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# ASEAN: WHAT IT IS, WHAT IT IS NOT, WHAT IT CAN BE*

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With a population of over 260 million and a GNP which exceeded $120 billion in 1979, ASEAN has the potential of becoming an important economic and political entity in world affairs. Econometric forecasts indicate that ASEAN'S free market economies are likely to achieve the highest rates of growth in the Asia-Pacific region in the 1980s. Its current diplomatic activities demonstrate ASEAN's capacity to act in unison in defense of regional stability in Southeast Asia, by firm opposition to the Vietnamese occupation of Cambodia.

While credit for these achievements is due to each of the five governments participating in ASEAN, the fact that Indonesia, Malaysia, the Philippines, Singapore, and Thailand were able to use a regional entity to promote their common interests is one of the positive international developments of recent years.

Having followed closely the affairs of Southeast Asia for almost thirty years, including frequent visits to that region, I wish to express my appreciation to the Senate Foreign Relations Subcommittee on East Asia and Pacific Affairs for holding these important hearings on U.S.-ASEAN relations. They are a needed testimony of American determination to continue to play an active role in the Asia-Pacific region and a recognition of the contribution that ASEAN can make to regional stability and welfare.

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*Statement prepared for the hearings on U.S. policy in Southeast Asia, held on July 22, 1981, by the Subcommittee on East Asia and Pacific Affairs of the U.S. Senate Committee on Foreign Relations.

In assessing what can be expected from ASEAN, it is important to understand the great complexity and diversity of that region, situated half the way around the globe from Washington, D.C. Indonesia is the fifth largest nation in the world, with a population of about 148 million, whereas Singapore is a city-state with only 2.3 million inhabitants. But Singapore had a per capita income of $4,150 in 1979, whereas Indonesia's was only $240 in that year. The other three members of ASEAN range statistically between those two extremes: Malaysia, with a population of 13 million, had a per capita income of $1,523 in 1979, the Philippines, with 48 million inhabitants, a per capita income of $618 and Thailand, with 46 million people, a per capita income of $599.

These basic figures reflect vast differences in level of development. Life expectancy at birth in 1978 was 47 years in Indonesia, 60 years in the Philippines, 61 years in Thailand, 67 years in Malaysia, and 70 years in Singapore, as against 73 years in the United States.

The number of medical doctors available in 1977 was one for 14,580 people in Indonesia, one for 8,170 people in Thailand, one for 4,350 people in Malaysia, one for 2,760 people in the Philippines and one for 1,260 people in Singapore, as against one for 580 people in the United States.

With the exception of Singapore which has 100 percent coverage, in 1975 access to safe water was available to only a fraction of the population in the other four ASEAN countries, namely to 12 percent in Indonesia, to 22 percent in Thailand, to 39 percent in the Philippines, and to 62 percent in Malaysia.

Singapore is 100 percent urbanized and its energy consumption per capita indicates that the whole population has access to basic household amenities such as electric light, television, telephone, and some household appliances. Its energy consumption of 2,461 kilograms of coal equivalent in 1978 stands out in contrast with 278 Kg for Indonesia, 327 Kg for Thailand, 339 Kg for the Philippines, and 716 Kg for Malaysia, on an averaged per capita basis.

These figures become more meaningful if one considers that in developing countries energy averages are misleading. The rural population and the poorest urban inhabitants have in most instances no access to electricity and do not live in the modern world. In the four developing ASEAN countries, rural electrification has just begun. The urban population amounts to only 14 percent in Thailand, 20 percent in Indonesia, 29 percent in Malaysia, and 36 percent in the Philippines, and village life is still traditional.

These figures indicate that Indonesia, Malaysia, the Philippines and Thailand are still in the early stages of modernization and industrialization, whereas Singapore is a newly industrialized country similar to South Korea, Taiwan, and Hong Kong.

Over three quarters of the total exports of the four developing ASEAN countries are natural resources-based goods. Crude petroleum and petroleum products dominate Indonesia's exports, tin, palm oil, rubber and timber the exports of Malaysia, timber, copra, and sugar the exports of the Philippines, and rice and corn the exports of Thailand.

As exporters of commodities, these four countries have relatively little to trade with each other at the present stage of their economic development. A brief survey of ASEAN trade statistics reveals that the four developing countries in ASEAN trade more actively with Singapore than with each other.

Singapore, which has the world's third largest concentration of oil refineries, with a total capacity of about one million barrels a day, imports crude oil from Indonesia and Malaysia and exports petroleum products to all its ASEAN neighbors. It is also a major rubber processing center, an entrepot for the trade of other commodities, and an increasingly active exporter of manufactured goods.

Even when trade with Singapore is included, intra-ASEAN trade does not play a dominant role in the commerce of any of the five countries. In 1979, it amounted to 14.24 percent of the exports and 11.59 percent of the imports of Indonesia; 19.17 percent of the exports and 14.82 percent of the imports of Malaysia; 4 percent of the exports, and 3.57 percent of the imports of the Philippines; 17.95 percent of the exports and 7.05 percent of the imports of Thailand; and 19.5 percent of the exports and 18.64 percent of the imports of Singapore.

In February 1976, when the ASEAN heads of government held their first summit meeting in Bali, they decided to increase ASEAN cooperation in order to enhance regional resilience following the Communist victories in Indochina. Since then ASEAN has established more than a dozen permanent committees to promote regional cooperation in food and agriculture, shipping, civil aviation, finance, commerce and industry, social and

cultural affairs, central banking, transport and communications, tourism, mass media, science and technology, air traffic, and meteorology.

As a long-term objective, ASEAN is establishing preferential trading arrangements for several thousand tariff items. The practical impact of these trade liberalization measures is rather modest. A 10 percent cut for a PTA item with an existing 10 percent duty effectively means only a one percent preference. As ASEAN intra-regional trade flows are limited, the impact of PTA is partly symbolic, but it does create the setting for a possible future common market by small-scale experimentation with trade liberalization.

At this stage in the economic development of the ASEAN countries a common market is premature. Indonesia in particular wishes to protect its infant industries. Five industrial cooperation projects were selected after the Bali summit meeting of 1976, namely urea plants in Indonesia and Malaysia, a superphosphate plant in the Philippines, a potash plant in Thailand, and a diesel engine plant in Singapore.

The Japanese government promised in 1977 a $1 billion loan package for the implementation of these five ASEAN industrial projects in which the host country was supposed to hold 60 percent of equity and each of the other four countries 10 percent. Now, four years later, Singapore has withdrawn from the program, and has no project pending. It will hold only a one percent token equity in the projects of the four other countries. The Philippine project has been changed to a pulp and paper mill.

Only the Indonesian and Malaysian urea projects have made some progress, but because of delays in implementation inflation has increased the cost of the Indonesian project by $90 million and Japan was asked for additional funds to cover that shortfall, during Prime Minister Zenko Suzuki's visit to Jakarta in January.

The offer made by former Prime Minister Takeo Fukuda in 1977 to provide $1 billion for the ASEAN industrial projects was naturally intended to strengthen Japan-ASEAN economic relations and create good will. Actually, Japan is a major target of ASEAN criticism, being accused of seeking "tied financing" in favor of Japanese suppliers and of causing delays in project implementation resulting in escalation of project costs.

At the October 1980 meeting of ASEAN's industry ministers it was recommended that alternative financing for the industrial projects should be sought in addition to the $1 billion package offered by Japan and to have the host country rather than Japan select world-recognized independent consultants for the feasibility studies, to avoid exclusive reliance on Japanese expertise.

Besides trade liberalization and industrial cooperation, ASEAN has also explored the possibility of industrial complementation. The ASEAN Automotive Federation (AAP), which is the first of 12 industry clubs created in the private sector, worked out proposals for a division of labor in the production of automotive parts and components. But the ASEAN economic ministers, through their Committee on Industry, Minerals and Energy (COIME) have moved slowly, commissioning expert studies rather than making decisions.

The ASEAN Chambers of Commerce and Industry have criticized the official Guidelines for Industrial Complementation as "intended to regulate and control rather than promote and encourage private sector participation in and contribution to regional economic cooperation" and as "obviously intended to protect the national position at all costs," in the words of Tunku Abdul Aziz, Chairman of the Working Group on Industrial Complementation of the ASEAN Chambers of Commerce and Industry.

Disappointed with the policy decisions taken by the economic ministers for the implementation of industrial complementation, ASEAN businessmen began searching in 1980 for private sector alternatives to the official complementation schemes. The ASEAN Chambers of Commerce and Industries have initiated a detailed feasibility study for an ASEAN Investment Corporation with an authorized capital of $300 million. The ASEAN Banking Conference is studying the development of an ASEAN Finance Corporation.

Members of the ASEAN Chambers of Commerce and Industry are also discussing the feasibility of ASEAN joint-venture projects that would be undertaken with only minimal official privileges and preferences, in the hope that this would avoid the bureaucratic delays that have plagued the government-inspired industrial projects. ASEAN investors in the joint-venture projects would be treated as nationals of the country in which the project is located. This would be an important modification of prevailing requirements for nationals holding majority equity interests in many sectors. The ASEAN Chambers of Commerce and Industry have suggested that such joint ventures should be owned in equal proportions by nationals of the five countries.

Industrialization and economic growth will gradually increase complementarity in the export trade of ASEAN countries. There is hope for an increase in intra-regional trade in manufacturing. But at this time ASEAN should not be viewed as being on the verge of becoming an economic community. The trade of all five countries is still overwhelmingly directed outside the region. In 1979 ASEAN total exports amounted to $50 billion and imports to $46.5 billion. 20.35 percent of Indonesia's exports went to the U.S., and 46.14 percent to Japan. Indonesian imports came 14.57 percent from the U.S. and 29 percent from Japan.

16.9 percent of Malaysia's exports went to the U.S. and 23.9 percent to Japan, while 15.3 percent of imports came from the U.S. and 23.4 percent from Japan.

The Philippines sent 30.20 percent of exports to the U.S. and 26.39 percent to Japan. 22.98 percent of Philippines imports came from the U.S. and 22.53 percent from Japan.

Thailand sent 10.78 percent of exports to the U.S. and 20.70 percent to Japan, but 16.68 percent of her imports came from the U.S. and 26.25 percent from Japan.

Singapore exports were 13.71 percent to the U.S. and 10.34 percent to Japan, while imports of 14.24 percent came from the U.S. and 38.11 percent from Japan.

As trade partners and as investors, the U.S. and Japan have at present a greater impact on the economic condition of the ASEAN region than the five members have on each other. Regardless of how efficient

the governments in Bangkok, Jakarta, Kuala Lumpur, Manila and Singapore are in promoting economic growth, social welfare and political stability, their dependence on the two major free market economies in the Asia-Pacific region is so great that without American and Japanese support their efforts cannot succeed.

All five ASEAN governments wish to establish free market economies in their countries. They are trying to overcome habits of bureaucratic intervention which are legacies of the colonial past, reinforced by the intellectual heritage of nationalist and socialist ideas that were influential during their struggle for independence.

All ASEAN governments have experienced Communist subversion and armed insurrection. They have witnessed over the last three decades the failure of centrally planned economies that have tried to implement Marxist-Leninist and Maoist doctrines. They are natural friends and partners of the industrialized democracies and wish to emulate the pattern of development of the United States, Japan, and the other OECD countries.

The ASEAN countries are ruled by nationalist elites for whom the struggle for independence is still a vivid reality. Self-reliance is one of their strongest and most deeply felt aspirations. But their efforts to achieve economic growth--retarded by colonialism, war, and insurgencies--have to cope with obstacles that were absent at corresponding stages in the economic history of the United States, Western Europe, and Japan.

Increasing pressure of population on natural resources, high cost of energy, a growing number of competitors for foreign investment capitals and for a share of the world market are among the most obvious tangible material factors they have to reckon with. Less tangible but potentially explosive are the rapidly rising expectations of the younger generation, whose education and exposure to mass-media communications are fostering hope for a better life.

The proportion of young people under 15 years of age is very high in ASEAN: 41 percent in Indonesia, 43 percent in Malaysia, 45 percent in Thailand, and 46 percent in the Philippines. Singapore alone, consistent with the more advanced stage of economic development it has reached, has only 31 percent of its total population in the group under 15 years of age. Many of these over 110 million young ASEAN people face a bleak future.

Regardless of individual determination, training and work habits, these tens of millions of young men and women entering the labor market will be unable to find gainful employment in the absence of land that they can cultivate or of jobs in the industrial and services sectors.

The creation of jobs is the greatest and most intractable challenge facing the ASEAN governments. They will need all the help that the industrial democracies can offer in the form of capital investments, technology transfers and management. The United States, Japan, and the other industrialized democracies are not competitors for limited

opportunities in the ASEAN region. Both the needs and the potential of these countries of Southeast Asia are so great that, guided by enlightened self-interest, all the developed countries could apply their creative energy usefully in the region.

Although ASEAN is of vital strategic and geopolitical importance to the United States, the American contribution to the economic growth and thus indirectly to the political stability of these Southeast Asian countries is limited. In 1979 U.S. imports from the five ASEAN countries amounted to $9.3 billion, or 4.4 percent of the U.S. world total, and U.S. exports to ASEAN were $6.7 billion or 3.7 percent of the U.S. world total. In 1980 U.S. imports from ASEAN had risen to $12.2 billion, an increase of 31.1 percent in one year and exports to ASEAN had reached $9.1 billion, an increase of 35.4 percent.

These very substantial increases bode well for the future of U.S.-ASEAN trade and justify expectations that American direct private investments in the ASEAN countries will also be augmented. Private foreign direct investments have developed the production of export-oriented natural-resources based goods, earning for the ASEAN countries the foreign exchange sustaining their economic development plans. Unfortunately, modern production of oil and natural gas, or mechanized mining of tin, copper, and nickel, generate relatively few jobs.

Only the growth of labor-intensive manufacturing and the secondary generation of jobs in the service sectors can produce the structural transformation that will make ASEAN an economically healthy and prosperous

region. American entrepreneurship could play an important role in this mutually beneficial process.

Beyond doubt, the most important American contributions to the economic growth of the ASEAN countries will have to come from the private sector, through trade and investments. American official development assistance has considerable political-symbolic value as a link between friends, but its substantive contribution is marginal. The figures speak for themselves. For FY 1982 the Agency for International Development has requested the support of your Subcommittee for development assistance programs totalling $104.9 million for Indonesia, $104.2 million for the Philippines, and $45.8 million for Thailand.

These relatively modest sums are viewed by the recipient governments as important indicators of American concern for their welfare and I sincerely hope that they will have the support of your Subcommittee.

But it would be misleading to view such assistance as an adequate contribution to the ASEAN countries' struggle against backwardness and poverty. Those ancient ills require stronger medicine, in greater dosages. Only the private sector can provide really significant amounts of help. This, in turn, requires constant mutual efforts to sustain an investment climate in which the American-ASEAN business partnership can flourish. The ASEAN countries must guarantee the sanctity of contracts, protect foreign investors from bureaucratic harassment, and accept as basic the concept that investors are entitled to returns on

equity commensurate with the risks they are taking. The United States has to reciprocate by maintaining a liberal trade policy.

Besides economic and fiscal measures, a favorable investment climate requires also adequate national security. In the ASEAN region the proximity of the aggressive and militant Communist regime in Vietnam causes concern to governments that have been forced for many years to divert valuable human and material resources from economic growth to national defense.

Internal subversion and insurgency are also fostered in a variety of ways by the power play engendered by the Sino-Soviet conflict and by the manipulations of special ethnic and religious interests. Like new nations everywhere in the world, the ASEAN countries have not yet overcome all the sources of turbulence that interfere with their peaceful progress and they need U.S. security assistance.

For FY 1982, your Subcommittee has been asked to support security assistance requests of $100 million for the Philippines, $80 million for Thailand, $45 million for Indonesia, and $12.5 million for Malaysia. I sincerely hope that your Subcommittee will support these requests.

The stability of Southeast Asia requires a military balance between ASEAN and Vietnam. It is detrimental to regional order for the aggressive leadership in Hanoi to know that their military forces outclass the joint forces of ASEAN in manpower, weapons, and combat experience. While ASEAN is not and does not intend to become a military alliance, regional resilience is enhanced if the five governments are helped to implement their modest and sober defense plans.

After lengthy conversations, over many years, with numerous articulate persons in Southeast Asia, I am sensitive to the often-voiced accusations that American and other multinational corporations are harmful to the economic interests of the host countries and that American security assistance provides governments with means for repression. I believe that both those accusations are factually wrong.

Multinational corporations operate on terms set by sovereign states, advised by their own national experts, many of whom were educated in the industrial democracies. They are more than equal negotiating partners in dealing with private foreign investors and are demonstrably capable of protecting the national interests of their countries.

That multinational corporations are vilified by our ideological adversaries is unavoidable. But ways should be found to redress the balance and make it more clearly understood by the public at large that in fact multinational corporations provide the most efficient and beneficial channels for the transfer of capital, technology, and management skills from the advanced industrial democracies to the developing countries.

Similarly, the link between security assistance and political repression is an ideological distortion of reality. The worst instances of official brutality have been perpetrated by governments that did not receive security assistance. Uganda under Idi Amin or Cambodia under Pol Pot come readily to mind. Modern weapons are not required for the creation of a repressive political environment.

The people of the ASEAN countries are perfectly capable of protecting their economic and political interests against foreign and domestic adversaries. They are also willing and able to articulate how they wish to be helped by the U.S. and other friendly countries. If we listen to what they tell us and respond accordingly, the 250 million people of the ASEAN region will be able to make in the coming decades increasingly valuable contributions to global peace and prosperity.