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MALAYSIA AND ASEAN ECONOMIC COOPERATION

Mohamed Ariff

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by

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FOREWORD

This volume forms part of a series of reports prepared initially under the auspices of the Association of Development Training and Research Institutes in Asia and the Pacific. Subsequent revision, however, was undertaken in association with the ASEAN Economic Research Unit of the Institute of Southeast Asian Studies (ISEAS).

We are particularly grateful for the coordination and other editorial assistance rendered by Miss Ooi Guat Tin, Research Associate of the ASEAN Economic Research Unit, with regard to economic and statistical data and to revisions where these were necessary.

It is also only fitting to put on record the cooperation of the contributors and the work they have put in to make possible these publications which we trust will enjoy a wide circulation. In wishing the work that follows all the best, we hope it is clearly understood that the responsibility for facts and opinions expressed therein rests exclusively with the authors and their interpretations do not necessarily reflect the views or the policy of the Institute or its supporters.

November 1980

K.S. Sandhu
Director

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I: INTRODUCTION

The signing of the ASEAN Declaration in Bangkok on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand marked the beginning of a new era in the history of Southeast Asia. The ASEAN Declaration laid the foundation for regional solidarity and cooperation in Southeast Asia based on the "spirit of equality and partnership" to promote "peace, progress and prosperity" in the region. The Declaration called for joint endeavours to accelerate economic growth, social progress and cultural development, and collaboration and mutual assistance on matters of common interest with special emphasis on the economic aspects.

In the first decade of its somewhat languid existence, the Association of Southeast Asian Nations (ASEAN) revealed its weaknesses and strength and its shortcomings and potentials. Regardless of what the critics may have to say about ASEAN, the fact remains that ASEAN is here to stay, unlike its predecessors, the Association of Southeast Asia (ASA), which was formed in 1961 by Malaya, the Philippines and Thailand, and MAPHILINDO (embracing Malaysia, the Philippines and Indonesia), which was proposed in 1963 without being institutionalized. Strangely enough, in spite of their heterogeneous characteristics deriving from varied political, social and economic structures and differing cultural and colonial heritages, ASEAN countries have assembled together under the ASEAN banner. It will indeed be interesting to analyse the factors which have brought them together and kept them together.

Unity in Diversity

ASEAN is scarcely a homogeneous group. Historically, the member countries differ in terms of colonial heritage: Indonesia was under the Dutch, Malaysia and Singapore were under the British, the Philippines under the Spanish, while Thailand was a buffer state. Politically, the member countries have adopted different systems of government: Indonesia and Singapore are Republics, Thailand is a Kingdom with a military-backed civilian administration, Malaysia is a federal state with a unique form of democracy, while the Philippines has long been governed by martial law. Religiously, there are marked differences

between them: Muslims predominate in Indonesia and Malaysia, Buddhists in Thailand, Roman Catholics in the Philippines; but no religious group appears to dominate in Singapore. Economically, the member countries are at different stages of development: Singapore occupies the top end of the scale with a per capita income of US\$2,400 a year; Malaysia ranks second with a per capita income of US\$800 a year; the Philippines and Thailand follow with a per capita income of US\$400 a year each, while Indonesia remains at the lowest end of the scale with an annual per capita income of US\$150.

The scenario has been one of interstate regional disputes, including territorial claims, ethnic conflicts, religious prejudices and mutual distrust. There had been apprehension over possible Indonesian aggression against Malaysia and Singapore, fanned by Sukarno's "Confrontation" policy. The relationship between the Philippines and Malaysia was also marred by the former's claim to Sabah in East Malaysia. The question of the Muslim dissidents in the Philippines and Thailand has also been a source of friction between the predominantly Muslim countries of Indonesia and Malaysia and those of the Philippines and Thailand. It is really amazing that with this background ASEAN countries could get together and stick together.

Politics of Regional Cooperation

That ASEAN countries were prepared to sink their differences and join hands in a partnership can only be appreciated in the framework of the turbulent 1960s which were marked by great power rivalries in the region in general and heavy U.S. involvement in Indochina in particular. It was mainly political and security considerations, rather than economic motivations, which initially led to the formation of ASEAN. The Indochina debacle, which amply demonstrated the dangers of great power struggles, was also partly responsible for the formation of ASEAN. It was hoped that ASEAN regional cooperation would minimize the scope for manipulation and domination of the region by the great powers. ASEAN was thus a manifestation of the political will of the member nations to prevent the region from being converted into an arena for major power rivalry and conflict, and ASEAN was seen as an expression of the desire for "collective self-reliance" which would ensure that ASEAN countries take charge of their own destiny and sort out their own problems without great power interventions.

With anticommunism being a common denominator of all ASEAN countries, the Association was also viewed as a bulwark against the spread of communism in the region. Envisaging difficult situations which posed a threat to the stability and security of the countries in the region, and realizing each other's limitations, ASEAN countries decided it would be wise to pool their resources together through regional cooperation.

ASEAN was also conceived of as an institutional arrangement which would enable intraregional conflicts to be resolved much more effectively and efficiently on a regional basis than on a bilateral basis. The Philippines' claim to Malaysia's Sabah represents a case example that was solved within the framework of ASEAN.

Finally, ASEAN was viewed as a regional arrangement which could provide better solutions to common economic problems ranging from domestic unemployment to external economic fluctuations. It was envisaged that economic cooperation, especially in the field of industrialization and trade, could provide solutions that were superior to those based on narrow nationalism. It was also felt that the establishment of ASEAN would improve the collective bargaining strength of the members vis-à-vis the rest of the world.

Nevertheless, it was political and security considerations which provided compelling reasons for the establishment of ASEAN. But regional security has been perceived differently by different ASEAN countries.¹ By regional security, Indonesia meant regional resilience based on national resilience, with military self-reliance and economic growth being the main ingredients of national resilience. This perception of regional security by Indonesia is not at all surprising in view of its military might, population size, land area and rich natural resources. Malaysia's concept of regional security, on the other hand, was based on regional stability via neutralization of the region, guaranteed by the big powers. The Malaysian stance was perhaps influenced by its experience in contending with externally supported communist insurgencies since 1948. The Philippines, whose security has always been guaranteed by the U.S. has entered ASEAN not so much for security reasons as for economic considerations and the desire to be an integral part of Southeast Asia. Singapore seems to favour a balanced big power presence in the region as an insurance against security

¹ Shee Poon-Kim, "A Decade of ASEAN, 1967-1977," *Asian Survey*, August 1977, Vol. XVIII, No. 8.

problems. But the city state of Singapore has very little choice, as it could not afford to run counter to the trend of regionalism. It was mainly the sense of belonging to the region and the need to depend on ASEAN as its "hinterland" which motivated Singapore to commit itself to ASEAN. Finally, Thailand is highly security-conscious, and its involvement in ASEAN is an expression of its struggle for survival. Thailand seems to believe that a *détente* with its communist neighbours, together with a strong commitment to the ASEAN grouping, would provide a better alternative than the one-sided military alliance with the U.S.

Because of diverse backgrounds, ASEAN leaders could not see eye-to-eye on many matters. The lack of consensus of views on important issues and the absence of commonality in approaches towards major problems meant that no serious regional efforts could be undertaken within the framework of ASEAN. In fact, there had been very little activity and hardly any sign of a common policy stand until the neutralization scheme was accepted as a common objective in November 1971 when the Kuala Lumpur Declaration of Peace, Freedom and Neutrality was signed by the member nations.

Spectacular changes in the political scenario caused by the new U.S.-China relationship and deteriorating situation in Indochina injected dynamism into ASEAN. Upset by Nixon's visit to Beijing in 1971, ASEAN countries, especially the Philippines and Thailand, reassessed their stance and revised their policies. This led to the strengthening of ties among the members within the ASEAN fold. There were also signs of a bilateral rapprochement with China: Malaysia established diplomatic relations in 1974; the Philippines and Thailand in 1975; but Indonesia and Singapore remained less enthusiastic.

The major turning point for ASEAN came with the fall of Saigon in April 1975. ASEAN was concerned about the political designs of its new communist neighbours. The reaction within ASEAN was a mixture of optimism, anxiety and uncertainty.² Indonesia remained cool and calm, reiterating its willingness to extend its hands of friendship to any government on the basis of noninterference and equality. Malaysia expressed optimism, seeing in the end of war the beginning of a new era of peace, and wanted ASEAN to be expanded to include Burma and the Indochinese states. The Philippines, however, showed restraint and indicated possibilities of offering economic

² Ibid.

assistance for the war-torn Indochinese states. Singapore remained cautious, viewing the Vietnamese capture of enormous quantities of American military supplies as a menace to the security of ASEAN. Thailand, because of its physical proximity to the Indochinese states, was rather anxious to seek détente with the latter.

The communist victory in Indochina thus gave vent to the inherent divergencies within ASEAN, but it also injected into ASEAN a sense of urgency which called for collective action and positive response to the potential threat posed by the communists. From then onwards, ASEAN was no longer complacent, and it began to move faster. Realizing that an economically strong ASEAN is the best insurance against the communist advance, ASEAN began to give greater priority to economic cooperation. The immediate net upshot of all these was the Bali Summit Meeting of February 1976 which led to the signing of the Declaration of ASEAN Concord, and the Treaty of Amity and Cooperation.

The Bali Summit was particularly significant not only because of the results it produced, but also because of the fact that it was the first meeting of its kind in the history of ASEAN, involving the Heads of the Member States. It thus underscored the seriousness of the member countries about their joint endeavours within the regional framework. The ASEAN Concord was heavily skewed in favour of economic cooperation focusing on cooperation in basic commodities particularly food and energy, industrial cooperation, intraregional trade, and joint approach to international commodity problems and other world economic issues, while the Treaty of Amity and Cooperation formally endorsed the regional identity of ASEAN countries, stressing the importance of regional resilience, cooperation and solidarity.

None the less, with the spectre of communism still haunting the region, ASEAN's security consciousness remains manifest. There have been a great deal of bilateral activities in this sphere: exchange of information, intelligence and internal security cooperation between Indonesia and Malaysia at their common border since November 1975; intensified security cooperation between Indonesia and the Philippines since the signing of a border patrol government in November 1974, including security measures such as combined naval exercises; the Philippines' offer of one of its many islands to Singapore for a military training programme and joint Malaysian-Thai military operations against the communists at their common border in recent years. There are already signs that there will even be

regional cooperation in the production of arms and ammunitions to meet the regional needs with the objective of standardizing the armaments of ASEAN countries.

All these must have caused ASEAN's communist neighbours in Indochina to be suspicious of the Association's "ulterior" motives. This was clearly demonstrated at the Fifth Summit Conference of the Nonaligned States in August 1976 at Colombo by the Laotian attack on ASEAN's declaration of Southeast Asia as a zone of peace, freedom and neutrality. Vietnam has also accused ASEAN of being a SEATO-type military alliance. One way to eradicate such fears and suspicions in the minds of the Indochinese states is for ASEAN to divert its attention from politics and security to economic issues. The shift of ASEAN's emphasis towards economic cooperation in recent years might well have been influenced by such considerations. The end of ASEAN's preoccupation with security matters and the diversion of its attention to economic aspects have already produced positive results in the sense that these are evidence of significant changes in the attitudes of the Indochinese states towards the neutralization proposal of ASEAN, as monitored by Vietnam in July 1978.

Economics of Regional Cooperation

The ASEAN economy represents a unique mixture of national economies at different stages of economic development based on different growth strategies. The range is extremely wide. At one extreme, there is the Singapore economy which is poor in natural resources, rich in skill endowments, highly industrialized and heavily export-oriented with an outward-looking development strategy. At the other extreme, there is the Indonesian economy which is rich in natural resources and poor in skill and technology, specializing in primary production mainly for the export market, with infant industries that are domestic-oriented based on an inward-looking strategy. Between these two extremes lie the economies of Malaysia, the Philippines and Thailand whose export specialization in traditional commodities is gradually giving way to export orientation in modern manufactures, which calls for structural changes in their manufacturing sectors. Thus, there are marked differences in the industrial and trade policies of ASEAN countries. The extreme inequality of income distribution within the region, to which references have been made earlier, sums up the economic hiatus that separates ASEAN countries.

All this diversity notwithstanding, ASEAN countries display strikingly similar economic characteristics which are strong enough to bind them together. The limitations of import substitution based on domestic markets, the difficulty of access to the markets of advanced countries, the instability of their primary exports and the vulnerability of their economies to externally induced economic fluctuations are some of the major problems which are common to all of them. It is this commonality which provides the rationale for ASEAN economic cooperation.

The advantages of economic cooperation in the ASEAN region have long been recognized by the member countries. The potential merits of (a) reducing, if not eliminating, tariff and nontariff barriers on a reciprocal basis so as to stimulate intraregional trade, (b) catering for a wider regional market rather than a narrow domestic market so as to reap scale economies in industrial production, and (c) projecting a united regional front instead of separate national fronts in external economic relations, particularly in international negotiations, so as to obtain a fairer share of the benefits of international economic transactions for its members through improved bargaining power, have all been duly acknowledged by ASEAN partners.

The U.N. team of experts which was invited to study the scope of economic cooperation in the ASEAN region had recommended the following mechanisms, viz., (a) trade liberalization through preferential trading arrangements (PTA) to encourage intra-ASEAN trade, (b) complementation programmes to rationalize existing industries by introducing complementarity in industrial production for the sake of greater economic efficiency, and (c) package deal agreements to launch large-scale industries which require a regional market to be economically viable. The main drawback of the U.N. study was that it provided a set of recommendations which the foreign experts felt were the most suitable forms of economic collaborations, instead of options for the ASEAN policy makers to choose on the basis of political acceptability. Even so, ASEAN has adopted the U.N. study as the basis for its major cooperation measures, that is, trade liberalization through preferential tariff cuts on a steadily increasing number of products and the allocation of five industrial projects to serve regional rather than national markets.

Although economic cooperation was stressed as one of the main objectives of ASEAN right from the very beginning, such a cooperation has been beset with practical problems. The underlying basic differences in the