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# ASEAN and the Structural Change of the World Economy \*

Kazushi SHIMIZU\*\*

As part of the structural change of the world economy, ASEAN has promoted deepening and widening of regional cooperation, ASEAN has been an important axis of regional economic cooperation and FTA in East Asia. The advancement of intra-ASEAN economic cooperation and East Asian regional economic cooperation as an axis of ASEAN will have major influences on the overall East Asian economy as well as the world economy. This paper confirms the significance of intra-ASEAN economic cooperation within the structural change of the world economy, and addresses current issues relating to intra-ASEAN economic cooperation. Section 2 discusses the significance of intra-ASEAN economic cooperation within the structural change of the world economy. Next, Section 3 analyzes the experiences of intra-ASEAN economic cooperation during the period from 1976 to 2003. Section 4 discusses the new developments in intra-ASEAN Economic Cooperation since 2003, and ASEAN and the East Asian regional economic cooperation. The concluding section summarizes these analyses, and also presents key issues relating to intra-ASEAN economic cooperation.

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East Asian Community, Economic Cooperation, Economic Integration, FTA

## 1. Introduction

Within the structural change of the world economy, the Association of Southeast Asian Nations (ASEAN) has been the representative of regional economic cooperation and integration among developing countries. In East Asia, ASEAN has been the sole source of regional cooperation. Founded in 1967, ASEAN has implemented intra-regional economic cooperation since 1976. It has promoted deepening and widening of regional cooperation since its founding, deepening its political and economic cooperation and fostering other types of cooperation. The five original members in 1967—Indonesia,

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Malaysia, the Philippines, Singapore, and Thailand— welcomed Brunei in 1984, Vietnam in 1995, Myanmar and Laos in 1997, and Cambodia in 1999. Consequently, ASEAN presently extends throughout Southeast Asia.

The ASEAN Free Trade Area (AFTA), which was approved at the 5th ASEAN Summit in 1992, was established by the six original member countries in 2003. Today, ASEAN's new goal is the establishment of the ASEAN Economic Community (AEC).

As an important axis of regional economic cooperation and free trade agreements (FTA) in East Asia, ASEAN has continued to expand. With the Asian economic crisis as a turning point, East Asian regional economic cooperation has increased steadily, to include ASEAN Plus Three (APT: ASEAN Plus Japan, China, and Korea). At the same time, FTAs including the ASEAN-China Free Trade Agreement (ACFTA) and ASEAN-Japan Comprehensive Economic Partnership (AJCEP) have also been established.

The world economy has been in a wave of structural change. The world economy has been unstable. Globalization due to the growth of international economic interdependence, especially the growth of the international capital movement, has been the base of development for ASEAN countries since the mid-1980s. However, this led to the Asian economic crisis in 1997, and has also helped create the global imbalances, the subprime loan problem and the current world financial crisis.

As part of these structural changes of the world economy, ASEAN has promoted deepening and widening of regional cooperation, ASEAN has also been an important axis of regional economic cooperation and free trade agreements (FTA) in East Asia. The advancement of intra-ASEAN economic cooperation and East Asian regional economic cooperation as an axis of ASEAN will have major influences on the overall East Asian economy as well as the world economy.

This paper confirms the significance of Intra-ASEAN economic cooperation within the structural change of the world economy, and addresses current issues relating to intra-ASEAN economic cooperation. We have analyzed intra-ASEAN economic cooperation within the structural changes of the world economy, on a specific and long-term basis (Shimizu, 1998a, 1998b, 1999, 2004, 2005a, 2005b, 2008a and 2009, etc.). This paper will build upon these past papers.

Section 2 discusses the significance of intra-ASEAN economic cooperation within the structural change of the world economy. Next, Section 3 analyzes the experiences of intra-ASEAN economic cooperation during the period from 1976 to 2003. Section 4 discusses new developments in intra-ASEAN economic cooperation from the beginning of “the ASEAN Concord II” in 2003, and ASEAN and the East Asian regional economic

cooperation. The concluding section summarizes these analyses, and also presents key issues relating to intra-ASEAN economic cooperation.

## **2. ASEAN and the Structural Change of World Economy: the Significance of Intra-ASEAN Economic Cooperation**

This section discusses the significance of intra-ASEAN economic cooperation within the structural change of the world economy. We will show that ASEAN is the focal point of the structural change of the world economy. Shimizu (1998) demonstrated the significance of intra-ASEAN economic cooperation within the structural change of the world economy explained.

First, ASEAN is an important center for the growing East Asia. With the end of the “Golden Age,” which spanned the quarter century after the World War II (WW II), the world economy entered an era of dynamic structural change. It was historic in the sense that those changes would not be repeated over time. The structural changes from the 1970s were deep and wide, including the movements of the center in innovation and growth. The growth of the new industrializing economies (NIES) embodied the new growth. Furthermore, ASEAN countries and China became the center of growth in the world economy after the 1980s. Therefore, analyzing the growth and structure in the East Asian region will definitely have crucial significance in clarifying the fundamental direction in the structural changes of the world economy. ASEAN is an important part of this growing East Asia. Thus, it is very important to study ASEAN to understand the structural changes in the modern world economy.<sup>1</sup>

Second, ASEAN is the regional cooperation or regional integration. ASEAN has been regarded as the most successful example of the regional cooperation and integration among developing countries. After WW II, developing countries which gained independence tried regional cooperation and integration from the standpoint of not only achieving a political and economical independence but also searching for a prescription for economic development and for the North-South problem. ASEAN implemented regional cooperation and integration as the model for developing countries, thus an analysis of ASEAN regional cooperation can play a significant role in examining the direction of modern international relations as well as in providing solutions for the North-South problem.<sup>2</sup>

Third, ASEAN is assuming a greater role of the management in the world economy.

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<sup>1</sup> Shimizu (1998), p. 1.

<sup>2</sup> Shimizu (1998), pp. 1-2.

After the collapse of the Breton-Woods system, the structural changes in the world economy included the formation of the multilayered international cooperation system, which includes the Group of Seven (G7), the Summit and the regional cooperation and integration including EU and NAFTA. The world economy after WW II was organized by the “free, indiscriminate and multilateral markets.” However, as Sasaki (1993) pointed out, those markets had to be supported by resolving the “aggregative government failures” by the “international cooperation” or the “management of world economy.” In the 1980s, the structural change in the world economy reorganized the “international cooperation.” ASEAN must assume a greater role in international cooperation and management of the world economy. This means that ASEAN must provide the “international public goods.”<sup>3</sup>

To summarize the above, ASEAN must play an important part in determining the direction of structural changes in the world economy, through 1) supporting the growth in East Asia, 2) encompassing an effort for regional cooperation and integration among developing countries and 3) assuming a greater role of the management of the world economy. Due to these three points, it is important to further research intra-ASEAN economic cooperation. In addition to these three points, we can state that ASEAN is an important part of the globalization.

Fourth, ASEAN is an important center of the “globalization.” The increasing international economic interdependence among nation-states is an important factor in the current globalization process. In particular, the increasing international capital movement is a decisive factor.

As Sasaki (2000) stated, the international economic interdependence among nation states fluctuated over the long term. The international economic interdependence had grown in the Free Trade Age: from the last half of the 19th century until World War I (WW I). Then, international economic interdependence grew through the expansion of trade, which came along with the international capital movement. After WW I and the world economic crisis, it declined. The bloc economy and WW II destroyed international economic interdependence. After the WW II, the Breton-Woods system (GATT/IMF system) helped to realize freer international trade, and revived international economic interdependence.<sup>4</sup>

The export ratio to GDP consistently grew in the 1960s and 1970s, from its bottom in 1950.<sup>5</sup> This was led by freer international trade. But, freer international capital

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<sup>3</sup> Shimizu (1998), p. 3.

<sup>4</sup> Sasaki (2000), pp. 14-16.

<sup>5</sup> Maddison (1989), p. 28.

movement was not realized, because there were many regulations for freer international capital movement. First, the freer capital movement was regulated by the “independent” macro economic policy to achieve full employment. Second, this freer capital movement was regulated by economic and monetary policy to maintain the fixed exchange rate system by the IMF. The Breton-Woods system removed the barriers from trade, but it maintained the barriers with capital movement and kept the “independent” national Keynesian policy. In the Breton-Woods system, each national economy was an “insular economy,” not part of the “global economy.”<sup>6</sup>

In the 1970s, the “insular economy” was dismantled and reorganized. Nixon’s New Economic Policy in 1971 and two oil crises in 1973 and 1979 led to new structural changes of the world economy and reorganization. First, the independent national Keynesian policy was not effective and led to stagflation. This situation led to a monetarist economic policy. Second, the fixed exchange rate system became unsustainable for each economy. This led to a floating exchange system. These two factors led to freer international capital movement from the end of the 1970s. The international capital movement grew greatly in the 1980s and 1990s.<sup>7</sup>

This freer international capital movement was a decisive factor for the rapid growth of ASEAN economies after the Plaza Accord in 1985. Then, ASEAN countries changed their economic policies from FDI-restricted economic policies to FDI-attractive economic policies. These changes led to the switch of intra-ASEAN economic cooperation strategy, which we will examine in the next chapter.

In the 1990s, the Cold War structure changed in East Asia. This change of cold war structure was the other decisive factor of globalization in East Asia. This led to expansion of market and economic space for ASEAN and western economies.

In China, the government resumed the reform and open policy since the 4th National People’s Congress in 1991. The growth rate jumped to around 13% in 1992-1993 and remained over 10% in the 1990s. In addition, the Indochina situation, which used to define the Southeast Asian Cold War structure, also changed drastically. The withdrawal by the Vietnamese army from Cambodia, the peace in Cambodia and the establishment of Vietnam’s Doi Moi policy quickly changed the relationship between ASEAN and Vietnam.<sup>8</sup>

This change led to expansion of market and economic space for ASEAN. Furthermore, Indochina countries joined ASEAN: Vietnam joined in 1995, Myanmar

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<sup>6</sup> Sasaki (2000), pp. 16-17.

<sup>7</sup> Sasaki (2000), p. 17.

<sup>8</sup> Shimizu (1998), pp. 150-151.

and Laos in 1997, and Cambodia in 1999. Consequently, ASEAN now extends throughout Southeast Asia.

These two factors: 1) the growth of international economic interdependency due to freer international capital movement and, 2) the expansion of market and economic space due to the change of the cold war structure have been the fundamental factors in the current globalization. ASEAN includes these two factors. Therefore, ASEAN is a focal point of the structural change in the world economy.

In the next section, we will discuss the experiences of intra-ASEAN economic cooperation.

### **3. Intra-ASEAN Economic Cooperation during the period from 1976 to 2003**

#### **3-1. Intra-ASEAN Economic Cooperation during the period from 1976 to 2003**

Founded in 1967, ASEAN began intra-ASEAN economic cooperation at the 1st ASEAN Summit in 1976. This economic cooperation, based upon a report formulated by a United Nations Team (“Economic Cooperation among Member Countries of the Association of Southeast Asian Nations”), was carried out according to “ASEAN’s Strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries (ASEAN’s strategy for CISI).” This strategy was designed under restricted foreign direct investment (FDI) and was conducted through collective self-reliance policies. However, the strategy suffered a setback from failures, resulting from conflicts of economic interests among the ASEAN countries, in the implementation of three policies: ASEAN Industrial Projects (AIP), ASEAN Industrial Complementation (AIC), and the Preferential Trading Arrangement (PTA) (along with the ASEAN Industrial Joint Venture, AIJV, also started in 1983). Failures in the creation of an interdependent market within ASEAN were a further cause of early setbacks.<sup>9</sup>

At the 3rd ASEAN Summit in 1987, that strategy (“ASEAN’s strategy for CISI”) was switched to a new strategy “ASEAN’s strategy for Collective FDI-dependent and Export-oriented Industrialization (ASEAN’s strategy for CFEI).”<sup>10</sup> This was because the base of intra-ASEAN economic cooperation was changed according to the structural changes of the world economy. A decisive turning point came in the form of the Plaza Accord in September 1985. After the Plaza Accord, the international division of labor by MNCs began to take place at an increasingly faster pace with the high yen and cheap

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<sup>9</sup> Shimizu (1998a: Chapters1-3, 1998b), about intra-ASEAN economic cooperation during 1976-1987.

<sup>10</sup> Refer to Shimizu (1998: Chapter 4, 1999b).

dollar. The FDI from Japan to Asian NIES and ASEAN countries increased rapidly. In addition, there was another change that had occurred inside ASEAN. ASEAN countries switched foreign capital policies drastically, from FDI-regulated policies to FDI-attractive policies, in the mid 1980s. These fundamental changes in the conditions of intra-ASEAN economic cooperation forced a switch from the previous strategy (“ASEAN’s strategy for CSIS”) to a new strategy.

“ASEAN’s strategy for CFEI” was a new model strategy for intra-economic cooperation or economic integration among developing countries, which was the strategy to support ASEAN countries’ FDI-dependent and Export-oriented Industrialization collectively.<sup>11</sup> The former strategy had failed and some changes had occurred in economic conditions both inside and outside the ASEAN region. At the heart of this new strategy was the Brand-to-Brand Complementation (BBC) Scheme.<sup>12</sup>

ASEAN’s strategy for CFEI reached a significant turning point and a new phase, along with historical structural changes surrounding ASEAN starting in 1991, resulting from changes in the cold war framework and the rapid economic growth in East Asia. These changes promoted the deepening and widening of intra-ASEAN cooperation. In other words, AFTA, ASEAN Industrial Cooperation (AICO), and the ASEAN Investment Area (AIA) were promoted as extensions of ASEAN’s strategy for CFEI, and the enlargement of ASEAN to include the countries of Indochina.<sup>13</sup>

However, ASEAN countries were hurt by the Asian economic crisis.<sup>14</sup> This crisis began in Thailand with its currency crisis in 1997, which immediately had a great impact on other ASEAN countries. ASEAN countries faced serious problems including negative economic growth, demand decline and stagnant FDI.

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<sup>11</sup> Specifically, “ASEAN’s strategy for CFEI” was intended to accomplish the following: 1) invite foreign capital (especially FDI) to the region, not on an individual national basis; 2) promote economic activities supported by foreign capital; 3) form an integrated intra-regional market; and 4) create exportable industries within the region. Refer to Shimizu (1998a: Chapter 4, 1998b).

<sup>12</sup> The BBC scheme was an arrangement whereby specified parts/components of a specific vehicle model were traded and used by the brand owners (e.g. Mitsubishi Motor Corp.) and brand related original equipment manufacturers (BR-OEMs) in their respective original equipment products. Participating countries were all be granted a) local content accreditation, b) a minimum of 50% margin of tariff preference (MOP) to BBC products (“Memorandum of Understanding, Brand to Brand Complementation on the Automotive Industry under the Basic Agreement on ASEAN Industrial Complementation,” ASEAN Secretariat, 1987, pp. 45-48). Mitsubishi Motors Corp. (MMC), Toyota Motor Corp., and Nissan Motor Co., Ltd. had complemented auto parts in ASEAN under BBC. Refer to Shimizu (1998a: Chapter 5, 1999b).

<sup>13</sup> Refer to Shimizu (1998a), Final Chapter.

<sup>14</sup> Refer to Shimizu (1999a), about Asian economic crisis and intra-ASEAN economic cooperation.

ASEAN sought various measures to cope with this economic crisis. At the Informal ASEAN Summit in December 1997, ASEAN adopted “ASEAN Vision 2020,” which stated the long-term goal of ASEAN.<sup>15</sup> At the 6th ASEAN Summit in December 1998, ASEAN adopted the “Hanoi Declaration of 1998,” “Hanoi Plan of Action” and “Statement on Bold Measures,” to cope with this economic crisis. But, these measures were not so effective to cope with the crisis in the short-term. Assistance from East Asian countries was more effective.

With the 1997 Asian economic crisis as a turning point, intra-ASEAN economic cooperation entered a new phase because the structures of the world economy and the East Asian economy surrounding ASEAN had changed to a great extent.<sup>16</sup> The first change was China’s rapid growth and its expanding influence. China maintained its rapid growth of over 7% during and after the Asian economic crisis, which contrasted starkly with conditions in ASEAN countries. Trade and investment, which led to this rapid Chinese growth, grew rapidly. China came to attract FDI and consequently put great pressure on ASEAN countries. The second change was the stagnation of worldwide trade liberalization by the WTO and the evolution of FTAs. The third change was the increased interdependency throughout East Asia including China, and the development of the foundation for economic cooperation throughout East Asia.

Some examples of intra-ASEAN economic cooperation after the Asian economic crisis are illustrative. In fact, AFTA<sup>17</sup> was almost established by the six ASEAN original member countries in January 1, 2003. In addition, AICO<sup>18</sup> was agreed upon at

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<sup>15</sup> “ASEAN Vision 2020,” <http://www.aseansec.org/5228.htm>

<sup>16</sup> Refer to Shimizu (2004, 2005).

<sup>17</sup> AFTA is the free trade area concept agreed upon at the 4th ASEAN Summit in January 1992. Under AFTA, as a major means of Common Effect Privileged Tariff (CEPT), tariffs for industrial products and processed agricultural products in the ASEAN region were to be reduced by 0–5% by 2008. At the 6th ASEAN Economic Ministers Meeting, the implementation of tariff reduction was moved up by 5 years to 2003 for non-processed agricultural products. At the 6th ASEAN Summit in December 1998, implementation was moved up by another year to 2002. A product was deemed to originate from an ASEAN member state if at least 40% of its content had originated from any member state (“Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area”).

<sup>18</sup> BBC was developed to AICO, as agreed upon at the informal ASEAN Economic Ministers Meeting in April 1996, and came into effect in November 1996 in each ASEAN country. The approved AICO Products traded between Participating Companies enjoyed preferential tariff rates of 0–5%. The local content accreditation was accorded to products manufactured by participating companies. The Companies wishing to benefit from the privileges of the AICO Scheme fulfilled the following criteria: a. be incorporated and operating in an ASEAN Member Country; b. have a minimum of 30% national equity (“Basic Agreement on the ASEAN Industrial Cooperation Scheme,” <http://www.aseansec.org/6385.htm>).

the informal ASEAN Economic Ministers Meeting in April 1996 and came into effect in November 1996. No case was approved for more than one year. However, in 1998, some cases about auto-parts were approved in the background of the Asian economic crisis. Actually, AICO was centered upon the complementation of auto parts for Japanese automobile makers. For example, Toyota produced main auto parts such as steering gears in Malaysia, transmissions in the Philippines, diesel engines in Thailand, and gasoline engines in Indonesia. It had been complementing these parts since 1990 under BBC and AICO. Main auto parts of Toyota in ASEAN were complemented at a tariff of 0–5%.<sup>19</sup>

Simultaneously, ASEAN had consistently been successful at extra-regional economic cooperation (the External Economic Joint Approach). Consequently, ASEAN had been able to secure export markets and obtain foreign aid.

### **3-2. Centrifugal Forces of Intra-ASEAN Economic Cooperation**

Numerous problems and centrifugal forces affected intra-ASEAN economic cooperation existed. These hampered the progress of intra-regional economic cooperation. Some of these centrifugal forces had existed since the beginning.<sup>20</sup>

In addition to the centrifugal forces described above, other centrifugal forces have arisen in relation to structural changes occurring in the world economy in the wake of the Asian economic crisis. First, ASEAN enlarged its membership to include the countries of Indochina, encompassing wide income disparities and differences in industrial competitiveness. That enlargement enhanced centrifugal forces mainly in terms of intra-regional conflicts of interests between developed countries and developing countries.

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<sup>19</sup> Refer to Shimizu (1998a: Chapter 5, 2004).

<sup>20</sup> First, there remained various factors that were capable of causing conflicts of interest among ASEAN member countries. Second, ASEAN had neither the policies nor organizations to resolve these conflicts among member countries. For example, ASEAN had no common policies, such as “methods for the redistribution of income or the reallocation of capital,” for countries suffering disadvantages arising from economic cooperation (e.g. common policies, such as Common Agricultural Policy (CAP) or a Common Regional Policy as in the EC or EU). Third, ASEAN market interdependence was low, although the dependence of trade and investment on major powers outside ASEAN was high. Fourth, the increasing interdependence in the East Asian and the Asia-Pacific regions and some activities of multinational corporations (MNCs) were centrifugal forces for intra-ASEAN economic cooperation. Refer to Shimizu (1998a: Chapter 2, 2004) for further description of centrifugal forces for Intra-ASEAN economic cooperation.

Second, the positions with respect to intra-regional economic cooperation have become unstable among ASEAN member countries. Particularly, with the evolution of FTA, member countries acted strategically on behalf of their own industries. For example, Singapore was strengthening relationships with extra-ASEAN countries such as the U.S. Thailand was also active in forging FTA with countries outside the region; Thailand approached China about the early harvest program of the tariff reduction on agricultural goods. These were centrifugal forces for intra-regional cooperation.

The third centrifugal force was the creation of wider cooperative frameworks such as APT and the evolution of the FTA. These all increased the probability of absorption of ASEAN by wider frameworks. Especially important would have been the creation of an East-Asia-wide cooperative framework. This would probably have undermined the ASEAN initiative.

Fourth, multi-national corporation (MNC) activities in a wider area than ASEAN would strengthen the centrifugal force.<sup>21</sup>

Through resolution of these centrifugal forces, ASEAN fostered deepening of intra-ASEAN economic cooperation in the structural change of world economy.

#### **4. Intra-ASEAN Economic Cooperation since 2003:**

##### **New Developments in Intra-ASEAN Economic Cooperation and Expansion of Intra-ASEAN economic cooperation to East Asian Regional Economic Cooperation**

###### **4-1. The “Declaration of ASEAN Concord II” and the ASEAN Economic Community (AEC)**

The 9th ASEAN Summit meeting in October 2003 and a series of meetings was a great turning point for intra-ASEAN economic cooperation.<sup>22</sup> The “Declaration of ASEAN Concord II” in the 9th Summit meeting in Bali, Indonesia in October of 2003 presented a plan to realize an ASEAN Community, which consisted of the ASEAN Security Community (ASC), the ASEAN Economic Community (AEC) and the ASEAN Social and Cultural Community (ASCC)<sup>23</sup>

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<sup>21</sup> Refer to Shimizu (1998a: Chapter 5, 2008a, 2009).

<sup>22</sup> Refer to Shimizu (2004a, 2008a, 2009), about new developments in Intra-ASEAN economic cooperation.

<sup>23</sup> The “Declaration of ASEAN Concord II” stated “An ASEAN Community shall be established comprising three pillars, namely political and security cooperation, economic cooperation, and socio-cultural cooperation that are closely intertwined and mutually reinforcing for the purpose of ensuring durable peace, stability and shared prosperity in the region.” “Declaration of ASEAN Concord,”

The “Declaration of ASEAN Concord II” stated that “the ASEAN Economic Community is the realisation of the end-goal of economic integration as outlined in the ASEAN Vision 2020, to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020.”<sup>24</sup> The goal was to realize an EU-like single market or a common market that includes factor movement. For that reason, this idea had the potential to strengthen intra-ASEAN economic cooperation or integration.

The attraction of FDI remained a very important factor for AEC. That is, the AEC concept had an aspect of “ASEAN’s strategy for CFEI.”<sup>25</sup> For ASEAN member countries, FDI and exports remained the keys to development. However, China and India had emerged as major competitors. In these circumstances, ASEAN heads sought the deepening of intra-ASEAN economic cooperation and integration to attract additional FDI.

In conclusion, intra-ASEAN economic cooperation entered a new stage in October 2003, which had the goal of a single market or a common market based on the “Declaration of ASEAN Concord II” as an extension of “ASEAN’s strategy for CFEI.”

At the 10th ASEAN Summit in Vientiane, Laos, in November 2004, following the “Declaration of ASEAN Concord II” at the 9th Summit of the previous year, an approach aimed at establishing an ASEAN community was discussed. At that summit VAP was adopted; it was the second action program to realize the “ASEAN Vision 2020.”<sup>26</sup>

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<http://www.aseansec.org/15159.htm>. Refer to ASEAN Secretariat (2003), Hew (2005), Severino (2006), Hew (2007), Shimizu (2008a, 2009), Ishikawa, Shimizu and Sukegawa (2009), as for AEC.

<sup>24</sup> “Declaration of ASEAN Concord,” <http://www.aseansec.org/15159.htm>.

<sup>25</sup> The former Secretary-General of ASEAN Secretariat, Rodolfo C. Severino stated the following: “At the ASEAN Summit in Phnom Penh on 4 November 2002, Prime Minister Goh Chok Tong of Singapore had proposed that the next stage in regional economic integration be named the ASEAN Economic Community. He and a few other ASEAN leaders were deeply concerned over the weakened ability of the ASEAN countries to attract foreign direct investment, on which all of them depended for sustained economic growth. This development was a consequence of the changes wrought by the Asian financial crisis in investors’ perceptions of Southeast Asia’s economic prospects. Some of the proverbial ‘observers’ attributed it also to the surge of China and, later India as competing destinations for investment. Those ASEAN leaders were convinced that the only way for Southeast Asia to meet these challenges was to deepen the integration of the ASEAN economy in a way that was credible to investors.” Severino (2006), pp. 342-343.

<sup>26</sup> The “ASEAN Vision 2020” adopted at the Second ASEAN Informal Summit in Kuala Lumpur in December 1997 set out a broad vision for ASEAN in the year 2020: an ASEAN as a concert of Southeast Asian Nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in

Actually, VAP embraced a more concrete goal than the first action program: the Hanoi Plan of Action (HPA). First, VAP was predicated on the basis that ASEAN heads agreed to pursue the comprehensive integration of ASEAN towards the realization of an ASEAN Community by 2020 as envisioned in the “Declaration of ASEAN Concord II.” Second, it addressed the development issues and special needs of the less-developed ASEAN Member Countries: narrowing the development gap in ASEAN countries.<sup>27</sup>

#### **4-2. Establishment of the ASEAN Charter and Development of Intra-ASEAN Economic Cooperation**

At the 11th ASEAN Summit in December 2005, ASEAN heads signed the “Kuala Lumpur Declaration on the Establishment of the ASEAN Charter.”<sup>28</sup> The 12th ASEAN Summit was postponed from December 2006, and was held in January 2007. At that summit, the “Cebu Declaration on the Blueprint of the ASEAN Charter” and the “ASEAN Declaration on the 15-Year Foundation of the ASEAN Community” were signed. As for the ASEAN Charter, ASEAN heads signed “the Cebu Declaration on the Blueprint of the ASEAN Charter” to endorse the “Report of the Eminent Persons Group (EPG) on the ASEAN Charter” and they directed the High Level Task Force to complete the drafting of the ASEAN Charter in time for the 13th Summit in Singapore in 2007.<sup>29</sup> The ASEAN heads affirmed the commitment to accelerate the establishment of an ASEAN Community, as envisioned in the “ASEAN Concord II,” by five years and agreed on the “Cebu Declaration on the Establishment of the ASEAN Community by 2015.”<sup>30</sup>

At the 13th ASEAN Summit in November 2007, first, ASEAN heads signed the

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a community of caring societies (“ASEAN Vision 2020,” <http://www.aseansec.org/5408.htm>). The “Hanoi Plan of Action (HPA)” was the first in a series of plans of action building up to the realization of the goals of the Vision: HPA had a six-year timeframe covering the period of 1999–2004 (“Hanoi Plan of Action,” <http://www.aseansec.org/8754.htm>).

<sup>27</sup> VAP stated that the “theme” was “Towards shared prosperity and destiny in an integrated, peaceful and caring ASEAN Community” in the “Preamble,” and declared, first, “1. We agree to pursue the comprehensive integration of ASEAN towards the realisation of an open, dynamic and resilient ASEAN Community by 2020” and second, “2. We shall address, by various ways and means, the development issues and special needs of the less developed ASEAN Member Countries and sub-regional areas of ASEAN (“Vientiane Action Program,” <http://www.aseansec.org/VAP-10th%20ASEAN%20Summit.pdf>).

<sup>28</sup> “Kuala Lumpur Declaration on the Establishment of the ASEAN Charter Kuala Lumpur, 12 December 2005,” <http://www.aseansec.org/18030.htm> .

<sup>29</sup> “Chairperson’s Statement of the 12th ASEAN Summit,” <http://www.aseansec.org/19280.htm>. Refer to Severino (2005), EPG (2006), Shimizu (2008b), Ishikawa, Shimizu and Sukegawa (2009), for the ASEAN Charter.

<sup>30</sup> <http://www.aseansec.org/19260.htm> .

“ASEAN Charter.”<sup>31</sup> This was the first time that ASEAN signed a Charter. All ASEAN heads including Myanmar signed the ASEAN Charter at this Summit, though the Myanmar issue was one of main issues at this Summit.

Second, ASEAN leaders announced the “Declaration on the ASEAN Economic Community Blueprint”<sup>32</sup> and adopted the “ASEAN Economic Community Blueprint (AEC Blueprint).”<sup>33</sup> The AEC Blueprint was a roadmap in which each ASEAN member country should abide by and implement the AEC by 2015. The “Declaration on the ASEAN Economic Community Blueprint” stated “the AEC Blueprint will transform ASEAN into a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy.” The AEC Blueprint was the first adopted Blueprint for ASEAN Community including ASC, AEC and ASCC.

After ten member countries ratified the ASEAN Charter, this Charter came into force in December at the Special ASEAN Foreign Ministers’ Meeting in Jakarta. In fact, ASEAN was not based on a charter or treaty, but merely on a declaration (the “ASEAN Declaration: Bangkok Declaration” in 1967). The establishment of the ASEAN Charter will accelerate ASEAN cooperation and integration in the ASEAN Community. The establishment of the ASEAN Charter will be an important step for the establishment of AEC. The establishment of the ASEAN Charter itself had the purpose to establishing AEC.

Recent intra-ASEAN economic cooperation has yielded some concrete results. Regarding AFTA, as of August, 2007, 94.0% of the products in the CEPT Inclusion List (IL) of all ASEAN member countries had been brought down to the 0–5% tariff range. The average tariff for the six ASEAN original member countries under the CEPT Scheme had declined to 1.59%. The average tariff for the CLMV countries had declined to 4.4%.<sup>34</sup>

As for the AICO, as of August 2007, 150 cases were approved.<sup>35</sup> Regarding the automotive industry, which ASEAN countries had protected as an import-substituting industry and a strategic industry, the international division of labor by MNCs had been established with assistance from BBC and AICO. For instance, Toyota Motor Corp., which held a large share of the ASEAN automotive market, had been complementing

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<sup>31</sup> “Charter of the Association of Southeast Asian Nations,” <http://www.aseansec.org/21069.pdf>.

<sup>32</sup> “Declaration on the ASEAN Economic Community Blueprint,” <http://www.aseansec.org/21081.htm>.

<sup>33</sup> “ASEAN Economic Community Blueprint,” <http://www.aseansec.org/21083.pdf>.

<sup>34</sup> *ASEAN Annual Report 2007-2008*, p. 18.

<sup>35</sup> ASEAN Secretariat.

main auto parts in the ASEAN region under BBC and AICO. As an extension of these complementations, Toyota began to produce a strategic world car: the Innovative International Multipurpose Vehicle (IMV) in Thailand for the first time in the world in August 2004.<sup>36</sup> The world's largest production base of this IMV was in ASEAN, particularly in Thailand. This production and complementation of IMV was an extension and development of intra-ASEAN complementation.

#### **4-3. Key Characteristics of Intra-ASEAN Economic Cooperation**

The experiences and new developments of intra-ASEAN economic cooperation have been analyzed. To discuss ASEAN and the recent East Asian regional cooperation, some key characteristics of intra-ASEAN economic cooperation will be examined. These key characteristics are: first, the request for external cooperation from intra-ASEAN economic cooperation, and, second, the request for intra-ASEAN cooperation from extra-regional cooperation.<sup>37</sup>

The acquisition of foreign capital, including FDI and financial assistance, and the securing of export markets remain as important factors affecting intra-ASEAN economic cooperation. In other words, it shares characteristics of "ASEAN's Strategy for CFEL." The initial BBC and AICO, AFTA and AIA were also extensions of "ASEAN's Strategy for CFEL."

For development of ASEAN countries, the acquisition of foreign capital and securing of export markets remain as very important matters, along with the securing of intra-regional capital and markets. As described previously, AEC shares some aspects of "ASEAN's Strategy for CFEL."

Therefore, because it remains inevitable for ASEAN to secure foreign capital and export markets, the formation of a wider framework including East Asian regional cooperation and the FTA is unavoidable for ASEAN.

In summary, it seems unavoidable for ASEAN to secure capital and markets for development; at the same time, it is vital to secure financial assistance from external

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<sup>36</sup> According to Toyota Motor Corp., IMV was an integrated new model between the one-ton pickup truck "Hilux" and the "TUV" ("Kijang" in Indonesia). It was a special model that only slightly depended on Japan-made parts and did not depend on a Japan-based model. Toyota produced numerous auto parts in Thailand and ASEAN countries by widely expanding intra-regional complementation and local procurement. In fact, IMV greatly expanded intra-regional complementation and local procurement. As for the complementation of manufacturing main auto parts, diesel engines were made in Thailand, gasoline engine in Indonesia, and manual transmissions in the Philippines and India. Refer to Shimizu (2005, 2008a, 2009).

<sup>37</sup> Refer to Shimizu (2008a, 2009).

partners to achieve their own cooperation. Consequently, it is necessary to develop a wider framework including East Asian regional cooperation and FTA. Unfortunately, establishing a wider cooperative framework might threaten the very existence of ASEAN. For those reasons, it is imperative for ASEAN to secure the initiative in East Asian regional cooperation, and to strengthen its own cooperation and integration.

#### **4-4. Expansion of Intra-ASEAN Economic Cooperation to East Asian Regional Economic Cooperation**

East Asian regional cooperation has been implemented since the APT Summit meeting held in December 1997 during the Asian economic crisis.<sup>38</sup> With ASEAN as a crucial axis, East Asian regional cooperation was implemented in a multilayered fashion. ASEAN has the initiative in ASEAN Plus One FTA, as exemplified in ACFTA, along with APT and EAS. ASEAN is now working to acquire additional investment and support. In addition, ASEAN has an initiative to apply its rules in the institutionalization of FTA.

ASEAN seeks a wider economic cooperation over an extensive region including East Asia, because of its characteristics of intra-ASEAN economic cooperation. Furthermore, for ASEAN, intra-regional and extra-regional economic cooperation have been implemented simultaneously. Actually, ASEAN had consistently shown results in extra-regional economic cooperation (the External Economic Joint Approach), which began in 1972. Moreover, ASEAN was able to secure export markets and obtain financial assistance.

In recent years, extra-regional economic cooperation yielded important results in East Asian regional economic cooperation. ASEAN is maintaining its important role in the current East Asian regional cooperation. For example, ASEAN has provided an arena for negotiations in East Asia and the Asia-Pacific region, as underscored in the ASEAN Post-Ministerial Conference (PMC), the ASEAN Regional Forum (ARF) and APT meetings, and has taken the initiative in these negotiations.

Lastly, it is noteworthy that ASEAN's rules are extending into East Asian regional cooperation. First, for example, the ASEAN Swap Arrangement (ASP) expanded into CMI. Second, the AFTA rules including the rules of origin are also expanding into East Asian FTAs including ACFTA, with ASEAN as their axis. For instance, the AFTA rules related to rules of origin were adopted in ACFTA. Third, mutual recognition and harmonization of regulation are also initiated by ASEAN: "ASEAN Mutual Recognition

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<sup>38</sup> Refer to Shimizu (2008a, 2009), about ASEAN and the East Asian economic cooperation.

Arrangement on Engineering Services,” “Agreement on the ASEAN Harmonized Electrical and Electronic Equipment (EEE) Regulatory Regime,” and “Agreement to Establish and Implement the ASEAN Single Window” were signed in December 2005. Moreover, it was decided that the criteria for EAS participation would be based on ASEAN criteria. It is also possible that the ASEAN Charter might suggest the direction of the East Asian Cooperation. For those reasons, the deepening direction of intra-ASEAN economic cooperation will play a key role in East Asian regional cooperation.

## **5. Conclusion**

ASEAN is the focal point of structural changes in the world economy. Important structural change of the world economy can be examined by studying intra-ASEAN economic cooperation.

In the structural changes in the world economy, ASEAN has promoted a deepening and widening of regional cooperation. ASEAN has been an important axis of regional economic cooperation and FTA in East Asia. The advancement of intra-ASEAN economic cooperation will have major influences on the world economy.

However, there are some centrifugal forces in intra-ASEAN economic cooperation. For example, there are unstable domestic politics such as Thailand, the Myanmar problem and the absence of a leader to promote ASEAN cooperation. Also there is the creation of wider cooperative frameworks such as the Trans-Pacific Strategic Economic Partnership Agreement.

The current financial crisis hurt ASEAN economies. The decreasing of US demand which provided the final demand for ASEAN products will damage the exports of ASEAN countries, which have pursued export oriented industrialization. Now, the world economy is entering a new stage. ASEAN must deepen intra-ASEAN economic cooperation and realize AEC, to cope with this crisis in the short term, and to develop in the long term.

Lastly, issues relating to intra-ASEAN economic cooperation will be presented. First, how will ASEAN respond to the structural change of the world economy? Will ASEAN itself create structural change in the world economy, as a part of the world economy?

The current world economic problems, including the subprime loan problem and the world financial crisis, will be an extension of the freer capital movement in the world economy since the 1980s. The world economy has been unstable. The world economy

has been in a wave of structural change.

That is, will ASEAN deepen the cooperation and integration of its own members, with the turning point being the “ASEAN Concord II” and with the impetus being the establishment of the ASEAN Charter, in the wave of structural change in the world economy? Will ASEAN implement intra-economic cooperation and integration including not only the free movement of goods and services but also the freer movement of capital and labor? In other words, will ASEAN establish AEC? Will ASEAN implement cooperation and integration over the nation-states system?

Second, will ASEAN be able to maintain the initiative in East Asian regional cooperation? Will it be able to maintain bargaining power with extra-regional powers? Will it be able to further expand the ASEAN rules (or systems) to East Asia?

Third, will ASEAN countries be able to catch up to Japan and NIES? Will ASEAN countries make use of the latecomer’s advantage? Will intra-ASEAN economic cooperation support these developments? Will intra-ASEAN economic cooperation pursue the collective industrialization? Will intra-ASEAN economic cooperation provide the base of industrialization? Will intra-ASEAN economic cooperation clear the North-South problem, not only in ASEAN but also in the world?

Fourth, what international public goods will ASEAN provide? How can ASEAN contribute to the management of the world economy? Will ASEAN be able to maintain the initiative in East Asian regional cooperation?

Next, issues about the future of East Asian regional cooperation will be presented. First, what role can East Asian regional economic cooperation play in the future? What international public goods will it provide? How can it contribute to the management of the world economy? Second, will some regional cooperation such as ASEAN, APT, EAS, ARF, and APEC continue in a multilayered manner? Will this eventually become a unique characteristic of East Asian regional cooperation? Third, what membership will eventually constitute the East Asian community? What will it aim to do? That is, “What is East Asia?” and “What is the community?”

These issues must be examined in the context of the world economy because first, economic activities fundamentally operate throughout the world economy. Second, the ASEAN and East Asian economies have become more global. Consequently, we must also consider the relations between the nation-states and the world economy. These issues related to regional economic cooperation must be examined in the widest possible context with politics, economics, and history because economic cooperation or integration is one part of economic policy that also includes politics and history. Not only economics but also comprehensive social science will be necessary to examine these

issues.

ASEAN is the focal point of structural change in the world economy. We must study intra-ASEAN economic cooperation as one of the main themes of structural change in the world economy.

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