

Noordin Sopiee, Chew Lay See and Lim Siang Jin (eds.). *ASEAN at the Crossroads: Obstacles, Options and Opportunities in Economic Cooperation*. Malaysia: Institute of Strategic and International Studies (ISIS) 1987. 577 pp. Price: (hardbound edition) US\$ 25.

The Association of Southeast Asian Nations (ASEAN) was established in 1967 as a loosely structured inter-governmental organization, which provided a framework for discussing problems that required a regional solution. For a long time, the reduction of regional political tensions remained the main concern of ASEAN. Serious efforts towards promoting intra-regional co-operation began in 1976 with emphasis on trade liberalization and industrial co-operation. But apart from a few cases, involving the regional economies and collective external bargaining, the record of economic co-operation has been poor, because of different levels of economic development of the member countries, mutually competitive exports, inward-looking industrial policies and heavy dependence on the industrialized countries for investment, technology and trade.

So far, there have been only three intra-ASEAN agreements to promote market sharing and a pooling of resources: the preferential trade arrangements, the industrial complementation agreement, designed to develop links in certain industries to achieve greater economies of scale, and the industrial joint venture agreement, which provides preferential treatment for products of joint ventures involving the companies of at least two ASEAN member countries. However the joint venture scheme has had only limited success because of delays in implementation, while the scope of the preferential trading arrangements has been limited by the consensus approach in solving outstanding issues and by the concern of higher-tariff member countries to protect domestic production and employment. As a result, tariffs have been reduced only on intra-regional trade of selected non-sensitive items. Most of the items covered in the preferential trade agreements have low trade content and minimal trade potential. The arrangements have also been difficult to manage because of problems of administering the rules of origin.

Recent events in international trade like the drop in world commodity prices, rising protectionism against manufactured products of the developing countries, which have adversely affected the exports of the ASEAN countries, and the rapid introduction of sophisticated technologies for the production of traditional products in developed countries, which has discouraged the flow of investment to ASEAN countries, have accelerated the search for regional solutions to these problems and rekindled interest in achieving substantive regional economic co-operation.

The book under review is the outcome of the efforts of the ASEAN Chambers of Commerce and Industry to mobilize public awareness and to engender debate on ASEAN economic co-operation and integration. It is a collection of papers presented

at the First ASEAN Economic Congress held in Kuala Lumpur from March 13–22, 1987. Of the four major parts into which the book is divided the first part, is the largest, with seventeen papers on the overall theme of the problems and prospects of ASEAN co-operation in various fields. The other three parts of the book are devoted to the analysis of the experiences of European economic integration, of the European Free Trade Association and of economic co-operation between Australia and New Zealand and discuss the possible lessons for ASEAN that can be drawn from these experiences.

This book is not just a descriptive account of the progress achieved by ASEAN but is an attempt to recount and explain developments in ASEAN co-operation with useful practical suggestions for promoting the process of economic integration of ASEAN countries. Unlike many collections of conference papers, the quality of most of the papers is high and they deal with a topic which is rich and has considerable importance not only for the ASEAN community but also for other developing countries embarked on the road of regionalism, for whom ASEAN is a role model and which, like ASEAN countries, are separated by heterogeneous cultures and political traditions.

In the first part of the book there are five papers on the issue of trade co-operation in ASEAN, and another twelve that look into the problems and prospects of co-operation in specific fields including industry, money and banking, commodities, energy, minerals, food and agriculture, forestry, transportation, tourism and education. Several of these papers have direct policy relevance and offer material which is informative and lucid. The book starts off well with a paper by S. Meyanathan and I. Haron, which deals with the trends and problems of intra-ASEAN trade. The authors show that the volume of this trade increased from 14 percent of the total ASEAN trade in 1973 to 21 percent in 1983. This, the authors claim, is the most impressive percentage increase as compared with the performance of other Third World regional groupings. They also note that exports of mineral fuels (SITC 3) accounted for 63 percent of the total ASEAN trade in 1982, and that during the period 1978–86 there was a decline of around 7 percent in the average tariff rates in ASEAN. The paper, however, does not look into the important questions of the impact of trade liberalizing measures on intra-ASEAN trade flows and of whether the increase in intra-regional trade has been due to trade-diversion or trade-creation. A study done at the PIDE (published in the Winter 1986 issue of this journal), which used an iterative statistical model to measure relative trade gains and losses arising from ASEAN co-operation, showed that while there is little evidence that intra-area trade had intensified during the period 1970–1984, regional trading patterns had been altered in varying degrees. However, given that only a small proportion of non-sensitive items of export have been affected because of the preferential trading arrangements, it can be expected that further trade liberalization within the region will lead to greater regional trade.

The paper by R. Pomfret, makes a similar point. It argues that as in the case of tariff preferences in EC-Mediterranean trade, which significantly added to the exports from the beneficiary countries, intra-ASEAN trade could benefit from trade liberalization as ASEAN countries have export supply elasticities as large as those of the semi-industrialized Mediterranean countries. The author is, however, careful to point out that the net economic effect of tariff preferences may become negative in case of trade diversion and even from costs of administering complex preferential trading arrangements. R. J. Langhammer's paper effectively argues that because of the small volume of intra-ASEAN trade there can be no reliable forecasts about the direction of change of the sectoral and regional composition of this trade arising from reduction in protection rates; and that this uncertainty is an important reason that the ASEAN Preferential Trading Arrangements have been so selective and ineffective.

The weaknesses in the present approach towards trade liberalization are brought out in the two papers by O.G. Tin and G. Tan. They show that the main obstacle to the extension of tariff preferences is the "cumbersome product-by-product negotiating procedure." To overcome the limitations of this procedure it is suggested that efforts should be made to liberalize non-tariff barriers to regional trade so as to complement the existing tariff reduction approach.

In another paper, an interesting proposal is made by H.C. Rieger, who rejects "defeatist, naive and purist" approaches to regional integration in favour of a rational approach, which disregards the standard models provided by neo-classical economics and adopts an eclectic approach acceptable to all ASEAN countries. Rieger proposes a so-called "ASEAN Trading System," which combines a "customs union of the larger countries with a free trade area comprising this customs union and the other ASEAN countries." The author arrives at this conclusion by a process of elimination. A customs union of the ASEAN countries is ruled out because of the disparity in tariff rates of the member countries and the obvious resistance this would have from Singapore and Brunei. A free trade area is similarly ruled out because of the problems of administering rules of origin and of setting domestic content requirements, which would be essential for such a scheme to succeed. The only feasible and viable alternative left is a combination of the two applied within the ASEAN framework. Overall, this is an interesting proposal, which seems to be the only way out of the present impasse and merits close attention of the ASEAN countries.

The papers on the experiences of other regional co-operation schemes have useful points to make but they all recognize the difficulty of transposing these experiences to the ASEAN region, because of the special characteristics and peculiarities of the ASEAN countries and the differences in preferences and levels of development of the various regions. The approach of economic integration in Europe is far less compromising as compared with the one that has been followed to date by

ASEAN. As a result, the former approach has been successful in removing intra-community tariffs, which have contributed to the increase in specialization and have promoted efficiency and innovation.

The papers conclude that among the most important lessons that ASEAN can draw from the experiences of the other regional groupings are: First, there must be a timetable for each stage of the integration process; second, economic co-operation is more useful when the participants' economies are competitive and not complementary; third, a common commercial policy is essential to provide a uniform basis to the integration process; fourth, industrial standardization and harmonization of technical regulations are necessary for effective industrial co-operation and fifth, ASEAN policy-makers need to be less risk-averting and less concerned with distribution issues.

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