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Issues and Tasks in Intra-ASEAN Economic Cooperation after the Asian Economic Crisis

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The Association of Southeast Asian Nations (ASEAN) is leading regional economic cooperation among developing countries and regional economic cooperation organization in East Asia. ASEAN has been the only economic cooperation in East Asia and promoted deepening and widening of its regional cooperation. The original members in 1967 were five countries: Indonesia, Malaysia, the Philippines, Singapore and Thailand, growing to include Brunei in 1984, Vietnam in 1995, Myanmar and Laos in 1997, and Cambodia in 1999.

With the Asian economic crisis as a turning point, intra-ASEAN economic cooperation entered another new phase. This was because of the new structural changes in the world economy and East Asian economy after the Asian economic crisis. In those structural changes, ASEAN has further promoted intra-regional economic cooperation. ASEAN Free Trade Area (AFTA) was established by 6 original member countries in 2003. ASEAN has a new goal of the ASEAN Economic Community (AEC) with AFTA. Furthermore, ASEAN has grown as an important axis in FTA and regional cooperation in East Asia.

This paper will examine the issues and tasks of Intra-ASEAN Economic Cooperation as a result of the structural change in the world economy after the Asian Economic Crisis. This paper will also examine intra-ASEAN economic cooperation now standing at a new turning point.

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Key words: ASEAN, AFTA, AICO, AEC, East Asia, Economic Cooperation, Economic Integration, FTA

1. Introduction

The Association of Southeast Asian Nations (ASEAN) is leading regional economic cooperation among developing countries and regional economic cooperation in East Asia. ASEAN has been the only economic cooperation organization in East Asia and has promoted deepening and widening of regional cooperation since its founding in 1967. ASEAN has deepened its political and economic cooperation as well as other types of cooperation. The original members in 1967 were five countries: Indonesia, Malaysia, the Philippines, Singapore and Thailand, growing to

include Brunei in 1984, Vietnam in 1995, Myanmar and Laos in 1997, and Cambodia in 1999. ASEAN covers the entire Southeast Asian region. The ASEAN Free Trade Area (AFTA), which was approved at the 5th ASEAN Summit in 1992, was established by 6 original member countries in 2003. ASEAN has a new goal of the ASEAN Economic Community (AEC) including AFTA.

There have been many great structural changes in the East Asian Economy and world economy. The globalization and rapid expansion of international capital movement contributed to rapid economic growth in East Asia especially since the mid-1980s. However, this also led to the Asian economic crisis, which began in Thailand in 1997 and caused enormous damage to all ASEAN and East Asian countries. With the Asian economic crisis as a turning point, intra-ASEAN economic cooperation entered another new phase. This was because the structure of the world economy and East Asian economy has greatly changed. China has increasingly expanded its influence in the East Asian economy. As the worldwide trade liberalization by the World Trade Organization (WTO) stagnated, the Free Trade Agreement (FTA) and new regional cooperation has emerged in East Asia.

In those structural changes, ASEAN has further promoted intra-regional economic cooperation and has grown as an important axis in FTA and regional cooperation in East Asia.

This paper will examine the issues and tasks of Intra-ASEAN Economic Cooperation as a result of the structural change of the world economy after the Asian Economic Crisis. First, the structural changes in the world economy after the Asian Economic Crisis will be examined. Second, the results of Intra-ASEAN economic cooperation after this crisis will be examined. Third, the current centrifugal forces for intra-ASEAN Economic Cooperation due to these changes and future tasks for Intra-ASEAN economic cooperation will be explored. Lastly, this paper will examine intra-ASEAN economic cooperation now standing at a new turning point.

2. The Asian Economic Crisis and Intra-ASEAN Economic Cooperation

2-1 The Experiences of Intra-ASEAN Economic Cooperation

ASEAN, which was founded in 1967, 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 conducted by collective self-reliance policies. However, this strategy suffered a setback due to failures in the implementation of the following three policies: the ASEAN Industrial Projects (AIP), the ASEAN Industrial Complementation (AIC) and the Preferential Trading

Arrangement (PTA) (furthermore, the ASEAN Industrial Joint Venture: AIJV also started in 1983), and due to the failure in the creation of an interdependent market within ASEAN. These failures were caused by conflicts of economic interest among the ASEAN countries.¹⁾

At the 3rd ASEAN Summit in 1987, this 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)."²⁾ This was because the former strategy ended in failure and there were some changes in economic conditions both inside and outside the ASEAN region. The main part of this strategy was the Brand-to-Brand Complementation Scheme (BBC Scheme).³⁾

ASEAN's strategy for CFEI reached a significant turning point and new phase, along with historical structural changes in the political and economic framework surrounding ASEAN, starting in 1991. These changes can be summarized into the following points. First, there were changes in the cold war framework in Asia. Second, there had been economic changes in ASEAN countries. For example, ASEAN countries achieved rapid economic growth and turned themselves into investment countries and financial centers in the Asia Pacific region. Third, China achieved rapid economic growth and growing FDI based on "Reforms and Open Door Policies." These changes promoted the deepening and widening of intra-regional cooperation. In other words, AFTA, ASEAN Industrial Cooperation (AICO) and ASEAN Investment Area (AIA) were promoted as an extension of ASEAN's strategy for CFEI, and the widening of ASEAN to include Indochina countries.⁴⁾

2-2 Asian Economic Crisis and Intra-ASEAN Economic Cooperation

The Asian Economic Crisis began in Thailand in 1997 and immediately spread to neighboring countries. The economic growth in ASEAN countries, which saw rapid growth in the 1990s, Indonesia, Malaysia, the Philippines and Thailand recorded minus economic growth in 1998. In addition, there was a remarkable demand decline and FDI decline in ASEAN countries. The amount of exports also greatly decreased, especially intra-ASEAN exports.⁵⁾

1) Shimizu (1998a), chapter 1-3 and Shimizu (1993, 1998b).

2) This was a new model strategy for intra-economic cooperation or economic integration among developing countries, which was a strategy to support ASEAN countries' FDI-dependent and Export-oriented Industrialization collectively. Specifically, "ASEAN's strategy for CFEI" has been trying to 1) invite foreign capital (especially, FDI) as a whole, instead of 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. Refer to Shimizu (1998a), chapter 4 and Shimizu (1993, 1998b).

3) Refer to Shimizu (1998a), chapter 5 and Shimizu (1995, 1998b).

4) Refer to Shimizu (1998a), Final Chapter.

5) Refer to Shimizu (1999, 2000).

Against the backdrop of the Economic Crisis, ASEAN approved “ASEAN Vision 2020,” which was the long term vision for ASEAN, and approved the “Framework Agreement on the ASEAN Investment Area” in AEM in October 1998. At the 6th ASEAN Summit in December 1998, ASEAN adopted the “Hanoi Plan of Action” to complete the “ASEAN Vision 2020,” and the “Statement on Bold Measures,” which was directly linked to the economic policies for ASEAN’s urgent and concrete economic steps. But the “Statement on Bold Measures” only stated that the original 6 members would advance the implementation of AFTA by one year from 2003 to 2002, and stated some incentives for attracting FDI.⁶⁾

Actually, the Economic crisis led to protectionism in domestic industries in each country, and is likely to become a centrifugal force for intra-ASEAN economic cooperation. This can be understood from the following cases. The Philippines and Thailand raised some tariffs in 1998. In addition, Thailand postponed the deregulation of local content of auto parts.

Thus, Intra-ASEAN economic cooperation was ineffective in the economic crisis. The interests of individual countries were brought to the forefront in the crisis.

3. Structural Changes in the World Economy after the Asian Economic Crisis

With the 1997 Asian economic crisis as a turning point, intra-ASEAN economic cooperation entered a new phase. This was because the structures of the world economy and the East Asian economy, surrounding ASEAN, changed to a great extent as we will examine next.

The first change was China’s rapid growth and expansion of influence, the relative stagnation and steady recovery of ASEAN and NIES countries, and Japan’s long-term stagnation. China has consistently maintained rapid economic growth of 7% or more since 1992, and international trade and internal foreign investment expanded sharply, which were two contributing factors to that growth. Specifically, China’s exports increased 2.2 times from \$195.1 billion in 1999 after the Asian crisis to \$438.4 billion in 2003. During the same period, the original 5 ASEAN countries exports increased 1.2 times from \$340.7 billion to \$421.8 billion; world trade grew 1.2 times and Japan’s exports 1.1 times (Table 1).⁷⁾ Income and demand in China rapidly increased, while income and demand in ASEAN and NIES countries recovered from the crisis and increased steadily. For example, automobile sales in the original 5 ASEAN countries and Vietnam rose from 489,000 in 1998, the lowest figure due to the Asian crisis, to 1,513,000 in 2003, surpassing

6) “Statement on Bold Measures,” <http://www.aseansec.org/8756htm>.

7) These are calculated based on *International Trade Matrix* by Institute of International Trade and Investment (ITI). The data for 2003 are by the latest matrix provided by ITI. Although there are a number of difficulties when analyzing East Asian trade including ASEAN, this matrix by ITI is an excellent one based on trade statistics of individual countries and revised for some difficulties.

(million dollars)

Table1 World Trade Matrix 2003

From \ To	World	East Asia (10)	Japan	China	Hong Kong	Korea	Taiwan	ASEAN (10)	ASEAN (5)	Indonesia	Malaysia	Philippines	Singapore	Thailand	USA	Austrailia	EU (25)
World	7,291,785	1,596,925	345,338	374,457	228,001	166,668	123,109	388,949	359,351	41,821	84,963	43,844	120,149	68,575	1,223,963	81,814	3,021,398
East Asia (10)	1,899,080	940,068	152,202	237,767	178,339	81,643	70,604	243,166	219,513	26,025	57,751	26,783	68,129	40,824	375,445	35,710	292,423
Japan	471,913	211,860		57,474	29,913	34,828	31,314	61,243	58,331	7,178	11,256	9,007	14,846	16,044	115,908	9,922	75,380
China	438,473	191,316	59,454		76,324	20,105	9,014	30,935	26,420	4,482	6,142	3,084	8,873	3,829	92,510	6,265	78,323
Hong Kong	229,010	131,496	12,106	95,572		5,918	5,491	13,883	12,409	1,001	2,018	2,227	4,643	2,520	41,701	2,805	32,381
Hong Kong (without Re Export)	19,609	7,546	383	4,737		853	523	1,212	1,050	69	182	244	335	219	5,028	194	4,329
Korea	193,817	91,449	17,276	35,110	14,654	1	7,045	20,253	17,364	3,378	3,852	2,975	4,636	2,524	34,219	3,272	26,980
Taiwan	144,059	80,601	11,905	21,399	28,331	4,569		17,393	14,396	1,513	3,043	2,298	4,979	2,563	25,920	1,883	19,463
ASEAN (10)	449,031	245,447	56,102	29,987	29,467	17,163	18,185		94,543	8,971	31,875	7,458	31,375	14,863	71,707	13,426	
ASEAN (5)	421,809	233,346	51,461	28,212	29,118	16,222	17,741	99,459	90,593	8,474	31,439	7,181	30,153	13,344	65,187	11,562	59,894
Indonesia	61,058	35,247	13,603	3,803	1,183	4,324	2,233	10,725	10,101		2,364	945	5,400	1,393	7,374	1,792	8,230
Malaysia	100,113	54,531	10,980	6,427	6,111	2,937	3,526	25,897	24,550	2,127	0	1,382	16,478	4,563	17,791	2,517	13,052
Philippines	36,061	21,145	5,764	2,143	3,085	1,313	2,477	6,522	6,363	296	2,405		2,429	1,233	7,156	406	6,015
Singapore	144,325	83,185	9,704	10,146	14,437	6,063	6,904	39,784	35,930	3,740	22,795	3,239		6,156	19,227	4,686	20,394
Singapore (without Re Export)	79,823	42,777	6,251	5,761	7,890	2,494	3,536	18,896	16,846		8,573	1,799		2,735	12,348	2,844	13,538
Thailand	80,253	39,239	11,410	5,693	4,301	1,585	2,601	16,531	13,649	2,312	3,875	1,616	5,846		13,639	2,162	12,202
USA	724,771	179,226	52,004	28,368	13,520	24,073	17,448	45,244	43,813	2,516	10,914	7,987	16,560	5,835		13,088	155,170
Austrailia	70,354	35,859	12,797	5,952	1,869	5,279	2,428	7,868	7,536	1,819	1,362	624	2,260	1,470	6,176		9,970
EU (25)	3,069,765	183,865	45,418	46,186	20,816	18,402	12,266		40,778	4,667	9,034	3,707	16,176	7,194	256,726	19,593	

 Source: *International Trade Matrix* by Institute of International Trade and Investment (ITI).

 Note: 1. *International Trade Matrix* is export matrix based on each country's FOB based export data.

2. The export data from Singapore to Indonesia is from the import data of Indonesia.

3. The export data of Brunei, Cambodia, Myanmar and Vietnam are from the import data of import countries. Therefore the exports among these countries can not be analysed.

4. ASEAN (5) includes Indonesia, Malaysia, The Philippines, Singapore and Thailand. ASEAN (10) includes ASEAN (5), Brunei, Cambodia, Myanmar and Vietnam. East Asia (10) includes ASEAN (5), Japan, China, Hong Kong, Korea and Taiwan.

Table2 Automobile Sales of ASEAN countries, China, Korea and Taiwan

	1996	1997	1998	1999	2000	2001	2002	2003
Indonesia	332,035	386,691	58,303	93,814	300,964	299,560	317,788	354,629
Malaysia	364,788	404,837	163,851	288,432	343,173	396,381	434,954	405,010
Philippines	162,087	144,435	80,231	74,414	83,949	76,670	85,587	92,336
Singapore	36,915	34,812	37,493	48,975	76,121	74,277	65,612	86,212
Thailand	589,126	363,156	144,065	218,330	262,189	297,052	409,242	533,176
Vietnam	5,539	5,941	5,928	6,964	13,957	19,557	26,873	42,557
ASEAN (5) + Vietnam	1,490,490	1,339,872	489,871	730,929	1,080,353	1,163,497	1,340,056	1,513,920
Growth rate		-10.1%	-63.4%	49.2%	47.8%	7.7%	15.2%	13.0%
China	1,534,529	1,613,901	1,643,961	1,867,097	2,129,034	2,450,533	3,375,451	4,562,709
Growth rate		5.2%	1.9%	13.6%	14.0%	15.1%	37.7%	35.2%
Korea	1,669,280	1,533,066	782,890	1,278,704	1,441,628	1,468,088	1,652,759	1,348,812
Taiwan	470,335	481,567	474,068	423,540	420,464	347,420	398,882	413,914

 Source: Fourin (2004), *Asian Automobile Industry 2004/2005*, p.3.

1,490,000 in 1996, the peak before the economic crisis. Meanwhile, China continued to grow at a faster pace than the ASEAN countries; its sales during the same period rose from 1,534,000, almost the same as that of the five ASEAN countries, to 4,562,000 (Table 2).⁸⁾

The second change was the stagnation of Asian-Pacific Economic Cooperation (APEC) and the decline of U.S. interests in East Asia. After the Asian economic crisis, APEC lost the centripetal force it used to have. APEC was not effective against the backdrop of the crisis, and after the 1998 Kuala Lumpur Conference, also failed to implement trade liberalization from the Early Voluntary Sectoral Liberalization (EVSL) program. When East Asia was enjoying rapid economic growth, the U.S. held an unofficial APEC summit conference in Seattle and converted APEC from a consultation body to an organization to promote trade and investment liberalization. But after the Asian economic crisis, the U.S. lost its interests in APEC. This eventually helped China further expand its influence in East Asia and become the impetus for regional cooperation in the East Asian region.

The third change was the stagnation of worldwide trade liberalization by the WTO and the evolution of FTA. The breakdown of negotiations in the 1999 Seattle Conference and 2003 Cancun Conference symbolized the stagnation of trade liberalization by the WTO. At the same time, it helped the FTA to flourish.⁹⁾ The FTA has become an effective means to achieve strategic tasks of individual countries such as securing export markets and attracting foreign investment. Increasingly, the FTA is having a major influence on the East Asian economy as well. The FTA for example between ASEAN and China, ASEAN and Japan, and a wider one: ASEAN, Japan, China and South Korea (ASEAN Plus Three: APT) has been underway. Meanwhile, Singapore and Thailand have been active in establishing their FTA ties with extra-regional countries.

The fourth change was the increase in interdependency in East Asia including China, and the development of the foundation for East Asian-wide economic cooperation. The trade volume in East Asia has expanded greatly. Exports from Japan to China increased 2.4 times from \$23.4 billion in 1999 to \$57.4 billion in 2003, while the exports from China to Japan increased 1.8 times from \$32.4 billion to \$59.4 billion. Particularly, trade between ASEAN and China grew sharply. Exports from the ASEAN-5 countries to China increased 2.6 times from \$10.5 billion to \$28.2 billion, while exports from China to ASEAN-5 increased 2.4 times from \$10.7 billion to \$26.4 billion.¹⁰⁾ Looking at the exports from 10 East Asian countries (Japan, China, Hong Kong, South Korea, Taiwan and ASEAN-5 countries) to 10 East Asian countries, it increased 1.5 times from

8) FOURIN (2004), p.3.

9) The number of FTA reported to GATT and WTO was merely 29 between 1958 and 1989. Recently, however, this number has rapidly increased: 33 cases between 1990-94; 76 cases between 1995 and 1999; 50 cases between 2000 and 2003. (http://www.wto.org/tratop_e/region_e/eif_e.xls)

\$611.8 billion to \$940.0 billion. At the same time, the share of these exports to the total export amount also rose from 43.8% to 49.5%. On the other hand, the percentage of the exports from the 10 East Asian countries to the U.S. decreased from 24.5% to 19.7%. As the trade of machinery including parts and intermediate goods grew, more interdependent relations were formed in East Asian trade. For instance, the export of machinery from 10 East Asian countries to one another increased 1.3 times from 1999 to 2002; the share to total exports also increased from 51.9% to 55.7%.¹¹⁾

These show the deepened interdependency in East Asian countries. They also mean that “East Asia” as a foundation for regional cooperation has been gradually developing, together with the Asia-Pacific triangle. The East Asian-wide framework of cooperation, which had made little progress previously, has been gradually establishing after the Asian economic crisis. Specifically, the ASEAN Plus Three (APT) Summit meeting was held in December 1997 and the “Chiang Mai Initiative” was approved in May, 2000.

4. Results of Intra-ASEAN Economic Cooperation after Asian Economic Crisis

What were the results of Intra-ASEAN economic cooperation as a result of structural changes in the world Economy after the Asian economic crisis? This section will focus on the primary intra-ASEAN economic cooperation program, AFTA¹²⁾ and AICO.¹³⁾

AFTA was established by the six ASEAN original member countries in January of 2003.

10) Similarly, looking at the exports from ASEAN 10 countries to China, they increased 2.7 times from \$11 billion to \$29.9 billion; the exports from China to ASEAN 10 countries greatly increased 2.5 times from 12.2 billion to \$30.9 billion.

11) Refer to [8]. The HS classification code of machinery is HS84-91.

12) 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 should be reduced by 0-5% by 2008. At the 6th ASEAN Economic Ministers Meeting, they agreed the implementation of tariff reduction would be moved up by 5 years to the year 2003, and this would be applied to non-processed agricultural products. At the 6th ASEAN Summit in December 1998, they agreed this implementation was moved up by another one year to the year 2002. A product shall be deemed to be originating from ASEAN Member States, if at least 40% of its content originates from any Member State (“Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area”). Refer to ASEAN Secretariat, *AFTA Reader*, *AICO Reader*, various edition, Aoki (2001), Kimura and Suzuki (2003) and Shimizu (1998, 1999) as for AFTA and AICO.

13) The BBC Scheme was integrated into the AICO Scheme, which was 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 shall enjoy preferential tariff rates of 0%-5%. The local content accreditation shall be accorded to the products manufactured by Participating Companies. The Companies wishing to benefit from the privileges of the AICO Scheme shall fulfill 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 tariffs on 99.5% (44,160 of 44,361 items) of items were reduced to 0%-5% by the Common Effective Preferential Tariff (CEPT) scheme.¹⁴⁾ Furthermore, Vietnam, Laos and Myanmar, and Cambodia (CLMV countries) will reduce their tariffs by CEPT to 0%-5% by 2006, 2008, and 2010, respectively. The elimination of import duties will be complete by 2010 in the original six member countries and by 2015 (2018 for some sensitive items) in the other four countries.

AICO was agreed upon at 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. But, in 1998, some cases such as Sanden Corp, an auto-parts company, were approved in the background of the Asian economic crisis. As of February of 2003, 101 cases were approved. Of them, 90 are auto-related cases including 27 by Toyota Motor Corporation, 26 by Honda Motor Co., Ltd., 7 by Denso Corporation, 5 by Nissan Motor Co., Ltd., and 2 by Mitsubishi Motors Corporation.¹⁵⁾ AICO is centered upon the complementation of auto parts for Japanese automobile makers. As of January of 2004, the number of approvals increased to 118 cases.¹⁶⁾

Under the BBC scheme and AICO, the international division of labor by multinational corporations (MNCs) has been established. For instance, Toyota Motor Corporation, which enjoyed a large share of the ASEAN automotive market, received BBC Approval in November 1989, and has been complementing main auto parts in the ASEAN region. Toyota has been producing main auto parts, for example, steering gears in Malaysia, transmissions in the Philippines, diesel engines in Thailand and gasoline engines in Indonesia, and complementing these parts with each other. Currently, main auto parts of Toyota in ASEAN are complemented at a tariff of 0%-5%.¹⁷⁾

ASEAN countries implemented tariff reduction for the goal of AFTA. This was a steady and robust achievement. Moreover, under AFTA and AICO, mainly Japanese MNCs such as Toyota Motors, aimed at ASEAN-wide efficient production and carried out the division of labor in ASEAN.

However, the efficacy of both AFTA and AICO cannot be overestimated. In the case of AFTA, first, there were some excluded items, such as the auto industry in Malaysia and the pet-

14) ASEAN Secretariat, *ASEAN Annual Report 2002-2003*, p.19.

15) <http://www.aseansec.org/6398.htm>.

16) "Tenth ASEAN Economic Ministers Retreat 21 April 2004, Sentosa, Singapore," <http://www.aseansec.org/16072.htm>. As of 6 August 2004, 126 out of 183 AICO applications were approved. These approved AICO arrangements are estimated to generate US\$1,482 million trade transactions per year, "The 36th ASEAN Economic Ministers Meeting joint media statement, Jakarta, 3 September 2004," <http://www.aseansec.org/16377.htm>.

17) Toyota has many production bases in ASEAN region. Two of these, one in Malaysia and one in the Philippines, were newly established in 1990 to achieve complementation and concentrated production of auto parts. Meanwhile in Singapore, Toyota Motors Management Services (TWSS, which was reorganized into Toyota Motor Asia Pacific: TMAP in 2001) was founded in 1990 in order to supervise auto parts complementation services. Refer to Shimizu (1998a), Chapter 5.

rochemical industry in the Philippines.¹⁸⁾ In other words, the protection of strategic industries of each ASEAN country slowed down tariff reduction. When there was a conflict of interests among member countries or they try to protect their own strategic industries forcibly, ASEAN was incapable of solving that conflict.

Second, regional trade applied by AFTA and CEPT was extremely small. For example, the intraregional export share of the ASEAN 5 was 21.4% in 2003; the revised share by excluding Singapore's re-exports was merely 20.0%. Furthermore, trade between Singapore and Malaysia accounted for 43.3% of intra-ASEAN exports. Even the revised share by excluding Singapore's re-exports is 35.0%.¹⁹⁾ In Singapore, most tariffs were abolished. Not only that, the trade between Singapore and Malaysia was mostly in electronics. Individual countries enjoyed the tariff-exemption measure, which did not require the privilege of AFTA. Furthermore, there were many trades that do not meet the 40% requirement of added value in intra-ASEAN trade. Third, procedural problems such as complicated procedures or non-tariff barriers hampered AFTA.

As for AICO, the trade of electronics did not require the privilege of AICO. Furthermore, as with the case of the BBC scheme, the trade balance between member countries has been one of the requirements for approval even though the "Agreement" does not stipulate it. In other words, to have a balance in profit between member countries without hurting the profits of each country was required for AICO as well.

In other types of economic cooperation such as agriculture, finance, energy, and services, even though they were continuously promoted, it can not be said that they had major success. For example, for monetary and financial cooperation to prevent another Asian economic crisis, there was the ASEAN (Currency) Swap Arrangements, which was approved in August of 1977. Under the ASEAN Swap Arrangements, the U.S. dollar was to be provided to the country in need of liquidity in exchange for the applicable currency when a short-term liquidity problem occurs in member countries.²⁰⁾ However, due to the small size of the fund, this system was hardly used; the arrangement was ineffective for an economic crisis. Therefore, not ASEAN-wide, but East Asian-wide regional cooperation such as the Chiang Main Initiative was carried out.²¹⁾

The effect of advertisement or promotion of AFTA was great, though the effect of intraregional economic cooperation was not great. Since regional cooperation was rare in East Asia, AFTA always drew much attention. This contributed to attracting FDI and supporting the in-

18) The tariff reduction of Malaysian automobiles finally began in 2004. However, the tariff rate is still high. Furthermore, by introducing the new commodity tax, the effect of tariff reduction was reduced by half (January 6, 2004, *Nikkei Sangyo Shimbun*).

19) Refer to [8].

20) "Memorandum of Understanding on the ASEAN Swap Arrangements, Kuala Lumpur, 5 August 1977," <http://www.aseansec.org/6297.htm>.

ternational division of labor by MNCs in ASEAN.

At the same time, ASEAN had consistently achieved results in extra-regional economic cooperation (the External Economic Joint Approach). The extra-regional cooperation played a major role for ASEAN to unite as a whole. ASEAN was able to secure export markets and obtain foreign aid. In addition, as seen in the ASEAN Post-Ministerial Conference (PMC), the ASEAN Regional Forum (ARF), and APT Conference, ASEAN has provided an arena for negotiations in the East Asian or Asia-Pacific region, and holding initiatives in these negotiations. This is reflected in the establishment of the Chiang Mai Initiative after the Asian economic crisis. Also, the recent negotiations for FTA between ASEAN and China, or ASEAN and Japan, were held in the above meetings as the main stage, making ASEAN an important axis to FTA in East Asia.²¹⁾

The ASEAN Strategy for CFEI has not changed, though it added the additional aspects of developing local industries and securing intra-regional demand. In any of AFTA, AICO or AIA, attracting FDI has been one of the major objectives in its implementation. It has been indispensable for ASEAN to realize a regional economic area that a single nation state could not achieve, and to attract FDI, especially in competition with China.

5. Centrifugal Forces of Intra-ASEAN Economic Cooperation

5-1 Conventional Centrifugal Forces

There have been many problems and centrifugal forces for Intra-ASEAN economic cooperation. They have hampered the progress of intra-regional economic cooperation. Some of these centrifugal forces have been around since the beginning. First, there remain various factors that cause conflicts for interest among ASEAN member countries. In regional economic cooperation, many conflicts of economic interest are likely to come into being among member countries, and if so, it is not easy to solve them.

Second, ASEAN does not have policies or organizations to solve these conflicts among member countries. For example, ASEAN has not had common policies: “methods for the redistribu-

21) The Chiang Mai Initiative was agreed on at the ASEAN + 3 Finance Ministers (from Japan, China and South Korea) Meeting in Chiang Mai, in May 2000. The Chiang Mai Initiative was an extension of the ASEAN Swap Arrangements signed in 1977. Yet, it was a new development in monetary and financial cooperation not only for ASEAN but also for the East Asian region. By the Chiang Mai Initiative, the member countries of the ASEAN Swap Arrangements rose to 10 from the original 5 countries, simultaneously adding Japan, China and South Korea to the network. The Chiang Mai Initiative was the embodiment of the regional monetary and financial support mechanism that Japan and ASEAN have been looking for since the Asian economic crisis. Refer to Shimizu (2002) regarding monetary and financial cooperation in ASEAN and East Asia.

22) China quickly approached ASEAN for FTA. At the ASEAN Summit in November, 2000, China proposed the FTA between ASEAN and China. In November, 2001, in the ASEAN-China Summit, it was agreed that China would sign FTA within 10 years. Japan, in competition with China, proceeded to negotiate with ASEAN. They agreed that an economic partnership agreement (EPA) including FTA would be realized by 2012.

tion 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 Common Regional Policy in EC or EU). Also, ASEAN has not had any organization to supervise “methods for the redistribution of income or the reallocation of capital” for total ASEAN profits (e.g. organizations such as the Commission and European Court of Justice in Europe).²³⁾

Third, the interdependence in the ASEAN market has been low, while the dependence of trade and investment on major powers outside ASEAN has been high.

Fourth, the increasing interdependency in the East Asian and Asia-Pacific regions and some activities of MNCs will be centrifugal forces for Intra-ASEAN Economic Cooperation. For example, some MNCs will transfer their production base from ASEAN countries to China. Some MNCs will expand their parts complementing areas, in pursuit of efficient and rational production, thus extending beyond the ASEAN region. These activities would undermine the foundation of intra-ASEAN economic cooperation.

5-2 More Centrifugal Forces in Recent Years

Besides the above centrifugal force, there are more centrifugal forces in recent years. First, ASEAN members expanded into the Indochina countries. While containing wide income disparities and differences in industrial competitiveness, the expansion enhanced the centrifugal force mainly in terms of intra-regional conflicts of interest between developed countries and developing countries.

Second, intra-regional economic cooperation is unstable among ASEAN member countries. Particularly, with the evolution of FTA, member countries act strategically for their own industries. For example, Singapore is strengthening the relationship with extra-ASEAN countries such as the U.S. Thailand is 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 are the centrifugal force for intra-regional cooperation.

The third centrifugal force is the creation of wider cooperative frameworks such as APT and the expansion of the FTA. Cooperation under the framework of APT began in the 1997 Summit immediately after the Asian economic crisis. In November of 1999 the first joint communiqué as APT was released. Since May 2000, the ASEAN Economic Ministers Meeting by APT (AEM + 3) has been held. The Chiang Mai Initiative was also approved in May, 2000. These all can increase the possibility for ASEAN to be absorbed by wider frameworks. Especially important is the creation of an East Asian-wide cooperative framework. That is because the interdependency in the

23) Refer to Shimizu (1998a), Chapter 2.

East Asian region has risen and the foundation for East Asian economic cooperation has been further enhanced. Monetary and financial cooperation, which is impossible in the ASEAN region, has been pursued in the framework of APT. Also, it is planned to transform the APT Summit meeting into an independent East Asian summit meeting. This will probably undermine the initiative of ASEAN.

Fourth, the activities of MNCs in a wider area than ASEAN will strengthen the centrifugal force. For example, in automobile manufacturing in ASEAN countries by Japanese MNCs such as Toyota Motor Corporation, some important auto parts such as engine parts have been exported from Japan. Thus, the wider region at least including ASEAN and Japan has been more rational for production for Japanese automobile makers.²⁴⁾ After the Asian economic crisis, the export of cars and auto parts from ASEAN countries, particularly from Thailand, grew. The trade of cars and auto parts between ASEAN and China, and ASEAN and Japan has also expanded greatly.²⁵⁾ Furthermore, Toyota, for example, announced the plan to build a passenger-car engine plant with an annual production capacity of 300,000 in Guangzhou, China by 2005, which will be an export base for Asian markets.²⁶⁾ The new engines will possibly be exported from this plant to Thailand and other countries. The rational region for Toyota's automobile production in ASEAN will be wider in the future.

6. Tasks for Intra-ASEAN Economic Cooperation

In this section, the tasks for intra-ASEAN economic cooperation in many centrifugal forces will be examined. In order for ASEAN to secure extra-regional bargaining power, the deepening of intra-regional economic cooperation will be necessary. The first task is to establish AFTA. AFTA was initially established by the six original member countries in January 2003. Now, it needs to include some excluded items, and to include the other four member countries.

The second task is to achieve a higher degree of cooperation and integration. ASEAN's next goal is AEC. The challenge will be to liberalize factors such as capital and labor after completing the liberalization of goods and services. A further challenge will be to achieve monetary and financial cooperation or macro-economic cooperation.

24) Refer to Shimizu (1998), Chapter 5 and Shimizu (1995, 1999)

25) Auto parts exports from the ASEAN 5 countries to the world increased from \$1.993 billion in 1999 to \$2.441 billion in 2002. Exports to Japan increased from \$245 million to \$520 million, and exports to China increased from \$24 million to \$40 million during the same period. Exports from China to the ASEAN 5 countries increased from \$32 million to \$120 million and those from China to the ASEAN 10 countries increased from \$38 million to \$198 million (Refer to [8]). "Auto parts" is classified as the HS Classification 8707-8708.

26) As a joint venture with Guangzhou Group, this will be the first case of exporting car engines from China (October 10, 2002, *Nippon Keizai Shimbun*).

The third task is to find a way to equally distribute successful results in the process of implementing intra-ASEAN economic cooperation. For instance, the task will be the equal distribution of income between the six original member countries and the other four member countries after establishing AFTA. The Initiative for ASEAN Integration (IAI), whose work plan was approved in the Summit meeting in November 2002, will be important for this task.²⁷⁾

The fourth task is to resolve institutional problems. This means establishing the common policies: "methods for the redistribution of income or the reallocation of capital." The lack of this function is one of the characteristics of ASEAN. But, this will be more important for further cooperation or integration. Another task is to establish a mechanism to resolve conflicts for interest among member countries. Even though the ASEAN Dispute Settlement Mechanism (DSM) was approved in 1996, it has not been effective. These mechanisms are going to play a key role in intra-ASEAN economic cooperation. Further challenges include improving the decision-making mechanism by traditional consensus.

The fifth task, the most important one, is to continue to secure extra-regional bargaining power and to take the initiative in developing East Asian economic cooperation.

Also, there are some tasks for ASEAN and each member country. These are how to develop in the hard competition with a growing China, how to attract foreign capital, and how to secure local industries on the one hand and ASEAN-wide industries on the other. Additional important keys will be the accumulation of technology, the maintenance of infrastructure, and the training of a high-quality labor force. These are inevitable for long-term development.

In terms of the long-term focus, will ASEAN implement the cooperation of integration in order to strengthen the existing nation states? Will those be permanent characteristics of ASEAN cooperation? Will some ASEAN identity generate in the future? Can ASEAN compete with China, which is a gigantic single nation state, through the conventional form of cooperation? These are the long-term focal points for ASEAN cooperation and integration.

The most important point is whether ASEAN can maintain its own cooperation without being buried in a broader cooperative body.

7. Concluding Remarks: The New Turning Point for Intra-ASEAN Economic Cooperation

We examined the issues and tasks of Intra-ASEAN Economic Cooperation in the structural

27) The IAI work plan was approved in the ASEAN Summit in November 2002. Various support plans for the four new members have been underway. In the AIA, much financial assistance from extra-regional countries such as Japan and the EU has been planned. That is, the IAI has been planned together with extra-regional economic cooperation (External Economic Joint Approach).

change of the world economy after the Asian Economic Crisis. Lastly, we will examine that intra-ASEAN economic cooperation now stands at a new turning point.

The 9th ASEAN Summit meeting in October 2003 and a series of meetings will be regarded as a great turning point for Intra-ASEAN economic cooperation. “The Declaration of ASEAN Accord 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). “The Declaration of ASEAN Accord 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.”²⁸⁾

As for the relationship with extra-regional countries, they verified that ASEAN and Japan, China, India, and South Korea would continue to strengthen their cooperation including FTA. At the same time, China and India joined the Treaty of Amity and Cooperation in Southeast Asia (TAC), which was signed in 1976 and urged the promotion of peace and stability in Southeast Asia through regional resilience.²⁹⁾ This was the first time that a power outside Southeast Asia joined TAC.

In December 2003, the ASEAN-Japan Summit meeting was held in Tokyo, pledging that ASEAN and Japan would further deepen their ties. This was the first meeting attended by all ASEAN leaders outside the ASEAN region. They resolved to further strengthen and expand cooperation between ASEAN and Japan (“The Tokyo Declaration”). Japan, lagging behind China and India, expressed interest in joining TAC.³⁰⁾

The concept of AEC was first presented at the 8th ASEAN Summit in November 2002 and examined in the 35th AEM in September 2003. Then AEC was declared in the “Declaration of ASEAN Accord II” at the 9th ASEAN Summit in October, 2003 as the pillar that would support the ASEAN Community. The AEC stated that plan “ASEAN would be a single market and production base, characterized by the free flow of goods, services, investment and skilled labor, freer flow of capital by year 2020.”³¹⁾ This is a concept to realize an EU-like single market or a common market. Thus, this idea has the potential to strengthen intra-ASEAN economic cooperation or integration to a greater extent.

28) “Declaration of ASEAN Concord II (Bali Concord II),” <http://www.aseansec.org/15159.htm>.

29) “Treaty of Amity and Cooperation in Southeast Asia.”

30) They also approved that they would began government negotiations in early 2004 for a comprehensive economic partnership agreement (EPA) with Malaysia, The Philippines and Thailand.

31) “The Thirty-Fifth ASEAN Economic Ministers Meeting, 2 September 2003, Phnom Penh, Cambodia.”

As for the AEC, the High-Level Task Force (HLTF) on economic integration, which was set up by the AEM, compiled the proposals and submitted them to the AEM.³²⁾ The AEM accepted two key proposals and adopted them in the “Declaration of ASEAN Accord II.” One was to establish an effective dispute settlement system. The other was to give priority to integrating 11 sectors. The selected industries for priority integration and the coordinating countries were Indonesia in wood-based products and automotives, Malaysia in rubber-based products, textiles and apparels, Myanmar in agro-based products and fisheries, the Philippines in electronics, Singapore in e-ASEAN and healthcare and Thailand in air travel and tourism.³³⁾

The important point in this series of conferences was that they were trying to establish a new effective dispute settlement system. This new effective dispute settlement system comprises three mechanisms: a Legal Unit, an ASEAN Consultation to Solve Trade and Investment Issues (ACT) and an ASEAN Compliance Body (ACB).³⁴⁾ ASEAN were not able to resolve intra-regional conflicts of interest in the past. But these mechanisms will make it possible to resolve these conflicts and considerably strengthen intra-regional economic cooperation.

With the “Declaration of ASEAN Accord II” in October 2003, intra-ASEAN economic cooperation, which started based on the 1976 “Declaration of ASEAN Accord,” is finally poised to enter a major new phase to implement full-fledged intra-regional economic cooperation and economic integration.

To secure the extra-regional bargaining power, and to maintain an important role in East-Asian regional cooperation, ASEAN must deepen intra-regional economic cooperation by resolving conflicts of interest among member countries, which have been major stumbling blocks. They remain an obstacle in the advancement of intra-ASEAN economic cooperation.³⁵⁾ Also, the APT Conference, in which ASEAN has taken the initiative, is planning to reorganize for the East

32) “The Thirty-Fifth ASEAN Economic Ministers Meeting, 2 September 2003, Phnom Penh, Cambodia,” <http://www.aseansec.org/15066.htm>. “Recommendation of the High-Level Task Force on ASEAN Economic Integration,” <http://www.aseansec.org/hlhf.htm>. Members of the HLTF were Permanent Secretaries and Directors-General of Ministry of Trade and Industry. HLTF considered of the AEC based on the ideas of two studies (ISEAS, 2003, *Concept Paper on the ASEAN Economic Community*, ASEAN ISIS, 2003, *Towards an ASEAN Economic Community*), “17th Asia Pacific Roundtable Speaking Notes for the Presentation by ASEAN Secretary-General Ong Keng Yong on ASEAN Economic Community 9 August, 1 Kuala Lumpur, Malaysia,” <http://www.aseansec.org/15333.htm>.

33) “The Thirty-Fifth ASEAN Economic Ministers Meeting, 2 September 2003, Phnom Penh, Cambodia.”

34) These new mechanisms are 1) a legal unit within the ASEAN Secretariat to provide legal advice on trade disputes (advisory mechanisms), 2) an ASEAN Consultation to Solve Trade and Investment Issues (ACT) modeled after the EU SOLVIT mechanisms to provide speedy resolution to operational problems in ASEAN economic agreements (consultative mechanisms) and 3) an ASEAN Compliance Body modeled after the WTO Textile Monitoring Body to make use of peer pressure to resolve trade disputes (adjudication mechanisms), *ibid*.

35) Indonesia became the coordinating country of the automobile industry, one of the 11 preferential fields for integration. But Thailand was absent from the task force meeting three times to hinder the process of the discussion (July 1, 2004, *Tokyo Yomiuri Shimibun*).

Asian Summit meeting. The question is whether or not ASEAN will be able to actually strengthen intra-regional economic cooperation, and whether or not ASEAN can reorganize itself, in a number of centrifugal forces.

In the 36th AEM in September 2004, they agreed that they would further accelerate intra-regional economic cooperation.³⁶⁾ The next day, they agreed that they would start the FTA negotiation with South Korea in January 2005 and try to conclude it by 2009; they also agreed that a similar negotiation with Japan would start in April, 2005.

Meanwhile, Toyota began to produce the strategic world car, the Innovative International Multipurpose Vehicle (IMV) first in Thailand in the world in August. Toyota has produced a large number of auto parts in Thailand and ASEAN countries by widely expanding intra-regional complementation and local procurement. This will surely boost intra-regional economic cooperation and integration.³⁷⁾

If ASEAN can deepen intra-regional cooperation and integration and become the main axis in East-Asian regional cooperation, East Asian cooperation will also make steady progress. That is because, first, the interdependency in the East Asian region has risen. Second, East Asian economic cooperation has been further establishing. Third, monetary and financial cooperation, which was impossible in the ASEAN region, has been pursued in the framework of APT. Conversely, however, the establishment of regional cooperation in East Asia will always threaten the very existence of ASEAN.

It is inevitable for ASEAN to strengthen cooperation and integration despite the many centrifugal forces.

Note

This is based on Shimizu, K. (2004), "Intra-ASEAN Economic Cooperation: the New Tasks," *Sekai-Keizai-Hyoron* (*World Economic Review*), vol.48 no. 10, and the panel report of Shimizu, K., "Intra-ASEAN Economic Cooperation: Its Process and New Tasks," the 50th memorial conference of Japan Association for Asian Studies, Tokyo, November 2003.

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36) They agreed that they would eliminate tariffs by 2007 in the original six member countries, in 10 of the priority 11 sectors (September 4, 2004, *Nippon Keizai Shimbun*).

37) IMV is a strategic world car based on a 1-ton pickup truck by Toyota. They will prepare five models including the three models of pickup trucks. Recently, they began to manufacture "Hilux Vigo" in Thailand. They plan to annually produce 280,000 cars in Thailand and export 140,000 cars. As for the complementation of manufacturing main auto parts, the diesel engine will be made in Thailand, gasoline engine in Indonesia, and manual transmission in the Philippines and India (August 26, 2004, *Nippon Keizai Shimbun*). Intra-ASEAN Economic Cooperation and current auto parts complementation in ASEAN will be examined in my next paper.

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