

# ASEAN THE WAY FORWARD

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The Report of the Group of Fourteen  
on Asean Economic  
Co-operation and Integration



ASEAN-CCI

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For further information, please contact:

The Secretariat of the Group of Fourteen  
Institute of Strategic and International Studies (ISIS) Malaysia  
1 Jalan Sultan Salahuddin  
P O Box 12424, 50778 Kuala Lumpur, Malaysia

Phone: 03-2939366 Telegram: ISISMA KUALA LUMPUR Telex: MA 31679

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# PREFACE

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ON JULY 11, 1986, at the 28th Council Meeting of the Asean Chambers of Commerce and Industry (Asean-CCI) held in Jakarta, a proposal was made for the establishment of a Group of Fourteen to study and recommend measures for the advancement of Asean economic co-operation and integration.

Each of the six member institutions of the Asean-CCI nominated two prominent personalities from their ranks for the G-14. The Chairman and the Vice-Chairman were nominated by Malaysia and Indonesia respectively. The membership of the Group of Fourteen is as follows:

Chairman	:	Dato' Paul Leong Khee Seong
Vice-Chairman	:	Prof. Ir. Mohammad Sadli
Members		
Indonesia	:	Mr. Eric F.H. Samola Mr. Mochtar Riady
Malaysia	:	Dato' Azman Hashim Mr. Robert Kuok Hock Nien
Negara Brunei Darussalam:		Mr. Lim Eng Ming Haji Mohd. Shah bin Haji Ahmad
Philippines	:	Mr. Dante G. Santos Mr. Vincent T. Paterno
Singapore	:	Mr. Tan Eng Joo Mr. Sia Yong
Thailand	:	Dr. Amnuay Viravan Dr. Narongchai Akrasanee
Ex-officio member	:	Mr. Mohd. Ramli Kushairi
Secretary-General of the Asean-CCI		

Mr. Din Merican and Tan Sri Khoo Kay Peng served as alternates for Malaysia; Mr. Meneleo Carlos Jr. and Mr. Jose Luis Yulo Jr. for the Philippines; Mr. Tan Keong Choon and Mr. Chandra Das for Singapore; and Dr. Nimit Nontapunthawat for Thailand.

The Group of Fourteen established a Secretariat, appointing the Institute of Strategic and International Studies (ISIS) Malaysia to fulfil the responsibility, with Mr. Mohd. Ramli Kushairi as the Secretary-General, Dr. Noordin Sopiee as the Executive Director and Dr. Sanguan Keophumihae as the Executive Secretary.

At its meeting in Manila on August 28, 1986, the Asean Foreign Ministers formally welcomed the formation of the Group of Fourteen.

When the G-14 held its first meeting in Kuala Lumpur on December 2, 1986, it adopted as its terms of reference the following:

The Group of Fourteen will explore, study and recommend all possible measures and concrete steps with regard to trade and other areas that can be taken to foster closer economic co-operation and integration in the Asean Community of Nations. Its Report will be submitted to the Asean-CCI for final approval before submission to Asean Governments.

The Group of Fourteen will also help to mobilise public awareness in the member countries on the challenges that lie ahead, the need to move Asean forward, and the various means for achieving this objective.

The Asean-CCI on December 5, 1986, decided that it would only receive the Report for onward transmission to the various Asean Governments.

As part of its public awareness programme and in order to generate the widest possible debate in the Asean Community, the First Asean Economic Congress was held from March 13-22, 1987. This was attended by more than 400, principally from the Asean states but also from the European Community, the European Free Trade Association (EFTA) nations, Japan, Australia, New Zealand, the United States and other countries.

Altogether, the Group of Fourteen met four times. The last meeting was held on June 23 to adopt the Report. The G-14, which remains in existence until the end of the Third Asean Summit, formally handed its Report to the Asean-CCI in Bangkok on July 3, 1987, for onward transmission to the Governments of Asean.

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## **One Vision**

WE OF the Group of Fourteen share one simple vision: to see before the end of the 20th century a dynamic, equitable, peaceful, secure and co-operative community of six sovereign states jointly engaged in an all-embracing process of optimising the economic prosperity of the peoples of Asean.

## **Our Hope**

We have one primary hope of the Third Asean Summit. In all earnestness we urge the leaders of Asean meeting in Manila to take a firm and decisive step on the economic road.

The political and peace dimensions of Asean must remain paramount. But in the face of the structural changes in the world economy which have resulted in a hostile external economic environment that already seriously challenges us all, the economic dimension must be developed to the point where, for the first time, economics will truly be a central game in Asean. We believe that if the Manila Summit does not grasp the economic imperative, we will have lost a crucial strategic opportunity.

## **A Simple Faith**

We have one equally plain belief as to the primary means by which the prosperity of the peoples and states of Asean can be achieved. With all its severe imperfections, the free enterprise system has no equal. We urge the Governments of Asean to do their utmost to create the most favourable environment for the entrepreneur to innovate, to excel and to create the opportunities for growth. Our message is: 'Maximise free enterprise. Minimise government intervention. Deregulate.'



Governments, in co-operation with private enterprise, should retain their role as stimulators of economic growth, guardians of freer trade, champions of the open economy and creators of an atmosphere conducive to investment and enterprise. But the private sector must be the primary engine of growth.

The Group realises however that 'maximum' freedom and 'minimum' intervention are relative to what is possible. In line with this, we should constantly examine the various positions we have taken and make firm decisions to make more progressive changes when the opportunity or need arises. Such changes, like the process of deregulation, can be shaped by the various proposed Ministerial Meetings and Permanent Committees which are essential to provide a sharper focus and to allow all concerned, including the private sector, to participate more effectively in the decision-making process.

## **The Four Main Thrusts**

Guided by the vision that we have, the hope that we cherish and the faith that we profoundly keep, we put forth in this Report more than 60 proposals. In this Statement, and within the parameters of the seven guiding principles outlined in the main body of this Report, we highlight the four main thrusts.

- **Towards a Freer Asean Trading System through an Immediate Asean Market Liberalisation Initiative**

We believe that the first priority should be given to the immediate launching of an Asean Market Liberalisation Initiative whose objective must be the creation of an ever freer Asean trading system. To allay fears and apprehensions, we have suggested effective mechanisms which give every sovereign state of Asean an independent and effective means for steering and dictating the speed of the entire process in as far as it is concerned.

We specifically recommend an effective standstill and rollback on non-tariff barriers and a relaxation on the Rules of Origin. We also propose that a 100 per cent margin of preference be given to all Asean Industrial Joint Venture (AIJV) products.

Most importantly, we strongly recommend a system, on the Six-minus-X principle, whereby a minimum 50 per cent margin of preference is given to all non-agricultural products and that all non-agricultural products be removed from exclusion lists. By this means, the PTA will become for the first time an effective tool for market expansion and liberalisation.

- **Forging a New Era of Asean Industrialisation**

Our emphasis with regard to industrial co-operation lies in two main directions. First, the adoption of an Asean Charter on Investments whose intention is to strengthen the competitiveness of the Asean Community as a magnet for investment.

Second, and more importantly, we put forth a proposal for the rapid multiplication of Asean Industrial Joint Ventures (AIJVs), thus turning the AIJV scheme for the first time into a substantial and vigorous mechanism for Asean industrialisation and industrial co-operation.

- **Creating the Supportive Infrastructure of Services**

The third thrust we wish to highlight is the series of recommendations we make on enhancing and creating the supportive infrastructure for Asean trade to flourish and for Asean industrialisation to prosper.

These range from strengthening Asean's transport networks, to strengthening the Asean monetary and financial system, to concerted action vis-a-vis the outside world — giving due emphasis to the principle of extending preferential regimes to every possible sector.

- **Responding to the Institutional Challenge**

The economic process that we believe Asean must become necessitates the gradual but determined building of an Asean Economic Community, one that can one day rival and complement the Asean Political Community that is now already in place and that will be strengthened in the course of time. This cannot be done with the present institutions that exist in Asean. We believe that there has to be a second phase of institutional adaptation comparable at the very least to what was done after the Bali Summit.

In this regard, we recommend new Ministerial-level structures to draw a larger range and number of national Ministers into the Asean Process and to focus high-level interest in crucial areas. We propose reform of the Asean Secretariat and decisive changes to the Secretary-Generalship.

Most importantly, we believe it is crucial to institutionalise a regular meeting of Heads of Government. We deem it important that our leaders meet once a year (as is generally the case in the Commonwealth). Only through regular meetings can directions be set, a high level of activity guaranteed, and the catalytic role discharged.

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This Report of the Group of Fourteen is a document of consensus, not one of unanimity — on every detail and technicality. There is complete, full and unreserved unanimity however with regard to our belief that the time has come for breaking new ground and for cautious but decisive steps to move Asean forward.

To move Asean forward, however, there must be a strong political will. This can only come from the resolve of the six leaders of Asean.



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# INTRODUCTION

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## **The Political Purpose**

FOR the first 20 years of Asean, its paramount purpose has been political: to create a community of peace, understanding, stability and security. For the issues of war and peace, amity and hostility, were the central concerns that needed to be fully addressed between us and with regard to the outside world.

It is a measure of the success of the Asean experiment that many have now forgotten that ours was once an area of turmoil, of mutual suspicion, of mutual hostility, of mutual dislike, even of mutual disinterest.

The Association's paramount concern for the political has nevertheless to be sustained. Because in the society of sovereign states there is nothing more precious than peace; because the maintenance of a harmonious, rich and co-operative peace cannot but be an ever constant struggle; and because the peace and security have to be strengthened.

## **The Economic Dimension**

As Asean moves across the threshold of its third decade and given the strategic window of opportunity afforded by the Third Asean Summit, we believe that it is time to chart new directions. What is needed now is to bring to the very core of the Asean enterprise an economic as well as a political dimension. There are four reasons.

First, Asean must not be taken for granted. Regional co-operation abhors a standstill. Momentum has to be sustained. And it can only be sustained by new initiatives.

Second, it truly is time to strengthen not just the political bonds but all the bonds that will strengthen our community of peace and security. Economic

co-operation is not a diversion from Asean's political purpose but an essential and ever more indispensable partner of political co-operation. Greater economic co-operation is essential for Asean's political ends.

Third, the economies of the Asean states have matured to the point where great and immediate benefits can be reaped from closer economic co-operation. The world has changed to the extent where many great economic opportunities lie not without but within the Asean Community.

Fourth, the severe deterioration in the external economic environment of the Asean countries, which has hit us hard in the past and which will continue to hurt us seriously in the future, demands not only an effective national response but also a productive regional response. We must move nationally and act severally. But we must also act jointly and work together regionally.

There are of course internal weaknesses that have to be confronted and domestic challenges that must be met. But the primary economic threat to the Asean states comes from the external environment. Its major elements include the following:

- The structural slowdown in the economy of the world as a whole;
- The structural changes in the demand for raw commodities;
- The rising protectionism;
- Massive trade imbalances;
- The present trade conflict among the economic giants;
- The problem of foreign debt;
- Excessive currency fluctuations;
- The structural slowdown in the rate of growth of international trade;
- Large resource gaps created by unconducive financial flows and the diversion of foreign investment to the developed countries; and
- The continuing and chronic economic problems of most of the countries of the Third World.

## **The Asean Option**

In an increasingly hostile and unconducive world economic environment where opportunities are fewer and competition between the Asean members and between them and others will increase, the Asean states must each compete. And compete more effectively. But in many areas and on many occasions we must join hands — vis-a-vis the outside world, and to develop our own region.

It would be extremely naive not to fully understand the limits of Asean economic co-operation or the enormous difficulties that even the simple co-operative endeavour can encounter. But much can be done. And much must be done.

## The Guiding Principles

In exploring and exploiting the Asean Option, we believe that the following principles must be borne fully in mind:

1. In the pursuit of economic co-operation and integration, Asean peace, amity and stability must be preserved and must not be jeopardised. The national resilience of each of the Asean partners should not be weakened. There must be Asean-wide understanding of the political and economic sensitivities that change might bring and no nation is to be made to feel unbearably uneasy.
2. In the formulation of policies and programmes for economic co-operation and integration, there must be full recognition of the differences in the level of economic development, social philosophies and positions of member country Governments. And where necessary flexibility with regard to participation and time-phasing must be provided for.
3. In the process of comparing costs and benefits, a longer-term vision must be adopted.
4. There must be full recognition of the demands of equity, the fair distribution of gains and the efficient allocation of regional resources.
5. We should proceed step by step wherever and whenever possibilities arise. In line with tradition there must be emphasis on progress by consensus, continuity and avoidance of conflict. On the other hand, at historic moments, there must be the courage to 'take the plunge' for structural reforms which could constitute a great leap forward.
6. The important role of the private sector in the economic growth process must be recognised. The private sector will contribute most in an environment where economic freedom prevails. And economic freedom is the best foundation for productivity and the efficient allocation of resources.
7. In recognition of the very important historic role Governments have played in economic development, the role of Government as a stimulator of economic growth, a guardian of fair trade and a preserver of the open economy must be recognised.





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# SUMMARY

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# PROPOSALS

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