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The Political Economy of ASEAN Economic Cooperation

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The Association of Southeast Asian Nations[1] (ASEAN) was founded in August 1967 in response to the threat of communism in Indochina. Although a stated goal of the Bangkok Declaration and many of the succeeding ASEAN pronouncements was to "accelerate economic growth...through joint endeavours" and to "promote active collaboration and mutual assistance on matters of common interest in the [field of economics]," little concrete action was taken to promote economic cooperation. In fact, until 1977, regional Economic Ministers failed to meet on a regular basis; ASEAN had rotated around the annual meeting of its Foreign Ministers. Yet, despite the neglect, the ASEAN economies have all prospered.

This paper addresses the question of ASEAN economic cooperation and integration[2] from a political-economic framework. The primary question asked is: From the slow and reluctant progress of ASEAN economic cooperation over the past 25 years, is the ASEAN Free Trade Area (AFTA) the aberration that it appears to be? If so, why is this the case? The changing political and economic environments in Southeast Asia are the principal factors positively affecting the attitude of the ASEAN leaders toward cooperation. Although skepticism persists over the will of ASEAN leaders to make due on their promises, evidence suggests that economic cooperation has become less of a political liability.

At the macro level, the ASEAN leaders are in a "stag hunt" situation, in which all can gain through cooperation; if one party pursues its narrow national interests outside of a regional context, however, the others may lose relatively and absolutely. In the past, the gains from cooperation were perceived to be minimal, thus the ASEAN states were not compelled to cooperate with genuine conviction. But as the gains from cooperation increase, the opportunity cost of not participating grows and cooperation becomes more attractive.[3]

At the micro level, as the political clout of the urban-based industrialist interests who gain from liberal markets grows, the pressure on economic ministers to resist liberalization measures diminishes. Agro-industrialists, however, remain strong and tend to fight for exclusions from tariff reductions. While it is nigh impossible to claim overwhelming support for liberalization measures from the private sector as a whole, as the group's composition changes, there has been a general shift in the thinking of its members away from import substitution.

Based on these understandings, we first discuss the forces which have constrained cooperation efforts in the past. Given that many of these factors continue to exist today, significant changes have had to take place to warrant consideration, much less support for AFTA. Finally, we examine the strengths and weaknesses of AFTA. The success of AFTA rests on the initiative of one or two ASEAN countries to take a leadership role to ensure the success of the agreement. As will become evident, Thailand and Malaysia are best suited to take on this responsibility.

CONSTRAINTS TO ASEAN ECONOMIC COOPERATION

During the first decade of ASEAN's existence, state leaders did not believe that national security could be guaranteed solely on an individual-nation basis. A collective voice in foreign affairs provided them the strength to ensure the peace and stability they sought in the region. Economic cooperation, per se, did not receive more than perfunctory attention, despite the assertions made in the Bangkok Declaration. Political and strategic security, however, should not be underestimated for its positive impact on the health of the ASEAN economies. Peace among these disparate states with conflicting interests created an environment conducive to economic growth and prosperity. A general consensus existed at the time that rapid economic development could be achieved if there were few internal disturbances and little external interference.[4] As such, active efforts to promote regional economic cooperation did not receive significant attention among ASEAN member states until the mid-1970s.

In 1974, pressure began to mount from external sources for ASEAN to move beyond rhetoric. It was in that year that a United Nations team completed its study of the possible avenues for ASEAN economic cooperation. Their recommendations included limited preferential trade liberalization, intra-industry specialization schemes, and large-scale inter-industry projects for the region. These so-called Kansu proposals eventually became institutionalized in the early 1980s in the form of the Preferential Trade Arrangements (PTA), the ASEAN Industrial Complementation (AIC)[5] scheme, and the ASEAN Industrial Projects (AIPs).

Throughout the 1970s and much of the 1980s, uncertainty persisted in the minds of many ASEAN officials regarding the benefits to be accrued from economic cooperation. With economies apparently lacking complementarity and competing for similar developed country markets, critics suggested that the ASEAN economies were not ready for further integration. Mechanisms which were developed to promote economic cooperation were thus designed to progress slowly. Furthermore, a consequence of its consensus decision-making process has been that ASEAN has moved only as fast as its slowest member.

The implementation experiences of these schemes, along with the ASEAN Industrial Joint Venture (AIJV) scheme revealed a set of common problems which have limited the effectiveness of economic cooperation in ASEAN. First, the consequence of excessive bureaucratic procedures at both the ASEAN and national levels has been that delays of a year or more for approvals have weakened the attraction of the various schemes. Second, there has been a general lack of commitment to implement these schemes. ASEAN initiatives have not been followed up with thorough promotion efforts, and information has not been extensively disseminated to all the parties who stand to benefit from cooperation.[6] Third, there has been an absence of private-sector involvement in the decision-making process at a regional level. Although the ASEAN Chamber of Commerce and Industry (CCI) has been active in pursuing the interests of the private sector, it has run up against the incestuous interests of national bureaucracies. Finally, a dearth of political will has been the most important factor impeding genuine economic cooperation in ASEAN. Government leaders have been more concerned with the costs associated with cooperation than the spillover of benefits, and have therefore been reluctant to pursue greater cooperation.

This preoccupation with delaying the implementation of cooperation stems from the apprehension that the costs of cooperation are amplified in developing countries, where the losses associated with the short-run displacement of labor and capital can seriously threaten political stability. Given that the original raison d'être of ASEAN was to counteract the communist insurgency by maintaining stability within the region, the risks of short-run market disruptions for long-term gains were much too great for these countries to overcome. The consequence of this situation has been an observable leitmotif of bureaucratic instruments employed to give the perception of cooperation, while at the same time limiting its impact. Because ASEAN leaders did not believe that their economies were ready for a comprehensive pursuit of integration, cooperation progressed slowly by design.

The formative years of ASEAN were characterized by concern for national rather than regional integration. Building on the legacy of the Association of Southeast Asia (ASA) and the diplomatic machinery it had created, ASEAN provided a multilateral framework in which unilateral national interests could be pursued. Talk of supranationalism was suppressed by the regional states as they developed their national identities in the post-colonial era. Cooperation in the region has been pursued as a means of assuring national independence and mutual benefit for all participants. A Southeast Asian community, similar to that of the European Community, is not a realistic model for ASEAN cooperation.

It was not until the Singapore Summit in January 1992 that ASEAN leaders were willing to address an issue such as the supranational nature of the ASEAN Secretary General's mandate, which had previously included responsibility only for matters of the Secretariat, not of ASEAN. At the Summit, the official's title was changed from the Secretary-General of the ASEAN Secretariat to the Secretary-General of ASEAN, and the responsibilities of the office were adjusted commensurably. Regional integration remains a difficult issue to broach.

THE EMERGING ECONOMIC ENVIRONMENT AND THE ASEAN FREE TRADE AREA (AFTA)

Confidence in ASEAN economic cooperation is growing. Yet, data suggest that ASEAN is fighting an uphill battle in its attempt to form a free trade area. Much seems to be going against it. First, as Table 1 illustrates, intra-ASEAN trade has been insubstantial. In 1988 it accounted for just over 18 percent of total ASEAN exports. This figure was actually lower than the 21.4 percent of 1970. Although intra-ASEAN trade is high relative to the intra-regional trade of other developing country groups,[7] if Singapore-a large center for entrepôt trade-is excluded, the share of intra-ASEAN trade drops to only 4 percent of the region's total exports. Second, the ASEAN-4 countries (excluding Brunei and Singapore) have relatively similar production structures and compete for the same export markets. There is a greater degree of complementarity between the ASEAN economies and the industrial and newly-industrialized economies, than between the ASEAN countries themselves. Although these economies are moving upstream and are producing greater quantities of light manufactured goods, natural resources and agricultural goods continue to account for large shares of their exports. For example, in 1990, 64 percent of Indonesia's exports consisted of primary commodities, two thirds of which included oil exports. Figures for the other ASEAN-4 states are: Malaysia 58 percent, Philippines 36 percent, and Thailand 36 percent.[8] Finally, the levels of development in ASEAN differ significantly. With such extremes as Indonesia, with a per capita income of $560 in 1990 and Singapore ($11,245) in the same group, market sharing is difficult at best. The less developed countries in the region are reluctant to open their economies to competition from the more advanced countries. Similarly, the more advanced countries tend to be unwilling to enter exclusive arrangements with the inefficient industries of their developing neighbors.

Traits of this sort have led many observers to conclude that economic cooperation is neither viable nor desirable. Yet, despite these conditions and the constraints discussed earlier, the ASEAN countries have agreed to establish AFTA within 15 years.[9]

It remains to be seen if the free trade area is viable. A concerted effort on the part of the member countries will be necessary to encourage the group to refrain from excluding excessive numbers of "sensitive" products from the agreement. If one or two ASEAN countries can take a leadership role, then the effect of AFTA will likely be substantial.

What is clear is that the real changes that have taken place in the international arena and within ASEAN have altered the calculus of national interest for countries in the region. The evolving nature of the costs and benefits associated with economic cooperation has undoubtedly affected the support being lent to AFTA by member countries.

The first of these changes is embodied in the transformations sweeping through the ASEAN economies. The ASEAN leaders have been compelled to adopt economic reforms as a result of hardships suffered from external circumstances in the 1980s. General liberalization policies, as well as the adoption of outward-oriented industrialization strategies, have strengthened the economies in ASEAN. Domestic industries have gained significantly from international competition and trade, and many officials are dedicated to enhancing these gains. Furthermore, ASEAN liberalization policies have been predicated on the assumption of an open international market. Thus, a successful conclusion to the Uruguay Round is essential. ASEAN solidarity as exemplified in AFTA-especially now that a general commitment has been made-will allow the group to have a greater say in the international community and to address its concerns over the trading system.

Barriers to trade will need to be reduced further, and membership in the General Agreement on Tariffs and

Trade (GATT) strengthened. Cooperation within ASEAN, in the form of a free trade area, is seen as a first step in the process of reducing tariff and non-tariff barriers on a most-favored nations (MFN) basis. This gradualist approach allows for domestic industries to be subjected to greater competition from within ASEAN before being exposed to the rigors of the international marketplace. The strength concomitant with the dynamism and flexibility of the ASEAN economies has boosted confidence among many national leaders that, although certain inefficient industries will fold under greater international competition, the economies themselves have the capacity to withstand adjustments and to benefit in the long run.

The second change is related to the growth strategies adopted by the ASEAN governments in the 1990s. These policies stress the need to attract foreign direct investment (FDI), which has already contributed to the economic growth and the relatively rapid rates of industrialization in ASEAN. In light of the competition from Indochina, China, Eastern Europe, and Mexico for increasingly scarce capital, an effort has been made to maintain these inflows. A multitude of incentives have been offered to foreign investors throughout the region. Incentives, however, are not the primary factor influencing the decisions of foreign investors. The general investment climate is a far more important determinant of an economy's attraction. This climate is not only positively affected by sound macroeconomic management, economic growth, a developed infrastructure, and political and economic stability, but also by the size of the market. The establishment of AFTA will form a single enlarged market with 325 million people, instead of six individual markets. This undoubtedly will be attractive to foreign investors who are looking to gain from economics of scale by producing for the region, or by manufacturing truly regional products for export. Officials involved in the negotiations leading up to the summit meeting in Singapore admit that this capability of attracting foreign investment was one of the most compelling arguments for the free trade area.

Third, the introduction of international production networks is beginning to affect the way business is done in ASEAN. The consequence of technological advances, which have lowered the costs of transportation and improved telecommunications networks, has been that locations of production are more sensitive to international production cost differentials, including those of wages. Following the foreign investment boom in the late-1980s, when, for example, investment in Thailand grew by over 500 percent, the ASEAN countries were exposed to these new technologies. Taking advantage of such technologies to develop production networks can help ASEAN businesses lower their costs of production and become more competitive.

Although this was the basic idea behind the AIC scheme, its success was limited by time-consuming approval processes and red tape, and because it was an idea ahead of its time. The enthusiasm among foreign automobile manufacturers for the Brand-to-Brand Complementation (BBC) scheme suggests that a more diverse production base-including all six ASEAN economies-will be attractive to firms producing on a global scale. The successful implementation of AFTA will eliminate the barriers to intra-firm trade and trade in intermediate inputs-an essential ingredient needed to facilitate intra-regional production networks-on a broader scale than has been seen with the AIC and BBC schemes. This will not only help to strengthen ASEAN firms but will also attract foreign investors who plan to produce regional goods.

Finally, the emerging shape of the international economic environment is affecting the outlook of ASEAN officials vis-a-vis regional economic cooperation. The development of economic blocs in Europe and North America has heightened the apprehensions of leaders in the developing world. Furthermore, delays in the completion of the Uruguay Round of talks of GATT-which will affect more than ASEAN's trade with these two blocs-are primarily a result of disputes between the major industrialized economies. The international economic environment is being shaped largely by the OECD countries, and since the ASEAN countries are relatively trade-dependent, they need to assure that their interests-maintaining open international markets-are not ignored. AFTA can show the world that ASEAN is more than just a political club, and that it is a force to be reckoned with. Greater solidarity will bolster the bargaining power of ASEAN, but an esprit de corps is not enough. Genuine conviction for economic cooperation is important because it will not only show the commitment of the region's leaders to ASEAN, but will also enhance the group's bargaining power by reinforcing the dynamism of each individual economy. The experiences of other regional groupings of developing countries have shown that a group's strength in the international arena is highly dependent on the performance of each individual economy.[10] The cumulative bargaining power of the group will be much stronger if an outcome of the formation of AFTA is greater competitiveness in each of the ASEAN economies.

AFTA

The ASEAN Free Trade Area, which is to be formed within 15 years by means of the Common Effective Preferential Tariff (CEPT) Scheme, is a manifestation of the fundamental changes in the global and regional economies. Despite the commitment of the regional leaders, skeptics still insist that ASEAN's track record and the potential loopholes that exist do not bode well for the plan. The architects of CEPT have been responsive to this and have adapted its design to overcome past weaknesses and minimize loopholes.

One means to assuage skepticism and to maximize the likelihood of AFTA's effectiveness is to include as broad a range of goods as possible in the initiative. According to the agreement signed in January 1992 in Singapore, "all manufactured products, including capital goods, processed agricultural products, and those products falling outside the definition of agricultural products...shall be in the CEPT Scheme."[11] Instead of specifically defining-at the HS 7-digit level-which goods are included in the scheme, as was the custom with the PTAs, inclusions for CEPT are made on a "sectoral basis"-at the HS 6-digit level. This tactic, along with the requirement that exclusions be made at the HS 8/9-digit level, is designed to avoid excluding significant numbers of traded goods from the agreement. This was a lesson learned from the experiences encountered in the PTAs; the list of goods eligible for preferences under the PTAs has grown significantly, yet it accounts for only a small fraction of total intra-ASEAN trade. In classifying goods by sector, the architects of the CEPT scheme have attempted to discourage the use of gimmicks such as padding the inclusion list. Questions, however, arise over the classifications for exclusions at the 8/9 digit level since there is no accepted standard among the ASEAN nations. A solution acceptable to all parties must be reached before the exclusion list is determined.

Another means employed to improve the effectiveness of AFTA is the agreement to reduce tariffs according to a pre-determined schedule-to be announced by 1 January 1993. Tariffs on products included in the CEPT scheme are to be lowered to a range of 0 to 5 percent by 2008. Tariffs rates on goods presently exceeding 20 percent shall be lowered to 20 percent within five to eight years. Subsequent reductions of tariffs to between 0 and 5 percent are to be made within another seven years. Minimum rates of reduction during this period have been set at quanta of 5 percent. Similarly, each ASEAN state will design tariff reduction schedules for goods with existing rates of protection less than 20 percent in order to lower these rates of protection to a maximum of 5 percent within 15 years. The agreement allows for two or more countries to accelerate tariff reductions for specific products. Quantitative restrictions on products under the CEPT scheme are to be eliminated immediately-using tariff equivalents-while other non-tariff barriers are to be gradually eliminated.

The benefit of adopting a pre-set schedule for tariff reduction is that the stakes of AFTA have been raised, which assures a greater chance for success. Since ASEAN's reputation for rhetoric without concomitant action would be reinforced if one of the states does not meet its obligations within the CEPT framework, the motivation to participate will be strong. Stalling tariff reductions is much easier during the process of negotiation than when a commitment has already been made. The repercussions of delays for the whole group tends to be negative-rather than neutral. With hazards of this sort, there are incentives for each ASEAN state to abide by the tenor of the CEPT scheme.

An issue that will not be easily overcome, as ASEAN officials work to implement AFTA, will be the enforcement of rules of origin. As Table 2 illustrates, tariff protection in ASEAN varies significantly. Among the seven sectors from the list of 15 for accelerated tariff reduction selected in the table, tariff rates range from levels of zero percent in Singapore to as high as 100 percent for certain leather and leather products in Thailand. These disparities mean that strict rules of origin must be enforced to avoid the deflection of extra-regional imports through low-tariff countries, such as Singapore and Brunei, to high-tariff countries, such as Thailand, Indonesia, and Malaysia. As it stands now, a product is considered to be an ASEAN good if 40 percent of its contents originates in an ASEAN country. Rules such as this are sensitive because they open up a multitude of opportunities for corruption and falsification of documents. Furthermore, despite the fact that the CEPT Agreement specifically declares that "Member States shall not nullify or impair any of the concessions as agreed upon through the application of methods of customs valuation, any new charges or measures restricting trade...,"[12] a dispute over the origin of an import can be used as a pretext for stalling its delivery-this is equivalent to a non-tariff barrier.

In response to the difficulties and costs inherent in enforcing fair rules of origin in ASEAN, scholars have proposed various hybrids of customs unions.[13] This however, in the eyes of the ASEAN leaders, is much more difficult to achieve than a free trade area and has supranational characteristics which are unacceptable.

Prospects for AFTA

The new political and economic environment in Asia and the Pacific created by the changes which have taken place over the past few years has stimulated the pursuit of greater economic cooperation within ASEAN. Although sincere economic cooperation is no longer the political liability it once appeared to be, the parochial views of government officials with interests in "sensitive" sectors means that AFTA is not a forgone conclusion. While there is significant support for the free trade area from the private sector in each of the ASEAN economies, enough powerful private interests are at stake to threaten the initiative if the participating governments do not approach it with enthusiasm.

Given the lethargic pace at which endeavors proceed in the consensus-based group, the zealous leadership of at least one ASEAN country is vital to the success of AFTA. The experience of the AIJV initiative shows that ardent support by a given group can facilitate the establishment of a cooperation mechanism.[14] The submission of schedules for tariff reductions by each of the ASEAN governments by 1 January 1993, will be the first test of the group's will to proceed with the initiative. But the negotiation process has been hindered by the vague strategy for implementing the CEPT. At the senior ministerial levels of the ASEAN governments, endorsements have been forthcoming. However, at the director-general level-those responsible for implementation-the lack of a defined procedure to complete the CEPT has given rise to skepticism. Since there is no clear approach to the selection of sectors to be included in the scheme, the directors general have increasingly adopted a product-by-product mentality, betraying the sector-by-sector spirit of AFTA. They have also become bogged down in other technicalities, such as questions of rules of origin. Without a concerted effort on the part of this group, AFTA is sure to fall to the vices of avoidance. An impetus is needed to keep them directed and to avoid unnecessary hesitation.

Despite the minimal amount of intra-ASEAN trade, AFTA is a mechanism which can place mutual group pressure on each of the participants to continue with the measures already taken to liberalize their trade regimes. Constructive outside pressure can tip the balance of interests within the domestic debates over the effects of unilateral liberalization in favor of reform. This is especially the case for Indonesia, the Philippines and Thailand, where tariff rates are relatively high and certain sectors will be visibly affected. By assuring a quid pro quo in which the other regional countries will liberalize their trade regimes in a similar fashion, the elimination of tariff and non-tariff barriers will be more easily achieved. This outside pressure, however, is contingent on the full participation of the ASEAN members. The withdrawal of one member will undermine the dynamics of mutual group pressure. Leadership by an ASEAN country needs to be taken to assure the commitment of each member country to maintain the pressure. Ideally, this helmsman should be either Indonesia, the Philippines, or Thailand-the countries with the greatest short-term sacrifices to make. As we shall see, Thailand is the best suited among these three to play the role. Uncertainties over the post-September 13 government's dedication to AFTA, however, make joint leadership between Malaysia and Thailand a more plausible scenario.

The first question we must ask is why it is inappropriate for Singapore and Brunei to actively advocate the implementation of AFTA. Singapore is the economy with the most to gain, which also makes it the member most resented and questioned over its motives. Singapore's efforts to initiate regional cooperation mechanisms have often been met with suspicion. While the island republic can hardly be expected to pursue an initiative which it will not benefit from, ASEAN's less developed countries-Indonesia and Malaysia in particular-question Singapore's motives when they perceive the gains to be unevenly distributed. Although all those involved in the Singapore-Johor-Riau (SIJORI) growth triangle are benefiting from the scheme, Malaysia has vocally questioned the disproportionate gains accruing to Singapore.[15] Such opposition to the growth triangle has not stopped the three countries from proceeding with the initiative, but it does illustrate the sensitive position that the Singaporean leaders occupy in ASEAN. Although they are extremely eager for greater liberalization of intra-ASEAN trade, Singapore government officials have clearly adopted a position of passive support; there is an understanding of the degree to which excessively active endorsement on their part could be counterproductive.

Brunei is in a position similar to Singapore. Sensitivity to the interests of other ASEAN countries has encouraged the sultanate to maintain a low profile. With its dependence on oil revenues and a small domestic market, freer trade within the region will assist Brunei to diversify its economy and maintain its economic security. Just as is the case for Singapore, Brunei's policy on AFTA is based on the principle that the best means of achieving its objectives is to not aggressively pursue them, but rather to count on the initiative of the less developed economies in the region.

Second, despite their commitments to implementing the CEPT scheme within the 15-year time frame, why are Indonesia and the Philippines unlikely to be the countries to stimulate and maintain pressure on the others? With a Gross Domestic Product (GDP) in 1990 of US$100 billion-the largest in ASEAN-Indonesia should ideally be the country to take the helm to assure the success of AFTA. The CEPT was, after all, an Indonesian proposal reflecting their awareness of the positive impact of trade liberalization on growth. Aside from rhetoric, however, the enthusiasm of the Suharto government for the initiative, as indicated by implementation efforts, has been ambivalent. The support shown by the president and his ministers has not been clearly reflected among their subordinates, who remain uncertain about how AFTA is to be achieved.

The selection of a new cabinet in 1993 also gives rise to questions about the future of ministerial support. As one cabinet minister stated, "the composition of the next cabinet will be crucial in determining how the economy fares for the rest of the decade."[16] The future of certain pro-AFTA cabinet members is far from certain and some of their potential replacements are either ambivalent toward AFTA or are "not of the free trade mode."[17] This is a manifestation of the two camps which are emerging in the Indonesian political scene. The free marketers, who have been largely responsible for the liberalization program begun in the latter half of the 1980s, are being partially eclipsed by a faction with designs for basic import substitution. Arguments for protection of heavy industry are falling on the receptive ears of Suharto's family members who have interests in petrochemicals and the automobile industry. Proponents of these policies, thus, have the strong backing of Suharto because as one cabinet minister observed, "as long as [Suharto's] children are not involved, the president makes very rational economic decisions. But when the kids get involved, rationality loses."[18] While the tenor of this group is far from the more stringent inward-oriented policies of the pre-reform era, their posturing clouds the commitment of the Indonesian officials toward AFTA. Pressure from within ASEAN can provide the necessary balance and impetus for the government to proceed with its liberalization policies.

Despite its enthusiasm for AFTA,[19] the Philippines in not in a position to make the voluntary concessions needed to set the pace for the rest of ASEAN. Domestic economic problems confront the newly-elected government of Fidel Ramos, and many of the administration's resources will need to be diverted to handle these. High levels of international debt (around US$5.3 billion) accumulated since 1986, have forced the central bank to maintain a strong peso,[20] resulting in a loss of export competitiveness. Similarly, treasury bills issued to cover accumulated central-bank losses of US$12.7 billion have hindered growth by pushing interest rates up to 20 percent and crowding out private investors. Central bank officials play down the seriousness of the issue for fear that it reflects a poor performance on their part.[21] A resolution to these problems is not in clear sight.

Along with conflicts over social issues, such as family planning in a predominantly Catholic country, the Ramos administration's capability to overhaul the trade regime is being constrained by the stagnating economy. The disadvantages that Philippine industrialists face as a result of an overvalued exchange rate, high interest rates, brown-outs, and a weak infrastructure, have resulted in incentives for interest groups to fight for protection. Poor economic performance provides fertile ground for those seeking protection (and rents), thus making it difficult for government officials to ardently pursue reductions in tariff and non-tariff barriers. Furthermore, with taxes on international trade transactions accounting for 21.5 percent of total government revenue in 1988, and difficulties in raising revenues through income or sales taxes, the Philippine government is confronted by another constraint to liberalizing their tariff regime for the region.[22] Pressure from the other developing economies-particularly Indonesia and Thailand-through the mutual reduction of tariff and non-tariff barriers-can counter the protectionist pressures and compel the Philippine government to liberalize its trade regime in the spirit of the CEPT.

Finally, why is the joint leadership of Thailand and Malaysia the most plausible means of ensuring a relatively exclusion-free implementation of the CEPT? Thailand, under the leadership of Prime Minister Anand Panyarachun, initiated the AFTA proposal as it exists today and followed through with behind the scenes promotion. Thailand's commitment was enhanced by the Prime Minister's pledge at the Singapore Summit to reduce all of Thailand's tariffs on imports from ASEAN countries to a maximum of 30 percent by the beginning of 1993. The Anand government, which has put Thailand in a position in which it cannot undermine AFTA without losing prestige, was (and is) temporary. The uncertainty surrounding the future of the Thai government means that ASEAN cannot depend solely on Thai leadership after September 13. This uncertainty is heightened by the luke-warm support for AFTA of the former Suchinda-led government. In April of 1991, the Commerce Minister announced that it was considering delays in tariff reductions for the eight products-broadly defined on the list for accelerated tariff reduction, which Thailand did not propose.[23] When these same concerns were raised in early August, members of the Federation of Thai Industries (FTI) were visibly distraught.[24] Their concern was not only over the lack of government consultation with the private sector, but equally so over the lack of direction of Thai policy on AFTA. Given the setbacks to Thailand's international prestige, these industrialists see Thai back-peddling as extremely counterproductive.[25] While the FTI does not represent all of the sectors of the Thai economy, it does speak for a powerful group of industrialists who see benefits to be derived from Thailand joining AFTA.

The newly-elected Thai government will undoubtedly be confronted by the resistance of affected trade associations. The doubts raised by this, along with the potential for parochial behavior on the part of the newly-elected officials, casts doubt on the leadership capabilities of Thailand. The support of powerful private interest groups, however, suggests that the adjustment process resulting from lowering barriers to trade in sensitive sectors will not be unnecessarily difficult. Nevertheless, the assistance of another ASEAN country-Malaysia-could prove essential to providing the leadership necessary to maintain the spirit of AFTA.

Although Prime Minister Datuk Seri Mahathir Mohamad neglected to discuss AFTA in his opening address to the Singapore Summit and instead defended his proposal for an East Asian Economic Caucus (EAEC), Malaysian support for the initiative has been strong. AFTA has indeed received much attention from Malaysian officials and intellectuals. With a per capita income of almost US$2,300 in 1990, second only to Brunei and Singapore in ASEAN and one of the most dynamic economies in the world, Malaysia is well positioned to gain from AFTA. Yet, government energies in regional economic cooperation have been primarily devoted to the EAEC. While indeed this is worthy of attention, Mahathir and his ministers could do well to redirect some of their energy to assure the successful implementation of AFTA. Otherwise, the effectiveness of the EAEC could be undermined by a weak ASEAN. It is in Malaysia's interest to assure the implementation of AFTA, and this can be achieved through the pioneering of trade concessions.

Malaysian motives, unlike those of Singapore and Brunei, are not questioned by other members of ASEAN since Malaysia's economy remains less developed. This places Kuala Lumpur in a unique position in which it has domestic support for further liberalization of its trade regime, and is able to influence the other ASEAN countries without creating resentment. By working together, Malaysia and Thailand can help to shape and sustain not only the explicit agreement between all of the members of ASEAN to implement the CEPT, but also the implicit agreement to maintain mutual pressure on each other to continue with their respective liberalization policies by ensuring a quid pro quo.

CONCLUSION

The new environment in Southeast Asia is altering the way regional governments and private sectors perceive the costs and benefits of economic cooperation in ASEAN. The adoption of liberalization policies, the turn to growth strategies based on attracting FDI, and the emergence of economic blocs in Europe and North America are the primary factors which make AFTA possible today. The past constraints to cooperation have diminished in light of these changes. Yet, they have not disappeared. The success of AFTA will not be assured unless visionary action is taken in ASEAN. The cards as they are played now suggest that Thailand and Malaysia are in the position to accept the challenge and to lead ASEAN into a new era of closer cooperation in AFTA.
