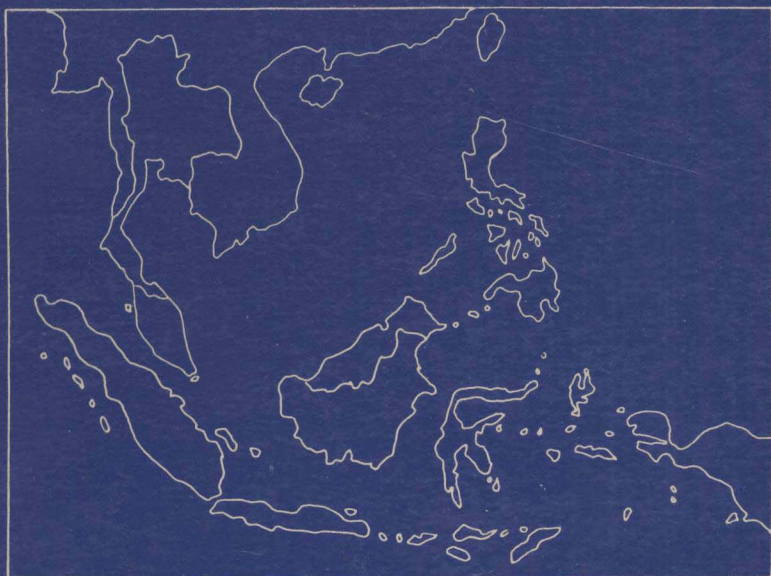


# ASEAN ECONOMIC COOPERATION and THE NEW INTERNATIONAL ECONOMIC ORDER

editors: B.A.R. Mokhzani, Khong Kim Hoong, R.J.G. Wells



MALAYSIAN ECONOMIC ASSOCIATION

ASEAN ECONOMIC COOPERATION  
and  
THE NEW INTERNATIONAL  
ECONOMIC ORDER

Edited by:

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MALAYSIAN ECONOMIC ASSOCIATION  
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## PREFACE

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This book is being published at a time of substantial difficulty and uncertainty for the global economy. International problems include higher energy prices, slower growth in world trade, growing protectionism in developed countries and political instabilities in various parts of the world. The fact that it deals with mechanisms for reducing uncertainty and overcoming, or at least mitigating the severity of some of these difficulties, makes it in our view relevant and timely. In essence, it provides papers produced by leading economists from the ASEAN region on two crucially important topics viz. ASEAN and the New International Economic Order (NIEO) and ASEAN Cooperation over the period 1978-1983. These papers were delivered at the Third Conference of the Federation of ASEAN Economic Association held in November 1978.

There is no agreement on a common policy option that would be beneficial to the ASEAN members as a whole. Unsurprisingly, there are divergencies between the authors — some, for instance, are more pessimistic than others about the prospects of the wide-ranging economic and political reforms implied in the NIEO. There are also differences in emphasis. Overall, we think this book should be a useful addition to the literature on regional economic entities and will also be of interest to students of international economics and international politics.

The three editors are deeply grateful to the Asia Foundation, Kuala Lumpur, whose financial support made the publication of this book possible. We also appreciate the support given by the individual authors in submitting manuscripts and, finally, a special word of thanks is due to Ms. Choo Sau Ching and Ms. Winnie Leng for their highly competent typing and secretarial assistance and Mrs. Lucia Chee for graphic assistance.

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## EDITORS' INTRODUCTION

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### *ASEAN and the New International Economic Order*

The themes of international cooperation and the need for reform of international economic relations in themselves are not new, neither are joint approaches to international economic problems in international fora a purely recent development.<sup>1</sup> Poor nations especially, have seen economic development as the continuation of the political struggle that gained many of them their independence from colonial rule and have pressed for international economic reform persistently. The 'Third and Fourth Worlds' have increasingly expressed their disenchantment with the existing institutional arrangements and policies which govern international economic and political relations. Even the rich developed nations, ever since the end of World War II and the establishment of the United Nations have shown a heightened concern with the crucial problem of the poverty of nations and have made conscious efforts through bilateral and multi-lateral assistance to aid poor nations in their quest for development. Most observers would probably consider such efforts to have been far from adequate but the limited attempts made to speed up the economic and social progress of developing nations have quite clearly demonstrated that the poverty of nations is not immutable.

What was spectacular about the declaration of the New International Economic Order (NIEO)<sup>2</sup> was its timing coming as it did after a vivid demonstration of 'commodity power' arising from the success in raising producing countries take of

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<sup>1</sup>As early as 1952 the General Assembly of the United Nations adopted a resolution urging the "financing of economic development through the establishment of fair and equitable international prices for primary commodities."

<sup>2</sup>The initial demand for a New International Economic Order was embodied in a resolution of the Sixth Special Session of the General Assembly of the United Nations; this took place in April 1974 and such proposals are thus official policy of the United Nations Organisation.

the OPEC petroleum cartel. This spurred the 'Third and Fourth Worlds' – the majority of the world's nations – towards seeking a greater influence, among other things, over the decision-making processes in the international economy. The advocacy of a NIEO is as much a demand for a redistribution of political and economic power as it is a demand for a redistribution of income.<sup>3</sup> There are thus clearly a number of political and economic dimensions to the call for the NIEO, although the two aspects most commonly stressed by the more vocal developing countries of Latin American and South Asia concerned programmes of action for dealing with commodity prices and relief from foreign debt service burdens. The alleviation of a foreign exchange constraint through, *inter-alia*, improved conditions of commodity trade and expanded access for exports of primary produce and manufactured exports from developing countries, is of the utmost significance to many developing nations but there are other aspect of the NIEO which have been less prominently publicised.

For the poorer developing nations, improvements in the volume and quality of financial flows – especially official development assistance (ODA) – is of key importance as is securing a softening in the terms of aid. Recent experience is not encouraging: the net flow of resources as a proportion of Gross National Product (GNP) of donor countries has fallen and the shortfall from the Pearson Report's recommendation of 1 per cent of GNP and ODA of 0.7 per cent of GNP is most pronounced in the larger donor nations such as the United States. Longer and more effective programmes of technical cooperation are also needed, particularly programmes which would facilitate the creation of an indigenous capability for sustaining a self-generating process for the development of the skilled manpower needed at various levels.<sup>4</sup>

The international trading and payments systems that currently exist are seen as mechanisms perpetuating and, in some instances, even exacerbating international inequalities. Not only is there mounting dissatisfaction on the part of developing countries with the commodity composition of their international trade, but protectionism in industrialised countries which effectively discriminates against processed raw material and

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<sup>3</sup>Keith Griffin, *International Inequality and National Poverty*, MacMillan, London, 1978, p. 111.

<sup>4</sup>Commonwealth Experts' Group, *Towards a New International Economic Order*, Commonwealth Secretariat, London, 1977, p. 20.

manufactured goods, imports from less developed countries, is a major source of dissatisfaction. There is a growing threat of increasing protectionist sentiment gaining ground in the industrialised nations – despite the pleas expressed after various Summits that governments should seek to avoid the espousal of protectionist policies – because of the preoccupation of such countries with the effects of the protracted economic recession. Improved access to the markets of the industrial, advanced primary producing and major oil exporting countries is a high priority on the agenda for a NIEO.

Dissatisfaction with the operation of international markets for primary commodities is long standing and there is a deeply held conviction by developing countries that urgent attention must be given to the improvement of these markets. It is not surprising therefore that the core of the proposals for a NIEO should concern the re-organisation of commodity trade through the integrated programme for commodities. The principal elements of the programme may be summarised as :

- (1) the creation of international buffer stocks for a number of specified commodities;
- (2) the establishment of a Common Fund to finance these stocks;
- (3) the setting up of multilateral supply and purchase commitments by both producing and consuming nations;
- (4) the development of compensatory financing arrangements for fluctuations in export earnings;
- (5) the implementation of measures to encourage processing in producing countries and the diversification of production.

The principal solution to commodity problems thus advocated in the UNCTAD Integrated Programme for Commodities combines international stocking arrangements and international supply management with the declared objective of stabilising certain key commodity prices at levels “renumerative to producers and fair to consumers”. The total number of commodities involved are 18 of which 10 are regarded as ‘core’ commodities.

A Common Fund amounting to US\$6 billion to facilitate the financing of buffer stock operations is also to be instituted



on the presumption that purchases and sales of centrally managed stockpiles of commodities would help mitigate the amplitude of price fluctuations. An international buffer stock agency – with accredited operational decision-making powers and responsibility – would purchase commodities when prices are low and sell when they are high, thereby moderating price fluctuations, although in the absence of supply management measures it could not raise the price trend. If, supplies were reduced over an extended time period through supply control, the price trend could be raised and thus if stocking operations were combined with supply management, attempts could be made to simultaneously stabilise commodity prices and raise the long-term price trend.

A further commodity stabilisation policy measure proposed by UNCTAD concerns compensatory financing for shortfalls in commodity export earnings. Such a system of export earnings insurance is aimed at keeping on trend the foreign exchange receipts of those developing countries whose exports of commodities are susceptible to marked short-term fluctuations. Under this type of compensatory finance scheme a commodity producing and exporting nation could borrow on favourable terms when its export earnings were below their trend value and would repay when its export earnings rose above the trend value.

To rapidly developing countries such as the ASEAN nations the transfer of technology and the fashioning of new patterns of relationships between multinational corporations and the host countries are matters of no small significance. Indeed, there is a growing consensus that private foreign investment by transnational corporations has not only the advantages often claimed for it, but has also some marked weaknesses, especially for international income distribution. Failure to incorporate such negative effects results in conservatively biased estimates of the benefits of private foreign investment. The high international mobility of scarce rent and quasi-rent earning factors such as technical knowledge, management organisation and marketing information, coupled with limited or zero international mobility of semi-skilled or unskilled labour in highly elastic supply from developing countries, usually results in an uneven division of gains.<sup>5</sup> To prevent the 'lion's

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<sup>5</sup>Paul Streeken, "Policies towards Multinationals", *World Development*, Vol. 3, No. 6, June 1975 pp. 393-97.

share accruing to the lion', developing host countries must improve their negotiating capabilities and exercise countervailing power so as to share in some of the rents and quasi-rents. This is especially crucial for open economies such as the ASEAN nations, where the risks of expropriation facing transnationals is low and where positive attractions such as the availability of raw materials results in substantive flows of direct foreign investment.

The collection of papers presented in this volume clearly could not hope to cover all of these aspects in great detail they do however, represent a cross section of the research being undertaken in the region on the topic. Moreover, they provide strong reflection of some of the pressing domestic and international problems of political economy facing ASEAN nations individually and collectively.

The paper by Arshad Ayub, mainly focussed attention on commodity problems facing ASEAN. These were identified as including both short term price fluctuations, hence unstable export earnings, as well as long term real price declines which when related to real increases in prices of imports meant that the commodity terms of trade had deteriorated. Despite the failure of negotiations on the Common Fund – except that is for the negotiations on natural rubber – and in spite of scepticism as to the value of compensatory schemes such as the IMF and Stabex arrangements, the writer, nevertheless, thought the role played by developing countries in general, and ASEAN countries in particular, at international fora was appropriate.

A broad philosophical type paper was presented by J.P. Estanislao. In his paper he stressed that the NIEO objectives are easier said than achieved because of political and other constraints. In considering the objectives of ASEAN, he highlighted three questions which necessitate attention: first, ASEAN's identity which may require more than economic considerations; second, the definition and operationalisation of "mutual cooperation"; third, the extent to which member countries are willing to risk resources as investment for the progress of ASEAN. Besides the issue of the optimal methods of implementing ASEAN programmes, he advocated the institutionalisation of meetings of ASEAN heads of state, more contact with existing groups such as EEC, Japan and USA, and the establishment of relations with new regions altogether.

Narongchai Akrasanee in a provocative, well argued paper attempted to show that ASEAN is not really interested in nor actively participating in international, NIEO issues, although NIEO tries to handle problems which concern ASEAN. Nevertheless, he suggested that ASEAN should forge ahead with its own Common Fund to overcome domestic instability arising from price fluctuations, rather than to wait for NIEO which may never be realised. He strongly emphasised the need for elevating the level of ASEAN expertise not only to improve management of national problems such as handling private debt, coordinating trade, industrialisation, exports, imports etc., but to better negotiation capability in the international economy especially through group effort.

A comprehensive yet succinct paper was delivered by Lee Soo Ann. In emphasising information issues relating to private foreign investment the author's contention was that limited knowledge constitutes a major weakness facing developing countries. ASEAN was no exception in this respect. In identifying five categories of technology information, the author pointed out that the type of information needed depends on the type of industries wanted by host countries, for clearly industries in the forefront of technology require more information. To alleviate such imperfections in the technology information market, the paper proposed the establishment of an ASEAN institution to provide facilities for screening, organising, storing and providing information so as to enhance the bargaining strength of members as buyers in technology markets.

The paper by Dorodjotun Kuntojora-Jakti confined itself largely to an examination of ASEAN's relationships with Japan and other North East Asian (NEA) countries. The principal policy prescriptions that were advanced were that ASEAN should concentrate on developing economic relationships with Japan and other NEA nations and the importance of the Fukuda Doctrine of August 1977 was stressed.

An interesting paper entitled The New International Economic Order — ASEAN at the Crossroads was presented by Mohamed Ariff. The paper dealt in an incisive manner with three main issues — international trade, commodities and foreign investment. The writer noted that ASEAN is concerned with the multilateral Trade Negotiations and the GSP, and will be able to maximise its benefits from these two developments

if it seeks a 'common' treatment for its members. On commodity issues, the author argued that ASEAN should pool its resources to step up R & D and remain competitive in raw material production rather than attempt to raise raw material prices through commodity control. A common approach by ASEAN is advocated to steer foreign private investment into a conduit for the transfer of modern technology and managerial know-how from developed countries.

The paper by R.J.G. Wells can be seen in part to complement Ariff's analysis. Wells observed that much of the focus of attention concerning the issue of regional cooperation in ASEAN has been devoted to the industrial sector. He stressed the need for intensified commodity trade cooperation. The principal objectives of ASEAN's commodity trade policies were examined and stated as a triumvirate, viz., the attainment of more stable short-run prices, the steady long-term growth of commodity prices and income in real terms and the securing of improved market access for raw and processed primary commodities in extra-regional markets. The New International Economic Order (NIEO) was analysed as a vehicle for achieving ASEAN's commodity trade policy objectives and its prospects briefly but lucidly appraised. Two alternative trading strategies – the Extra-Regional Trading Strategy and the Regional Trading Strategy were also examined as possible pragmatic policy alternative to the NIEO.

### *Prospects for ASEAN Economic Cooperation*

Regional economic cooperation had been experimented with in most parts of the world, with varying degrees of success. The European Economic Community, hailed as "one of the most important developments in international relations in Europe in the last century"<sup>6</sup> is reputed to be the most successful. Indeed, the momentum in which the EEC had gathered towards the goal of integration was surprising to many.

Many factors are said to have played an important role in accelerating the moment towards economic unification. Among them are homogeneity, a similar level of economic development, a similar civilization and so on. It should, however, be noted that there are many examples of regions which have shared such similar "endowments", but yet they have not been able to "take off". It is suggested that the answer

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<sup>6</sup>A. Eztzioni: "European Unification: A Strategy of Change" in *International Political Communities*, Anchor Books, New York, 1966, p. 175.

would seem to be in the adoption of the correct strategy by those who initiated the EEC. Among some of the general principles that were adopted was the adoption of an evolutionary approach; the exclusion of units/countries that were dissimilar and the adoption of limited but attainable goals at the initial stages of the organisation.<sup>7</sup> While it is not suggested that the EEC experience can be translated wholesale into the ASEAN region or that its strategies are completely applicable, the ASEAN countries can perhaps learn from the lessons of the EEC or other regional efforts that have been successful.

While ASEAN is a relatively recent phenomenon, regionalism or cooperation is not completely alien to Southeast Asia. There was an experiment at regional cooperation with the formation of ASA by Malaya, Thailand and the Philippines. However, before any meaningful activities could be initiated, the Association became defunct with the formation of Malaysia in 1963 when the Philippines laid claim to the Malaysian state of Sabah. Indonesia's opposition to, and later confrontation with Malaysia further complicated the conflicts in the area and dealt a further blow to regional cooperation. There was an attempt at reconciliation with the formation of MALPHILINDO between Malaysia, the Philippines and Indonesia. However, the organisation was stillborn as the outstanding political differences between the three countries were far from settled. It was only after the change of leadership in both Indonesia and the Philippines that the heat was taken off and regional ties were renewed. ASEAN which comprised of the five non-communists states of Malaysia, Indonesia, Singapore, Thailand and the Philippines was formed in 1967 when the international environment in Asia was in a state of flux. The five countries wanted "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 people". However, no clear political objectives or security goals were specified. Instead, limited economic cooperation and cultural exchanges were initiated. Even then, for the first ten years of its existence, there was more rhetoric than action.

Events in Asia, however, did bring about changes in ASEAN. The defeat and withdrawal of the United States in Indochina; the emergence of China and Japan as active actors in Asia and the entry of Vietnam as a regional power – all these

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<sup>7</sup>Ibid pp. 176-182.

factors helped to draw the ASEAN countries together. While still shying off declared military and political objectives, the association has deemed it fit to hasten and enlarge the areas of economic cooperation. At the first meeting of the Heads of Government held in 1976 at Bali, definite programmes of economic cooperation in the fields of industrialization and trade were embarked upon. Whether these will be successful, leading to greater integration will depend a lot on political will. The papers presented in this volume will discuss some of these issues in greater detail.

The paper entitled "Effective Programme for ASEAN Industrial Cooperation 1978-1983" by Abdul Rahman bin Haji Yusof stated that existing strategies for ASEAN Industrial Cooperation were based on arguments of scale viz the size of investment and market support required. It identified three general approaches towards cooperation in regional industrialization i.e. the establishment of ASEAN industrial Projects, the promotion of ASEAN Industrial Complementation Scheme through the ASEAN-CCI "Industry Clubs" and the coordination of National Development Plans with respect to key industries. The techniques used to effectuate such approaches include ASEAN preferential trading arrangements for promoting Intra-ASEAN trade, joint approaches in dialogues with third countries for tariff concessions, and industrial project financing. The writer emphasised that regional priorities will in fact determine the pace of future regional industrial programmes, aside from the ability to identify suitable regional industrial projects and the limitations of finance, market outlet and technical know-how.

Lee Sheng-Yi and Anne Booth's paper "Towards an Effective Programme for ASEAN Cooperation from 1978-1983" began by criticising the UN Report on Economic Cooperation for ASEAN for (i) overlooking the fact that many small scale and labour intensive industries need to be modernised; (ii) the limited strategy for encouraging the development of regional import-substitution; and (iii) being too optimistic regarding the effects of trade liberalization on intra-ASEAN trade.

Towards achieving more effective economic cooperation they proposed :

- (i) the establishment of a committee for the modernisation of ASEAN small industries;
- (ii) the establishment of an ASEAN Development Finance Bank (for the public sector) and the

establishment of an ASEAN Development Finance Corporation (for the private sector) to improve export-orientation ability,

- (iii) a joint approach by ASEAN countries to negotiate on freight rates with shipping conference lines to Europe, USA and Japan,
- (iv) the liberal granting of bank licences to other ASEAN-based banks, and
- (v) the establishment of an Economic Planning Coordinating Group, as proposed by the UN Report, to supervise the whole strategy and development of ASEAN economic cooperation.

The paper also discussed the present patterns of intra-ASEAN trade highlighting the dependence on primary commodities for exports and the imbalance in trading patterns between and among ASEAN countries. In assessing the prospects for intra-ASEAN trade in foodstuffs the writers stated that there is considerable scope for expanding intra-ASEAN trade in primary food products. However the potential for trade expansion in non-food agricultural exports was more limited.

In his paper entitled "Philippine Intra-ASEAN Trade Liberalization", Armando Armes Jr, focussed on the impact of selective trade liberalisation on Philippine trade. He suggested that the limited and selective approach towards freer regional trade may not provide a safe and short way to rationalize the production structure of ASEAN economies since tariff reduction on an item by item basis would not significantly expand ASEAN imports, and that the import values of the preferential items were negligible to rationalise the Philippine industries. He recommended an across-the-board tariff slash as a better alternative because of its simplicity, greater import expansion potential and equal reduction in effective protection rates.

Hidayat's paper on "Development of Informal Sector Within ASEAN : Problems and Prospects" looks at the independence that exists between the formal and informal sectors. The paper attributes the development of the formal and informal sectors in the ASEAN countries to the tendency of governments to the over-protection of the formal sector. The paper also reports on the major empirical findings as found in the few studies conducted within the ASEAN region and discusses the possibility of including

the small manufacturing sector within the ASEAN cooperation scheme.

In his paper "Towards An Effective Programme For ASEAN Industrial Cooperation", Kamarul Ariffin argued the case for an active role for the private sector. To accelerate industrial development, the following measures were suggested i) Restrictive conditions on the free flow of capital should be lifted; ii) The private sector should be drawn into the decision making process regarding regional industrialization; iii) The governments should enter into bilateral agreements to guarantee investments and avoid double taxation.

Tunku Abdul Aziz in his presentation, "Towards an Effective Programme for ASEAN Economic Cooperation, 1978-1983," interpreted the emergence of ASEAN as a product of political necessity. However, while ASEAN is a government creation, it is becoming very evident that the involvement of the private sector in ASEAN economic activities is crucial.

The ASEAN-CCI is very much organised along the lines of the ASEAN Secretariat. ASEAN private sector institutions operate under severe handicaps arising from sheer apathy. In discussing regional economic cooperation, the conflict of interest between ASEAN objectives and the interests of the private sector has to be borne in mind.

On "ASEAN Cooperation in a Service Industry: The Case of Shipping," Sharil bin Hj. Abdul Karim, hypothesised that for maximising ASEAN regional development, cooperation and a coordinated action for the promotion of a service industry can bring about greater economic returns and has less domestic disallocation as compared to investment in the manufacturing sector.

In the overall strategy for economic development geared towards promotion of exports and the widening of markets either internationally or regionally, the provision of adequate transportation services is an important part of the plan. The most economical means of bulk transport is through shipping. Therefore, control of shipping by developing countries is a prime target for any development strategy.

ASEAN governments must be willing to undertake counter-measures to offset the possible outpricing of ASEAN products from the world market arising from continuous increases in freight rates.



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## THE NEW INTERNATIONAL ECONOMIC ORDER AND COMMODITY ISSUES OF INTEREST TO ASEAN

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Datuk Arshad Ayub

### *Introduction*

The energy crisis of 1973 was the single most important event which proved to be a catalyst in bringing about serious discussions of commodity issues by the international community. For the first time in the history of North/South relations, serious attention began to be given by the World Community to the problems of raw materials produced and exported by developing countries. As a testimony to that global concern the Sixth Special Session of the UN General Assembly was held in 1974 to study the problems of raw materials and development. The World Community considered these problems to be most important and requiring immediate attention. Accordingly, at the Sixth Special Session of the UN General Assembly, the Declaration on the Establishment of a New International Economic Order was adopted. The aim of that Declaration was to solve the problems of raw materials and development on a global basis and in a comprehensive way. At the same session of the UN General Assembly a Programme of Action was adopted to achieve the objectives of the New International Economic Order. The holding of the Sixth Special Session of the UN General Assembly was therefore an important milestone for the developing countries in their search for a better deal in international economic relations.

### *The New International Economic Order (NIEO)*

At the Sixth Special Session of the UN General Assembly the economic ills faced by developing countries were thoroughly examined and extensively discussed. As a result of those deliberations, the UN General Assembly adopted a Declaration on the Establishment of a New International Economic Order (NIEO) as a comprehensive global approach to correct those ills. The basic