Regional Integration, Trade and Conflict in Southeast Asia

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### Acronyms

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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>AEC</td>
<td>Asian Economic Community</td>
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<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<td>ARF</td>
<td>ASEAN Regional Forum</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>CLMV</td>
<td>Cambodia, Laos, Myanmar and Vietnam</td>
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<td>FTA</td>
<td>Free Trade Agreement</td>
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<td>GAM</td>
<td>Gerakan Aceh Merdeka</td>
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<td>GMS</td>
<td>Greater Mekong Sub-region</td>
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<td>I-O</td>
<td>Input-Output</td>
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<td>MILF</td>
<td>Moro Islamic Liberation Front</td>
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<td>TAC</td>
<td>Treaty of Amity and Cooperation</td>
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<td>ZOPFAN</td>
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1. Introduction

Southeast Asia (see Figure 1) has witnessed a general subsidence in conventional security threats such as territory disputes, arms races and inter-state warfare over the last decade or so.\(^1\) Non-traditional security threats and intra-state conflict have taken greater precedence in Southeast Asia in recent years.\(^2\)

Non-traditional security threats in the region take the form of social unrest (including forced displacement) and political instability associated with environmental crises, energy shortfalls, terrorist attacks, pandemic diseases, religious differences and economic recession that have gripped the region, especially since the Asian financial crisis in 1997.

Problems abound in a region that is one of the most ecologically and ethnically diverse in the world. Divergent development paths and non-inclusive economic strategies have been adopted by the nations of Southeast Asian, particularly before 1997. Widespread unemployment and poverty, existing alongside rapid growth in income and output as well as religious, ethnic, and resource use differences have precipitated intra-state conflicts in Myanmar (with the Karen group over issues of regional autonomy, land rights and discrimination), Laos and Cambodia (remnants of the Khmer Rouge until 1997), Indonesia (the secession of East Timor and Aceh), Thailand (over its Southern provinces) and the Philippines (with discrimination of the Muslims/Moros in the south).

The sections that follow will provide an overview of inter-state conflicts and intra-state conflicts in the region.

1.1 Overview of Inter-State Conflicts in Southeast Asia

Sovereignty-related disputes remain a flashpoint in this region of varying colonial histories.

Indonesia annexed East Timor in 1975 after the latter declared independence from the Portuguese. Amid the backdrop of the Cold War, the invasion and the subsequent violation of human rights in Timor by the Indonesian military was generally tolerated. It was only after a referendum in 1999 that East Timor was granted its independence as the Democratic Republic of Timor-Leste. This victory for independence triggered a massive violent response from those in East Timor (and Indonesia) who did not want to be independent, resulting in the severe destruction of infrastructure, violence and a considerable loss of life.

The Philippines and Malaysia have competing claims over Sabah. The Philippines claim the east part of Sabah as its territory, based upon the Sultanate of Brunei's cession of its north-east territories to the Sultanate of Sulu in 1703 in exchange for military assistance. Malaysia, however, insists on its sovereignty over Sabah on the basis of the leasing agreements secured by Baron von Overbeck and Alfred Dent with the Brunei Sultanate on 29 December 1877 and the Sulu Sultanate on 22 January 1878. The British Crown renewed the lease on 15 July 1946, but finally ceded Sabah to Malaysia on 16 September 1963. Currently, Malaysia

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\(^1\) See Ruland (2005).

\(^2\) See (Yeo et al., 2005).
continues to reject Philippine calls to bring the matter of Sabah's jurisdiction to the
International Court of Justice.

On 24 July 2003, Malaysia and Singapore jointly approached the International Court of
Justice with a dispute concerning sovereignty over Pedra Branca/Pulau Batu Puteh,
Middle Rocks and South Ledge. Malaysia first claimed the island in 1979 when the country
published new official maps. Singapore, on the other hand, states that it has managed
Horsburgh Lighthouse and exercised full sovereignty over the island since the 1840s without
any protest from Malaysia. However, Malaysia insists that when Johor ceded Singapore to the
British in 1824, the island was not part of the secession and that the Sultan of Johor only
allowed the British to construct a lighthouse on the island in 1844. The case is expected to
be heard in 2007.

Elsewhere, Indonesia and Malaysia also went to the International Court of Justice with
competing claims over Ligitan and Sepadan. Indonesia's claim to sovereignty over the islands
is based primarily on a conventional title, the 1891 Convention between Great Britain and
the Netherlands. The Court found, however, that the Convention, when read in context and
in light of its object and purpose, cannot be interpreted as establishing an allocation line
determining sovereignty over the islands. The Court ruled in favour of Malaysia on 17
December 2002 on the basis of 'effectivities', that is, “based on activities evidencing an
actual, continued exercise of authority over the islands, i.e., the intention and will to act as
sovereign.”

Sovereignty-related disputes also assume the form of energy security threats in the region. A
primary site where there had been open but restrained conflict is the South China Sea, with
overlapping claimants to some of the islands – with oil and natural gas reserves and occupy
key shipping routes – involving Brunei, China, Indonesia, Malaysia, the Philippines, Taiwan
and Vietnam.

There have been incidents where naval vessels have been involved in armed conflict, namely
in 1974, 1988 and 2002 between Chinese and Vietnamese vessels, and in 1996 between
China and the Philippines. The country claimants agreed in 2002 to resolve the issue of the
islands peacefully and signed the “Declaration on the Conduct of Parties in the South China
Sea.” Although the issue is not yet resolved, there appears to be a greater commitment to
negotiation rather than force, including recent interest in cooperation via joint exploration
initiatives. In March 2005, an agreement between Chinese, Vietnamese and Philippine oil
companies to conduct a joint marine seismic survey of oil potential in the South China Sea
marked “a historic contribution to peace, stability and development in the region.”

Elsewhere, state sovereignty was also threatened by refugee movements due to political
unrest in their countries of origin. The southern conflict in Thailand strained bilateral
relations with Malaysia, where 130 Muslim Thais had sought refuge in Malaysia in 2005. Thai
Interior Minister Kongsak Wantana went as far as insinuating in June 2006 that recent

4 The agreement is available from [http://www.aseansec.org/13163.htm](http://www.aseansec.org/13163.htm) [Accessed 28 March 2006].
5 See S. China Sea Cooperation Hailed: FM (Xinhua, 16 March 2005)
bombs which exploded in southern Thailand were made in Malaysia. The general sentiment of many Thai security and intelligence officials is that the insurgent and separatist leaders live in northern Malaysia, and that Kuala Lumpur has consistently not cooperated with Bangkok to hand over suspects. During the military coup in Thailand on 19 September 2006, Malaysia stepped up its border security to prevent security breaches from possible Thai refugees and increased smuggling activities.\(^6\)

1.2 Overview of Intra-State Conflicts in Southeast Asia

In all Southeast Asian countries, save Singapore, Brunei and Malaysia, there are separatist or intra-state violent conflicts.

The symbolic move of Myanmar’s administrative capital from colonial Rangoon to remote Pyinmana in April 2006 has acquired greater meaning, as the military junta charts a new wave of political insularism through consolidation of power and repressive tactics to wipe out its opposition, especially the Karen group over issues of regional autonomy, land rights and discrimination. This has incurred much criticism from the international community.

The military junta has also announced new plans to tackle its opposition by stepping up pressure on Aung San Suu Kyi’s National League for Democracy, and launching an offensive against the Karen National Union (KNU). A weekend local and foreign press trip in May 2006 to a remote part of the Karen area (in eastern Burma) affected by the fighting – part of the Government’s attempts to counter growing criticism – backfired, with international outcry over alleged reports of murder, rape and mutilation, marking the junta’s most brutal offensive since 1997.

Laos, which gained independence from the French in 1954, was severely affected by the war in neighbouring Vietnam. Like Cambodia, Laos was bombed by the US due to the latter’s conflict with the Vietcong in the 1960s and 1970s. In 1975, the Communist Pathet Lao, backed by Soviet Union and Vietnam, overthrew the royalist government. Minority groups such as the Hmong and disaffected military personnel continue to mount sporadic resistance to the regime. The ethnic Hmongs were trained by the US to fight against the Communists during the the Vietnam War. However, after the US withdrawal, the Hmongs were either driven out by the Communist Laotian government or massacred. Amnesty International has been active in highlighting the abuses faced by the Hmongs.\(^7\)

Elsewhere, Cambodia has only recently emerged from serious intra-state and inter-state conflicts. It was involved in the Vietnam conflict with the United States bombing Cambodia after 1969. King Sihanouk, who had ruled the country since independence in 1953, was deposed in 1970 by General Lon Nol. Lon Nol was, in turn, removed from power by the Khmer Rouge in 1975. Although the Khmer Rouge were driven out of power in Phnom Penh by the Vietnamese in 1979, it fought until 1996 when a large group of Khmer Rouge soldiers left the organization.

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\(^6\) See Malaysia increases border security (Bangkok Post, 23 September 2006).

\(^7\) Annual reports available from Amnesty International website [http://www.amnesty.org](http://www.amnesty.org).
Indonesia (secession of East Timor and Aceh), Thailand (over its Southern provinces) and the Philippines (with discrimination of the Muslims or Moros in the south) have also faced domestic insurgency problems.

Indonesia has also experienced separatist movements such as the Free Aceh Movement (or Gerakan Aceh Merdeka (GAM)), sectarian violence such as between Christians and Muslims in Central Sulawesi, and reverberations from regional disturbances, such as terrorism.

The GAM has sought independence for the Aceh region of Sumatra from Indonesia since 1976, particularly during Suharto’s reign. The main flashpoints were a dilution of Acehnese religion and culture particularly threatened by the influx of Javanese migrants, and the uneven resource income allocation from Aceh’s rich oil reserves. Initial GAM guerilla resistance was put down by government forces in the late 1970s, but renewed efforts by the group, sponsored by Libya and Iran during the 1980s, led to more violent repression and human rights abuses.

The GAM declared a ceasefire during the December 2004 tsunami, and the government temporarily removed restrictions for aid relief. Through negotiations brokered in part by the Swedish government (where GAM leaders Hasan di Tiro, his chief deputy, Zaini Abdullah, and Malik Mahmud had been in exile) and Indonesian President Susilo Bambang Yudhoyono, a peace deal was forged on 16 July 2005 to end the thirty-year insurgency. On 27 December 2005, the GAM leaders announced the disbandment of their military wing.

Elsewhere, Indonesia experienced a violent religious conflict between Christians and Muslims in Central Sulawesi from 1998 to 2002, where more than 1,000 people from both communities were killed and tens of thousands rendered homeless. Fresh violence broke out after three Christian men were executed on 22 September 2006 for their involvement in a May 2000 attack on Muslims in Poso district.

As the world’s most populous Muslim state, and as a vast archipelago with porous maritime borders and a weak central government, Indonesia is the centre of the alleged al-Qaeda-linked terror group, Jemaah Islamiya (JI). The October 2002 Bali bombing took 202 lives (including 88 Australians). Subsequent years saw the Marriott Hotel blast and Australian Embassy attack in Jakarta. The most recent blow came in October last year in Bali a second time.

In the Philippines, there has been a long struggle by secessionist groups in the Southern provinces located on the island group of Mindanao to break free from Manila. These predominantly Muslim movements include the Abu Sayyaf, Jemaah Islamiya (JI) and the more nationalistic Moro Islamic Liberation Front (MILF). A truce between the Philippine government and the MILF has been sustained since 2003, while the military has been fighting Abu Sayyaf rebels on the remote southern island of Jolo since late July 2006 in a bid to flush out its leader, Khadaffy Janjalani. Fresh violence broke out in the south in September 2006 between security forces and Muslim militants, and some 6,000 Marine and Army troops have sealed off Jolo Island.8

8 See New violence in south Philippines (BBC News, 4 September 2006)
Lastly, in Thailand separatist movements are concentrated in its southern provinces. These provinces are predominantly Muslim in population, unlike the Buddhist majority elsewhere in Thailand. Ongoing violence in the area has killed more than 1,400 people since January 2004.

1.3 Problem Statement and Aims of Paper

While the threat of intra-state conflicts developing into full-scale inter-state strife is real, it has been curbed to a considerable extent by the region’s representative grouping, the Association of Southeast Asian Nations (ASEAN) and its associated regional trading agreements (RTAs) – the ASEAN Free Trade Area (AFTA) and the ASEAN Community. These act as political and economic security buffers to promote peace and prosperity in the region.

To understand the relationship between RTAs and conflict, this paper argues for the need to examine the founding impetus of ASEAN, AFTA, and the ASEAN Community, and their development and impact on conflict mitigation and resolution in the region.

Southeast Asia’s experience with regionalism is different from other parts of the world such as the European Union, whose founding was motivated by economic integration. In the case of ASEAN, it was only when conflicts/tensions had been managed and confidence-building rose that RTAs became conceivable. And only through understanding how RTAs subsequently develop can a fuller picture of how peace and security are maintained in Southeast Asia.

RTAs are forged to promote economic cooperation and intra-regional growth and – more importantly – to direct the region’s resources toward productive economic activities rather than destructive inter-state conflicts. This paper argues further that AFTA’s non-binding and non-punitive nature arguably promotes the mitigation of potential conflict, while at the same time pushing towards lower tariffs to raise the level of intra-regional trade, and create more interdependence within ASEAN.

With closer economic integration, the cost of conflict becomes higher, as AFTA serves as a ‘passive’ indirect link between trade/investments and conflict/peace-building, with non-pure tariff reductions under the Common Effective Preferential Tariff (CEPT) scheme playing the role of enhancing security.

In Part II, this paper will discuss ASEAN’s development and founding impetus to demonstrate the nature of regional cooperation in Southeast Asia. In Part III, AFTA, as the first coherent RTA established by ASEAN in 1992, will be discussed to reveal ASEAN’s awakening to the need for regional economic integration to bolster the region as both a credible political and economic entity. Particular attention will be paid to AFTA’s development and founding impetus, AFTA’s impact on Intra-ASEAN trade trends, and the impact of AFTA on regional peace and security.
In Part IV, the paper will look at the movement of ASEAN from an association into an institution-building community comprising the ASEAN Economic Community (AEC), ASEAN Security Community (ASC), and ASEAN Socio-Cultural Community (ASCC), strengthening its peace-building role in the wider Asia-Pacific region. Particular attention will be paid to AFTA’s role and functional expansion into the AEC, ASC and ASCC.

The concluding Part V will discuss a number of examples illustrating the potential for conflict arising from RTA implementation, as well as reflecting upon the threats and opportunities when building trade links and formalising trading relationships between states previously at war or risk of war.

The following five questions will be addressed in Parts II through V:
1. What is the significance of the recent development of RTAs for violent conflict and peace-building both within and between states?
2. How can RTAs be negotiated in a way that reduces inter-state tensions and helps construct institutional barriers to violent conflict?
3. What range of non-trade provisions such as the rule of law and respect for human rights are included in RTAs?
4. How effective are these provisions at improving domestic governance and reducing the risk of future conflict?
5. What are the threats and opportunities when building trade links and formalising trading relationships between states previously at war or risk of war?
2. **Association of Southeast Asian Nations (ASEAN)**

The Association of Southeast Asian Nations (ASEAN) is the representative regional grouping in Southeast Asia, and differs from other regional blocs such as the EU and NAFTA, whose initial founding was motivated by political and economic integration, respectively.

ASEAN was instead founded out of a political agenda to mitigate potential inter-state conflict at a time when the region was gripped by a critical security threat. Only subsequent years saw the need for regional economic integration. In the case of ASEAN, RTAs only became conceivable when political conflict was ameliorated, and confidence-building had risen in the region.

### 2.1 ASEAN’s Foundation and Development

The ASEAN region occupies a total area of 4.5 million square kilometres, and has a population of about 500 million. Its combined gross domestic product is almost US$ 700 billion, and its total trade is approximately US$ 850 billion.


### 2.2 ASEAN’s Development I: 1967-1982

The countries of Southeast Asia came together on 8 August 1967 in Bangkok in an attempt to overcome the challenges arising from a region that is one of the most ecologically and ethnically diverse in the world. The Bangkok Declaration (or ASEAN Declaration) was signed by Indonesia, Malaysia, Philippines, Singapore, and Thailand to establish the Association of Southeast Asian Nations (ASEAN).

ASEAN’s founding was primarily borne out of strategic and security concerns, to prevent inter-state conflicts between the member states, even though the Bangkok Declaration states that its aims and purposes are (1) to accelerate economic growth, social progress and cultural development in the region and (2) to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter.

A year before the Bangkok meeting, Malaysia had ended its confrontation with Indonesia. In addition, non-communist countries were desperate to seek a more concerted response to the Vietnam War. The issue became more pressing with the possible withdrawal of US forces and the corresponding spread of communism in the region following the end of the War in April 1975.

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Elsewhere, ASEAN’s five founding nations established the Zone of Peace, Freedom and Neutrality Declaration (ZOPFAN) in November 1971, to secure international recognition and respect for Southeast Asia as a Zone of Peace, Freedom and Neutrality. Such a declaration builds upon the cherished principles of peace, freedom, sovereignty, territorial integrity and the non-use of force advocated in the Bangkok Declaration and by the United Nations.

In acknowledgement of similar nuclear-free zones established in Latin America and Africa, the ZOPFAN calls for firm cooperation to meet new challenges and developments. The emphasis on peaceful dispute settlements and restraint from threats or force set the framework for subsequent ASEAN approaches towards the maintenance of regional and international security.

ZOPFAN’s significance also lies in strengthening the political will of ASEAN to reduce external influences upon the region and to avoid becoming a theatre for superpower proxy wars. A subsequent impact of motivations embodied in ZOPFAN is the closure or downsizing of US and Russian bases in the region (Ruland, 2005).10

Until around 1976, ASEAN was characterized by a loose and highly decentralized structure, dominated by state-to-state cooperation and involving mostly foreign ministers. However the Treaty of Amity and Cooperation (TAC), formalized during the First ASEAN Summit in Bali in February 1976, represented one of the key agreements in building confidence in the region. The treaty legally binds all its ASEAN signatories to peaceful co-existence and respect for the principles of sovereignty, territorial integrity, non-interference in internal affairs and non-use of force – the ‘ASEAN Way’11 – that have been enshrined in the Bangkok Declaration.

ASEAN’s Amity clause emphasizes increased contact and interaction among ASEAN’s peoples to ensure closer understanding. Its Cooperation clauses oblige active efforts at consultation on international and regional matters with a view to policy and action coordination. They also restrict individual signatory states from participating in activities that constitute a threat to the political and economic stability, sovereignty and territorial integrity of another signatory state.

Thus the operationalization of the TAC is facilitated by finding a balance between the definitive principles of sovereignty and non-interference, and the regulatory provisions for necessary transnational action and coordination for the peaceful settlement of disputes.

The TAC is accompanied by two amending protocols which permit its extension to non-Southeast Asian states with reservations, and also acknowledges the expansion of ASEAN to include the new members – Brunei, Cambodia, Laos, Myanmar and Vietnam.

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10 However, the ensuing years of financial crisis and international terrorism had renewed the need for external influence to achieve regional security.
11 The ASEAN Way emphasizes the norm of non-interference in other states’ affairs, prefers consensus and non-binding plans to treaties and legalistic rules, and relies on national institutions and actions, rather than creating a strong central bureaucracy.
Under the TAC, the provision for a regional body, the High Council, was also established to recommend appropriate means of settlement. The High Council consists of a representative from the ministerial level from each of the ASEAN members as well as the dialogue partner outside of ASEAN which is involved in the dispute. The Chair of the High Council is the Chair of the ASEAN Standing Committee or another representative from within ASEAN.

Further to the TAC, the inaugural ASEAN Summit in Bali witnessed the issue of the Declaration of ASEAN Concord I (Bali Concord I), with the collective objectives of regional resilience, establishing the ZOPFAN, promoting social justice and national development, the peaceful settlement of disputes and the creation of an ASEAN community and identity.

The Bali Concord I adopts a framework of ASEAN cooperation in six areas: political, economic, social, cultural and information, security and the improvement of ASEAN institutions. The ASEAN approach to security involves engagement with non-ASEAN actors. These six areas of cooperation see the implementation of machinery to facilitate cooperation. These characteristics of collaboration, mutual development assistance and non-competition inherent in the ASEAN Concord continue to define current ASEAN agendas.

Apart from fostering political stability in Southeast Asia, member states also began to see the role of economic cooperation in helping ASEAN to develop into a stronger political entity. Such cooperation pursues both market-sharing and resource-pooling strategies. Member states experimented with the option of preferential trading arrangements which allowed member states to access ASEAN markets and achieve greater economic integration, and embarked upon large scale intensive projects such as the ASEAN Industrial Projects and ASEAN Industrial Joint Ventures to benefit from economies of scale.

However, in reality, businesses in the region continue to adopt trade protectionist strategies in both tariff and non-tariff forms (with the exception of Singapore), with little trust for cooperation with other member states. This led to weak economic integration. Some industrial sector and civil society groups even demonstrated strong economic nationalist sentiments.

### 2.3 ASEAN’s Development II: 1982-1990

This period was marked by the second oil crisis of 1979-1980, which led to a dramatic drop in commodity prices and a weakened global economy. ASEAN leaders were impelled to appeal to internal economic strength to revive their economies, and created an ASEAN Task Force in response. ASEAN member states at that time began using economic cooperation as a policy instrument to revive the economy.

By the mid-1980s, economic recovery had taken over, with the Plaza Accord of September 1985 leading to the depreciation of the US dollar vis-à-vis other major currencies, particularly the Japanese yen. Exchange rates turned in favour of ASEAN as most of the currencies in the region were linked to the US dollar. These developments provided an excuse for deferring interest in regional economic integration.
2.4 ASEAN’s Development III: 1991-1993

ASEAN continued to experience economic success by the end of the 1980s. However new global trends for trade liberalization however (with the imminent conclusion of the GATT Uruguay Round leading to the formation of the World Trade Organization (WTO)) led member states to seriously consider the need for an economic safeguard. The Common Effective Preferential Tariff (CEPT) and the ASEAN Free Trade Area (AFTA) were thereby proposed in 1992 for greater coordination and institutionalization for regional economic integration.

During this period, ASEAN also joined the Asia-Pacific Economic Cooperation (APEC) forum to promote trade, investment, and economic and technical cooperation amongst the member state economies.

2.5 ASEAN’s Development IV: 1994-1999

In 1994, countries in Indochina and Myanmar began to express interest in joining ASEAN. By 1999, the region achieved the ASEAN-10 vision by comprising all 10 countries in the region. Problems persisted however, as ASEAN had to grapple with the political uncertainties of Cambodia and the lower economic status and state-led economies of the ASEAN-4 (Cambodia, Laos, Myanmar, and Vietnam (CLMV)) countries.

On the security front, member states also launched the ASEAN Regional Forum (ARF) in 1994 as a regional security forum involving the ASEAN member states, observers, and the consultative and dialogue partners of ASEAN. Given its record of integrating the most diverse sub-region of the Asia Pacific, ASEAN positions itself as the primary driving force of this forum on regional security, while emphasizing the active participation of other members and consideration of their needs.

The ARF is responsible for the analysis and identification of key regional challenges and for the defusing of existing, unresolved differences or tensions along diplomacy tracks One and Two. Mindful of the need to gain unequivocal acceptance by first instilling a sense of community, the ARF has adopted a gradual evolutionary approach to its role in establishing regional security, as reflected in its three-stage development plan: Promotion of Confidence-Building Measures (Stage I), Development of Preventive Diplomacy Mechanisms (Stage II) and Development of Conflict Resolution Mechanisms (Stage III).

Elsewhere, all 10 ASEAN member states became signatories to the Treaty of the Southeast Asia Nuclear Weapon-Free Zone in December 1995, in affirmation of the necessity of a regional Nuclear Weapon-Free Zone in order to realize the Zone of Peace, Freedom and Neutrality advocated in the 1971 ZOPFAN Declaration.

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12 They are: Australia, Bangladesh, Brunei Darussalam, Cambodia, Canada, China, European Union, India, Indonesia, Japan, Democratic Peoples' Republic of Korea, Republic of Korea, Laos, Malaysia, Myanmar, Mongolia, New Zealand, Pakistan, Papua New Guinea, Philippines, Russian Federation, Singapore, Thailand, Timor-Leste, United States, and Vietnam.
Three years later, at the 3rd ASEAN Informal Summit in Manila in 1998, the ASEAN Heads of Government agreed to Thai PM Chuan Leekpai’s proposal for an ASEAN Troika to be constituted as an ad-hoc body at the ministerial level for the leaders to cooperate more closely and mitigate conflict.

The Asian financial crisis of 1997 was a watershed moment which undermined the coherency and structural integrity of ASEAN. The region’s economic structures were destabilized with massive domestic imbalances crippling member states and reversing the successful trends of the 1980s. Many ASEAN countries returned to economic nationalism by reversing economic liberalization (an outward, export-oriented Newly Industrialized Economy (NIE) model) and protecting their own domestic industries and markets, such as the case of Malaysia experimenting with controls over capital flows and currency rates.

The expansion of ASEAN during the financial crisis was regarded by many as poorly timed, as economic integration was severely affected and the development gap – especially between the ASEAN-4 countries and ASEAN-6 countries – was further widened. But it was at such a time that economic changes became more intertwined with politics, which reinforced the consensus that greater economic cooperation was required to enhance ASEAN as a community.

The crisis prompted ASEAN to accelerate regional financial cooperation. In the ASEAN Vision 2020, issued in December 1997, ASEAN leaders resolved to: (a) maintain regional macroeconomic and financial stability by promoting closer consultations on macroeconomic and financial policies and (b) continue to liberalize the financial services sector and closely cooperate in money and capital markets, tax, insurance and customs matters.

To carry out the mandate, officials have drawn up an ASEAN Finance Work Programme, outlining measures to establish sound international financial practices and standards, deepen capital markets and improve corporate governance. ASEAN countries have also worked towards sequencing the liberalization of capital accounts appropriately, to allow the freer flow of capital while cushioning the impact of sudden shifts in capital flows.

In October 1998, the ASEAN finance ministers formalized the ASEAN Surveillance Process (ASP), which served as a framework for closer consultations on economic policies. The first element of the ASP involves monitoring global as well as regional and national economic and financial developments as an ‘early warning system’, to keep track of the recovery process and to detect any sign of recurring vulnerability in the ASEAN financial systems and economies.

The second element of the ASP is a peer review where ASEAN finance ministers exchange views and information on developments in their domestic economies, including policy measures that have been carried out and their progress of structural reforms. The review also provides an opportunity to jointly consider unilateral or collective action to counter potential threats to any member economy.

The foundation of the ASP process later led to the adoption of the Chiang Mai Initiative (CMI) in May 2000, as the ASEAN+3 (China, Japan and the Republic of Korea) finance ministers came together to establish a regional financing arrangement. The CMI consists of two components: an expanded ASEAN Swap Arrangement and a network of bilateral swap arrangements among ASEAN countries, China, Japan and the Republic of Korea.

In spite of progressive steps taken to ameliorate the negative effect of the financial crisis, development gaps increased within ASEAN and between member states, particularly between ASEAN-4 countries and ASEAN-6 countries. The former became less economically open, while the latter expanded liberalization of key sectors such as banking and telecommunications (especially in the case of Singapore).
3. ASEAN Free Trade Area (AFTA)

AFTA, as the first coherent RTA established by ASEAN in 1992, indicated ASEAN’s recognition of the need for regional economic integration to bolster ASEAN as both a credible political and economic entity.

Subsequent developments within AFTA and its ensuing evolution into the ASEAN Economic Community reveal how RTAs in Southeast Asia function to prevent violent conflict and to maintain regional peace and security, and how RTAs can be negotiated in a way that reduces inter-state tensions and helps construct institutional barriers to violent conflict.

This section will attempt to address the following questions
1. What is the significance of the recent development of a Southeast Asian RTA for violent conflict and peace-building both within and between states?
2. How can RTAs be negotiated in a way that reduces inter-state tensions and help construct institutional barriers to violent conflict?

3.1 AFTA's Development and Founding Impetus

In the wake of the Cold War and the settlement of the Cambodian conflict, there was a greater move towards economic cooperation. In 1991, Thai Prime Minister Anand Panyarachun proposed the formation of a free trade agreement within ASEAN which was enthusiastically taken up by Singapore and then Malaysia.

The motivation for this agreement was not borne out of political integration, but rather of fear over the loss of economic competitiveness to other regions. Changes in trading relations in the West had already created a stir in the global economy with the creation of the Single European Market and the North American Free Trade Agreement (NAFTA). The development of such trading blocs raised fears over a rise in protectionism around the world.

ASEAN also faced the challenge of Mexico gaining free access to the US – ASEAN’s largest export market – upon its entry into NAFTA. The second challenge came from the “socialist economies of China and Vietnam which, together with their low-cost labour and land, made these economies attractive, both as production locations for export and for the domestic market.” Together, these new challenges posed a threat to ASEAN by diverting investments away from the region.

To sustain its economic competitiveness and allow ASEAN to regain a foothold in the US, European and Japanese markets, AFTA and the Common Effective Preferential Tariff (CEPT) were adopted as economic safeguards, and saw swift implementation given their non-biding and non-punitive nature.

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When the ASEAN members agreed to the formation of AFTA in 1992, ASEAN called for the reduction of tariffs on Inclusion List (IL) goods to 5% by 2007.\textsuperscript{15} Subsequently, some members, especially ASEAN-6 countries, were ready for a quicker implementation and added an amendment to the CEPT in 1995 to shorten the timeline by five years to 2002. By 2002, the target had been largely met: tariffs on IL goods had been lowered among the ASEAN-6 countries from an average of 12.76% in 1993 to 1.96% in 2003. Almost all items on the IL (98.62%) are below the 5% CEPT target.

The ASEAN-6 countries had generally shifted more products from their Temporary Exclusion Lists (TEL) and General Exception Lists (GEL) on to the IL. The GEL, which makes an exception for products on the basis of national security, health or cultural reasons, contains 292 lines, or about 0.65% of all tariff lines in ASEAN. The TEL, which temporarily makes an exception for products at the request of member states and along with the consent of others, contains 218 lines, or about 0.49% of all tariff lines.

The ASEAN-4 countries, on the other hand, agreed to the following timelines to reduce tariffs on their IL goods to 5% or less: Vietnam by 2006, Myanmar and Laos by 2008, and Cambodia by 2010. They have put 60.89% of their total tariff lines on the IL. TEL lines account for 25.09% of their total lines.

The success of ASEAN member states in reducing their tariffs has given momentum to accelerating the zero tariff goal. In the 2003 CEPT package, ASEAN-6 countries agreed to have zero tariffs on 60% of their IL goods by 2003, a target they slightly surpassed (60.89%). By 2010, all goods on their IL lists will have zero tariffs. Cambodia, Myanmar, Laos and Vietnam are to follow in 2015.

3.2 AFTA’s Impact on Intra-ASEAN Trade Trends

Many of the economies in East Asia have adopted primarily export-led models of development. Therefore most of these economies are competitors in third markets, particularly those of developed economies. Most ASEAN countries share similar resource inputs and are similarly engaged in producing high-tech and labour-intensive exports, which are bought by non-ASEAN countries. As a result, these countries are often competitors with one another in similar products.

For instance, electronics and computer products account for 50% of all ASEAN trade, but are ranked 40\textsuperscript{th} in terms of intra-ASEAN trade. In addition, total lines on the IL, despite having drastically lower tariffs, account for as little as 5% of ASEAN’s total trade by some estimates.

While this form of economic competition does not necessarily spill-over to political relations, it does mean that members are sometimes reserved in their cooperation given the fear of losing out to their neighbours. Graph 1 refers to East Asia’s export shares in 2003 based on I-O table calculations.

\textsuperscript{15} Lim and Walls (2005).
What the above graph indicates is that there is a limit to the amount of intra-regional trade that can take place in East Asia (and similarly in ASEAN). This is partly due to the developmental model adopted by many of the states in East Asia including ASEAN which is primarily focused on export-led growth rather than based on domestic consumption.

Despite this competition for third-country markets, ASEAN members are involved in complementary intra-regional trade. The bulk of this intra-regional trade is in the electronics sector. Based on the figures from Tables 1 and 2 (see Appendix) we can see that about 31% of ASEAN-6 exports can be classified as electrical machinery and equipment parts in 2004 (also refer to Table 3 or ASEAN-6 ten major import and export markets in 2001-2004). This share has remained relatively constant since 2001.

If we were to look at the ASEAN-6 import figures, we would find that the patterns of imports are similar to that of the exports. About 31% of the ASEAN-6 imports are in category HS 85. This share of the imports has remained relatively constant since 2001.
What is important to note is that about half of the imports and exports of the ASEAN-6 countries are concentrated in categories HS 85 and HS 84. This suggests that there is a large amount of intra-industry trade in the region.

Forging consensus is particularly important given that ASEAN does not operate on a voting system. This does not mean that all the members have to agree to a particular proposal (i.e., unanimity). Table 4 (see Appendix) demonstrates intra-ASEAN trade under Form D from 2004 to 2005.

As a first step in economic integration, AFTA achieved a moderate amount of success. Total intra-ASEAN trade increased from US$44.2 billion in 1993 to US$174.39 billion in 2003. Table 5 (see Appendix) shows a steady increase in intra-ASEAN exports every year post-AFTA, with the exception of 1998 due to the financial crisis.

As reported by former Indonesian President, Megawati Soekarnoputri, at the AFTA 2002 Symposium – 10 years after the implementation of AFTA – intra-regional trade had increased approximately 11.6% per annum, and appeared promising for AFTA’s eventual materialization. Through AFTA, President Megawati argued, “there will also be an improvement of income of its members individually or collectively…regional demanding and bargaining powers would increase which, in turn, also increase the intra-ASEAN trading volumes”.

However, the results look less promising when we observe intra-ASEAN trade as a percentage of total trade, which rose less than 1%, from 21.7% in 1993 to 22.08% in 2003. Stronger economies from ASEAN-6 countries such as Singapore and Malaysia drove the growth, yet this situation might have been different today had it not been for the 1997 Asian financial crisis. Nonetheless, intra-regional trade is heavily concentrated on bilateral trade relations between Singapore-Malaysia and Singapore-Indonesia.

3.3 Impact of AFTA on Regional Peace and Security

The reality of ASEAN’s political economy is one of entrenched interests and economic nationalism, especially in its early years. AFTA’s structure has allowed for exceptions without penalty and the CEPT is based on the lowest common denominator to harmonize common effective tariff and to avoid internal strife if the reductions progress too quickly.

AFTA’s development did not remain at the level of tariff reduction. The CEPT Agreement for AFTA also provides for the immediate elimination of quantitative restrictions for products included in the CEPT Scheme. The scheme also eliminated other non-tariff barriers within a period of five years of the CEPT concessions. This was done through efforts such as the harmonization of product standards and mutual recognition of conformity assessment requirements, the simplification of customs clearance procedures and the harmonization of sanitary and phytosanitary standards.

AFTA’s non-binding and non-punitive nature arguably promotes the mitigation of potential conflict, while at the same time pushing towards lower tariffs to raise the level of intra-regional trade, thereby creating more interdependence and linkages to cement better ties within ASEAN. The non-binding and non-punitive nature of trade liberalization has positive
regional impact because ASEAN is an open region in which its major trading partners are outside ASEAN.

With closer economic integration, the cost of conflict becomes higher, as AFTA serves as a ‘passive’ indirect link between trade/investments and conflict/peace-building, with non-pure tariff reductions under the CEPT scheme playing the role of enhancing security. While there are many intervening variables, a case can be made for AFTA’s impact – especially with its expansion in scope and function over the years – on increased intra-regional trade and better economic coordination and regional ties.

According to a study conducted by Nesadurai (2003), there has been a “progressive institutionalization of AFTA since 1992 as far as the nature of constitutional documents is concerned.” Nesadurai observes that with AFTA’s inception, progressive improvements were made on the initial general guidelines such as implementation details for the CEPT (Operational Procedures for CEPT, Rules of Origin for CEPT, and Interpretative Notes to the Agreement on the CEPT Scheme for AFTA). After 1995 in particular, “the constitutional documents pertaining to AFTA [also] became formal and binding on signatories”.

Rules and procedures for the temporary exclusion of unprocessed agricultural products were also reinforced through the signing of a protocol on sensitive and highly sensitive agricultural products in September 1999. According to the protocol, ASEAN-6 countries had to phase agricultural products – a potentially divisive issue – on their sensitive lists into the CEPT scheme between January 2001 and January 2003, and meet the 2010 deadline for tariffs reductions on these products to 0-5%. Highly sensitive products were phased in between January 2001 and January 2005, and completed by the same deadline although the end tariff rates could remain at a maximum of 20%, especially for major rice producers Indonesia, Malaysia and the Philippines.

While the 1992 CEPT agreement did not include any dispute settlement mechanisms (DSM) with the exception of Article 8 (stating that member states should try to amicably settle any disputes arising from implementation of AFTA through consultations), ASEAN member states adopted a protocol on DSM in November 1996.

Five stages in the dispute settlement process were detailed for guiding governments in the event of a dispute: consultation, elevation of dispute to the SEOM, appeal of SEOM ruling to the ASEAN Economic Ministers (AEM), implementation of decision of the SEOM or AEM, and compensation or suspension of concessions.

There is also a DSM in place to address private sector complaints on non-tariff barrier (NTB) issues, which are to be channelled directly to member countries and to the ASEAN Secretariat. The complaints will undergo a process of clarification and verification by the member countries concerned, and if found to be valid, efforts will be taken to remove them.

Thus far ASEAN member countries have yet to invoke the DSM process, even as disputes over agriculture, automobiles and petrochemicals have arisen in the course of implementing AFTA. Affected countries like Thailand, Malaysia, Singapore and the Philippines have preferred to settle their disputes via diplomatic consultations and bargaining. Nesadurai’s
(2003) interviews with senior officials from Indonesia, Singapore, Thailand and Malaysia revealed that invoking the DSM could jeopardize political relationships in ASEAN.

With the inter-governmental mechanisms in place, AFTA’s implementation could be pursued against an institutionalized backdrop, which helps to advance the AFTA process. While Nesadurai (2003) noted that “these institutionalized mechanisms have served as the arena in which compromises resulting in a lower level of compliance were worked out…it is [nevertheless] unlikely that AFTA could have advanced as far as it has done without these compromises”.

AFTA is generally recognized as contributing to an initial step of pushing ASEAN towards realising Vision 2020’s goal of “a concert of Southeast Asian Nations, outward-looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies” and an ASEAN Economic Community (AEC). The new AEC will build upon AFTA by increasing economic integration, bridging the divide between the ASEAN-6 and CLMV, and bringing greater economic benefits to the region as a whole.
4. Towards an ASEAN Community

Since its inception in 1967, ASEAN is seen to be moving from being an association into an institutional-building community. Apart from promoting peace and security in Southeast Asia, ASEAN also seeks to strengthen its peace-building role in the wider Asia-Pacific region.

The Declaration of ASEAN Concord II in October 2003 addressed new challenges that accompany both ASEAN’s evolving place in the international context and its expansion to 10 countries in Southeast Asia. Through this Declaration, ASEAN affirms its political will to forge a sustainable future for the region based on political solidarity, economic cooperation and mutually derived benefits, as embodied by the adoption of the “Prosper Thy Neighbour” policies. These aims, which give a coherent structure and organization to the ASEAN Vision 2020, are to be attained through the realization of the proposed ASEAN Community – comprising the ASEAN Security Community (ASC), ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community (ASCC).

This section will attempt to address the following questions:
3. What range of non-trade provisions such as the rule of law and respect for human rights are included in RTAs?

4. How effective are these provisions at improving domestic governance and reducing the risk of future conflict?

4.1 Expanding the Role and Functions of AFTA

The extension of AFTA membership to Cambodia, Laos, Myanmar and Vietnam has diversified the ASEAN grouping in terms of political regimes and economic priorities. It has also made decision making more time consuming, which has in turn slowed down the progress towards economic integration. Another obstacle for AFTA is the proliferation of bilateral free trade agreements (FTAs) which could minimize its effectiveness as a preferential trading arrangement.

Given the weaknesses of ASEAN in terms of not having a mechanism for redistribution of the resources as well as having an independent regional authority to ensure compliance with its agreements, there is little that can be done to ensure compliance of the newer members as well as little resources available to help them to do so. Ironically, without the ability to implement these ASEAN agreements, these newer members will also not be able to reap the full benefits of regional integration, potentially reducing their interest in ASEAN.

This is particularly for the case of Myanmar, which seems to be increasingly moving towards a strategy of playing India and China against each other instead of relying on ASEAN for its diplomatic support. While Myanmar is unlikely to go to war against any of its neighbours, it could show a reduced interest in the other ASEAN matters. This is likely to have an adverse impact on cooperation efforts within ASEAN.
ASEAN therefore needs to move rapidly and boldly in creating competitive production clusters and greater regional domestic demand in order to increase sources of growth from within the region. The expansion of AFTA’s role and functions also showed the close nexus between economics and security, and openness to non-trade provisions such as the rule of law and respect for human rights and socio-cultural values.

Institutional barriers to violent conflict are also constructed through greater economic integration, through co-developing the AEC with the ASEAN Security Community (ASC) and the ASEAN Socio-Cultural Community (ASCC) under the ASEAN Community framework. Together, these provisions play an active role in improving domestic governance and reducing the risk of future conflict.

4.2 From AFTA to AEC

ASEAN leaders finalized the details of the AEC at the 10th ASEAN Summit in Vientiane in November 2004. The new AEC will build upon AFTA by increasing economic integration, bridging the divide between the original ASEAN-6 countries and its new members, and bringing greater economic benefits to the region as a whole.

The AEC vision, proposed during the Bali Concord II, harkens a free flow of goods, investment and services, and a freer flow of capital and labour by 2020. Unlike a common market, the AEC restricts the flow of labour to skilled labourers and business persons, and does not plan to impose a uniform tariff rate on non-members. For this reason, some proponents of the AEC have called it an ‘AFTA-plus’.

Others, who would like to see a fully economically-integrated ASEAN, have suggested that ASEAN adopts a ‘Common Market-minus’ framework. This would act like an FTA-plus at the beginning, but would delay the deep integration measures needed for a common market until after 2020. This might be more agreeable to newer members, as it would grant them greater flexibility as they begin reforming their economies and integrating them into ASEAN.

The purpose of the AEC, as explained in the Bali Concord II, is to make ASEAN into a single market and production base that would be more economically competitive and attractive to investors. It will incorporate all the existing trade and investment agreements, fast-track the integration of priority sectors and make the AEC into a rules-bound body.

While the Bali Concord II does not provide much detail, the declaration reveals that ASEAN will adopt the recommendations of the High Level Task Force on ASEAN Economic Integration, whose report provides the identification of 11 priority sectors to be given initial trade and investment liberalization under ASEAN Economic Community.

The Task Force’s report provides a comprehensive strategy to accelerate economic integration, and also recommends several new features, including an independent panel to solve trade disputes. It names 11 sectors as priority sectors for integration, assigning responsibility for each to various ASEAN members: wood, automotives, rubber, textiles, agriculture, fisheries, electronics, e-ASEAN, healthcare, air transport and tourism. The
integration clause would be advanced by moving quickly on these sectors. It recommends the following steps:

- Zero tariffs;
- The immediate elimination of trade barriers;
- Faster and simplified customs
- Faster harmonization of Mutually Recognized Agreements;
- Standards and regulations

Services relating to these sectors should be liberalized by 2010. For tourism, the report recommends an intra-ASEAN travel visa by 2005, and urges members to draw up an agreement on skilled labour mobility by the same year. These steps should be combined with an outreach and promotional programme to establish pan-ASEAN companies, with divisions located according to the comparative advantages of countries. This includes outsourcing, more intra-ASEAN investing and an eventual ‘ASEAN brand’ for goods and services.

At the Thirty-sixth ASEAN Economic Ministers Meeting in September 2004, ministers endorsed the Framework Agreement for the Integration of the 11 priority sectors and the Roadmaps for Integration of the Priority Sectors. Both were ratified at the Tenth ASEAN Summit in Vientiane in November 2004.

For the non-priority sectors, the High Level Task Force set out long-term timelines. For the liberalization of trade in goods, it recommended clearer and standardized Rules of Origin by the end of 2004; a database for non-tariff measures, which should be eliminated by 2005, following WTO standards; for customs, a Green Lane for CEPT products for quicker clearance by 2004; and MRAs for five sectors by 2005.

For instance, under the AEC, transparent rules and the expedited movement of goods and services would allow a company to act as if it is working within one country. ASEAN would, in effect, offer a work and investment environment comparable in scale to that of China or India. Giving companies and investors the opportunity to expand their company bases across ASEAN also gives them more chances to diversify their production. This will be essential in Cambodia, Laos, Myanmar and Vietnam, where economies have a narrow production base.

Elsewhere, major integration-related economic activities of ASEAN include the following:

- A Roadmap for Financial and Monetary Integration of ASEAN in four areas, namely, capital market development, capital account liberalization, liberalization of financial services and currency cooperation;
- A trans-ASEAN transportation network consisting of major inter-state highway and railway networks, including the Singapore to Kunming Rail-Link, principal ports, and sea lanes for maritime traffic, inland waterway transport, and major civil aviation links;
- A Roadmap for Integration of Air Travel Sector;
- The interoperability and interconnectivity of national telecommunications equipment and services, including the ASEAN Telecommunications Regulators Council Sectoral
Mutual Recognition Arrangement (ATRC-MRA) on Conformity Assessment for Telecommunications Equipment;

- A trans-ASEAN energy networks, which consist of the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline Projects;
- The Initiative for ASEAN Integration (IAI) focusing on infrastructure, human resource development, information and communications technology, and regional economic integration primarily in the CLMV countries;
- The Visit ASEAN Campaign and the private sector-led ASEAN Hip-Hop Pass to promote intra-ASEAN tourism; and
- An Agreement on the ASEAN Food Security Reserve.

During the 39th ASEAN Ministerial Meeting on 24-25 July 2006, ASEAN officials revealed plans to craft a charter by next year (ASEAN’s 40th founding anniversary) to accelerate the realization of the Asean Economic Community to 2015 from 2020. The ASEAN Charter aims to establish ASEAN as a legal entity and set the direction for its future.

Prompted by concerns over the rise of India and of China, ASEAN officials say that the creation of a unified ASEAN bloc by 2015 would allow for a free flow of goods, services and human resources across the region, albeit without a single currency system. The move is strongly supported by Singapore, Thailand and Brunei, with the rest of the member states “not averse” to the initiative, according to Singaporean Foreign Minister George Yeo.

4.3 From AFTA to ASC

The ASEAN Security Community (ASC) builds on efforts made by ASEAN to prevent major inter-state conflict over the past four decades. Its aim is to ensure that countries in the region live in peace with one another and with the world in a just, democratic and harmonious environment. Members are bound to the commitment of relying exclusively on peaceful processes in the settlement of intra-regional differences and regard their security as fundamentally linked to one another and bound by geographic location, common vision and objectives.

The ASC comprises the following components: political development; shaping and sharing of norms; conflict prevention; conflict resolution; post-conflict peace building; and implementing mechanisms. It will be built on the strong foundation of ASEAN processes, principles, agreements, and structures, which evolved over the years and are contained in the following major political agreements:

- ASEAN Declaration, Bangkok, 8 August 1967;
- Zone of Peace, Freedom and Neutrality Declaration, Kuala Lumpur, 27 November 1971;
- Declaration of ASEAN Concord I, Bali, 24 February 1976;
- Treaty of Amity and Cooperation in Southeast Asia, Bali, 24 February 1976;
- ASEAN Declaration on the South China Sea, Manila, 22 July 1992;
- Treaty on the Southeast Asia Nuclear Weapon-Free Zone, Bangkok, 15 December 1995;
- ASEAN Vision 2020, Kuala Lumpur, 15 December 1997; and

16 See Officials discuss timeline to realize ASEAN Economic Community (Bernama, 16 Aug 2006).
• Declaration of ASEAN Concord II, Bali, 7 October 2003.

The High Council of the TAC and the ASEAN-steered Regional Forum (ARF) are also singled out as important tenets of the ASC. The essence of the ASC is the principle of comprehensive security, in line with the strong interconnections among contemporary political, economic and social realities. It does not denote a defence pact, military alliance or joint foreign policy.

The rules of procedures for the High Council were furthered clarified in 2001 but the office of the High Council has not been invoked, as member states prefer the option of international arbitration over relying on regional resources. Such a recurring trend demonstrates a certain level of discomfort among ASEAN member states in appealing to the same institution from which further discord may be engendered.

In recognition of security interdependence in the Asia-Pacific region, ASEAN established the ASEAN Regional Forum (ARF) in 1994. The ARF’s agenda aims to evolve in three broad stages, namely the promotion of confidence building, the development of preventive diplomacy and the elaboration of approaches to conflicts for major regional security issues, such as non-proliferation, counter-terrorism, transnational crime, South China Sea and the Korean Peninsula.

Critics have pointed out the ARF’s slow progress in developing its confidence-building and preventive diplomacy agenda, overall institutional growth and problem-solving mechanisms to engage the US and other key members. China in particular had been resisting the development of preventive diplomacy measures within the ARF as compared to confidence building measures. There is also the view of ASEAN dominating the ARF core, which prevents the resolution of more intractable security problems in Northeast Asia.

Despite these shortcomings, the ARF has also posted achievements, as noted during the 10th ARF meeting on 18 June 2003. These include providing an venue for multilateral and bilateral dialogue, and the establishment of effective principles for dialogue and cooperation among its 26 members, each with diverse perspectives, and which included the networking and exchange of information relating to defense policy and the publication of defense white papers. The ARF also recently attempted to play a role in addressing the North Korean missile crisis, by appealing to a return to the six-party talks, but the move was rejected by North Korea.21

The ARF has recently developed some modest structures and capacities towards preventive diplomacy, and has responded to the shift in focus towards non-traditional security threats such as terrorism, maritime security and disaster management. Institutional steps such as strengthening the ARF chair, the development of a Register of Eminent and Expert Persons (EEP) and establishment of an ARF unit within the ASEAN Secretariat have been taken.

17 ASEAN (2001a).
18 See (IDSS, 2002).
21 See Asean forum to condemn N.Korea missile tests (Chosun Ilbo, 20 July 2006).
According to The Guidelines for the Operation of the ARF EEPs, adopted at the 11th ARF meeting in Jakarta, in July 2004, the role of the EEPs is to “provide non-binding and professional views or policy recommendations to the ARF through the ARF Chair, or to serve as resource persons to the ARF on issues of relevance to their expertise.” Recently, Korea hosted the first formal meeting of all ARF EEPs in Cheju Island on 29-30 June 2006 to refine the EEP process.

The last ARF meeting on 28 July 2006 ended on a positive note, with ASEAN seemingly regaining its previous prominence in regional affairs, especially with renewed focus of the US on the region –US Secretary of State Condoleezza Rice had not attended the previous year’s meeting – to counter China’s increasing influence there. There were also the promising development of France agreeing to be signatory to the TAC and the EU indicating interest to do so as well.22

The Declaration of ASEAN Concord II reveals the maturation of the ASEAN system since its inception, demonstrating a newfound receptiveness and assurance with regard to the establishment and utilization of rules, institutional mechanisms and planned strategic initiatives. Part of this confidence undoubtedly stems from the perceptible international recognition and endorsement given to ASEAN-driven mechanisms such as the TAC and the ARF. Another source of assurance is ASEAN’s coming to terms with its capacity to shape its own future, leading it to demonstrate a new approach of constructivism and initiative, in contrast to its prior one of response and reaction.

Elsewhere, the early foundational efforts established by AFTA have also borne fruit in other areas of security measures, such as the Treaty of the Southeast Asia Nuclear Weapon-Free Zone and the ASEAN Troika.

Established in December 1995, the Treaty of the Southeast Asia Nuclear Weapon-Free Zone plans for the progressive undertaking of concrete action by ASEAN towards general and complete disarmament, and the upholding of the international non-proliferation system. This treaty allows for nuclear energy to be used for peaceful purposes – particularly economic development and social progress – on the condition of conformity to International Atomic Energy Agency (IAEA) guidelines and standards.

These Basic Undertakings, to be binding both inside and outside the Zone, are indicative of the emphasis being placed on establishing shared norms (in this case, of anti-nuclearization) among ASEAN states, not merely common action. A number of mechanisms have been put in place to enforce the implementation of the treaty, including allowances for information exchange, clarification and fact-finding missions, as well as a system of controls and safeguards. Cooperation with international organizations is encouraged to facilitate the enforcement of the treaty. The treaty is to remain in force indefinitely, and any party’s breach of it will give other States the right to withdraw from it.

All 10 ASEAN countries have also signed the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxic

22 See EU Likely to Accede to ASEAN Treaty of Amity (The Business Times, 29 July 2006).
Weapons and their Destruction – nine as parties, Myanmar as a signatory – and have also signed the Convention on Chemical Weapons.

The ASEAN Troika could be activated by the ASEAN Foreign Ministers to look into issues that have impact on the regional peace and stability. The ASEAN Troika would consist of the present, past and future chairs of the ASEAN Security Council (which rotate with the chairs of the ASEAN Standing Committee chairmanship, yet the composition could be amended by consensus of the Foreign Ministers).23 The role of the Troika is to “support and assist” the ASEAN Foreign Ministers. It is not a decision-making body, and as specifically mentioned in the scope of the Troika, “[it] shall refrain from addressing issues that constitute the internal affairs of ASEAN member countries.”

The ASEAN Troika was founded to provide more flexibility to the decision-making process after the seemingly slow pace in which ASEAN responded to the financial crisis, the transboundary haze pollution and the crisis in East Timor. The ASEAN Troika had been sent to broker a deal among the political parties in Cambodia. There had been violent fighting between the supporters of Hun Sen, Prince Norodom Rannaridth and Sam Rainsy in 1997 after Hun Sen accused Prince Rannaridh of building a private army.

After the September 11th attacks on the US, Thailand supported the activation of the ASEAN Troika to monitor and deal with terrorism, including the role of recommending counterterrorism measures.24 However, ASEAN members have in general preferred bilateral resolution or international arbitration mechanisms over the ASEAN Troika to address inter-state conflicts.

On 25 August 2006, the Cambodian Parliament launched the “The Cambodia Parliamentary Caucus on Myanmar” in Phnom Penh, the country’s unprecedented move to condemn Myanmar’s military junta for its lack of reform and human rights abuse.25 This contributes to the ongoing efforts of the ASEAN Inter-Parliamentary Myanmar Caucus (AIPMC) and may reanimate the ASEAN Troika mechanism.

The ASEAN Charter draft circulated by ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) at the Track Two diplomacy level in April 2006 has sought to develop other institutional arrangements to mitigate potential conflict within ASEAN and boost or complement the ASEAN Troika.

An ASEAN Court of Justice is proposed to address the emerging trend of agreements that involve legally binding rules, beyond political commitments. These include inter-state disputes between member states. The Charter draft also proposed for an ASEAN Peace and Reconciliation Council to be established to play a stronger role in conflict prevention and resolution.

23 The ASEAN Standing Committee comprises of the Directors- General of the ASEAN Departments of the respective Ministries of Foreign Affairs. The Directors-General meet as a body “standing in” for the ASEAN Foreign Ministers who meet annually in the ASEAN Ministerial Meeting. Chairmanship of the ASEAN Standing Committee is on a rotational basis (similar to that of hosting the ASEAN Summit).
Such proposals have the potential to prevent inter/intra-state conflicts, by integrating the principle of non-intervention embodied in the ‘ASEAN Way’ and building more confidence in the ASEAN mechanism. Issues that have regional implications such as maritime security, terrorism, transboundary haze pollution and pandemic diseases can be better dealt with through more open consultation and communication between member states.

4.4 From AFTA to ASCC

The ASEAN Socio-Cultural Community (ASCC), in line with the goal set by ASEAN Vision 2020, envisages a Southeast Asia bonded together in partnership as a community of caring societies founded on a common regional identity.

Members of the ASCC are committed to foster cooperation in social development aimed at raising the standard of living of disadvantaged groups and the rural population, and to seek the active involvement of all sectors of society, in particular women, youth, and local communities.

Additionally, ASEAN member states are to ensure that their individual work forces are prepared for, and benefit from, economic integration by investing more resources for basic and higher education, training, science and technology development, job creation, and social protection. The area of public health, including the prevention and control of infectious and communicable diseases, will also see intensified cooperation.

Human resource development takes precedence and represents a key strategy for employment generation, alleviating poverty and socio-economic disparities, and ensuring economic growth with equity.

The on-going activities of ASEAN in the ASCC include:

- ASEAN Work Programme on HIV/AIDS;
- ASEAN Work Programme on Community-Based Care for the Elderly;
- ASEAN Occupational Safety and Health Network;
- ASEAN Work Programme on Preparing ASEAN Youth for Sustainable Employment and Other Challenges of Globalization;
- ASEAN University Network (AUN) promoting collaboration among seventeen member universities ASEAN;
- ASEAN Students Exchange Programme, Youth Cultural Forum, and the ASEAN Young Speakers Forum;
- The Annual ASEAN Culture Week, ASEAN Youth Camp and ASEAN Quiz;
- ASEAN Media Exchange Programme; and
- Framework for Environmentally Sustainable Cities (ESC) and ASEAN Agreement on Transboundary Haze Pollution.
5. **RTA and Conflict: Threats and Opportunities**

5.1 **Impact of AFTA on Conflict**

The link between RTAs and conflict assumes a complex and unique relationship in Southeast Asia. AFTA’s initial implementation in the early 1990s was not a smooth one, and there were both inter-state and intra-state conflict threats that almost derailed the entire agenda. At the time, the region’s rapid economic success also met with the global economic transition towards trading blocs heightening the sentiments of protectionism worldwide.

Domestic political turmoil in the form of leadership change also occurred during the year AFTA was launched.\(^{26}\) Thailand was particularly shaken by a series of elections and public revolt that year, with Chuan Leekpai taking office after ousting Anand Panyarachun, the initiator of AFTA only a year before. Threats to AFTA’s implementation appeared imminent with the Leekpai administration’s postponement of an AFTA Ministerial Council. A pro-business Thai government took a step back from championing the AFTA as strong critics emerged from local businesses, fuelling economic nationalism.

In the Philippines, Fidel Ramos defeated Corazon Aquino with only 23.4% of the popular vote during the May 1992 elections. This generated fears within ASEAN that the Philippines would not be able to commit to AFTA, given its weak political leadership.

Aside from changes in political leadership in the region, strong economic nationalism in a bureaucracy closely linked to the business community became a stumbling block to AFTA. According to then Malaysian minister for international trade and industry, Rafidah Aziz, economic nationalists within the bureaucracy – with links to import-substitution industries, or sympathetic to small firms seeking protection from large foreign corporations – had a lot of room (with more than 45,000 different tariff lines to be considered) to manoeuvre and obstruct the AFTA implementation process.

A third conflict threat came on the industry front, which saw AFTA as reversing their growth prospects, especially in 1992 and 1993. Thailand’s petrochemical industry sought exclusion from AFTA on the basis of unfair competition from Singapore. Other Thai sectors in electronic parts and components and plastics products – both on the ‘fast track’ – soon followed suit.

In the Philippines, it was the textile sector, apparel, footwear, and iron and steel industries that protested the implementation of AFTA. Similarly, their petrochemical industry also encountered disputes with Singapore over the former’s decision not to reduce tariffs on 11 petrochemical products. While the Philippines was signatory to the CEPT to lower tariffs, the government took over and claimed its petrochemical industry as a national interest, to defer its earlier promised CEPT commitments.

Elsewhere, the Indonesian government reserved its protectionist priority for the country’s powerful indigenous corporations. Malaysia was also protective over its own car, Proton

\(^{26}\) See Stubbs (2003).
Saga, and pushed for its automobile industry to be exempted from AFTA (A similar dispensation was sought for Malaysia’s petrochemical industry). Malaysia and Thailand failed to agree upon a compensation package after the former’s auto industry was exempt from tariff reductions until 2005.

While certain differences remain, especially over sensitive products and industries, the gradual transformation of the domestic economies, coupled with trade liberalization developments in the global arena, prompted ASEAN member countries and interest groups within them to come round to implementing AFTA.

5.2 Forging RTAs in Spite of Potential Conflict: Threats and Opportunities

As related in the above section, threats and opportunities abound when building trade links and formalising trading relationships between states previously at war or risk of war. This situation is especially so when conflicts occur as a result of development gaps and uneven allocation of resources, as with the different stages of economic development between the ASEAN-6 countries and ASEAN-4 countries.

On the economic side, the nature and characteristics of economic development which assigns non-inclusive growth at the expense of income distribution and employment creation has resulted in an income gap and poverty existing side by side with economic prosperity in some ASEAN countries. Priorities such as social welfare and reducing the poverty gap have also been neglected as Southeast Asia marches towards economic development and integration into the global economy, fuelling tensions between the state and non-governmental stakeholders along the lines of religion, ethnicity, resource use, pandemic outbreaks and environmental destruction.

Growing interdependence between states in the region has exposed unprecedented vulnerabilities. At the 10th ASEAN Regional Forum (ARF) Heads of Defense Universities, Colleges and Institutions meeting held in Kuala Lumpur on 5 September 2006, Malaysia Deputy Prime Minister and Defense Minister Datuk Seri Najib noted that “the Asia-Pacific is not free from conflicts… There are on-going sensitive security issues around us such as overlapping claims on the Spratlys, nuclear proliferation and transnational security issues.”

Najib’s caution points in part towards the region’s energy resource conflicts in the South China Sea, as well as the recent experience of an ‘energy rush’ brought forth by China and India’s rapidly expanding economies and corresponding energy demand. Such a development portends a possible threat to the region with politically-charged bilateral energy trading and new interest in developing nuclear energy. Elsewhere, disputes – either active or remaining temporarily dormant – over sovereignty control of territories and resources in the region may threaten inter-state peace.

Environmental woes are also plaguing Southeast Asia, as a result of short-term economic goals. The region continues to be gripped by transboundary haze pollution each year from July to September since 1997. Indonesia’s problem with unchecked slash-and-burn practices is further exacerbated by recent news of the country’s rapidly vanishing mangrove trees, with 6.6 million hectares destroyed over the past seven years, and around 70% of mangrove areas...
damaged in total. The problem has similarly afflicted several other Southeast Asian countries such as Myanmar, Thailand, Malaysia, Vietnam, Brunei Darussalam and the Philippines.

Indonesia has just gone through another tsunami, albeit on a smaller scale than the one in 2004. Earlier in May 2005, an earthquake in Central Java killed more than 57,000 people and left tens-of-thousands homeless. Almost exactly one year later, the Yogyakarta 6.2 quake took over 3,000 lives.

Southeast Asia also recorded the highest number of avian flu fatalities, especially in Indonesia, Vietnam and Thailand. Four months ago saw the world’s first lab-confirmed human-to-human transmission of bird flu in Indonesia, raising the spectre of a flu pandemic at global proportions. The country currently has 49 deaths as of 13 September 2006, the highest in the world.

One of the greatest threats facing the region is the terrorism, as demonstrated by the Bali bombing in 2002. While greater cooperation and more concerted efforts to address the dangers of terrorism have been forged, the record remains mixed. A sustainable, long-term solution is needed to address the problem and find out why the movement grew in Southeast Asia to begin with.

The strategy employed by Southeast Asian countries was to tackle two main challenges: poverty and social ostracism from mainstream secular society. But these issues remain and will likely require a long time to resolve. The Israel-Hizbollah conflict only deepened the Islam-West divide in Southeast Asia, home to an estimated 230 million Muslims (20 percent of the world’s total), and which may spark a new wave of Islamic radicalization in the region.

On the upside, efforts by Malaysia, Indonesia and Singapore to combat piracy and terrorism in the Strait of Malacca have paid off. London's insurance market, Lloyd's Market Association (LMA) has dropped the war-risk rating in August 2006 on the strategic waterway, which links Asia with the Middle East and Europe and carries some 50,000 vessels a year (or some 40% of the world’s trade and 80% of the energy supplies of Japan and China). Lloyd's had classed the Malacca Strait a ‘war risk’ zone in 2005 and added it to a list of 21 other areas deemed high risk and vulnerable to war, strikes and terrorism.

While these security threats are very real and remain a concern for Southeast Asian nations’ future political and economic fate, the opportunities that exist with RTAs outweigh the threats. By creating regional stability through the ASEAN process and mechanism, Southeast Asia has been able to attract foreign direct investment (FDI) and create a policy environment of good and effective macroeconomic management. In turn, rapid economic development, especially before the Asian economic crisis in 1997, has been credited indirectly with reduced inter-states conflicts in Southeast Asia as regional resources were directed to productive economic activities rather than destructive inter-states conflicts.

To address the issues of development gaps and uneven resource allocation within ASEAN, there are alternative RTAs such as the market-oriented sub-regionalism of the Greater Mekong Sub-region (GMS). The difference between the GMS project and AEC or other formal economic regional integration is that the former is a sub-regional grouping that is
more concerned about environmental security, infrastructural networking and sustainable development than trade or economic issues per se. This focus on infrastructure includes not only physical infrastructure (e.g., roads, rail and water transportation) but also complementary “software” issues such as improving procedures for customs clearance and enhancing skills for regulatory systems. Most notably, there has not been an official trade liberalization programme under the GMS project.27

The GMS is currently focusing on constructing, upgrading and rehabilitating critical sections of road and the East-West, North-South and Southern economic corridors (refer to Table 6 for other projects). The East-West economic corridor is the most advanced and will link the India Ocean to the South China Sea via a 1,500-km road network. By 2007, this will allow all-weather travel between Da Nang port in Vietnam and the Mawlamyine Port in Myanmar, via Laos and Thailand. By 2012, all three economic corridors should be established.

In November 2001, the six members agreed to a 10-Year Strategic Framework which consists of 11 flagship programmes to physically and commercially link the GMS countries. The members have also agreed to focus on five strategic developmental thrusts:

- Strengthen infrastructure linkages through a multi-sectoral approach,
- Facilitate cross-border trade and investment,
- Enhance private sector participation in development and improve its competitiveness,
- Develop human resources and skill competencies, and
- Protect the environment and promote sustainable use of the sub-region’s shared natural resources.28

The success of the GMS project would enable both Myanmar and Laos to benefit much more quickly than they will from AFTA and ASEAN’s external FTAs. This is because the improved infrastructure would make the transportation of goods more efficient, facilitating trade along the Mekong Sub-regional area. Facilitating border movement will also help to reduce transaction costs and increase trade. In a study done by the Asian Development Bank, Menon (2005) found that the GMS would help its members be more “effective members of ASEAN” and that the “GMS program is assisting its members to integrate more closely with the ASEAN region and through this, with the rest of the world.”

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27 Than (2005: 94).
28 http://www.adb.org/GMS/Projects/default.asp
6. Conclusion

ASEAN as a regional grouping has been successful in reducing and minimising regional conflicts, particularly inter-state conflicts among ASEAN members. This paper has argued further that AFTA’s non-binding and non-punitive nature arguably promotes the mitigation of potential conflict, while at the same time pushing towards lower tariffs to raise the level of intra-regional trade, thereby creating more interdependence and linkages as a way to cement better ties within ASEAN.

With closer economic integration, the cost of conflict becomes higher, as AFTA serves as a ‘passive’ indirect link between trade/investments and conflict/peace-building, with non-pure tariff reductions under the CEPT scheme playing the role of enhancing security.

While there are many intervening variables, the paper has put forward the case that AFTA – with its expansion in scope and function into an ASEAN Community vision – has increased intra-regional trade and better economic coordination and regional ties. AFTA’s development into an ASEAN Community is indicative of the realization among the ASEAN member states of the close links between economics and security, and openness to non-trade provisions such as the rule of law and respect for human rights and socio-cultural values as a necessary counter-balancing drive to the RTA’s economic impetus.

The viability of RTAs to promote the region’s economy and security is without doubt. Yet, the relationship between RTAs and conflict in the future remains very much tied to the political will of ASEAN member states to set up the prerequisite regional institutions and mechanisms to implement economic, security, and social-cultural agreements. With these in place, they can move towards fulfilling their vision of enhanced regionalism under the ASEAN Community framework.
7. Bibliography


Official Publications


ASEAN Secretariat. 2002. Southeast Asia, A Free Trade Area. Jakarta: ASEAN Secretariat.
Figure 1: Map of Southeast Asia

Source: ASEAN Secretariat website (http://www.asiansec.org/69.htm)
Table 1: ASEAN-6 Top Ten Export Commodities by 2 Digits HS Codes 2004

<table>
<thead>
<tr>
<th>HS</th>
<th>Commodities</th>
<th>Value (US$ millions)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
<td>Electrical machinery, equipment parts; sound equipment; tv equipment</td>
<td>163,220.3</td>
<td>31.4</td>
</tr>
<tr>
<td>84</td>
<td>Nuclear reactors, broilers, machinery and mechanical appliances, parts</td>
<td>88,665.9</td>
<td>17.1</td>
</tr>
<tr>
<td>27</td>
<td>Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes</td>
<td>58,987.9</td>
<td>11.4</td>
</tr>
<tr>
<td>29</td>
<td>Organic chemicals</td>
<td>16,877.1</td>
<td>3.3</td>
</tr>
<tr>
<td>39</td>
<td>Plastics and articles thereof</td>
<td>14,498.5</td>
<td>2.8</td>
</tr>
<tr>
<td>40</td>
<td>Rubber and articles thereof</td>
<td>12,417.3</td>
<td>2.4</td>
</tr>
<tr>
<td>15</td>
<td>Animal or vegetable fats and oils and their cleavage products; prepared edible fats, animal or vegetable waxes.</td>
<td>12,095.5</td>
<td>2.3</td>
</tr>
<tr>
<td>90</td>
<td>Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof.</td>
<td>10,946.2</td>
<td>2.1</td>
</tr>
<tr>
<td>87</td>
<td>Vehicles others than railway or tramway rolling-stock, and parts and accessories thereof.</td>
<td>10,820.2</td>
<td>2.1</td>
</tr>
<tr>
<td>44</td>
<td>Vehicles others than railway or tramway rolling-stock, and parts and accessories thereof.</td>
<td>8,283.1</td>
<td>1.6</td>
</tr>
<tr>
<td></td>
<td>Ten Major Commodities</td>
<td>396,812.0</td>
<td>76.4</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>122,413.0</td>
<td>23.6</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>519,225.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Table V13. ASEAN-6 Top Ten Export Commodities by 2 Digits HS Codes in 2001-2004 in ASEAN (2005: 83)
Table 2: ASEAN-6 Top Ten Import Commodities by 2 Digits HS-Code in 2001-2004

<table>
<thead>
<tr>
<th>HS</th>
<th>Commodity</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
<td>Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles.</td>
<td>140,991.1</td>
<td>30.9</td>
</tr>
<tr>
<td>84</td>
<td>Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.</td>
<td>73,372.3</td>
<td>16.1</td>
</tr>
<tr>
<td>27</td>
<td>Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.</td>
<td>60,995.2</td>
<td>13.4</td>
</tr>
<tr>
<td>72</td>
<td>Iron and steel</td>
<td>15,765.0</td>
<td>3.5</td>
</tr>
<tr>
<td>87</td>
<td>Vehicles others than railway or tramway rolling-stock, and parts and accessories thereof.</td>
<td>13,615.9</td>
<td>3.0</td>
</tr>
<tr>
<td>39</td>
<td>Plastics and articles thereof</td>
<td>12,756.3</td>
<td>2.8</td>
</tr>
<tr>
<td>90</td>
<td>Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof.</td>
<td>12,454.5</td>
<td>2.7</td>
</tr>
<tr>
<td>29</td>
<td>Organic chemicals</td>
<td>12,258.0</td>
<td>2.7</td>
</tr>
<tr>
<td>71</td>
<td>Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin.</td>
<td>6,905.0</td>
<td>1.5</td>
</tr>
<tr>
<td>73</td>
<td>Articles of iron or steel</td>
<td>6,769.0</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Ten Major Commodities | 355,882.4 | 78.0 |
Others               | 100,124.8 | 22.0 |
Total                | 456,007.1 | 100.0 |

*Source: ASEAN Secretariat*
Table 3: ASEAN-6 ten major import and export markets in 2001-2004

### ASEAN-6 Ten Major Export Markets in 2001-2004

<table>
<thead>
<tr>
<th>Country</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>Share</td>
<td>Value</td>
<td>Share</td>
<td>Value</td>
</tr>
<tr>
<td>ASEAN</td>
<td>81,302.1</td>
<td>22.2</td>
<td>85,077.4</td>
<td>22.4</td>
</tr>
<tr>
<td>USA</td>
<td>61,594.4</td>
<td>16.8</td>
<td>60,317.4</td>
<td>15.9</td>
</tr>
<tr>
<td>EU</td>
<td>56,148.0</td>
<td>15.3</td>
<td>53,828.9</td>
<td>14.2</td>
</tr>
<tr>
<td>Japan</td>
<td>48,152.7</td>
<td>13.1</td>
<td>44,411.0</td>
<td>11.7</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>20,061.8</td>
<td>5.5</td>
<td>21,861.4</td>
<td>5.8</td>
</tr>
<tr>
<td>South Korea</td>
<td>14,710.6</td>
<td>4.0</td>
<td>15,676.9</td>
<td>4.1</td>
</tr>
<tr>
<td>China</td>
<td>14,454.9</td>
<td>3.9</td>
<td>19,486.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Taiwan</td>
<td>8,693.5</td>
<td>2.4</td>
<td>18,556.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Australia</td>
<td>8,495.5</td>
<td>2.3</td>
<td>9,567.4</td>
<td>2.5</td>
</tr>
<tr>
<td>India</td>
<td>5,861.3</td>
<td>1.6</td>
<td>8,099.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Top 10 countries</td>
<td>319,474.8</td>
<td>87.1</td>
<td>336,881.5</td>
<td>88.8</td>
</tr>
<tr>
<td>Others</td>
<td>47,167.5</td>
<td>12.9</td>
<td>42,604.3</td>
<td>11.2</td>
</tr>
<tr>
<td>Total</td>
<td>366,642.3</td>
<td>100.0</td>
<td>379,485.9</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Table V.11 of ASEAN Statistical Yearbook 2005 (page 78-79)

### ASEAN-6 Ten Major Import Markets in 2001-2004

<table>
<thead>
<tr>
<th>Country</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>Share</td>
<td>Value</td>
<td>Share</td>
<td>Value</td>
</tr>
<tr>
<td>ASEAN</td>
<td>64,423.0</td>
<td>20.6</td>
<td>70,534.8</td>
<td>21.7</td>
</tr>
<tr>
<td>Japan</td>
<td>52,861.4</td>
<td>16.9</td>
<td>52,789.5</td>
<td>16.3</td>
</tr>
<tr>
<td>USA</td>
<td>45,565.8</td>
<td>14.6</td>
<td>49,814.8</td>
<td>14.0</td>
</tr>
<tr>
<td>EU</td>
<td>39,561.2</td>
<td>12.6</td>
<td>39,903.2</td>
<td>12.3</td>
</tr>
<tr>
<td>China</td>
<td>17,009.7</td>
<td>5.4</td>
<td>22,803.2</td>
<td>7.0</td>
</tr>
<tr>
<td>South Korea</td>
<td>13,057.1</td>
<td>4.2</td>
<td>14,586.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Australia</td>
<td>9,481.0</td>
<td>3.0</td>
<td>7,215.1</td>
<td>2.2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>7,049.5</td>
<td>2.3</td>
<td>7,804.6</td>
<td>2.4</td>
</tr>
<tr>
<td>Taiwan</td>
<td>6,792.9</td>
<td>2.2</td>
<td>12,477.6</td>
<td>3.8</td>
</tr>
<tr>
<td>India</td>
<td>3,589.9</td>
<td>1.1</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>NA</td>
<td>NA</td>
<td>6,252.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Top Ten Countries</td>
<td>259,391.5</td>
<td>82.9</td>
<td>277,721.9</td>
<td>85.6</td>
</tr>
<tr>
<td>Others</td>
<td>53,423.8</td>
<td>17.1</td>
<td>46,607.9</td>
<td>14.4</td>
</tr>
<tr>
<td>Total</td>
<td>312,815.2</td>
<td>100.0</td>
<td>324,329.8</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Table V.12 of ASEAN Statistical Yearbook 2005 (page 78-79)

Note:
The table above only shows the share of the top 10 markets. India was not among the top ten import markets for ASEAN in 2002-2004. Hence its figures are not reflected on the table. Saudi Arabia was not one of the top ten import markets of ASEAN in 2001. Hence its figures are not reflected on the table.
Table 4: Trade under Form D in the Period of Observations (Value in US$ thousand)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Form D Import Value</td>
<td>Share of Form D Imports out of Intra-ASEAN Imports</td>
<td>Form D Import Value</td>
<td>Share of Form D Imports out of Intra-ASEAN Imports</td>
<td>Form D Import Value</td>
<td>Share of Form D Imports out of Intra-ASEAN Imports</td>
</tr>
<tr>
<td>Brunei D.</td>
<td>-</td>
<td>-</td>
<td>50</td>
<td>0.24</td>
<td>-</td>
</tr>
<tr>
<td>Cambodia</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2,297</td>
<td>5.17</td>
<td>364,850</td>
<td>5.38</td>
<td>296,903</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>2,160</td>
<td>0.49</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2,160</td>
<td>0.49</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Myanmar</td>
<td>-</td>
<td>-</td>
<td>2,490</td>
<td>1.45</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>20</td>
<td>0.33</td>
<td>15,180</td>
<td>0.34</td>
<td>-</td>
</tr>
<tr>
<td>Singapore</td>
<td>3,857</td>
<td>0.99</td>
<td>182,560</td>
<td>1.02</td>
<td>129,578</td>
</tr>
<tr>
<td>Thailand</td>
<td>1,124</td>
<td>1.12</td>
<td>1,822,340</td>
<td>20.93</td>
<td>745,304</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>101</td>
<td>9.57</td>
<td>32,120</td>
<td>3.30</td>
<td>36,341</td>
</tr>
<tr>
<td>ASEAN</td>
<td>9,559.9</td>
<td>0.97</td>
<td>2,419,590</td>
<td>6.29</td>
<td>1,515,982</td>
</tr>
</tbody>
</table>

Source: ASEAN Secretariat
Table 5: Intra-ASEAN and Extra-ASEAN Exports Post-AFTA (1993-2000)

![Graph showing Intra-ASEAN and Extra-ASEAN Exports: 1993-2000](image)

**Source:** ASEAN Secretariat (2002).

Table 6: Other projects in the Mekong sub-region

<table>
<thead>
<tr>
<th>Projects</th>
<th>Year started</th>
<th>Members</th>
<th>Remarks</th>
</tr>
</thead>
</table>
| Mekong Committee or Committee for Coordination of Investigations of the Lower Mekong Basin – the Mekong Committee or Mekong River Commission | 1957         | Cambodia, Laos, Thailand, Vietnam | Sponsored by the UN  
In 1995, it was changed to an intergovernmental body and renamed the Mekong River Commission. |
| Golden Quadrangle Economic Cooperation (GQEC)                          | 1993         | Thailand, Laos, Myanmar, China  | Loose forum                                                             |
| ASEAN- Mekong Basin Development Cooperation (ASEAN-MBDC)                | 1995         | All 10 ASEAN members            |                                                                         |
| Ayeyawady-Chao Phya-Mekong Economic Cooperation Strategy (ACM-ECS)      | 1995         | Cambodia, Laos, Myanmar, Thailand | Started in 1995 but was effectively abandoned during the Asian crisis. Revived by Prime Minister Thaksin. Essentially this is a vehicle for Thailand to provide export credits and aid to its neighbours. First summit held in Bagan, Myanmar in 2003; Second summit in Bangkok, Thailand |

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia-Laos-Vietnam Development Triangle</td>
<td>1999</td>
<td>Cambodia, Laos, Vietnam</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Proposed by Cambodian Prime Minister Hun Sen.</td>
</tr>
</tbody>
</table>

**Sources:** Various