into the information age, while using information and communications technology to strengthen regional economic integration. A combined private-sector and public-sector task force is working on a program to create e-ASEAN. It would recommend the facilities and policy environment required to encourage the private sector and the people in general to make use of and develop technology for progress and profit. The work covers such key areas as an ASEAN information infrastructure, the facilitation of e-commerce, the legal and policy environment for the development and use of information technology, the liberalization of the trade in goods and services related to such technology. It is expected to
identify the requirements for human resources and ways to meet those requirements. It also addresses the use of information and communications technology for improved governance and for social uses like health and education and even rural development.

The impact of the financial crisis on the region, with its strong characteristics of contagion, demonstrated, if further proof was needed, how integrated the ASEAN economy had become. If that was so, then not only must the market for goods and services be more deeply and more rapidly integrated, not only must ASEAN investments flow more freely in the region; cooperation in financial matters needed to be pursued much more intensively.

Thus, ASEAN’s finance ministers have set up a surveillance mechanism through which the ASEAN governments would monitor macroeconomic developments in the region and encourage one another, through a process of peer review, to strengthen their economic fundamentals and to push forward the necessary economic reforms. Last week, the ministers conducted, in Prague, the fourth such review. The ministers also decided to enlarge the currency swap arrangement through which ASEAN countries could help one another in case of balance-of-payments difficulties.

Analyses within ASEAN, however, have highlighted the fact that market integration and financial cooperation, essential as they are, are today not enough to shore up investor confidence in ASEAN and enhance ASEAN’s strength in the global competition for investment capital. Attention must be paid to the domestic investment climate in each ASEAN member. Here we enter into the area beyond AFTA, beyond market integration, beyond strictly economic and financial cooperation, in order to face the challenges of the future.

The domestic investment climate of each ASEAN country has to be constantly burnished. Each government has to put in place the necessary national laws and policies. The rule of law has to be fortified. The competitive field must be leveled. Transparency must be fostered. The integrity of governmental and corporate institutions and processes must
be upheld. The people’s skills have to be upgraded to ensure their competitiveness. Security and order have to prevail - and be perceived to prevail.

**The Next Step**

This is the next important stage in ASEAN’s integration, a broader stage than dismantling international barriers to trade and investment. This may require ASEAN countries to concern themselves more with issues of governance without, of course, interfering in one another’s internal affairs or imposing policies on one another.

This is not without precedent in ASEAN. After all, tariff policy and other trade restrictions are a matter of sovereign right on the part of states. But AFTA obligates ASEAN members to make commitments to one another in bringing down, through domestic legislation, barriers to regional trade. They are doing so with respect to obstacles to intra-regional investments. They are about to do so in the case of services. In the peer review that the finance ministers frequently conduct, they look into one another’s national economic policies and reform measures. Other ministers and officials have been discussing national policies and practices that have a serious impact on the atmospheric pollution levels in other parts of the region.

ASEAN governments should be able to discuss, in a frank but friendly and discreet manner, other elements of the investment climate - governance, the rule of law, the judicial system, transparency and accountability, corruption and integrity, measures to improve people’s skills, order and security. After all, the image of disorder in one country affects perceptions of the stability of the region as a whole. Impressions of an inhospitable investment climate in one country deeply influence the regional climate.

ASEAN ministers have begun to conduct such dialogues with increasing frequency and intensity, as they respond to the challenge of regional economic integration beyond free trade areas, investment areas and financial policy coordination. This is for them a matter of regional solidarity. And that is what ASEAN is about.
Building Knowledge Societies: ASEAN in the Information Age

“Building knowledge societies” is, in fact, a subject on which ASEAN itself has placed the highest priority. There are, at this time, few things more urgent or more important for ASEAN - or for any nation or region - than building “knowledge societies.”

ASEAN’s leaders have recognized this. In the plan of action that they adopted in Ha Noi in December 1998, the leaders called for the establishment of the ASEAN Information Infrastructure, or AII. For a start, they called for agreements among ASEAN members “on the design, standardization, inter-connection and inter-operability of Information Technology systems by 2001.” In the same plan of action, they resolved to“(d)evelop the information content of the AII by 2004.”

In compliance with these orders, ASEAN formed a working group on the AII, which put together a number of recommendations and submitted them to the ASEAN Economic Ministers in October last year. The core recommendation was the concept of e-ASEAN. According to this concept, e-ASEAN would pull together and integrate ASEAN members’ efforts in information and communications technology while maintaining links with the Global Information Infrastructure. It would involve inter-
connectivity, with its own high-speed backbone. It would seek to harmonize policies, regulations and standards in information and communications technology within ASEAN. It would place priority on the use of that technology for tourism, trade, education and employment. It would pay particular attention to cooperation in the development of human resources for information and communications technology. It would be government-led but private sector-driven.

The ASEAN Economic Ministers adopted the working group’s recommendations and agreed to organize a combined public-private sector Task Force to carry out the recommendations and bring e-ASEAN to reality. The task force is to be headed by Mr. Roberto Romulo, former Foreign Minister of the Philippines, who once headed IBM’s regional operations in Southeast Asia.

At their summit in Manila last November, the ASEAN heads of state and government welcomed the launching of e-ASEAN and carried out a dialogue with Mr. Romulo and global and regional leaders of the information-technology industry. They also agreed on “the establishment of a free trade area for goods, services, and investments for the info-com industries under a new e-ASEAN agreement.” They noted the particular usefulness of information and communications technology for education and the development of human skills.

Of course, ASEAN’s outlook on the information age, information and communications technology, and knowledge industries goes beyond technology and its applications. It is entirely consistent with the comprehensive and integrated approach of this workshop and of the conference to which it is leading. This project’s title refers to “knowledge societies” rather than to knowledge industries or knowledge economies. The term sends the message that the impact of the information age is not just on industry and the economy but on society as a whole and on people’s very lives.
We in ASEAN regard information and communications technology as an amazingly powerful tool. It gives us and our children easier, quicker and broader access to facts and, hopefully, the wisdom of the ages. It immensely helps in education and training and in the acquisition and development of science and technology. It makes production more efficient and trade quicker and less expensive in ways that continue to multiply. It makes travel easier and cheaper. It enables us to render social services more effectively.

Information and communications technology offers ASEAN and other developing countries a vital opportunity and means to leapfrog the historical stages of development and bypass the type of industrial revolution that the developed countries had to go through. Through this technology, we could telescope the development process. Already, we have seen how technology has greatly increased the productivity of many workers and of whole societies. At the same time, even in its infancy, the presence of the new technology is so pervasive and its impact so deep that whoever masters it comes out ahead in the increasingly competitive environment of a globalized economy.

In this light, the sweep of the information age through Southeast Asia presents us also with severe challenges, even threats. The new technology demands new skills, new mindsets, changes in economic and social policies, and shifts in cultural norms. The information revolution poses the danger that those who are already well advanced in these essential conditions — in science and technology, in education, in economic reforms, in modern organization and ways of thinking — will go faster and even further ahead.

This means that, if we do not deliberately do something about it, the surge of the information revolution could widen the gap between developed and developing countries, including ASEAN, between the more advanced and less advanced members of ASEAN, and, within each nation, between those groups who can afford access to the new technology and those who cannot.

We must ensure, then, that, as we strive to catch up with the more advanced economies, the gap narrows between those who have access to the benefits of technology and those who are in danger of being left out of the information age.
All this would require a veritable forced march to acquire and develop technology. This means not merely the ability to use it but the determination to join the great global adventure of expanding the frontiers of technology if we are to be truly part of the information and communications revolution.

This would, in turn, necessitate a crash program to raise the level of skills of the population as a whole. This is necessary because the creation of a knowledge society depends on achieving a critical mass of people plugged into such a society. We also need to ensure that one group or class does not hog the mastery of and access to technology and thus leave the rest of the people behind. The alternative would be to divide the nation in a potentially dangerous way. The broad upgrading of skills, of course, would need, from the public and private sectors, massive investments in education at all levels, especially for the poor, and, in many cases, the overhaul of the educational sector.

At the same time, the political decision must be made to create a policy environment that would foster the development of information and communications technology. This would include the further opening of society to new ideas, wherever it comes from, and the provision of economic and social incentives to encourage the development and use of technology.

As ASEAN’s leaders have directed, we are resolved to undertake much of this enormous task together. As in more and more areas of endeavor, we find that, in many aspects of information and communications technology, it is more efficient and effective to work together than as individual countries, making this area a vital one for ASEAN cooperation.
The e-ASEAN initiative represents a collective endeavor, bringing together member countries’ efforts in information and communications technology. This is a strategic decision arising from ASEAN’s understanding of the immensity of the challenge and of how the challenge can be met only if ASEAN acts regionally. The Internet represents the new industrial revolution; but while the first industrial revolution took more than a hundred years to unfold, from the invention of the rotary steam engine by James Watt to its use in steamships and trains, the new technological revolution would be telescoped into decades or even years. It may well be impossible for a single developing country to cope with the challenge of this new revolution. Thus, e-ASEAN seeks to ensure that developing countries are not left behind by this industrial revolution.

In cooperating through e-ASEAN, we will be harmonizing policies, regulations and standards. We will be cooperating in the development of human resources, learning from one another’s experiences and strengths. We will be ensuring the inter-connectivity of our communications systems. Here are some specific projects that the Working Group on the ASEAN Information Infrastructure has put forward: a regional backbone, an ASEAN Tourism portal, an ASEAN Trade Link, an electronic network of institutions of learning and libraries, a job bank for the information and communications industry. The Task Force on e-ASEAN will be recommending actions that would bring these and other projects to reality.

Cooperation in information and communications technology would not only enable ASEAN to harness that technology more effectively. It would serve the ultimate goal of tying Southeast Asia closer together culturally, socially, economically and politically.

In economic terms, like the ASEAN road, power-grid and gas-pipeline networks, the ASEAN Information Infrastructure and e-ASEAN will be a physical bond to tie more tightly together an economy of half a billion people where barriers to trade are already fast being dismantled. Investments would be more strongly attracted to such an integrated economy. Capital would also be drawn by the convenience and efficiency that an inter-connected ASEAN would provide. The very creation of the ASEAN
Information Infrastructure and of e-ASEAN would offer rich opportunities for investment.

The promise of ASEAN cooperation in information and communications technology is clear to ASEAN, the promise of economic dynamism and of an immensely enriched life for its people. So is the challenge. The challenge of upgrading the skills of our people, re-allocating our resources, and adapting our cultures according to the demands of the information age. The challenge of ensuring that all the nations in ASEAN and all the people in them contribute to and benefit from the technological revolution.

To achieve the promise and meet the challenge is the sum of ASEAN’s vision and mission for the information age.
A common currency for ASEAN, not to mention one for East Asia, was until two years ago all but unthinkable. Now, people are not only thinking about it, they are seriously talking about it in respectable company like this. This shows how strongly the financial crisis has jolted our ways of thinking, how significantly it has stretched the horizons of the possible, how, indeed, things will never be the same again. The fact that we can now talk about a common currency for ASEAN and even for East Asia shows how much, in a fairly short time, we have come to think about ourselves as a region, how much our economies have become integrated, and about the possibilities for regionalism in the future.

I will not go into the technicalities of the advantages and Disadvantages or the likelihood of a regional currency. You are much more qualified to do this than me. But I can tell you about the state of ASEAN thinking on the subject. I can talk about the new realities in ASEAN and East Asia which your choice of the subject reveals.
No less than ASEAN’s heads of state and government affirmed the value of looking into this subject. In the Ha Noi Plan of Action, which they issued in December 1998, they directed ASEAN to “Study the feasibility of establishing an ASEAN currency and exchange rate system.”

This formulation obviously indicates that an ASEAN currency is far from being a reality. There remain many obstacles to be overcome. Regional economies have to be sufficiently integrated. Rivalries and mutual suspicions lingering from history have to be overcome. Questions of sovereignty have to be resolved.

But it also denotes the ASEAN leaders’ discernment of the Emerging possibilities for the future, possibilities brought about by the progress of regional integration and impelled by the financial crisis.

In the meantime, ASEAN has taken steps to cooperate in the financial area short of creating a common currency. ASEAN has been encouraging the use of ASEAN currencies in the settlement of intra-ASEAN trade. This is to be done largely through bilateral payments arrangements. Malaysia and the Philippines have concluded one such arrangement. Others are under negotiation. ASEAN’s leaders have called for the development of capital markets in the region, so as to reduce ASEAN’s dependence on capital from the developed world. They prescribed in the Ha Noi Plan of Action certain concrete measures for accomplishing this. They agreed to open up their financial sectors, mainly within the context of the negotiations on trade in services that are about to be launched. They decided to cooperate in improving the regulation and transparency of the financial system.

ASEAN has set up an economic surveillance system, in which ministers and officials exchange data and share opinions on economic trends and macroeconomic policies in the ASEAN countries. In this way, which is a process of peer review, they intend to avert future financial crises and encourage one another in the pursuit of reform. A unit in the ASEAN Secretariat has been established to manage the process, with support from the Asian Development Bank, in which a counterpart unit operates.
Deepening Economic Integration

These moves, as well as the mandate for studying the feasibility of an ASEAN currency and exchange rate system, manifest both how far ASEAN has gone in economic integration and how determined it is to deepen integration even more.

The ASEAN Free Trade Area not only is on track; it has been accelerated, so that, for the six original signatories to the AFTA treaty, the free trade area is to be completed at the beginning of 2002. In fact, by the beginning of 2000, or in less than five months from now, it will be ninety-percent done, creating, for all practical purposes, a huge market of half a billion people with a combined gross domestic product of US$700 billion. The premises and parameters for the negotiations on trade in services have been laid. Those negotiations must begin this year. Barriers to investment are likewise being dismantled, with ASEAN investors becoming free to invest, without hindrance, in much of the manufacturing sector of the other ASEAN countries.

Because of the degree of economic integration that has been achieved, the idea of an ASEAN currency, like a customs union and a common market, has at least become thinkable.

What about East Asia? Unlike in ASEAN, there are no special arrangements for the integration of East Asia’s economies. Indeed, seemingly insurmountable differences continue to divide East Asia. ASEAN and Northeast Asia continue to be regarded as distinct from each other by virtue of the differences in their economic structures and levels of development. Northeast Asia itself is divided by historical Antagonisms and contemporary rivalries.

Yet, in recent years, East Asia has been coming together in Almost imperceptible ways, slowly but steadily. ASEAN exports to Northeast Asia, for example, increased by a remarkable thirty percent in 1997 and accounted for twenty-four percent of ASEAN’s total exports in that year. Northeast Asia’s share of ASEAN exports surpassed those of the United States, at twenty percent, and those of the European Union, at fifteen percent. This
trend was interrupted by the financial crisis but, with the economic recovery of East Asia, promises to resume with renewed vigor.

A large proportion of this bustling East Asian trade is carried Out between units of the same conglomerate located in different parts of the region. Trade within the region is, therefore, closely linked with intra-regional investments. Japan is the primary foreign investor in South Korea. Japan and South Korea are leading sources of foreign direct investment in ASEAN and China. The magnitudes grow if one brings in Taiwan and Hong Kong, but that is another story. Eventually, a place in this scheme of things ought to be found also for Mongolia, which is now a participant in the ASEAN Regional Forum.

**The East Asian Synergy**

The synergies of trade and investment intensify, as each batch of East Asian countries moves up the development ladder - first, Japan and South Korea, then, at different paces, the first six ASEAN members and China, and finally the newer members of ASEAN. Historically, investments from and markets in the more developed countries have nourished the growth of the less developed ones and helped pull them up the ladder. The process involves not only markets and capital but also services and the transfer of technology and the development of human skills. Unless something happens to break it up, the continuation of this process can hold great potential for further economic integration in East Asia.

On the negative side, the contagion effect of the financial Crisis spotlighted the reality of the inter-connection of East Asia’s economies, with almost all countries in the region affected, as victim or factor or both. Only China, it seems, has emerged relatively unscathed.
The increasing economic closeness of East Asia explains why ASEAN is so sensitive to the stability and value of the renminbi and why it has indicated its receptivity to the idea of internationalizing the yen. It is why ASEAN pays so much attention to the state of Japan’s economy. It is also part of the reason why ASEAN is so concerned over the state of relations across the Taiwan Straits.

The immutable reality of geography, of course, underpins the Strengthening bonds among the countries of East Asia, geography leavened by history and culture. But East Asia is no regional fortress. Each of the countries of the region is open to the world or is opening to it. The United States and Europe remain leading trading and economic partners of the countries of East Asia, each of which is a member of the World Trade Organization or is aspiring to be one. All of them have absorbed much of Western culture and ways of doing things. Nevertheless, the geographical expression that is East Asia is becoming, to an increasing degree, a regional economic entity.

Until recently, the region’s economic convergence has been driven by the trade and investment decisions and impulses of corporations. For the most part, it has received little conscious guidance or support from governments outside of the purely economic sphere. But, in the past few years, governments have taken deliberate steps to nurture East Asia’s burgeoning coherence. A recognition of the emerging economic, as well as geographical, realities has made ASEAN’s “dialogues” with China, Japan and the Republic of Korea among the most active in ASEAN’s relations with its ten dialogue partners. As part of the dialogues, efforts have intensified to promote cultural exchanges between ASEAN and each of the Northeast Asian countries.

**An East Asian Forum**

Beyond the ASEAN dialogue system, an East Asian forum is developing among the thirteen countries of the region. The leaders of China, Japan and Korea met, as a group and individually, with those of ASEAN on the occasion of the ASEAN summits of 1997, in Kuala Lumpur, and 1998, in Ha Noi. In late November, they will meet again in Manila in what is becoming an annual event. Just before the summit in Manila, all the thirteen countries will meet for the first time at the level of senior officials. Seven of
the ten Southeast Asian nations and the three Northeast Asian countries make up the Asian contingent to the Asia-Europe Meeting, or ASEM. They have had many opportunities to interact in this context.

At what has been called the ASEAN-plus-three and ASEAN-plus-one summits, East Asian leaders have had the occasion to discuss a broadening range of issues pertaining to regional security, such as the South China Sea. They have also dealt with the prospects of Asia’s economic recovery and ways to hasten it, the promise of information technology, and cooperation on social safety nets in the region.

The finance ministers of the thirteen countries met for the first time in Manila last April; their deputies had been meeting with increasing frequency. The ministers and deputies discuss ways of dealing cooperatively with the demands of economic recovery and preventing future crises. They develop Asia’s thinking on the reform of the international financial architecture.

The East Asians are now trying to add further substance to the content of their interaction. In Ha Noi last December, President Kim Dae-jung of the Republic of Korea proposed the convening of an East Asian Vision Group of eminent intellectuals from around the region. The other heads of government accepted the idea. The vision group will meet several times from October this year through 2000 and 2001. It is charged with proposing concrete steps for closer cooperation in East Asia politically, economically, culturally and in other ways.

The force of logic is behind the closer integration of East Asia, but there is nothing inevitable about it, much less about such fundamental decisions as a common currency. Even measures far short of a common currency do not have any certainty in them. Many such measures, if they are of any substance, require a level of mutual trust and even

The immutable reality of geography, of course, underpins the Strengthening bonds among the countries of East Asia, geography leavened by history and culture.
the surrender of a degree of sovereignty that is not yet within sight. Issues and emotions rooted in history or in current rivalries continue to divide East Asian nations.

East Asian economies have often been likened to flying geese, with Japan leading the flock and the newly industrialized countries and then the less developed ones following in that order. Will the East Asian geese continue to fly in formation? Can the lead goose continue to lead effectively? Will it be challenged for leadership in the future?

There are other questions. Will the development gap between East Asian nations be sufficiently narrowed? Will sufficient technology be transferred to the less developed ones? Will the latter be able to absorb the technology? Can historic rivalries and mutual suspicions be sufficiently overcome? Will enough sovereignty be given up?

Such questions need to be sorted out before a common currency - or less demanding forms of economic integration - can be seriously discussed. But one thing is clear: Recent events have made clear that there is no other course but closer economic integration and political solidarity in ASEAN, there are precious few alternatives to closer cooperation in the larger region of East Asia.

East Asia’s leaders realize this. The actions that they and their governments, business communities and peoples take in this direction will determine whether a common currency for East Asia, or even a lesser degree of economic convergence, is an ephemeral dream or a realistic possibility. Their actions will decide whether the growing closeness of East Asia that we now see is an enduring reality or turns out to be a fleeting mirage.

I have every confidence that ASEAN and East Asia will take the right course.
Diversity and Convergence in Southeast Asia

Keynote address at the Ninth Annual Conference of the Harvard Project for Asian and International Relations
Beijing, 28 August 2000

Diversity and convergence. The subject is not only challenging; it is also timely, because today we may be at one of those moments in history when the tension between two seemingly opposite trends shapes the character of the relationships among people and groups of people.

Let me begin with the idea of convergence. It has now become obvious that the globalization of the economy and today’s breathtaking technological advances have brought a critical mass of the world’s people closer together in terms of physical accessibility, in terms of communication, in terms of commerce, in terms of ideas, in terms of culture. Goods and services flow much more freely. Money sloshes around the world with nary a barrier. People travel much faster and much more frequently. They are more in touch with one another. Events in one place in the world can have an impact almost everywhere else, at least on people’s knowledge and perception, if not on their lives. More and more people recognize, if not worship, the same cultural icons. Some diseases, too, spread much faster, and some crimes thumb their noses at national boundaries.
At the same time, the technological advances that have made such convergence possible are the products of extremely individual creativity. The global interaction of people is energized by and, in turn, stimulates a ferment of ideas in all their richness and diversity. The very efficacy of globalization and technology depends on the freedom of individuals to develop and share ideas, which cannot be separated from their freedom to live their own lifestyles and believe their own beliefs.

This much is obvious, then: the convergence of economies, of ideas and of cultures and the imperatives of individual freedom, of personal integrity and of human creativity.

How does this tension play out in Southeast Asia?

Let us examine the idea of convergence in Southeast Asia and its implications for diversity - in terms of geography, the economy, political systems and culture.

**Convergence Through Geography**

Convergence through geography, through the occupation of a specific geographic area, seems to be an obvious reality. Yet, what are now the countries of Southeast Asia were for centuries divided from one another by the designs of colonialism. Not that the old Southeast Asian kingdoms were always at peace with one another. Indeed, many wars were fought between them. But they interacted with one another, deeply influencing one another. Colonialism cut the political, economic and cultural ties among the peoples of Southeast Asia. History overpowered geography, although not completely, of course.

Even after they had gained their independence, the peoples of Southeast Asia continued to be divided, taking different paths in the transition from colonialism to independent nationhood. The historical relationship between colonizer and colonized, the personal experience and ideological leanings of the new ruling elite, and the economic and political circumstances in which the new nations found themselves influenced their choice of paths. Their choices also manifested themselves in the policies that they adopted
with respect to Cold-War and other international issues, policy differences that exacerbated their mutual suspicions.

The colonial powers left unresolved, or had created, territorial, ethnic and economic issues that engendered an environment of dispute and suspicion between the new nations that emerged in Southeast Asia: between Indonesia and Malaysia, the Philippines and Malaysia, Singapore and Malaysia. Civil strife and proxy wars, in combination with historical animosities, continued to unsettle the Indochina region.

Out of this fractured region, Indonesia, Malaysia, the Philippines, Singapore and Thailand decided to create, in August 1967, the Association of Southeast Asian Nations. Burma, as it was then called, was invited but declined to join. Brunei Darussalam was admitted in 1984, upon its independence. ASEAN's primary objective was to overcome the mutual isolation left behind by colonialism and to build a geographic entity that was at peace and cooperating for common purposes. Geography was to be the foundation of solidarity.

In the ensuing environment of peace, stability and cooperation, the economies of the ASEAN nations surged and flourished. The end of the Indochina wars and, later, the settlement of the Cambodian problem cleared the way for the membership of Viet Nam in 1995, and then of Laos and Myanmar in 1997, and finally of Cambodia in 1999. Thus, all ten Southeast Asian nations are now in ASEAN, realizing the vision of ASEAN's founders, a vision explicitly set forth in the Bangkok Declaration of 1967.

Southeast Asia has fulfilled the destiny set for it by geography.

**Convergence of Economies**

Geography, of course, is not enough, particularly in these days of rapid travel and instant communication, which are steadily reducing the importance of geographic proximity. From the beginning, ASEAN believed that a strong economic content in its geographic shell would not only directly benefit the people of Southeast Asia; it would also raise its members’ stake in the association and thus solidify their commitment to regional peace and cooperation.
ASEAN embarked on cooperative ventures in food, energy, industry, banking and finance, tourism, agriculture and forestry. It set up a system of preferential trading arrangements. It also instituted forums for cooperating on the environment, drugs, health, culture, and science and technology.

A quarter of a century after its founding, ASEAN’s members decided that economic cooperation was not enough. They had to integrate their markets if they were to achieve economies of scale, cut costs, raise productivity, and thus improve their competitiveness, attract investments and create jobs. The Western Europeans had recognized - and acted on - this notion much earlier, some countries forming a common market and others a free trade area. Other regional associations were to do the same, before or after ASEAN — in North America, South America, Africa, the Persian Gulf, and Central Europe.

In 1992, ASEAN decided to create the ASEAN Free Trade Area, in which tariffs on trade within the region would be steadily reduced to no more than 0-5 percent by 2008. Quotas and other non-tariff barriers would also be removed. Pressed by the forces of globalization and the rise of competing integrating markets, ASEAN in 1995 advanced AFTA’s completion date to the beginning of 2003. In response to the financial turmoil that rocked the region in 1997 and 1998, ASEAN again accelerated the AFTA schedule, to the beginning of 2002, with the new members given a few more years.

This was, of course, contrary to the predictions of the “observers” whose instant comments are often invoked by the media. They speculated with some glee that the financial crisis would finish AFTA and that each ASEAN member would retreat into its own protectionist shell. The fact is that, instead, ASEAN’s leaders further hastened the AFTA process. Common sense told them that the restoration of investor confidence was essential to ensuring that the region’s economic recovery was sustained, and a more integrated ASEAN market, not a fragmented one, would draw in the necessary investments.
Today, a slight delay may have to be allowed for the inclusion in the AFTA program of automobile imports into one ASEAN country. Again, the “observers” are pointing to this as a sign that AFTA is breaking up. The fact, however, is that more than 85 percent of tariff lines, representing more than 90 percent of intra-ASEAN trade, are already in the AFTA scheme. There is no way to take them out again.

However, tariff-cutting is not enough. Competition is heating up. Global trade is being freed. Continental-scale markets are opening up and flexing their competitive muscles. Other regions are fast integrating their economies. ASEAN has to drop its non-tariff barriers fast. Trade must be made not only freer but also easier and cheaper. Customs procedures have to be streamlined and cleaned up. Product standards within ASEAN have to be harmonized. Air and maritime transport has to be liberalized. Other services have to be opened up. Infrastructure linkages - highway systems, railway lines, regional power grids, gas-pipeline networks - have to be put in place. Financial cooperation through an economic surveillance process and a currency swap arrangement is now high on the ASEAN agenda. ASEAN is turning its attention to all these measures for further economic integration.

More than market integration, ASEAN has recognized that its future competitiveness depends on its ability to develop and use technology. ASEAN knows that today the knowledge industries are both the arena of global competition and the weapons for succeeding in it. ASEAN knows that it has to pool its resources together, for no one country can do it alone, in acquiring the capacity to develop and use science and technology. It is paying particular attention to information and communications technology. Today, a combined task force of public and private-sector representatives are working on a program for the building of e-ASEAN, a set of recommendations for setting the legal and economic environment for the development and use of information and communications technology, developing the human resources for it, and identifying ways in which it can be used to good effect not only for business but for education, health care and rural development.

Political Convergence?
But in the light of globalization and regional economic integration, in the face of global competition for markets and investments, some political convergence will have to take place, within Southeast Asia and elsewhere, and it will likely be in the direction of greater openness, greater freedom, and greater pluralism.

Will economic integration lead to political convergence?

In Western Europe, one can see the possibilities. The Western Europeans have the traditions and a set of values on which to base similar political systems or even a political union - liberal democracy, personal and social freedoms, freedom of expression and of the press, the independence of the judiciary, multi-party contests for leadership.

Most other regions in the world, including Southeast Asia, do not yet have such a common sets of values. Political systems and practices are shaped by history. To a large extent, they are the products of the cultural, economic and social dynamics within each nation. Their convergence cannot be decreed by some legal or diplomatic sleight-of-hand. However, to an increasing extent, external pressures are impelling changes in the political dynamics within nations. Those pressures are sparking internal forces to trigger evolutionary adjustments in the political system or even revolutionary upheavals, peaceful or not.

This could be one of those moments in history when radically new technologies and shifting global economic relationships are bringing about drastic changes in countries’ internal arrangements. For example, regional economic integration, such as that taking place in ASEAN, demands that regional economic arrangements be increasingly rules-based and that the formulation and application of laws and rules affecting those arrangements be harmonized to some extent and, therefore, more transparent. Impartial adjudicating mechanisms are increasingly necessary, at both the regional and national levels. The drive for investments, on the part of ASEAN and
of each individual member, reinforces these demands. ASEAN’s embrace of information and communications technology obviously requires individual creativity, freedom of thought and expression, and untrammelled communications.

Political diversity is inevitable, necessary, even desirable. But in the light of globalization and regional economic integration, in the face of global competition for markets and investments, some political convergence will have to take place, within Southeast Asia and elsewhere, and it will likely be in the direction of greater openness, greater freedom, and greater pluralism. It will proceed at different paces, and political diversity will remain. But the direction is emerging into view.

**Convergence in Culture**

Globalization and the technological revolution will also have a significant impact on the diversity and convergence of cultures.

We can take culture in its two meanings. The first meaning encompasses a people’s lifestyle, folkways, traditions, art, literature, dance, music and so on. Culture by this definition has to be preserved, nurtured and enriched. It links people to the origins of who and what they are. It is what binds them together. It gives them their identity beyond the family. It is the source of their sense of self-worth. It imparts meaning to their lives. The diversity of people’s cultures and the interaction among them enrich the human race.

Culture has another meaning. It comprehends a people’s set of values and attitudes, their outlook on life, their ways of thinking and working, their mindsets. It is people’s cultures in this sense that globalization and technology are disrupting. In this sense, cultures have to adjust in order for people and nations and regions to be competitive in the global economy. If science and technology, especially information and communications technology and biotechnology, are the arena and weapons for global competition, nations and companies have to undertake a massive re-allocation of resources to education, training, research and development, and the infrastructure for the knowledge industries. National and corporate
priorities have to be reset. Legal assumptions and institutional arrangements have to be re-examined. Just as importantly, people’s mindsets have to change. They have to acquire a scientific bent, develop a certain rigor in their thinking, and cultivate the capacity and inclination to turn knowledge into practical applications. People have to develop the willingness to question knowledge that is handed down and challenge intellectual authority - and be allowed to do so. Personal relationships have to be tempered by the objective application of law and rules in the conduct of government and business. In sum, the proverbial paradigm shift must take place.

In Southeast Asia, there are signs that the financial crisis has jolted governments, institutions and people into the beginnings of such a shift.

Not least, if it is increasingly true that these days most nations can compete effectively only through integrated regional economies, then people have to cultivate rapidly a sense of regional identity. This is necessary if people and nations are to identify their welfare with the regional interest, and if they are willingly to subordinate traditional national prerogatives to regional arrangements. They have to see regional integration and regional cooperation as benefiting them. For most people, this requires a whole new mindset that, in Southeast Asia at least, has not yet been achieved.

**The Right Balance**

People and nations are, to a large extent, prisoners of their history, traditions and culture. Not only that; cultural, political and individual diversity is essential and something to be cherished. But in the economy, in politics and in culture, the forces of globalization and technology are impelling a certain convergence globally, regionally and nationally. In many important ways economies, political systems, and cultural traits must change in response to the challenges of globalization and technology, inevitably converging at many points.

The person, the nation, the region that maintains the right balance between diversity and convergence - which, necessarily, must keep shifting - will be the one that finds success in a globally competitive world.
ABOUT THE BOOK

In this anthology of his thoughts on the Association of Southeast Asian Nations, ASEAN Secretary-General Rodolfo C. Severino, Jr. examines the current challenges confronting the region and how ASEAN has responded to them. Assuming the post at a very challenging time, these pieces serve as a blow-by-blow account of how ASEAN has risen to face up to the situation and come out stronger and more united. He outlines ASEAN’s responses to the financial crisis of 1997-1998, the haze episodes arising from land and forest fires at about the same time, and the rapid expansion of ASEAN’s membership in the period 1995-1999.

The common thread in the Secretary-General’s speeches is clear: Southeast Asia has no other alternative. The forces of globalization require closer regional integration if Southeast Asian countries and Southeast Asian firms are to hope to be competitive in the global economy. No single Southeast Asian nation can prosper outside the framework of regionalism.

This book is most useful for those who wish to understand what ASEAN has done over the years, its approach to the issues, what it can do, and what it does not intend to be or do. The Secretary-General also speaks of what else ASEAN should be doing to remain relevant to its people.