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アジアにおける地域経済圏の意義と今後の展望 —経済協力におけるインプリケーション—

平成5年10月

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国総研セミナー

テーマ：「アジアにおける地域経済圏の意義と今後の展望
－経済協力におけるインプリケーション」

日 時：平成5年10月6日（水） 10：00～12：00

場 所：国際協力総合研修所 2階 大会議室

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国立行政研究所勤務

アジアにおける地域経済圏の意義と今後の展望

(要約)

東アジア地域は、今や変革すべき時期にある。ヨーロッパやアメリカ等の経済的不況を鑑みても、東アジアは、今後20～30年にわたり、世界経済の成長のエンジンとなり得る役割を担うであろう。さらに、東アジアの中でも、日本が指導的役割を果たすであろうことは、疑いがない。

これまで、世界は、強大な軍事力を背景としたアメリカの覇権主義的政治に支配されてきた。例えば、ウルグアイ・ラウンド交渉においても、アメリカは、経済力の衰退から自国にとって都合のよい自由化政策を推し進め、国際的な信用を損なってきた。一方、日本は、敗戦の経験により自国の力を過小評価してきたが、今後は、その強靱な経済力を自覚し、東アジアにおけるリーダーとして行動しなければならない。

東アジアが、経済的に世界で最も力強い地域であることは明らかであるが、現在の世界経済には、確固たるリーダーがいない状況にある。世界各国は、覇権主義から、民主主義へ移行しつつあり、今後は、E A E Cのような地域的な統合が一層進んでいくであろう。

東アジア諸国の中でも、中国は、非常に早い経済成長を続けており、将来、世界で最も大きい経済大国となる可能性がある。また、ヴェトナム、ラオス、カンボディア、ミャンマー等のインドシナ地域においても、少しずつではあるが、経済自由化が進んでおり、これらの国々がA S E A Nに加盟することも考えられる。

このような背景の下で、東アジア地域における各国の協力システムを構築する必要性が高まっている。例えば、北米、オーストラリア、ニュージーランド、東アジアを包含するA P E Cや、マレーシアのマハティール首相が提唱している、中国、ロシア及び東アジア全体を包含するE A E C等がある。北米にN A F T Aが設立された現在、東アジアにE A E Cができてはじめて、A P E Cの枠組みの

中で、地域間のバランスを保つことができるであろう。

E A E C は、東アジア全体を安定させることができる共同体であり、日本は、E A E C を軌道にのせるために、主導的な役割を果たすべきである。これまで日本は、自国の生産基盤を、N I E S 諸国から A S E A N や、さらにより発展途上の国々へ移転していくことにより、これらの地域の発展の基礎を築いてきた。しかし、これらの国々との貿易においては、いまだに原料の輸入が中心であり製品の輸入にまでは至っていないため、今後は一層均衡のとれた貿易関係を確立していくべきである。

また、日本は、東アジアへの O D A の供与において、よりソフトな援助形態である、技術協力や無償資金協力を拡充していくことにより、各国の一層の発展を促進していかなければならない。さらに、これまで、アメリカや他の西側諸国がやってきたように、援助を政治的・経済的な手段として利用してはならない。

現在、A S E A N の一部の経済界において、A F T A の設立を敬遠する動きがある。A F T A を促進するには、サブ・リージョン・レベルでの“三角地帯構想”が有効であると考えられる。A S E A N 北部地域においては、シンガポール、リアウ、ジョホールを結ぶ地域、また、南部地域においては、ペナンが中心となって、北スマトラ、北マレーシア、南タイを結ぶ地域の“三角地帯”が挙げられている。これらの“三角地帯構想”は、サブ・リージョン・レベルでの、より緊密な協力と連携を可能にし、さらには、国同士の協力も促進することができるであろう。

しかし、これらの“三角地帯構想”は、A S E A N のより力強い連携のための、一つの切り口に過ぎない。将来、東アジアが世界の中心となっていくためには、E A E C などの A S E A N 地域全体のためのより大きなビジョンが必要である。東アジアのダイナミズムがなければ、世界経済は沈滞の方向に向かうであろうことを認識し、われわれは、お互いに協力して、このビジョンを実現していかなければならない。

以 上

MODERATOR: Good morning, and thanks for waiting. Thank you for attending the International Seminar of IFIC. My name is Kuwajima of Research and Development Division of IFIC, JICA.

The subject of today's seminar is the significance of the development of local economic groupings in Asia and ASEAN region and their prospects, and especially the implication in economic and social development of these areas in terms of development for assistance.

Before asking Dr. Atan from ISIS to speak, I would like to briefly introduce Dr. Atan and ISIS. ISIS is the Malaysian Institute for Strategies and International Studies. It is the largest think tank in Malaysia, and it has two major functions as a policy-oriented institute. The first function is to provide second opinions or independent assessment of policies to the government of Malaysia. And the second function is to devise new ideas for policy makers. The areas that this institute covers are various: international and domestic economies; development issues including environment; and security issues as well as national building issues. In its international field of study, it has projects for providing the vision of Asia and the Pacific regions, especially the project of studying the relationship among ASEAN region and the United States and other Western countries, or ASEAN countries with other Asian-Pacific countries. In the domestic field, it has been conducting a study on sustainable growth for orienting to 20-20 vision in Malaysia.

Dr. Ghazali Atan is the Director of Bureau of International Economic Studies of ISIS. He has obtained a doctor's degree in development economies, especially regarding a financial issues, in Manchester University in England. He had been serving as an Economic Adviser to the Chief Secretary of Civil Service of the Prime Minister's office in Malaysia, and also had been serving for the National Institute for Public Administration. Since 1993, this year, he has been serving as the bureau director of the International Economic Studies of ISIS. Today we hope that Dr. Atan will firstly cover the very broad framework for thinking about the regional development in Asian and ASEAN region, and then will touch upon the development of local economic zones in this region. And hopefully, you will leave about one hour for a question and answer session.

So I would like to introduce Dr. Ghazali Atan of ISIS in Malaysia. We would appreciate having a lecture from you.

Dr. ATAN: Thank you very much Madam Chairman.

Director of IFIC, ladies and gentlemen, first of all, I would like to thank IFIC, JICA, for inviting me to deliver and share my ideas about the changes that are occurring in the current world economy and probably share some visions about the role of Japan in future and the role of ODA as a mean by which Japan can play its future role in the new world. In this context, we have to talk about broad things and broad changes in the international economic and political arena, and we have to talk about why Malaysia is pushing for the EAEC. What sort of visions do we have for the EAEC? What sort of visions do we have for ASEAN? What sort of visions do we have for AFTA? Only then, the detailed things will come into focus; the detailed things in terms of the growth triangles, in terms of specific projects and modalities. So finally, I would like to share with you our hope for the future, our hope for the future for this region, because you see, if you look at the world now, I think the world has been in recession, except for East Asia. In future, I think probably it will have to be the locomotive of growth for the world. East Asia has to be the locomotive of growth for the world, and also East Asia has to be the champion of the things which used to be controlled by the West, because you can only be champions when you are strong. You cannot be champions when you are weak. I think the West is losing the strength to be champions, and that is why they are now no longer credible as leaders. But they still have high moral ground because of their past contributions.

Now I think it is time for us to change — for East Asia to take its role now. We are in a position to be the engine of growth, to be the part of the world which forms the dynamism for the next two or three decades. If we don't play that role, no one will play the role, because I don't think Europe can still play that big role with its twelve percent unemployment rate and its old industries which they cannot restructure themselves. You can see Europe's helplessness with Bosnia. They count pennies before they can send soldiers or aid to help people who are facing the things which Europe is strongly against, that is, ethnic violence. It is on their doorstep, but they cannot do it. Why? Because of economic weakness, the same with United States. U.S. used to be the champion for aid, free trade, and all. Now it's looking at other things. It is looking at liberation, it is looking at managed trade, it is looking at using its power to force other people to change. Why does it have to do that? It has to do that because its economy is weak, because the current account deficit, the fiscal deficit looks intractable to U.S.. Even after, it is a problem for the U.S. to accept. Why is this so? Because economically, it cannot support that role.

Now, the only country in the world which can play the leading role satisfactorily is actually Japan. But the problem is, Japan has looked at itself as a secondary power for long time. This is probably as a result of your 1945's experience, and you have struggled very, very hard to develop your country to its present position of which you have the strength. But the old mentality of strengthening Japan first is still very strong now, and as a result, you are operating as a trader. That means you are looking for markets, you are looking for investment opportunities, you are looking for some economic advantages to develop your country further. This kind of perspective is still strong.

So you have got this funny situation where you regard U.S. as the dominant military power, and U.S. seeing itself as a hegemonist and the world's power, but it does not have the economic strength. On the other hand, Japan is very strong, economically, but not thinking of itself as someone who can do something for the world. As a result, both can lose their credibility. The U.S. could lose credibility because people are afraid that it will use its power, political power to liberate all and to gain economic advantages. You can see what U.S. has been doing in the past few years.

In the Uruguay Round, for example, what was discussed is, "we want liberalization," and this liberalization means all those areas in which they are still strong. It wants liberalization in services, it wants liberalization in intellectual property rights, it wants liberalization in investments. But it doesn't want liberalization in agriculture, it doesn't want liberalization in multi-fiber, it doesn't want liberalization in other areas. And if you look in services, in detail, in those areas in which they are weak, they would say, "no no no, we are controlling all." So what they are doing actually is really losing their credibility. They're still saying that they are all for free trade, all for these ideals, but when it comes to the crunch, they cannot afford to do so because of their economic weakness.

As for Japan, you have got the strength, but you need the mental change, the mental change to move to the next stage of your development. It's critical because without that kind of leadership, East Asia will be in disarray, and will be splintered, and as a result, it will not form a force which could be good for the world.

So there are two perspectives. First one is that East Asia is the most dynamic; regions, and second one is what I call the loss of leadership in the world's economic management. The world doesn't have a leader now. We have lost leadership in the world's economic management. In '60s, you had Great Britain as the leader — '40s,

'50s, and '60s was Great Britain. In '60s and '70s, you had U.S.. In '80s, U.S. had been slowing down. In '90s, we don't know who would be the leader, who is going to play that role.

The world is turning to democracies, so we need a new leader which means a democratic leader — not a hegemonist, but a democratic leader. What we are looking for is democracy among nations. And it's good that Japan is not a country which wants to be a hegemonist. In fact, I spoke to thinkers from Thailand, Singapore, and Brunei, and they were not willing to see U.S. hegemonism being replaced by Japanese hegemonism. They're not willing to see that. But what they were seeing is Japan's value as a leader in terms of a strong partner in this process of democracy among nations. That is why our Prime Minister spoke against, for example, the Security Council, the veto power. That is not a democracy. For the new world, we need that kind of democracy. We have got the democracy in a nation now, but we need to establish the democracy among nations. How will we establish it? I think it is the agenda for the future, how we're going to establish it. Here, there is a role for the regional movement that we have now, in terms of EAEC and the like.

Then, I think we have to see an opportunity as well as a potential problem. The rise of China as an economic power is very rapid. Now, China is the fastest-growing country in the world, and it grows at ten percent per annum (in some years more than ten percent). Inflation rate is seventeen percent (in some cities twenty percent). In our estimation, China can maintain non-inflationary growth of about seven to eight percent per annum. Non-inflationary means inflation below ten percent. Now, if China can maintain that for the next twenty years, it will be the biggest economic power in the world. Bigger than the U.S., bigger than Japan. This is one thing. But we are not sure what China is going to be. Will China be like Japan, or will China be like Russia, where it wanted to control everybody, with everybody else outside as satellite powers? What will China be? We have to think about it now. And we must also look at the strength of East Asia; it is closely linked with the role of the Chinese, so you find stronger integration of the Chinese economies now — stronger integration of China, Hong Kong and Taiwan. And also you find strong integration between ASEAN countries and China, but those links are actually carried out via the overseas Chinese network. So you find that there is a movement at work. Some people and some nationalists are already thinking a little about the Chinese economy or the Yellow Sea economy, or something like that.

These are the things which are happening now. We don't know what the future will bring, but we should play a role to make sure that this development is for the good rather than causing problems for the future. And it's the time to do it now. How do you deal with it?

Finally, on a smaller scale, we find rapid economic liberalization in Indochina. Starting with Vietnam in 1990, now you find that Laos is also following suit. You find that Cambodia also wants to do so, and even Myanmar is saying so. This all occurred last year. We had visitors from these countries, and they all said, "We want to join ASEAN in future." Most ASEAN thinkers say that we should allow them to join with open arms. Now, what we're going to get is, instead of the ASEAN Six, we're going to get the ASEAN Ten, and if you look at the area covered by ASEAN, it is actually one of the most beautiful areas in the world; more beautiful even than Europe. It is also a very well endowed area — abundant sea. If you like seas and resorts and boating and marinas and all that, this is the area, better than the French Riviera. But it is still underdeveloped, the framework for the development is going to be there in the future. The framework for development. That means just like an open shop, like somebody opened a new department store in a good location, but no tenants yet; something like that.

This is what ASEAN Ten is going to be. So these are the various things that are happening now. I think all these trends set the new framework for our thinking for the future. It has to, otherwise we will not make right decisions. What are our visions for the future? I think what we want is an East Asian region which is the most dynamic, stable politically, peaceful, and has good relations and cooperative relations among all the nations, and practicing democracy among nations. So there is no room for hegemonists, whether it would be Russian hegemonism, Chinese hegemonism, or U.S. hegemonism, or even Japanese hegemonism. Everybody there will be in a pluralistic kind of democratic system, where you form bridges with each other; a lot of bridges, but not fences against outsiders. They are afraid that we're going to build a fence against outsiders. They're talking about an East Asian bloc — that's a fence. When you say a bloc, you're talking about a fence. What we're saying is that we want an East Asia which has a lot of bridges. Bridges between Japan and China, Japan and ASEAN, Japan and NIES, and even bridges outside, between East Asian countries and Europe and U.S., and such bridges. Not a fence.

So that's one of our visions. It has to be a vision in which you set the environ-

ment for long-term growth. That means those who are more advanced than others should help others to get new technology, or new investment, or these kind of new business linkages. For those who are behind and try to catch up, you should open up their doors for other people to come and share in whatever resources that they have. So we have this kind of visions.

This is the Pacific future that we have. Now, in that Pacific future, the relation between East Asia and American continent will be established via a regular cooperative association within APEC, so you've got East Asia economic groupings in a close relation, and then through the wider linkages within APEC, you have linkages with North America, Australia, and New Zealand. This kind of vision is important, and this is the vision that our Prime Minister Mahathir has. His vision for EAEC is that EAEC should builds bridges with all nations, which exercises democracy within nations. We need democracy because we've got ASEAN as a center; we've got China, we've got the Asian NIES, we've got maybe Russia which wants to join in, and we've got Japan. Every nation is not so strong enough to dominate all, but every nation is not so small enough to be run over, and every nation has a right orientation — cooperation and mutual advantage. And that's open — no fences against outsiders.

Now, as the alternative to that, the EAEC as an economic bloc is something which is not going to be optimum. This kind of EAEC is also important because the other proposal is to have APEC in place of EAEC. And if you have APEC without EAEC, you will have a dominant bloc on the right between the U.S. through NAFTA, a very big bloc, and you have all the small powers here, totally independent of each other. ASEAN is very small, even with ASEAN Ten. Japan will be small. The only big one will be China, probably. There will be no balance.

But you've got the EAEC, you've got NAFTA, then you could balance each other in the framework of APEC, and this will ensure that our relation with other people also will be based on pluralism and democracy. So this is the vision.

Let me go then to what I believe Japan's role should be. Number one, Japan should look at itself. Japan should understand its vision — and I embrace this vision, because the alternatives to that are very dangerous. Particularly, for example, when you see China, it's very dangerous if you don't have good relationships between all these countries and China. China will continue to look at in the world in the way it used to look at the world, that means look at the world as outsiders and China as

insiders. Look at the world as it is above and the world is below it. You have to change this Chinese perspective.

The experience of ASEAN in 1967 — you know when we started ASEAN in 1967, Malaysia was almost at war with Indonesia and had a problem with Singapore. We had problems with Indochinese countries because they were all under communism, and what we formed actually was just a club, a group of countries which agreed to be friends, that's all. That's what ASEAN was in 1967; it was just a group of countries which agreed to be friends. Through this friendly relationship, we got political stability in the Southeast Asian region, and it was the political stability which allowed growth. So now, Indonesia and Malaysia, or Indonesia and Thailand, or Thailand and Malaysia, no one will ever dream of fighting each other because they have learned to be friends.

What we need is EAEC to play this role and incorporate China into friendly relationships with other countries in this region. We have to get China to learn to be friends with other countries. This is very critical, and you have to get it now, not get it when they are already very strong and they are seeing you as rivals, but when they need help or when they are developing, already form good relationships with them, investment relationships, aid relationships, and trade relationships. Very open relationships. Bring them together with us under something like the treaty of amity and cooperation which ASEAN has. That is partly a role of EAEC. You can have this under the framework of EAEC. Whoever wants to join in EAEC, sign a treaty of amity and cooperation with each other. That will stabilize the whole region and will also turn the relationships from adversarial rivalry to cooperative relationships. That's very, very critical. Otherwise, you would have to spend millions and billions of dollars on defense and to fight each other, rather than spending all this money for development.

So the first thing we think is that Japan, as I said earlier, is actually in a position to play a stronger role here. So to get EAEC move, we need Japan's help. Japan needs to change its orientation and needs to embrace this course.

Number two, we need Japan to support the move towards pluralism because the alternative to pluralism is hegemony, and I know Japan is not interested in being a hegemonist. But then, it is a power which is big enough to prevent other people from being hegemonistic and economically strong enough to prevent other people from being hegemonistic. So we need your support to establish this kind of pluralism.

Number three, now this is very hot. We see the development of East Asia which has been facilitated by what has been called the flying geese phenomenon. What Japan did was that it transferred older industries to the NIES, and then from there to ASEAN, and from ASEAN to the lower developed countries. So as a result, you brought development to all these areas, and that has been very favorable. As a result, you found that you've got strong export of Japanese capital goods, intermediate goods, and you are importing the commodities from these countries. But the circle is not complete because what happened is that these countries shift from commodities to manufacturing base. They need to export manufactures and they can only export manufactures right now to Europe and the U.S., very little to Japan. Now, if Europe and the U.S. economies are not strong, then you find that there will be imbalance. So Japan needs to complete that loop by opening up its economy to imports from the pan-pacific countries — manufacturing imports. This is hard to do — I know — because you have got all this idea that it's important to have a current account surplus. But actually a current account surplus is bad for you. Just as a current account deficit is bad for you, a current account surplus is bad for you because what it will do is that to get your currency to appreciate. And when your currency is appreciated, your industry has to adjust very quickly to be more efficient. So you have to work really hard. At the same time, you're not importing enough, so you don't get rewarded for your work. Things are expensive in Japan, and you need to complete the loop so that the fruits of all your efforts get to Japan in the future. The Japanese generation now actually has earned a standard of living; you must give them some of that, and for that you need to complete the loop. But this is hard to do because of the orientational change.

I read someplace — I don't know whether it's true or not — people say that some Japanese feel that it is unpatriotic to import. Is that true? It might be true in the older Japanese. But actually you need exports because you need imports, you export something because with the foreign exchange you earn, you can import things which you can use. Export is outside transfer of your goods that you produce. Importing means that you get the goods to consume in the country. So the only reason why you need exports is to earn imports. But if it is unpatriotic to import, you get this imbalance, and I think what you have now is the creeping up of the yen and actually a problem because of that. You need to manage the economy towards, probably, a balanced current account rather than a surplus current account because a deficit current

account is very bad, worse than a surplus. But even a sustained surplus over the long-term can get a country into problems. So that's hard to do, but you need to complete the circle. Otherwise, the relationship in the ASEAN region won't be a balanced relationship without the completion of the circle. You have done half of the circle and you need to complete the other half.

And then, number four, you use ODA as a way to give benefits to both sides. I'm not saying that ODA should benefit only the donor, but ODA should benefit the donor as well as the recipient — and to attain this, aid has to be effective. Looking at Japan's ODA program, I find that fifty percent of it is disbursed in terms of loans. Others are disbursed in terms of grants and technical cooperation. What you should give is, I think, in terms of the qualitative development, such as the grant aid, and transfer of technology. These are actually the most beneficial part of ODA. You need to do more of that. In return for that, I think what you will gain is friendship.

It is like in old days, before the industrial age, what we had in the Pacific region is what we call the "gift relationship." People came in a boat to an unknown island; they didn't even know other people. They just left things on the shore and they went away. Then, the next day, the native people took the gift and brought it home, and in return, they give another set of gifts for the people in a boat to take away. So these customs formed the alliances and the friendships: gift relationships. It provides peace and goodwill.

Number five, by being efficient in your ODA, what you do is to help countries to develop. Once they develop, they become markets for you and they become potential partners for you. ASEAN is a better partner now because it's richer and more capable. And China is a better partner now because it is more capable and richer. It's worthwhile for you to make sure that your aid is really beneficial in the end because of the gift relationship, and the spill-over effect in terms of richness of the market as well as more capability of the developing countries. This will bring beneficial feedback to the donor countries. So you must not go the way of some Western countries, for example, who want to use aid as leverage, like the U.S. They sometimes use aid for political leverage or economic leverage, because it's not efficient and people will see through it. Maybe in early days they will like it, but later they will see through it, so nobody gains from that kind of aid. I think JICA's orientation is already very good, but it should go the full way in that direction and make it better.

Now, in terms of the AFTA-ASEAN relationship, we have problems with AFTA

because of the promise to carry out AFTA within fifteen years from zero to five percent tariffs, no non-tariff barriers and all that, to create a big ASEAN market to AFTA. But then, after signing on the dotted line, there are business interests in Thailand, Indonesia, and Philippines, where their businesses are used for protection. — Suddenly they find out the government has signed something, which will make an open market, and they began to lobby the government with saying "slow down the development of AFTA." These are very strong business interests because the political systems in some ASEAN countries are dominated by business. Just like in Japan? I don't know. Maybe not so much. But in Thailand, Philippines, and Indonesia, political power, military power, and business power are all connected. Now, the Prime Minister has a vision. The Economic Minister has a vision, he wants a big ASEAN market. But when it comes to lobbying from all these powers, it becomes very, very hard to do. So what do they do to make it faster? They create sub-regional groupings, which is the triangle as a way to push AFTA, to push this integration. You get it on a smaller scale. So beginning with the southern triangle, between Singapore and Riau. Riau is the area in Indonesia which covers a part of Sumatra and also the Riau Island. And then Johor. Johor is the southern part of the peninsula of Malaysia. So what they have done is to create a southern triangle. Rapidly after the southern triangle, Pinang, with the support of Indonesia and Thailand, put forward a proposal for a northern triangle of — these are translated terms, northern as far as English is concerned — northern part of Sumatra, northern part of Malaysia and southern part of Thailand.

Just recently, President Ramos of the Philippines said, "We want a triangle also." This is the biggest triangle actually. It covers the southern part of the Philippines, Sabah and Sarawak, Brunei, Kalimantan. So in the area, this is the biggest triangle. What does this triangle seek to do?

This triangle actually seeks to form the close cooperation and linkages at the sub-regional level so that it will facilitate, later on, cooperation at the national level because it is very hard to push through AFTA very quickly. It's easier to push it through these smaller groupings because they look at the success of those triangles formed in China, Hong Kong and Taiwan. So the modalities of these triangles — for both southern and northern triangle — are being firmed up. For the Philippine triangle, they are still studying it. But in terms of real benefits, the theoretical benefits of triangles is just that you hope to create complementarities. For example, in the south-

ern triangle, you see three different areas. First one is Singapore, with technology and strength in know-how and capital. Second one is Bataan which has cheap land, cheap labor, and open areas. Third one is Johor, which is located between Singapore and Bataan. So for the higher value-added activities, Singapore can live with Johor because Johor has got a trained work force, but not so cheap. But for the cheaper activities, less skilled activities, they can live with Riau. So right now, the triangle is most active in Singapore and Johor, and Singapore and Riau. Very little between Johor and Riau because Johor, which is in the southern part of Malaysia, can live with other parts of Malaysia. So very little between Johor and Riau. So the third leg of the triangle is weak because the complementarities are not very strong.

Actually this reflects the relationship even at the ASEAN level. At the ASEAN level, twenty five percent of trade in ASEAN is intra-ASEAN trade, but out of that, twenty two percent is with Singapore and only three percent between the other ASEAN countries. So this reflects that Singapore becomes the center, the headquarters, the technological center, the skill center, and the infrastructural center also. A lot of our trade is actually done through Singapore, but this will change in the future because everybody has got national visions also, and Malaysia is building its own ports, its own airports and its own financial centers. Now, for example, with the northern triangle, probably you'll find Pinang as the center, but it's not so powerful as Singapore. For the triangle with the Philippines, the center in the future would probably be Labuan. So you find us returning to the old British days.

In the old colonial times, the British set up centers in Singapore, Pinang, and in Labuan. Labuan was closed after the pirate attack, sometime in 18-centuries. It is not a new area. It actually looked like Singapore. It also looked like Pinang. So now we are going back to those days when these strategic places become strategic off-shore centers once again. They might be centers of triangles of growth. Labuan has the advantage that it is very close to Brunei, which has got lots of money. Also, the relationship between Brunei and Singapore is also quite close, and Brunei and Hong Kong are quite close. So Labuan will act as a intermediary between these relationships. So in terms of prospects for the future, I think all these growth triangles except the southern part, which is almost fully developed, the northern triangle and the Philippine triangle will have the most potential for the future for investors. But you need to develop that potential.

What I mainly want to stress here is that these triangles are actually small

things. They are actually at the cutting edge of the greater ASEAN relationship. Our future vision is not just for these triangles; the greater vision is for ASEAN territories and for EAEC, East Asia as a dynamic center. That's our long-term vision for the future. And we need to do this together because without that, I think the world will be growing very, very slowly, as I said at the start. Without dynamism in East Asia, the world would be in recession. It is actually because of East Asia that the world is not in a recession. We have to continue to play that role.

With that, I think I'll stop. Thank you very much.

[QUESTION AND ANSWER SESSION]

MODERATOR: Thank you very much Dr. Atan. I would like to open the floor for the question-and-answer session. If somebody want to make some comments or ask a question, I request each questioner or commentator to let us know your name and position before questioning.

QUESTION 1: Thank you very much, Dr. Atan. Would you elaborate a bit about the role you expect for Indochina countries in this East Asia economic bloc, and what kind of interest of passing countries are focused on this area. And you said that in this area, we have very beautiful countries. We are afraid if we bring quick economic development in to this area, there might be some environmental destruction in the Asian region. What is the relationship that you see about this?

Dr. ATAN: Thank you very much. I think that's a very critical question. I think regarding the role of Indochina, our first task with Indochina is to get it firmly into a liberal economic system because it is just moving from a controlled economy, a socialist kind of economy. A lot of power politics is still there. The armed forces are still very strong, and people are not used to freedom. There's a lot of black market and all capitalists are actually criminals in some of these countries. You have to be a criminal to be a capitalist in these countries, because business was a crime previously, so only criminals were engaged in business. These people are not used to the system. And the governments are used to controlling and planning, really detailed planning, and the governments are used to dominate all things. To change that, we need to help them to change from a controlled system to an open system without breaking up. This is very hard to do; if you look at Europe, it changes from a controlled system to an open system, and everything are breaking. Why does it break? Because it is an unplanned transition. They just opened everything. Now, the breaks can be in terms of the country splintering, and this is worse than environmental problems, I can tell you. You look at Bosnia-Herzegovina and Croatia; you look at Azerbaijan and you look at some countries in Central Asia.

What they are facing is the problem of transition, and if they fail in this transition, they will go back, the people might just hop back for stability because stability is very attractive. At least you can plan your future. So when they fail to get the transition to liberal economy, they might go back to communist system. This is happening in some countries in Eastern Europe already. I can't remember which country, but

there is a country which has just re-voted the Communist Party back into power. They are hoping for stability once again. So the first thing we need to help them is in terms of facilitating the transition. How do you help that? You help that by really helping the government to assure some fruits of the transition, assure some good economic results, so that the people are happy. Just like when we gained our independence in 1957, the first thing people asked after three years was that after three years of independence why weren't we wealthy. People expected that after the change suddenly everything would become very good. And when it doesn't happen, then they start. So the first thing we should do and Japan can help here is to give some concrete results from the transition. Help them to get that concrete result. You have to be very detailed. You have to look on the ground to see what they really need to give them that concrete result, to bring better livelihood to the people. For example, maybe just to ensure that there is food on the table for everybody, a simple thing like that. How do you ensure that? Maybe by putting a lot of money on agricultural development and food production in the initial stages.

That's what we did when we got our independence. The first thing we did was we looked at rural development and put a lot of money on rural development, and then we went on an anti-poverty drive. It took us twenty years to arrive at this point, but once people see the progression, then they will be for change. They will accept that change. I think that is the critical thing you need to do. From the ODA kind of angle. But if you fail to do that, and if we fail to help them in going to a market economy, what might happen is that they might go back, and when they go back, then you lose them. You lose a big chunk of areas, potential market and partners for the future. And also you gain, maybe, a big chunk of enemies who will fight you, and then you have to spend money on tanks and aeroplanes in order to fight them, and that would be very, very costly. So that is why the first country to open its arms to Indochina was Malaysia. In 1990, before Indochina's decision to be a market economy was well known, Malaysia called them for a seminar in Kuala Lumpur. In fact, I was the one who arranged that. The Prime Minister came, and we opened our arms to them, to Wo van Ke and even at that time, Wo van Ke's position was shaky; he might win or he might lose, but during that time we opened our arms because we wanted them to be friends rather than enemies.

A million friends is no problem, but just one enemy is a big problem. And I think we need to do this together. Japan can do it because it has a lot of money, tech-

nical knowledge, and the like. Malaysia can do it maybe by just helping them in giving a vision of what can happen because we have gone through that process of being very poor and now being middle income, through the kind of policies that we do. We have gone through the same traumatic process as they have. When we gained our independence, we were still at war against the communists, and the war ended just in 1989. People don't know this because now, when you look at Malaysia you think only in terms of economic development. Actually, we have gone through three things: economic development, political development and social development — the ethnic thing. The Chinese and the Malays in Malaysia were not together.

Now, we're becoming one nation, but not at the start, we had to build that. You look at Indochina now, and it's the same thing. You look at Myanmar, you look at Vietnam. They have minorities also.

For example, in Vietnam you've got North Vietnam and South Vietnam. The North are wary of the South, afraid of the South. The South don't like the North because the North conquered them in the war. The North doesn't like the South because the South is more entrepreneurial; they're used to the Western system, and when they open, the South might become more wealthy faster, leaving the North behind. That can split them. You have to help them to integrate internally. How do you do that? By understanding their problem and helping them to push that. This, I think, is the first thing we need to do. After that, after you meet these basic needs, then we can go to the other things like the environment and the like. For the moment, sometimes you might have to sacrifice or give less focus on the environment, although the environment is necessary. Human rights are necessary. But sometimes you have to sacrifice some of this in the early days. I think the problem with Eastern Europe is that they want everything from day one. They don't have systematic progress. And why China did better is because it doesn't bother human rights. It bothers economic rights first. Political freedom, human rights may come later. Same with Korea. Korea still doesn't have that strength in human rights, but it's got all this strength in economic development because it faced the development, face to face. I think we need to be realistic in helping these people also. You cannot demand them to be really "kosher" in human rights before you help them. You have to help them knowing that in future, when the economy becomes stronger and they're used to a market system, then they can do more human rights and more of the qualitative things: development, human development, and quality of life. That has to come later,

I think, but for the moment, just don't destroy too many things, don't waste too many things.

Just like in Malaysia, we still have environmental problems because in our early development we paid less attention to environment, but now we can afford to pay attention to environment and quality of life, having more resorts, more condominiums, swimming pools and that kind of thing. In the early days we could not have all that. We went for the basic things like food and drink on the table, everybody had a chance to go to school, lowering the infant mortality rate. Basic things and basic needs first. So I think the best way to help is that not follow the West because the West always talks about the world as though it's ideal or nothing: "If you don't follow all our ideals, you're not worth our help; if you don't follow everything about human rights then you don't deserve free trade." Don't follow that. You must give people flexibility to progress, be more pragmatic in that sense.

So that's all I can say in terms of this. I think the focus has to be like that. And the important thing is sincerity and I want to get them to solve their problems because when they solve their problems, they become more stable and then they become your friends. It's very, very important to get that sincerity. That means if you go to Vietnam, working in Vietnam, you must work as though you are a Vietnamese. When you go to Laos, you must work as though you are a Laotian. When you go to Cambodia, you must work as though you are a Cambodian. Really integrate there. This is where we were very lucky. When we started our independence, our first Malaysian plan was written by Ukus in 1953, a very small one on rural development. It was written by these people, foreigners, not Malaysians. But they were people who came on technical assistance, people like you — so you can actually create history by playing the same role — but they behaved as though they were Malaysians and thinking for Malaysia. They were not thinking as though they were U.S. citizens or British citizens. They came and wrote the report as though they were Malaysians and they wanted to see something happening. So the sincerity and the feeling for the country was there. And this is the kind of noble role that you all can play, and you've got your chance now. All these countries are waiting for help. Laos and Vietnam. But it must be really help, and not help in the sense that somebody who knows everything help somebody who knows nothing, it's one friend helping another friend, that kind of orientation. We have to do it that way.

So that is my observation. Thank you very much.

QUESTION 2: My name is Oiwa of the Research and Development of Division. There are several arguments on EAEC.

The framework of EAEC is excluding Australia and New Zealand. I think that Australia is eager to get good relations with Asian countries, and without good relations with Asian countries, the Australians have no way to live, or they get other relations with North America, for example, including NAFTA. So it is not good for the Asian countries, I think. But I'd like to know the reason for that.

Dr. ATAN: Thank you very much. I think the reason is a funny reason. The reason is not because we don't like Australia and New Zealand to be in, but because it's a legal reason. The reason is that unfortunately these countries are not defined as Asian. That is very unfortunate. We keep telling them that Australia and New Zealand can come in, because we like them very much despite the fact that they are not Asian. Then the U.S. will come and say, "okay, why aren't we in — you don't like us." So this is the dilemma, and we have to leave them out just to have a clear definition. It is just a definitional reason. Like Papua New Guinea, if they want to come in, it's very easy. Even there is no rule, not much rule, it's easy because definitionally, you can define them as Asian. But once you say Australia and New Zealand can come in, then the U.S. will say, "okay why are we not in?" Then you get back to APEC. And the real reason why we cannot bring them in is because we don't want EAEC to get subsumed into APEC. Once it is subsumed into APEC, then you don't have a counterbalance against U.S. power in NAFTA by which it can control APEC. We cannot tell you as this; it's hard to tell you as this, but actually we want to balance their power by having an East Asian countries.

The problem is, I think, U.S. has now lost the ability to play fair, as I said earlier. There are a lot of fair people in U.S., but there are also a lot of unfair people. Even NAFTA has a problem of getting through Congress, because their industry doesn't permit that. And they need the protection, they need the special liberalization and all that. So we need to form a group, not against U.S., but actually for free trade. And "for free trade" means for people in U.S. who are also for free trade. EAEC is supposed to be an open region — you know the concept of open regionalism. What it means is, trade with U.S. and investment flow with U.S. should be continued. It is only that EAEC can be a force against the liberal. Labor interests in U.S. which want the protectionism — or some of the protectionist interests in U.S.. You can use the EAEC against these people — not against U.S. but against these people. But for

friendship with U.S., then you need APEC as the bigger forum.

The solution for Australia and New Zealand comes within that framework. Because what we tell them is, "we want you to be our partner in APEC." That means you have EAEC, one bloc which cannot include them, otherwise you open everything, and at the bottom there, we have what we used to call ANZETAR, the Australia-New Zealand Economic Cooperation, which they have right now. So we and they are partners to balance any protectionist interests in U.S., and then they won't be out of this issue because we are not a close grouping anyway. That is the only solution I can think of. But Malaysia is still keeping open in the sense that if you can find a better solution that can include Australia and New Zealand and at the same time keeping EAEC independent of NAFTA so that they can be balancing each other, then it is all right with us. There is nothing against Australia and New Zealand. The problem is definition, and it's unfortunate that they are not defined as Asian.

We have the same problem with India. Now, India is a worse problem because they say, "we are Asian." Then we have to tell them, "no no, you are not East Asian, you are South Asian." You see, if India gets into EAEC, it will change the model of the EAEC because India has a different kind of thinking about how economy is managed, an inefficient way of thinking. We cannot tell them that, but we think that. So we tell them kindly, "good luck in your SAERC; when you get it moving, we'll be partner with you, but you don't need to join EAEC." EAEC has to be the champion: the fastest growing, the most open, the most liberal, and the dynamic part of the world. But it will be a partner with everybody. It is also the champion for free trade. In that way, together, it can balance all the protectionists. Even President Clinton cannot fight the protectionist tendencies in America; he's having a problem.

So Clinton actually needs the EAEC to help him because the EAEC is not a grouping against America. It is a grouping against tendencies toward protectionism in any part of the world. That's what it is. The way we see it is through this. There is no way we can choose — it doesn't come to mind, any other way of arranging things. This is the way which we propose. So we have to keep explaining this to Australia and New Zealand. In fact, visitors from Australia and New Zealand come and see us many times. I keep explaining about this and they are in agreement that this is the best solution because they know that we cannot afford to open East Asia. Once we open, then there is no excuse for us to have it separate from U.S.. Since we need that

excuse, we cannot bring Australia and New Zealand. That is the only reason.

So it is a bad reason, but it is a reason which is necessary. Thank you very much. That is a very good question.

QUESTION 3: I think the role of overseas Chinese is very significant in the development of Southeast Asia and China, and at this moment, some business groups in Southeast Asia are now investing in China. But I think that within Southeast Asia there is so much room to invest. So I think, therefore, for the development of Southeast Asia, the business group in the Southeast Asia would be better to invest in Southeast Asia first. But I think maybe some Chinese-origin business groups in Southeast Asia are now going to look for opportunities in China. So I think that all Chinese have a special feeling for mainland China, or they just follow the economic principles to get benefits. I mean the benefits in China are better than the benefits in Southeast Asia. I'd like to know the kind of reason.

Dr. ATAN: Thank you very much. If you look at the overseas Chinese, almost all of them actually come from just three provinces, and those provinces are in the rapidly developing part of South China. So they have got these sentimental reasons to go back to China. That is number one. Number two, everybody talks about the 1.1 billion people in China and what a big market it's going to be. So people want to go there also for having a foothold in this future big market — and it's going to be a very, very big market if China does manage to grow by eight percent per year. So for these kind of reasons, people are going to China, and opportunities in China are many and easy to get — for overseas Chinese in particular. Because in China, things are managed not in the way of other countries. In other countries, things are managed through formal processes. You go through channels, there are certain laws, certain regulations. You go through all that you get. In China, it is based on linkages and personal relations, and Chinese find it easy to work that way. So they feel very comfortable, more comfortable going to China than going to Europe, maybe, because they are used to this kind of informal linkages — sometimes illegal also. For example, a big company in Malaysia tried to get three gambling licenses in China. Apparently in China gambling is illegal. So they are getting three lottery licenses in China.

Out of the 1,300 industrial zones in China, only thirty are legal. The other 1,000 are all illegal. So these people are used to this kind of personal linkage and all that. And in China, there is no law. The law is not as strong as your honor and your rela-

tionships. And only for Chinese, it is easy to find this. For other people, Europeans, it's very hard because they need laws, they need regulations, and they need something to sign. If somebody defaults, they need to go to the court. But in China, no. You cannot do it that way. It is not the game. The game is, you know somebody, somebody knows you, they are recommended to you and you go because of goodwill and reputation, you make sure that he is given a fair deal. So for overseas Chinese it is easy because they are used to that kind concealed relationship.

So this is the way. And maybe even for Japanese it's hard. In that kind of scenario, I see at least ten years, ten to twenty years. The competitive advantage is actually with the overseas Chinese for doing business in China. That means what other countries need to do is to link with these people. If Japan wants to go to China, if Europe wants to go to China, if U.S. wants to go to China, link with these people. So all Chinese companies are already formalized companies, listed in the stock markets, incorporated in countries like Singapore, Hong Kong, and Malaysia, where there are formal systems you can deal with them formally, legally. At the same time, they know how to deal illegally through all these means with China. For the time being, that is the way business is done. And for the time being, they have the advantage. So the best thing is to link up with them on share basis or joint venture basis.

Now, in terms of economic rationale, I think the rationale is really very good because although there are a lot of opportunities in Southeast Asia, they want to diversify their activities, and for the Chinese companies, they don't concentrate on any area. To them, anything which makes money is good business, so you find some company which is used to dealing with gaming and resorts, for example, suddenly going into sewerage development because it's good business. So it's a conglomerated kind of development. These people just accept a project because it's good and then create a team for that project; find a partner who will create the team for that project. They don't work like modern companies in Europe. You have a certain business line, you go in your business line. If you're a drug company, you go and find opportunities for a drug market. In China, no. They go and find a good business opportunity in setting up a university, and then they go and set up a university, even though they might be a company which is dealing with selling apples. It doesn't matter to them, so they operate everything very, very flexibly. And for the moment, I think that is the best way to operate in China because the systems are still not firmed up.

I think although they know ASEAN is a very good area, they also want to have

a foothold in the new market which is just opening up, and they are using all their linkages. This is a source of strength for East Asia. But also, it can be a source of danger, if it turns the other way around, in terms of jealousies or ethnic differences coming up. So we have to manage it properly, and the way to manage it is making sure that there is sharing.

What we try to do in Malaysia, for example, is to make sure that companies are listed — not forcing, but encouraging companies to be listed. So all these Chinese conglomerates are listed in the Kuala Lumpur Stock Exchange. And how do we share in their kind of business? We buy their stocks. We have what we call the Unitrust formed by the government for the other ethnic groups, and this Unitrust collects all the small savings into a big fund and buys and shares from these companies. They can develop and do well, and we also get some income from our stock shares, dividends. This is how we do it. Also we try to make them get local license so that they become like fully Malaysian companies, but with Chinese linkages it doesn't make that . . . this is looking at everything as opportunities and challenges rather than as problems. It's rational for them to do that. The other rationality is that a lot of ASEAN countries are now actually middle income. Wages are high now, and for the older industries, which need low wages to be competitive, we are actually encouraging people to invest overseas. So people are investing in Vietnam, in Papua New Guinea, in China for this kind of thing. And the other thing is, we have got certain strength in Malaysia, especially in construction, resorts development, and in mining. For all these, Malaysians are encouraged to become multinationals, not only to China, to anywhere in the world. We are getting into that cycle now or our investment is not just local but also outside so that investment goes to the place where it can earn the best return. There are all these linkages, and personally, I feel that as long as you understand the implications and all that, there's no harm in opening all these kinds of investments. In fact, the Prime Minister himself goes to China with a group of maybe 300 businessmen to allow them to find business partners there.

That is the kind of perspective that we have. Thank you very much.

QUESTION 4: In your lecture, you mentioned the Philippine's Triangle. What kinds of Policies are mostly required to get this triangle into a success?

Dr. ATAN: Thank you very much. I think that' a good question because we have to read Ramos' mind; why is he proposing that triangle. Now, I think in terms of that triangle itself, the Philippines, Brunei, Sabah, Sarawak, and Kalimantan Triangle, the

most developed actually is the Philippines in terms of that triangle. The most wealthy is Brunei. We have got a center in Labuan, which is fast coming up and which can be a center. And the southern Philippines is not the strongest part of the Philippines. It's very far behind Luzon, but even so, I think they still have a fair chance.

Now, looking at the Philippines as a whole, if you look back to 1957, 1960, when actually the Philippines was the most developed Southeast Asian country. It had the highest manufacturing to GDP ratio, highest per-capita income at that time. What has made it falter is actually wrong policies on direct foreign investment. Wrong policies in the sense that it brought in direct foreign investment just to tap the local market, not for export. And wrong policies because also in terms of its industrial policies, it gave the same kind of advantages to local entrepreneurs. So they have a lot of wealthy business companies, but all of them are not competitive. They are wealthy because they have monopolies; of course they are operating behind protected markets. Those which are competitive are actually competitive because they rely on suppressing labor, low wages. Things like Del Monte and all that, foreign investment. But the value added in the Philippines is very, very low. There is no value added to the country. So it has wrong policies, in other words. There is no policy of outward orientation, there is no policy of linkages between foreign and domestic investment.

There are no policies to make sure that local investors operate in a competitive environment, and not so well protected. It is so well protected because the business interests and the political interests are the same. I mean all the Marcos family and its relations are all businessmen, and of course they want protection and special advantages, and even the Aquino family also. After Aquino, Marcos had taken over — it's the same families, only that they are rivals families. So there is no orientation for development in the correct way. Also there is no orientation of development of the people, no rural development plan; there is no education which is aimed to cause social mobility. But despite all this, they have strength in terms of well-developed infrastructure.

They have strength in terms of having a lot of companies. Not competitive companies, maybe, but a lot of companies which have good assets and good structures. After how many years doing that, they probably have a lot of technology also. What they have is a set of bad habits and bad rules which are holding them back. Now,

what they need is the confidence to change the system, and that's what Ramos promised to do. In his "Vision 2000", he wants to change the system to follow something like Malaysia, which is to get it more open, more liberal. No more crony capitalism. So with this kind of change, he thinks that within ten years they're going to get that. Within ten years, the Philippines are going to be in the same situation as Malaysia — this is what he bets. That's what he aims to do. Hopefully he will get it done because he is a person who is not linked to crony capitalism. He is a professional soldier; he has a fair chance of doing it. And now the people are all fed up with all this kind of things from the old system, so Ramos now has very good support from them. And that is why Ramos is the one who wants to bring this growth triangle, because he says, "Okay, the best way to learn from ASEAN is by having a triangle with them." And the only place they can have a triangle is in the south, unfortunately. I think he would prefer it if it were in Luzon, but unfortunately, it is in the south because there it is contiguous. Unfortunately, but he thinks for the country, so he will do it.

I think if he continues to be in power for the next ten years, the intellectuals are all behind him. The thinkers are behind him. The capitalists and rich men are all not behind him, of course, because it means some change, but you need to change. They have all the physical things, I think; it's only the systematic things, institutional things and with the kind of strong public support for Ramos, I think probably he can do it — fair chance — fifty-fifty chance. And also with AFTA ending he has more chance because AFTA would commit the Philippines to be like the other ASEAN countries, zero to five percent tariffs in fifteen years. So AFTA would really give him a head start. Without AFTA, maybe Philippines would continue to have high tariffs and all that, but with AFTA, the Philippines are forced to do that, and that is why I think, vis a vis AFTA, we have more problems with Indonesia and even Thailand, than the Philippines. So far, no noise from the Philippines because AFTA would be the thing which would break the bad habits in the Philippines. And with that kind of help from AFTA, within ten or fifteen years, I think they will get the advantage, and it will be for the good of ASEAN. So there are a lot of adjustment problems for everybody. But I think once the benefits start filtering down to the people then they get into the economic philosophy and they will go. Because they started much better than us.

The same way with Myanmar; Myanmar started off much better than us, but

they have wrong policies also. There were military kind of policies, socialism. That means talking about sharing, not about creation — creation of new goods and services — but sharing whatever there is fairly, that kind of socialism. No development. And they are using power to suppress, making being wealthy become a crime, that kind of thing. So people in Myanmar, for example (this was in 1980, I had Myanmar friends), what they say is that people don't paint their house, or people don't go about being well-dressed because people will see that you are wealthy and somebody will come up to you. So even the rich people pretended they are poor, dress badly, have a shabby house and keep all their money maybe in U.S. dollars and bahts. The system is not there, but I think they can come into ASEAN. Same with Vietnam. The human resources are well-developed, infrastructure well-developed; it's only Cambodia and Laos which don't have the system nor do they have the human resources or the infrastructure. These countries will be slower. But they will still be through the investment floors and all, they will still come up. Maybe a little bit slower, but for them, the growth rate of seven or eight percent per annum wouldn't be a problem because they're starting with a very small base.

I can see very, very dynamic prospects for ASEAN, the leaders know what they're doing and really keep to it. In Malaysia what we're trying to do is just think about ideas and share them with our partners. In fact, before I came here, we have got the Fifth Southeast Asian Forum on the fourth and fifth of October.

So I came immediately after I delivered a paper at that Forum. In that forum we were talking about these things. Just these things about what is the future for ASEAN and I was very glad to hear from all the Indochinese countries. They all want to go into this kind of area. That means people are not looking at communism, socialism as solutions; they are now looking at what ASEAN is doing. Socio-economic development, not socialism. Nor is it capitalism; it's socio-economic development. You have both. You develop people, and at the same time you help those who are poor and those who are disadvantaged to also get into the mainstream economy.

Socio-economic development, everybody is going for that, and I think the ideology of development that has been tried in Malaysia is now becoming like a Southeast Asian idea. That ideology works; it works in our case. We managed close to seven percent growth per annum for twenty years. We reduced poverty from fifty percent to sixteen percent in twenty years, and in the next ten years, we hope poverty will only be around five percent. Our poverty definition is higher than the United Nations defi-

dition. Using the United Nations definition, there is no poverty in our country for twenty years. The other countries, they are just like us in 1957, so if given twenty years, by the year 2010 or 2015, you could get dynamic middle income in South Asia, hopefully. I think the Philippines also can be that kind of situation. They have the right leader now to do it, although he's had some bad press from the West. They say he's a weak president and they say he's this-and-that when you read the Times. But actually, no. He is a soft man, not a weak man; soft in the sense that he's not like a bully or a braggart, but he's not weak, he's consistent and he dares to take hard action. That's not a weak man, that's just a kindly kind of person, you know? So I think they have a good leader now, and probably they can make it.

That's my private assessment. Thank you very much.

QUESTION 5: My name is Miki. I am one of the newest staff of this institute, just joined last month. I'm one of the people in the pool which JICA keeps for various technical cooperation activities. Perhaps I'm asking this question, or rather maybe just a comment, because perhaps I'm quite ignorant about the political aspects of the international relations. But having heard your speech, I felt that the aim or benefits expected from the formation of the East Asian group have been happening, have been occurring in the past, and the pace of such phenomena is rather accelerating. That means in terms of trade, investment, and in the case of Japan's ODA. The East Asian countries have been the largest partner in terms of ODA, and in terms of trade and investment, the shares of these countries have been increasing. And I think it could almost be as large as that of the United States. So without a political institutional framework in the region, the possible benefits from such institutional setup has been realizing, and it would continue to realize at a larger scale.

You mentioned one part of the geese flying cycle is missing. That is the import of the manufactured products from the region, but these days, almost every day, we read an article or two in the newspaper informing that one of the Japanese companies are shifting their production base from Japan to Malaysia and other ASEAN countries — and some other Asian countries — in order to import the products to Japan. It used to be that the shifting of the production base to such countries was in order to export to U.S. and other third-party markets. So I want to know from you how regional institutional framework can help such process; I mean the economic cooperation. Maybe I'm asking this question because once we form a group in whatever way, the countries outside the group will say that this is an economic bloc. I under-

stand you are saying that since America formed NAFTA, in order to prevent them from becoming a bloc, prevent them from being exclusive, we should form something like the group as a counter balance to that, but perhaps, would you please elaborate the possible way how such groupings will help accelerate the economic development process which has already been taking place without such institutional framework. Thank you.

Dr. ATAN: Thank you very much. I think this is the dilemma now, actually. This is the very critical question now. That is why, even in ASEAN, our discussions are on that aspect. Do we really need to formalize it? Because we are already doing basically what EAEC is supposed to be doing. The halfway solution that we have agreed upon is to have EAEC as a loose grouping, informal. That's why it's called, instead of a group, just a caucus. And see how it leads from there. Because we think that if you formalize it, at least the game becomes clearer, although the progression is already made. But once you formalize something, the game becomes clearer. People know what is going on; commitments become clearer. Just like an informal relationship between two friends, but now you put it in writing — you sign — it becomes clearer. So that's one advantage of that.

But the disadvantage is that it cocoons it and it causes other people to mistrust. We have to balance this. I think the best solution, probably, is to formalize it, but not to make it so formal and so threatening. So, okay, I think caucus is a good halfway solution. East Asian — just a caucus. Also, now is the spot to sell the idea. We have to sell the idea to the people who are going to mistrust it. That means we have to sell the idea to America, Australia, and New Zealand, so that they know what exactly this is. Now, as long as they continue to distrust it, we must not formalize it because if you formalize it despite their mistrust, then you're going to create rifts. That's what we're trying to do. So I think Japan is right in being cautious, but Japan must understand the rationale of why it needs to be cautious. It needs to be cautious, not because the EAEC is no good, but because we need to assure the other side that it is not going to be threatening to them. So a caucus is a good way to begin

Also it has to be very, very mild. Right now, the only spokesman for it is Malaysia, which I think is alright because we are a small country, not so threatening. But if Japan became the spokesman for it, or if China became a spokesman for it, maybe it would be a higher game already. Now it is a kind of low game. I think the burden now is on Malaysia, really, to spread the idea in informal discussions like

this, and also not only with Japan or Korea or China, but with the U.S.. And in our informal relationship with them, bilateral discussions with them, we try to do that.

The other thing is, we try to tell our Prime Minister also not to talk too strongly about EAEC. If people get the wrong message, it is something like East Asia gang-ing up against other. As long as we can do that, I think that's the value we need. The chief value is not really in threatening; I think the chief value is in the treaty of amity and cooperation. Just like ASEAN before AFTA. The chief value of EAEC is like ASEAN before AFTA, not like ASEAN now, but ASEAN before AFTA. That means it just creates a friendship framework with this treaty of amity and cooperation, because we need to assure countries like Vietnam, Laos, Cambodia and China that they are living among friends so that they don't focus their ideas on defending against an enemy. At this moment we are strong; we can throw that friendship. We need to do that now, and I think not enough is being said about this of EAEC as ASEAN prior to AFTA. Now everybody talks about EAEC as AFTA, but it's not. The first stage is ASEAN before AFTA. It was twenty years before we reached AFTA — from '67 to '93 — more than twenty years. Twenty five years. That is the first stage, I think. It's important because we need to create friends with China, with Indochina, and right now we've forgotten, but actually also with Russia. Russia is also a Pacific nation. We need to make friends with them because just one enemy, North Korea, is enough to destabilize the whole area. And we need to make friends with North Korea also, and maybe get it into EAEC after we've done this. You cannot get everybody in it quickly, really. You get it later, maybe. After they see everybody being friends and having good relations, then they might join in and then you get a zone of peace which neutrality cover a very large number of countries, very strong countries, dynamically growing. It will color the whole global relationship. That is our vision, actually. It's not just something short-term; it's long-term. But we need to treat very carefully. And we need to explain. So actually the explanation is more important, and after you explain it, people can believe, then they join.

The idea of EAEC as a free trade area or as a bloc actually was not our invention. That idea was the invention of the U.S.. When it heard about the EAEC, immediately it labeled it as a "bloc" and now we have to live it down. That's a problem. We have to keep explaining to them, "no no no, this is the wrong thing." And they prefer not to understand it that way. So this is the other thing. In fact, there is no purpose in having a free trade area when you already have all this relationship, but there

is a very important purpose of having a treaty of amity and cooperation. That provides the framework of relationships; it's very, very critical for the long-term, otherwise we'd spend a lot of money on armaments and fighting.

You look at Africa. It never developed because all the effort goes to arms. One tank costs as much as three schools and does a lot of damage. Three schools do a lot of good. But with all their money, they purchase things rather than schools. They purchase weapons, aeroplanes, rather than hospitals. They cannot develop as a result, and there is no hope for the country. That's because they haven't formed friendship relationships. In our case, if we formed an enmity relationship with China, we're in trouble, and we would get into that position. Imagine, of all the industries, your strongest industry would be the arms industry, not the peace industry. This is the problem with the U.S. now. The outbreak of peace is a problem for the U.S. because its strongest industry is the arms industry, and you cannot export arms now; nobody wants to buy. Same with Russia. They've got a problem. The strongest industry is the arms industry in Russia. Who wants to buy a Russian tank now which costs for \$50,000? Cheaper than an average car. And they have factories that are just converting tanks to lawnmowers or whatever. They have a factory in Czechoslovakia, the Czech Republic, converting tanks to fire engines because there's no use for tanks now, but all their whole industrial structure has been geared towards arms. Thirty years of development lost. Now, we don't want that to happen in East Asia. It's for policymakers to fight that war for us so that there is no war between the soldiers. Let the policymakers win the war of peace, and get to the place that there is no role for the soldiers. Soldiers would be just for ceremonial purposes and national dignity and some security. That would be the best thing that could happen, and we need to lead that. I think Japan has learned that lesson very early. You put it in your constitution limiting the role of the armed forces. Other countries should follow that. That's why you have the high moral ground, actually, and you have the economic strength. We need some strong leadership — not hegemonistic kind of leadership but leadership in terms of leading ideas — from Japan.

This is my personal belief. So I hope I've answered that question. Thank you.

QUESTION 6: My name is Tanaka. I'm working in the research and development division here in this Institute. I have one question about the result of the establishment of EAEC because I'm a little bit suspicious about these results. I'm sure that the establishment of EAEC will promote better economic cooperation, economic rela-

tionship in the Asian region, but how about the effect on the close regional trade. Because it may press more pressure on, maybe, NAFTA or North American Economy or EC, or it may give them more motives or reasons to be a kind of protectionist type of regional economy. So how do you think — because you were talking about open nature of regionalism, the regionalization of economy, but how do you think you keep NAFTA or keep EC to have more open structure? How can establishing the EAEC contribute to more worldwide free trade system?

Dr. ATAN: Thank you very much. I think that is one of the rationales of EAEC, that is to try to help fight for free trade. But you are right. That is not the confirmed hypothesis. That means, are we sure that the EAEC have that effect, or will it have the opposite effect. That means the other people might become more strongly protectionist because it fears EAEC, and suddenly they start closing their doors, becoming more protectionist, forming fortresses — fortress of Europe and fortress of America, maybe. So which of the two scenarios will come about, that's the question. If you look at what is happening in the U.S. now, I think there is also that kind of question internally. Also in Europe, there's that question internally. Originally, in 1989 when they discussed about EC, everybody was so happy about it. They were talking about this is a very big open market, and there'll be free trade within Europe, and then suddenly, now, people are having second thoughts because some companies feel that maybe they cannot compete; therefore, they don't want to open, so the Maastricht treaty and its ratification are having problems as result of that.

Same thing with the U.S.. Even now, the people who are pro-liberal trade and people who are pro-protection are fighting each other. And as a result they have to write the two subsidiary agreements to qualify NAFTA. So you are right; this is a tendency now, a tendency which is very strong in the West. And whether EAEC will make that tendency worse or make it better is an open question. Now, in assumption, that tendency will be very strong with EAEC or without EAEC. That means it will be there even if we don't form EAEC, that tendency will be strong. They are already exercising that tendency against you, against ASEAN countries. They are already going discussing with China, with Japan using that kind of leverage. In the GATT Uruguay Round, we have problems. The whole Uruguay Round is stuck because the U.S. doesn't want to open the areas in which it is weak, and it wants everybody else to open the areas in which it is strong. It is already happening wit out the EAEC. So we have to fight that battle head-on, in other words. This is what my Prime Minister

believes; we have to fight that tendency head-on. That tendency is very strong now. If there were no such kind of tendencies, maybe no reason for EAEC because the EAEC would only create that tendency. But now, the tendency is already there, so how do you fight it? You fight it by confronting it or you fight it by keeping silent and hoping that they change their mind involving protectionism.

I think this was the dilemma of Chamberlain and Churchill. Remember Chamberlain and Churchill, when Hitler came and formed the Nazi party in Germany. There were two schools of thought in Britain: do we confront Hitler or do we accommodate it? Same dilemma like we have now. Do we confront protectionism or do we accommodate it? And this is the lesson - Chamberlain lost the battle because Chamberlain said that we should accommodate and the problem would go away. It didn't happen. In the end, they had to fight the battle. So here, we hope that there's no battle. That is why I say go slow, but at least have the threat of something strong here that will make them think twice about being closed.

Now I think EAEC has already got some impact, even without being born because when they know that we can form the EAEC, now suddenly, America starts talking about APEC, starts talking about better trade. Originally, at the first three meetings of APEC, the Americans didn't want to attend it. I know it was held here in Japan. At the expert meeting (I was representing Malaysia at that time) there was nobody from U.S.. coming at that time. They didn't even want to look at it. And with EAEC suddenly they feel that they are being left out, so suddenly APEC became so popular with the U.S.. The most popular thing with U.S. now is APEC. Previously, no, to them it was just this Australian idea or Japanese idea. They just sent Professor Cross, and Professor Cross just came there because he was a paid researcher. But now they come — even without being born, the EAEC has an impact. So we can use the EAEC as this kind of threat to them, as a warning to them that, "Okay if you want to play that game, we have the power to fight you head-on." Just like you have that kind of strength; in the early days after World War II, it might not have happened. But if you accommodate it and say, "We are weak, please go on as you are and we won't disturb you", accommodate them, try to please them, they're going to roll over you, and the side for protectionism will get the upper hand. So I think Japan must appear to be slightly fierce. Not too fierce as to make the U.S. feel that you are enemies, but slightly fierce to know that they cannot push you over and just force you to do things. Because I think East Asia need not do that now. East Asia can

develop a certain source of strength. You need that. What form EAEC will depend on how you tune it because we want to have that strength without being adversarial. This is the thing. That's why in Malaysia, we support EAEC as well as U.S. involvement via APEC. But the Prime Minister will not go to the APEC summit because the U.S. wants APEC to be in place of EAEC. We want APEC to be a bigger forum which the EAEC balances NAFTA. They want to have just NAFTA and APEC, no EAEC. There's a big difference there. That's why, in Malaysia we support APEC, the original idea of APEC, but the Prime Minister will not go to the summit because in that summit, what he feels is that the idea of APEC might become formalized as something in place of EAEC. Then it would become a larger hegemonistic vehicle for the U.S.. That's why we are not willing to go there, but in our policies, we are involved in all the APEC activities. We are actually the chairman of PECC, which is closely linked to APEC, and we are going to hold the PBEC meeting in 1994. So we are not against APEC, but we are against APEC in the mode that the U.S. wants it to play. You must know the U.S. is not using APEC because it loves East Asia. It wants to use APEC as a safeguard against EAEC, so we have to be very clear here. I think the best posture we can have is to show some strength without being adversarial. It's hard to do, but you have to know how far you can go and then cut it.

This is the kind of perspective I have. Thank you very much.

MODERATOR: Thank you very much. I think it's almost time for closing the seminar. Just for your information, we have distributed two kinds of papers. One paper, titled "Major Trends Affecting the World Economy", is the background paper for this lecture today, and the other one, titled "Economic Regionalism", was prepared by Dr. Atan for presentation in an SID conference which will be held on the 7th and 8th in OECF and EXIM joint conference room. Lastly, I would like to express our heartfelt thanks to Dr. Atan for a very informative lecture on a very wide ranging issue, covering the world changes and the globalization and integration of the Asian region. Thank you very much.

〔 資 料 〕

ECONOMIC REGIONALISM

by

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ISIS, Malaysia

(A paper for a panel discussion at the East Asian Regional Conference on Major Issues in Sustainable Development in East Asia in the 1990s and Beyond, Tokyo, 7-8 October, 1993.)

Introduction

A strong feature of the 1990s is a renewed interest in the formation of regional groupings. Thus the 1990s saw the launching of EC 1992 and the signing of the Maastricht Treaty; the formation of new free trade areas and custom unions such as NAFTA, AFTA and MERCOSUR; and the development of looser regional groupings such as APEC and EAEC. All these processes are ongoing and, for most, the journey is not a smooth one.

The detailed rules and the final forms of most of these regional groupings are thus still evolving. Their impact and contributions on their respective regional economies and on world trade and development at large are, not surprisingly, still the subject of discussion, debate and speculation.

Open and Closed Regionalism

It is widely accepted that regional groupings are **second best** solutions in a situation where worldwide free trading relations are difficult or impractical to achieve.

Proponents argue that such groupings can act as half way houses or mid-stations in the long journey towards the ideal of free trade. Opponents on the other hand argue that regionalism lead to the formation of closed

protectionist blocs and thus works against the realisation of the ideal of free trade.

Which of these opposing view is right, I believe, depends on the nature and purpose of the formation of the regional groupings concerned.

In theory economic groupings can have both **trade creating** and **trade diverting** effects. In my view, whether one or the other prevails depend on whether the grouping formed is 'closed' or 'open' in orientation.

Closed groupings

Closed groupings are designed to protect and cocoon an existing turf. They have the objective of defending a threatened status quo or reestablishing a valued status quo ante. Closed groupings thus maintain high external barriers, both tariff and non-tariff. In the negotiations, member countries are more concerned with predetermining and apportioning shares or in protecting vulnerable sectors, than in establishing new modes of regional cooperation.

Closed groupings are thus static rather than dynamic in orientation. As such, members are less inclined (or able) to allow readjustments in line with changes in comparative advantages. They are less interested in facilitating open trade and competition among members and are worried that unbridled competition will lead to expensive adjustment problems. Nor are they willing to undertake the consequential rapid readjustments needed to allow home industries to compete freely in open competition with other regional partners.

Because of these orientations and preferences, their effect on regional dynamism and growth will be minimal. At the same time, by cocooning the internal market from outside players they serve to divert trade in favour of group members. Their effect on world trade will thus also be unfavourable.

The net effect of closed groupings on world trade will thus be trade diversion rather than trade creation and their net effect on regional and on world economic development is also likely to be unfavourable.

Closed groupings however serve to cocoon a valued status quo position from outside 'encroachment'. To rich countries saddled with no-longer competitive industries and high costs, a closed grouping is thus a tempting option; more so if unions pressures and pressures from threatened industries are politically strong.

Open Groupings

Open groupings on the other hand focusses their efforts on enhancing regional cooperation and reducing intra regional barriers to trade and investment flows. In other word, they focus on **building bridges between members rather than building a common fence against non-members.**

The major effect of open regionalism is thus the enhancement of the regional economy and the creation of a large domestic market which will result in greater economic dynamism. Such dynamism results in additional demands for imports and attracts inflows of investment.

Open regionalism is thus expected to be, in the net, trade creating; resulting in benefits to those inside as well as (perhaps to a lesser extent) to those outside.

Open regionalism, by allowing member countries to adapt to greater regional competition can also act as an incentive for future liberalisations vis-a-vis outside players. Thus, while existing outside barriers may be maintained initially, over time, as member countries become used to open competition among themselves, external barriers become less relevant and can themselves

be pruned down. The arguments about the creation of a half-way house towards global trade liberalisation is thus applicable only to open regionalism.

AFTA

AFTA (ASEAN Free Trade Area) is an ASEAN initiative conceived as a way forward towards finding brave and creative ways of enhancing intra-ASEAN trade and economic cooperation.

The scheme was to be implemented via the Common Effective Preferential Tariff (CEPT), in a phased manner over 15 years, commencing 1st January, 1993. The scheme covers all manufactured items including capital goods. It however excludes agricultural goods. In addition countries are allowed to temporarily exclude sensitive industries from the list. The exclusion is, however, meant to be temporary and will be reviewed in the eighth year with the objective of phasing down tariffs to the 0-5 percent level over the remaining 7 years.

Among the most significant victories was the shortness of the gestation period of the AFTA idea from conceptualisation to the signing of the CEPT agreement (i.e. 1991 to 1993); the agreement to include capital goods in the scheme (after initial objections from certain member countries); and the agreement to put a time limit even to sensitive industries. The rules of origin requirements of only 40 per cent on cumulative rather than single country basis was also reached after some discussions. These 'victories' show that countries in ASEAN are serious about liberalising their economies and are willing to enhance intra-ASEAN trade on a competitive basis.

The inclusion of significant industries such as electronics, textiles, chemicals, cement and resource based products on the fast track scheme was also a major victory (see Table 1). This indicates a high degree of commitment to the scheme (items in the fast track will achieve 0-5 per cent tariff in 7 to 10 years

instead of 15). The fast track items cover around 37 per cent of intra-ASEAN trade.

Table 1
The 15 Fast Track Items

1. Ceramic and Glass products
2. Cement
3. Chemicals
4. Copper Cathodes
5. Electronics
6. Fertilizers
7. Gems and Jewellery
8. Leather Products
9. Plastics
10. Pharmaceuticals
11. Pulp
12. Rubber Products
13. Textiles
14. Vegetable Oils
15. Wooden/Rattan Furniture

This situation is a far cry from an earlier scheme namely the ASEAN Preferential Trading Agreement (PTA) where countries' offerings were minimal and cover many non-traded items including things like snow ploughs! As a result, trade covered by the PTA was estimated to be only around 1 per cent of total ASEAN trade!

The strongest commitment to AFTA is shown by countries like Singapore and Malaysia, which are already operating under comparatively liberal rules. The commitment of the others namely Indonesia, the Philippines and Thailand are however also commendable bearing in mind the fact that they have to make

a lot of difficult adjustments; existing tariff structures in these countries being significantly higher than those in Singapore and Malaysia (see Table 2).

Table 2
Average Unweighted Tariffs (%) for selected items

	INDONESIA	MALAYSIA	PHILIPPINES	THAILAND	AVERAGE
Pulp	9	3	7	5	6
Textiles	19	6	26	30	20
Vegetable Oils	13	1	21	10	11
Chemical	4	0	7	10	5
Pharmaceuticals	5	0	9	8	5
Fertilizer	0	0	3	0	1
Plastics	15	13	17	25	18
Leather	3	9	19	24	14
Rubber	9	8	23	22	15
Cement	15	55	30	5	26
Glass	20	15	20	18	18
Gems	11	5	24	0	10
Electronics	24	15	18	25	21
Furniture	50	24	33	80	47
AVERAGE	14	11	19	19	16

Source: Kumar, S. (1992) "ASEAN Free Trade Area - Issues for Policy", paper presented at the 'ASEAN Roundtable' organised by the Institute of Southeast Asian Studies, 3-5 September, Singapore.

Furthermore, many of the industries being opened to regional competition are controlled by politically powerful local interest groups who are used to operating under tariff protection and even under monopolistic conditions. The commitment of these countries to the CEPT, while showing great determination on the part of their current leaders, also appears to be vulnerable to changing political fortunes and economic circumstances.

Strategy to realise AFTA

Given the circumstances, readjustments via strategic alliances and cooperative endeavours between players in different countries are thus safer and less destabilising than outright full blooded competition. Despite this, a process

of the weeding out of non-competitive facilities and even companies may however be unavoidable during the adjustment period. New ventures however must immediately take on a more competitive format in preparation for the establishment of a large and competitive internal market by 2008.

Early success in creating such linkages and the establishment of competitive new industries, preferably on joint venture basis involving partners from different ASEAN locations (as well as outside interests), will be desirable to build-up support for the scheme. There is a need to quickly bring the dynamic potential of AFTA quickly into the fore and to make the benefits manifest. There is also a need to ensure that, in the dynamic situation created, winners outnumber losers and that the exit cost of losers (i.e. those who are displaced), are minimised by offering them alternative opportunities, at home or abroad. Thus a small car assembler that cannot compete without tariff protection should be allowed to join up with a bigger company in the region or move upstream to component manufacturing or downstream into distribution, servicing etc. Such deals, however, must be made at the private sector level and cannot be engineered from the top. For things to develop in the right direction there thus need to be a close understanding by the private sector on the implications of current regional policies and there must be a spirit of give and take and a certain degree of accommodation towards each others' needs. Close linkings at the level of chambers of commerce will facilitate this. This '*weaker form*' of free competition is, I believe, needed at the initial, adjustment stages.

EAEC

The EAEC, like ASEAN, can be stylised as a 'multipurpose' regional organisation which seeks to bring together countries within the region into closer and more friendly cooperation with each other. Not surprisingly the initial base of the EAEC is ASEAN itself. From the initial basis of *amity and friendly relations*, EAEC can foster closer in-group *cooperation* (trade,

investment, etc.) as well as operate as a *caucus* in relations vis-a-vis other parties or forums.

The desired effect of the EAEC is thus the creation of a stable, closely interlinked and dynamic region which can act as a powerful engine for world growth and development besides playing a significant and respected role in international economic and other relations.

The EAEC is made up of economies whose industrial structure is comparatively young, dynamic and competitive. Most EAEC economies are trading nations and all favour free flow of goods and capital across national boundaries. Thus while some are capital exporters others are important hosts to inward foreign investments. Most EAEC countries are in fact active as both sources as well as destinations of investment.

Given their economic situation, these countries will naturally favour a regime in which there is industrial dynamism and change in line with changes in the international product life cycle. Being traders and investor/investee nations who are used to looking abroad for markets and opportunities they will also be likely to support free trade and open investment rules. Thus, working together as a caucus, the EAEC can be a powerful force for open regionalism and against the creation of inward-looking and protectionist blocs.

Challenges that may be faced in realising EAEC

The full realisation of EAEC requires the following:

- * Consensus and full agreement within ASEAN on the ultimate objectives of the EAEC;
- * Agreement of other invited members, particularly large and influential players like Japan, China and Korea, to embrace the EAEC concept, join EAEC and give full support to this ASEAN initiative;
- * Agreement by the other parties like the USA and Australia to support

the EAEC idea, for the political stability and economic dynamism that it will help to ensure in the East Asian region. The establishment of close and friendly relations with China within a cooperative framework is in fact one of the key values of the EAEC;

- * Willingness by others in the Pacific area to cooperate with the EAEC even though they are not in the grouping. The decision to operationalise the EAEC as a caucus within APEC in fact provides a good linking framework where EAEC, NAFTA and ANZCERTA can cooperate. This will be supplemented by relations through organisations such as the PECC, PAFTAD and PBEC.

Conclusions

In conclusion it can be said that while the worldwide move towards regional integration and groupings may be unstoppable one can however at least ensure that groupings formed are open in nature.

In this regard 'young' and dynamic regions like 'East Asia' can play a leadership role. This is so because, young and dynamic regions are used to constant structural shifts in line with changing competitive situations. They also have 'not arrived' and thus have no strong desires to cocoon a particular status quo position. In contrast, whatever Western liberal economists may say, pressures towards the creation of closed and protectionist forms of regionalism may be difficult to avoid in the older and more matured developed regions such as North America and Europe. President Clinton's problems in pushing NAFTA through Congress is a case in point. The supplementary agreements to prevent harm to workers and the environment are in fact protectionist *post scripts* to an initially quite liberal NAFTA document. Liberal minded economists as well as European and American multinationals and global companies who would like to see a liberal international economic environment in the world may thus need to pin their hopes in a successful East Asian initiative towards open regionalism.

For East Asia, Japan holds the key in our efforts to create a dynamic open region in this part of the world. This is so because Japan '*has arrived*' and thus have more reasons to protect a status quo position. At the same time Japan is right in the middle of the dynamic East Asia union and is currently the most influential economy within this region so that without Japan, any effort towards creating an open regional grouping in East Asia may lack credibility.

Fortunately, Japan unlike other industrialised nations, is quite used to adjustments and have continuously shifted its structure of production in line with changes in the international division of labour. Japan thus have young and competitive industries and very low rates of unemployment. Japanese industries thus do not need protection.

The question is, will Japan lead East Asia in the direction of open regionalism or will it remain lukewarm? Continuing dynamism of this region as well as the ability of East Asia to act as a growth locomotive for the world over the next few decades may depend on the answer to this question.

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