

ECONOMIC COOPERATION IN ASEAN ACCELERATES: APPRECIATING PROFESSOR WIDJOJO

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This article is a homage to Professor Widjojo, who celebrated his 70th birthday anniversary in 1997. The article recounts his important role in ASEAN in Economic cooperation, during the critical formative years when the machinery for cooperation was still weak and undefined. The ASEAN Economic cooperation began to celebrate after the Bali Summit of ASEAN leaders in 1976. The author brings in the perspective of the Philippine participation in these historic meetings, taking into account the author's first hand experience as leader of the Philippine ministerial delegation from 1975 to 1981.

Professor Widjojo is known for his enormous contributions to Indonesian growth and development in the course of his fruitful years of service in the government. It is not as well-known that he also played a major role during the formative stage of ASEAN regional economic cooperation. He will therefore be remembered as one of the pioneers of ASEAN economic cooperation.

* This paper is written for the Faculty of Economics of the University of Indonesia, in honor of the 70th birth anniversary of Professor Widjojo Nitisastro, former chairman of BAPPENAS, Minister for National Development Planning, and Coordinating Minister for Economic, Financial and Industrial Affairs, Indonesia. The author was Minister of Economic Planning and Director-General of the National Economic and Development of Authority when he headed the Philippine delegations to the ASEAN Economic Ministers Meeting from 1975 to 1981. In this capacity, he worked with the ASEAN Economic Ministers, including Professor Widjojo. This paper, finished in August 1997 in Washington D.C., is released for the U.P. School of Economics Discussion Paper Series, with minor revisions. The author returned to the School as Professor of Economics in October 1998, after his retirement from the World Bank.

The first time I met Professor Widjojo was when he paid me a visit in Manila in early 1975. Accompanied by the Indonesian Minister of Trade, Radius Prawiro, he suggested that Indonesia host a meeting of economic ministers of the ASEAN countries to strengthen cooperation projects. He gave an example of one promising area of cooperation which was designed to create a safety net for the supply of energy and food. This timely proposal was in line with reducing the adverse impact of the energy crisis and with improving food security in ASEAN countries.

The response to these ideas was very positive not only in Manila but in all the other ASEAN capitals that he also visited. By November of that same year, the first meeting of the economic ministers of ASEAN took place in Jakarta as he had proposed. Discussions of economic cooperation among ASEAN had become a hot topic of regional interest especially since its founding in 1967. But there had been disappointment on the scope of cooperation achieved so far. One problem was structural. ASEAN meetings were considered the business of the foreign ministers. Since their periodic meetings often dealt mainly with issues related to political affairs, economic cooperation issues did not get their direct attention. Besides, the foreign ministers were not equipped to deal with complex economic issues. It was therefore essential that the economic ministries be more directly involved in the decision-making process towards promoting economic cooperation.

The first ASEAN meeting of economic ministers in Jakarta was conducted with great informality. After the opening plenary session in which President Suharto gave an encouraging speech on future economic cooperation, Professor Widjojo, as chairman of the Indonesian delegation, invited all the economic ministers to talk among themselves. The small conference room accommodated only the ministers in attendance, and their executive session lasted for a whole day. Working in shirtsleeves in this informal and friendly atmosphere, the economic ministers literally learned from each other the various possibilities and the limits that prevented any quick advances in cooperation. They realized that a long drawn out process lined the road ahead. There were many possibilities, but they realized that many obstacles lay ahead as cooperation ventures were discussed. Visionary proposals of a common market or free trade would have to wait in the future. But they would have to set up a machinery for discussing and

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carefully scrutinizing proposals and work from there to determine by consensus which projects could be feasible. Thus, step by step efforts in cooperation would have to be made, and this would have to be undertaken in various sectors where those possibilities existed. More important, they had to get a mandate from the leaders of the ASEAN directly.

The reality was that the economies of the ASEAN countries were more oriented towards the rest of the world than towards each other, despite their shared geography. Moreover, years of separate development policies in each country had built barriers to trade and cooperation. These obstacles to intra-ASEAN commerce were many. They were built in the course of years of developments as each country sought its own industrial growth policies after independence. By 1975, the degree of industrial protection varied widely among the ASEAN countries. With the exception of Singapore, which had only a small market and which developed as a city state geared to open trading with the world economy (it was the entrepot center for trade in the region), each ASEAN member country was bent on developing its own domestic markets for its own industries. The result was that the industries of the larger economies of ASEAN—Indonesia, the Philippines, and Thailand—developed under relatively high tariff and nontariff protection barriers. And Malaysia was on its own course to develop large scale industries. There were, however, advantages in devising industrial policies with regional market sharing in mind. This was the rationale advanced in favor of cooperation in new investment projects, especially those producing basic products used in industry—mineral processing industries, fertilizers, petrochemicals, etc. In the case of industrial finished products, there was also much scope for industrial complementation: the manufacture of component parts in several regional locations, creating specialization in the production of components so that, as demand within ASEAN rose for these products, intra-ASEAN commerce in components would correspondingly rise. Such cooperation would involve allotting investment projects by countries and aligning special incentives, including tariff and tax concessions. On a general level, the problem of tariff harmonization of existing high tariffs would take a long time to get off the ground, but the harmonization of tariff and investment incentives for new investments and industries would be a simpler matter, for this could be planned as industrial projects were agreed upon.

The reforms regarding the reduction of overall tariff levels would have to be approached differently. Changing the rates of protection of existing industries would likely meet strong domestic resistance. The business interests affected in the countries would exert pressure on their governments to make the adoption of tariff reductions impossible. For this reason, discussions of common markets and free trade regimes would be impractical. The approach would be to use the existing tariff regimes and to introduce margins of preference for trading among ASEAN partners. These principles of regional trading preferences were within the rules of international trading under GATT. In the meantime, they would be efficacious in approaching highly protectionist tariff regimes. The method sidetracks the need to change the tariff levels for existing industries, but would provide a margin of trading advantage to members of ASEAN. Even in this case, it would be important to introduce only those commodities that members of the group would be willing to offer within the framework of a preferential trading system.

There were also other practical projects for economic cooperation that did not raise a lot of controversial problems and which, therefore, would make a list of good projects to start with. One of these would be to work together on international issues where ASEAN interests were often already in agreement. ASEAN member countries have always been involved in the international discussion of commodity issues, as they are among the most important exporters of primary commodities—rubber, coffee, cocoa, vegetable oils, sugar, minerals such as tin and copper. A coordinated approach by ASEAN in the discussion of these international economic issues would strengthen regional solidarity. Improving cooperation in energy and food would be timely and would improve the safety net for supplies of these important commodities. The monetary authorities of the ASEAN could facilitate commerce and create greater liquidity by strengthening payments arrangements among them. These could include schemes to create faster currency swaps to facilitate exchange. Many projects in infrastructure, transport and communications could be accelerated and new projects could be planned with regional development goals taken into account. Thus, the pipeline of regional investment projects could be extended.

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Other cases of cooperation would improve efficiency and coordination of existing practices in government regulations affecting travel and trade. Improving customs and immigration entry forms were obvious to travelers within the region who had to fill up forms which were not only complicated but which differed from country to country. These forms could be regularized and simplified, thereby easing business travel and promoting tourism in the region.

To realize these potentials, a machinery for economic cooperation had to be set up. So long as the proposals for cooperation lacked any channels where they could be discussed by the members, little action on them could be expected. The ministers therefore would propose a machinery for economic cooperation to the Summit Meeting of ASEAN leaders.

The Bali Summit of the five leaders of Indonesia, Malaysia, Philippines, Singapore, and Thailand, which was held on February 23-25, 1976, issued the Declaration of ASEAN Concord. Two thirds of the substantive content of this declaration outlined future areas of economic cooperation in ASEAN, stressing four aspects: (1) cooperation on basic commodities, particularly food and energy; (2) industrial cooperation; (3) cooperation in trade; and (4) joint approach to international commodity problems and world economic problems. To achieve all of these, (5) a machinery for economic cooperation was to be entrusted to ministerial meetings on economic matters.

The economic ministers were asked to: (a) formulate recommendations for the strengthening of ASEAN economic cooperation; (b) review the coordination and implementation of agreed ASEAN programs and projects on economic cooperation; (c) exchange views and consult on national development plans and policies as a step towards harmonizing regional development; and (d) perform other functions as agreed upon.

The economic ministers created five standing committees to deal with cooperation matters in various sectors. Having in mind some division of labor and in view of the lack of regional secretariat resources (the ASEAN secretariat in Jakarta was a very small body), the economic ministers divided the substantive work for economic

cooperation by the work to technical committees to be housed in a country secretariat where a lead economic official could take charge of organizing agenda. The working organs of ASEAN economic cooperation were: the Committee on Finance and Banking; the Committee on Food, Agriculture and Forestry; the Committee on Industry, Minerals and Energy; the Committee on Transportation and Communications; and the Committee on Trade and Tourism.

During the first five years of the ASEAN economic ministers meetings, these committees worked to develop their agenda of cooperation. The activities of the working committees built up quickly. A lot of the initial work was exploratory, but many tangible projects were put into action. During the second meeting of the economic ministers in Kuala Lumpur one month after the Summit meeting, they were already busy with discussing actual schemes for preferential trading arrangements. A list of industrial projects was prepared for the purpose of examining their feasibility by experts, and a mechanism for dialogues with other economic groupings to discuss joint approaches was proposed. By the third meeting of the ministers in Manila (January 1977), the economic ministers approved the basic draft for the establishment of the ASEAN Preferential Trading Arrangement (PTA), together with the rules of origin and the certification procedures for implementing the agreement. By the fourth meeting (Singapore, June 1977), initial trade concessions on a list of products was ready for implementation under the PTA. Working groups were established to study shipping issues within ASEAN. An action program on cooperation in transportation and communications was put in place, which included early implementation of various segments of the ASEAN submarine cable systems and establishment of working groups to improve the utilization of existing satellite communications facilities for regional and domestic use. And it noted the participation of ASEAN central banks in a US\$100 million swap arrangement to help bridge temporary liquidity problems in ASEAN.

By the eighth meeting in Manila (in September 1979, this meeting being the second round of meetings to take place in this city), the PTA had achieved bringing the number of items under its regime to 2,327 products, and it was further agreed that every round of negotiations on trade preferences would increase the number of items offered under the system from 100 to 150 products for each country. An agreement was also reached on the ASEAN Food Security Re-

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serve, which had already been initiated by the Agricultural Ministers of ASEAN. This meeting also approved the package settlement of a controversy that arose between ASEAN on the one hand and Australia on the issue of airline competition plying the European-Australia routes, which used ASEAN countries as a stopover.

This last issue was the first test of a direct confrontation with a third country. The Australian government issued an international civil aviation policy (ICAP) which reserved for Australian carriers the benefits of long-distance air travel between Europe and Sidney. The ICAP was designed to give direct advantages to Australian carriers by regulating quotas on passenger traffic carried by non-Australian carriers and setting regulations which affected stopover traffic in intermediate travel points. This adversely affected ASEAN airlines, especially Singapore Airlines, which had the largest exposure to the air traffic from London to Sidney. By bringing this issue to the ASEAN economic ministers, Singapore was able to bring the combined strength of ASEAN to bear on this issue. The ASEAN economic ministers conference was able to pressure the Government of Australia to negotiate the issue and bring it to a mutually satisfactory closure.

The tenth meeting in Bangkok (October 1980) especially noted the issue of oil supplies in ASEAN countries. In view of the disruptions of oil supplies arising from the war between Iran and Iraq, Indonesia was asked to undertake consultations with OPEC member countries in the Gulf area for additional supplies for ASEAN countries. In addition to noting the efforts of the ASEAN ministers working to strengthen cooperation and energy security, the meeting thanked the governments of Indonesia and Malaysia for the assistance extended to some ASEAN member countries to supply a part of their need for oil supply during this critical period. This meeting also noted the need to explore new approaches to expand trade under the PTA beyond negotiations involving mutual offers of tariff concessions by countries, and it approved a deeper tariff cut of 20 and 25 percent margin of preferences for items already under the PTA and to study the implications of raising the coverage of the PTA to trade items whose import values in 1978 were in the range of US\$100,000 c.i.f. to US\$500,000 c.i.f., with an exclusion list for sensitive items.

By the time of the eleventh ministers meeting (Jakarta, May 1981), the first set of ASEAN industrial projects had already been on stream and advanced plans for a succeeding set of projects were under discussion. A basic agreement on an ASEAN Industrial Complementation (AIC) scheme was concluded, with projects in this area being planned for an automobile industry complementation scheme, with the range of projects being allocated among different participants. In terms of PTA, the total number of products included under the agreement was 6,581 items. The decision taken in the previous meeting (the 10th meeting) to include under the PTA all imports with a trade value of less than US\$50,000 c.i.f., as recorded in the trade statistics for 1978—a total of 4,508 items—with a tariff preference of 20 percent was considered inadequate. But the trade negotiators were beginning to run out of ideas using the incremental approach, and they were themselves becoming impatient. They were ready to recommend a major enlargement in the coverage of products, using trade volume as the basis. The economic ministers therefore decided to increase the cutoff level for imports be raised further under the PTA. Specifically, they took these measures to further increase intra-ASEAN trade: (1) to raise the import values up to US\$500,000 c.i.f., based on 1978, with an exclusion list of sensitive items at the preferential rate of 20 to 25 percent; (2) to study further the implications of raising the concession level to US\$1 million c.i.f.; (3) to study deeper cuts in food trade; and (4) to raise the voluntary offers per country to 400 items during tariff negotiations. Within the space of five years, much of the original room for step by step increases in the coverage of preferential trade was almost exhausted, and the time for examining a change in framework was evident. But it would take another decade before the big step towards a free trade area concept would be taken.

Professor Widjojo headed the Indonesian delegation continuously for a period longer than any economic minister during the early years of the meetings of the ASEAN economic ministers. I attended eleven of the economic ministers meetings as head of the Philippine delegation until mid-1981, a total period of five years. There was a quicker turnover in the other country delegations, reflecting governmental changes in ministerial portfolios. For instance, during the period when I participated in the economic ministers meetings, Hon Sui Sen, Singapore's minister of finance, was succeeded by Goh Chok Tong; Datuk Hamzah, the primary industry minister, by then Deputy Prime Minister Mohammad bin Mahathir of Malaysia; and several heads of

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delegations of Thailand had included Amnuay Virawan. Professor Widjojo, backed up by Radius Prawiro, the trade minister, would continue to head the Indonesian delegation for a few more years. This helped to provide some degree of continuity to the course of developments in ASEAN economic cooperation.

Forging tight ASEAN economic cooperation on a number of trade issues was not one that we had expected to yield major benefits quickly. As stated earlier, major difficulties were encountered once actual projects began to be discussed. Some of these were inevitably the result of discussing project benefits and costs of sharing. This was best illustrated in the discussions of ASEAN industrial projects, which were possibly the greatest source of potential friction. Aside from discussing what types of industrial projects would be qualified, there was the issue of determining which country would undertake the project. The project would have to pass certain tests of project feasibility, and this to some extent depended on critical arrangements related to principles involving the pricing and supply arrangements. Details of project arrangements would also include the capital structure and other issues. In short, the project required a lot of micro-decisions on which government bureaucracies are unfit to act on quickly. In time, it would be realized that the ASEAN industrial projects were consuming too much time and were too difficult to structure because the business world moved much faster than governments. This is one reason why large scale industrial projects under the private sector and within a given country boundary were implemented much faster.

The ASEAN Preferential Trading Agreement (PTA) had a relatively easy sailing compared to the industrial projects during the early years of the economic ministers meeting because it began to affect only the marginally traded commodities among the countries in a setting where the major countries involved had fairly high protection rates. Once those products became exhausted, the main issue was how to advance the trade preferences further to more sensitive sectors. Perhaps all that time was needed to prepare the ASEAN governments for the advantages of finally enlarging the coverage of their preferential trading arrangement. Once the trading arrangement reached these highly protected industries, the negotiations were likely to slow down or force a radically different approach. As the search for improved and deepened trade preferences became evident, the idea

that a free trade area would make more sense gained greater support even among those who had thought that the setup was premature. As a result of the early frustrations of an incremental trading preference agreement, the ASEAN Free Trade Agreement (AFTA) came into being to replace the PTA, but this would take another decade of further efforts. When it finally took place, it marked, in my view, the second major leap towards regional economic integration. The first major leap was marked by the historic ASEAN summit meeting in Bali which outlined the need for the economic ministers to work on economic cooperation.

The benefits of closer ASEAN economic cooperation were almost immediately observed as soon as the economic ministers established the machinery for economic cooperation. The first impact was the change in the expectations of the private sector. The private sectors of each country responded eagerly. On their own, business groups across ASEAN countries began to get in touch with their counterparts in the other member countries. In turn, this stimulated foreign investment flows into the region. Private sector interest from other countries became more evident from the various meetings organized to enlarge the contacts of private sector groups in other countries with ASEAN country businessmen. Meetings of ASEAN businessmen with private sector groups from the European Common Market, Japan, Australia, other parts of Asia (including South Korea, Taiwan, and Hongkong) and the United States began to enlarge. The large flows of capital into the ASEAN region during the 1980s were the results of these increased business interest. Some of these foreign investment flows came in because of the high growth rates achieved in the ASEAN countries. But few of these were isolated from the perception that the ASEAN market was enlarging and that business opportunities were expanding fast.

A second, but more immediate, impact was the interest shown in ASEAN by policymakers in the major trading partners. During each of the succeeding meetings, the economic ministers noted the increased contacts with other economic groups to discuss issues involving trade, investment, commodities, and industrial cooperation in ASEAN. By the time of the ASEAN Summit Meeting in 1978 held in Kuala Lumpur, the summit took on an "ASEAN + One" summit meeting with each of the leaders of Japan, the United States, and Australia. Although there was a political agenda included in all these "ASEAN + One" meetings,

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economic relations did not take a backseat either. A series of dialogues of the economic ministers with their counterparts in Japan and the United States also took place. The European Common Market (now the European Union) sent its officials to maintain a dialogue with business leaders and officials gathered in different capitals. The strengthening of ASEAN as a grouping also encouraged the faster move on the part of the larger group of Pacific countries—Japan, United States, Canada, Australia, New Zealand, and South Korea—to push forward the concept of the Asia and Pacific Economic Cooperation (APEC) to serve as a forum for common issues affecting economic relations among countries in this region. ASEAN member countries are members of this regional forum.

During the early years of the ASEAN economic ministers meetings, the idea of an ASEAN economic community was only in its formative stage. The germ of a large economic community could only be said to take a tighter form after it was realized that the small steps taken earlier were too small to move the organization forward more fully. More efficient arrangements were discovered only after experiencing difficulties with the existing projects. The beginning of wisdom was when the members themselves discovered that their own frameworks for cooperation were flawed and that they had to replace them. They had to learn from the lessons of difficult and slow arrangements.

If Professor Widjojo had not gone around the ASEAN capitals to propose the formation of the economic ministers meeting, the road traveled towards cooperation would have been postponed perhaps for many more years. These early years were very significant in making feasible grander ideas of regional community that are now being discussed within ASEAN. These early meetings brought ASEAN economic leaders to come to grips with the issues of cooperation directly, to get to know each other at the working levels, and to cement personal and business working relations across ASEAN.

At the country level, these meetings created a deepening of understanding of the areas of possible regional cooperation. In terms of my personal experience in this process, working on ASEAN economic cooperation led me to work closely with my colleagues in the Philippine government also on regional economic cooperation. I emphasized that at the beginning of the efforts of the ASEAN economic

ministers that Professor Widjojo was backed up by Radius Prawiro in presenting the Indonesian viewpoint to the economic issues of cooperation. In the Philippine case, I could reliably lean on Vicente T. Paterno (then Industry Minister and Chairman of the Board of Investments) for advice and collegial efforts. Finance Minister, then later Prime Minister, Cesar Virata was always interested in the progress of ASEAN economic cooperation efforts and lent us a strong hand. The line ministries of the government were ably represented in the technical committees created by the ASEAN economic machinery for regional cooperation. Among the officials directly affected by the network of emerging economic cooperation issues included the ministers of Finance, Industry, Trade, Tourism, Natural Resources, Agriculture, Energy, Public Works, and Transportation and Communications. When major issues were up for review by the ministers, the line ministries held their own meetings, or sent their deputies or appointed officials to the semi-annual meetings of the ASEAN Economic Ministers. More important, the national ASEAN economic committees became very active at the country level, and technical and policy issues of a national dimension began to have a second, or ASEAN, dimension built into them, especially when they had an international context, be it a trade, industry, or investment issue.

It has been more than twenty years since the first economic ministers meeting took place in 1975. Looking back today, it would be fair to say that had we not begun in that year, the shape of ASEAN economic cooperation would not be as extensive as it is today. We can possibly question whether we have achieved our goals for ASEAN. But goals are defined by their relative position in time and in terms of feasibility. The road traveled in ASEAN is more substantial than I could have predicted at the beginning. The "least common denominator" among the ASEAN partners has become much broader than when we first began. The framework for consensus is much more promising today over a wider range of issues than existed at the beginning. Now, a free trade area has replaced the preferential trade agreement as the cooperative vehicle, and there has been much greater harmonization of tariffs as a result of internal measures taken by each government trying to adopt economic liberalization measures to conform with what was best for their national interest. Also, as a result of the many achievements in economic cooperation in ASEAN,

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the common policies surrounding these economic cooperation ventures have bound all the countries to pursue common structural economic policies that are compatible with their own national goals.

ASEAN has become a much stronger organization especially after 1975 when economic cooperation activities began to help cement regional ties. In the 1980s, the five ASEAN members became six, with the admission of Brunei. Just recently, Vietnam, Laos, and Burma have been added to this group of countries. One major cost of admission into ASEAN now is that any new member will have to accept the series of economic cooperation agreements built over the years. But those costs are probably little compared to the benefits of membership in an enlarging economic community.