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THE ROLE OF ASEAN
IN THE URUGUAY ROUND

Opportunities and Constraints

Mohamed Ariff

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Mohamed Ariff



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PREFACE

We are pleased to publish *The Role of ASEAN in the Uruguay Round: Opportunities and Constraints* as the thirty-seventh in our series of Occasional Papers, which feature reflections on broad policy issues by noted scholars and policy makers.

In this paper, Dr. Mohamed Ariff emphasizes that taking an active role in the Uruguay Round of GATT is crucial for countries of the Association of Southeast Asian Nations (ASEAN). Their success, he asserts, depends on their acting in concert, forming a unified front of diverse nations.

Trade negotiations can become a contest of power in which less-developed nations, working alone, find themselves settling for anything their more powerful—and more vocal—trading partners offer. France's war on the common agricultural policy (CAP) is an example of the kind of power that the major industrialized nations can wield, even to the point of bringing the current round to a halt.

By acting together to form multilateral trade arrangements, ASEAN nations can foster both global and intraregional trade, thus encouraging growth throughout the region. By contrast, bilateral agreements between individual ASEAN countries and the more advanced nations fail to take into account the effects of trade practices on the ASEAN region as a whole.

The stakes for ASEAN in pursuing the multilateral system of trade are high. By acting together, as Dr. Ariff correctly suggests, ASEAN

can better advance its efforts to free international markets in the face of rising protectionism and bilateralism in the West.

Nicolás Ardito-Barletta
General Director
International Center for Economic Growth

Panama City, Panama
December 1992

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Mohamed Ariff is professor of analytical economics of the faculty of economics and administration at the University of Malaya. He has numerous affiliations with organizations that promote economic cooperation in the Pacific, including the Malaysian National Council for Pacific Economic Cooperation (MANCPEC). He is also a member of the Trade and Industry Panel of the Ministry of International Trade and Industry of Malaysia.

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Dr. Ariff received his M.Ec. from the University of Malaya in 1968 and his Ph.D. in 1970 from the University of Lancaster in the United Kingdom. He lives in Selangor, Malaysia, with his wife and three children.

MOHAMED ARIFF

The Role of ASEAN in the Uruguay Round

Opportunities and Constraints

The General Agreement on Tariffs and Trade (GATT) has become more and more relevant to policy making in ASEAN (Association of Southeast Asian Nations) countries, whose economies have grown increasingly trade dependent over time, with exports contributing over one-third of aggregate gross domestic product (GDP), and imports accounting for a similar proportion of aggregate expenditure. ASEAN planners have no choice but to factor in external influences in their policy decisions. While ASEAN countries have benefited immensely from their export orientation, economic openness has also rendered them vulnerable to external forces. It is therefore only natural that ASEAN countries watch with great concern the developments in the international arena. The irony, however, is that ASEAN is getting more interested in the GATT system at the very time when GATT rules are becoming less binding in world trade.

It is indeed in the interest of ASEAN countries to have a world trade regime that is based on rules rather than one based on power

I wish to gratefully acknowledge the financial support of the Rockefeller Foundation, which provided funding, through the Institute of Southeast Asian Studies, for the Trade Policy Options Study on which this paper is based. The study was presented at the Conference on the Multilateral Trade Negotiations and the Developing Countries held in Washington, D.C., September 15-16, 1988.

relationships, in which they, individually or even collectively, have little leverage. ASEAN policy makers are painfully aware that the multilateral trading system is at a crossroads and that the alternatives to more open trade in the form of trade blocs, mercantilism, and autarky are clearly inferior. The looming threat to the multilateral trading system has drastic implications for ASEAN countries' long-term plans and strategies. It is no secret that ASEAN countries intend to follow the footsteps of the East Asian newly industrializing countries (NICs). In this regard, it is worrisome for ASEAN countries to see that the relatively liberal world trade regime, which enabled the East Asian NICs to take off, is seriously threatened at the very time when they are making their entry into the open multilateral trade regime.

The Uruguay Round, eighth in the series of multilateral trade negotiations (MTNs) undertaken by GATT, offers fresh hopes for ASEAN countries, although the previous rounds hardly served their interest. In the previous rounds, ASEAN countries stayed on the sidelines, picking up whatever was offered. This time around, they are willing to play an active role. There is clearly far too much at stake for ASEAN to leave it all to the major players.

The Uruguay Round presents new opportunities for ASEAN countries, particularly in terms of freer access to the markets of the developed countries. Much will depend, however, on what ASEAN countries are prepared to offer. There are also constraints imposed by domestic political imperatives and economic realities that would limit the scope of ASEAN participation in the MTNs. Although ASEAN countries seem prepared to play an active role in the Uruguay Round, the role still remains undefined.

An attempt is made in this paper to examine the role of the ASEAN countries in the Uruguay Round and to discuss the opportunities and constraints they face in the process. The paper also focuses on major issues of immediate interest to ASEAN in the Uruguay Round. This introductory material is followed by a section entitled "ASEAN Economies and Trade Regimes," which provides a brief sketch of ASEAN's trade structure, performance, and policies as a backdrop to the discussion that follows. The section entitled "The MTN Experience" analyzes ASEAN's past experience in the MTNs. "Rationale for Active Participation in the New Round" scrutinizes ASEAN's

interest in the Uruguay Round, followed by a section that identifies and critically examines priority issues of interest to ASEAN countries. The next section discusses the role that ASEAN will play in the Uruguay Round and the strategies it may adopt. The final section outlines some policy implications of the eighth round of GATT negotiations.

ASEAN Economies and Trade Regimes

ASEAN represents an eclectic group of market economies in which the external sector plays an important role. Given the high degree of economic openness in the region, it is no wonder that the external sector plays a catalytic role in stimulating economic growth. By the same token, openness also implies exposure of ASEAN economies to external fluctuations. Thus, the economic performance of ASEAN countries is strongly influenced by international market forces. This, however, does not mean that ASEAN countries' own policies are of no consequence. Indeed, they have been restructuring their industries so as to exploit new opportunities in the international economy and to minimize the adverse impact of external volatility on their domestic economies. There is little doubt that ASEAN countries owe their prosperity and affluence to the outward-looking development strategy that they have boldly adopted in varying degrees.

ASEAN is a heterogeneous group of countries with considerable diversity in terms of geographical size, population, per capita income, and the like (see Table 1). The main common denominator is that they are all market economies with exports accounting for a significant proportion of GDP.¹ ASEAN also represents a group of dynamic countries with creditable growth rates by international standards, although economic growth in the early 1980s decelerated markedly (see Table 2). Even more impressive are the growth rates of ASEAN's manufactured exports, especially in the 1970s, although some members registered negative growth rates in the early 1980s (see Table 3). ASEAN imports also grew rapidly (except in Indonesia and the Philippines, presumably as a result of protectionist policies) in the early 1980s (see Table 4). Some ASEAN countries have been posting sizeable trade surpluses. Although most ASEAN countries have been registering

TABLE 1 Selected Indicators of ASEAN, 1985

	Estimated population ^a (millions)	Areas (1,000 sq. km)	GDP (US\$ millions)		Exports ^b (US\$ billions)
			Aggregate	Per capita	
Brunei	0.2	6	3,422	15,421.8	3.2
Indonesia	165.2	1,919	86,499	532.8	21.9
Malaysia	15.7	330	31,415	2,003.5	16.5
Philippines	54.7	300	32,787	599.7	5.3
Singapore	2.6	1	18,158 ^b	7,177.1 ^b	22.8
Thailand	51.3	542	38,571	751.9	7.4
ASEAN	289.7	3,098	210,852	727.8	77.1

a. Population figures are for mid-1985.

b. Figures are for 1984 instead of 1985.

SOURCES: Asian Development Bank, *Key Indicators of Developing Member Countries*, vol. 17; Brunei, Ministry of Finance, *Brunei Statistical Yearbook 1984-1985*; *Far Eastern Economic Review*, *Asia 1986 Yearbook*; International Monetary Fund, *International Financial Statistics*, vol. 40, no. 1; *World Development Report*, 1987.

TABLE 2 Growth of Real GDP in ASEAN, 1984-1988

	1984	1985	1986	1987	1988
ASEAN ^a	4.0	0.3	2.5	5.4	7.5
Brunei	4.0	1.0	4.0	2.0	2.2
Indonesia	6.0	2.4	3.2	3.6	5.7
Malaysia	7.8	-1.0	1.2	5.2	8.7
Philippines	-6.0	-4.3	1.5	5.1	6.6
Singapore	8.3	-1.6	1.8	8.8	11.1
Thailand	5.5	3.2	3.5	7.1	11.0

a. Estimates weighted by relative shares of real GDP in 1980 prices.

SOURCES: International Monetary Fund, *International Financial Statistics*, various years; Malaysia, Ministry of Finance, *Economic Report 1989/90*, October 1989, Kuala Lumpur.

current account deficits in the balance of payments (see Table 5), more often than not they have been enjoying favorable overall balance thanks to sizable surpluses in the capital account. In other words,

TABLE 3 Average Annual Rates of Growth of Exports in ASEAN, 1960-1986 (percentage)

	1960-70	1970-80	1980-85	1983	1984	1985	1986
Brunei	0.46	47.38	-8.60	-11.10	-5.60	-7.80	-26.50
Indonesia	2.31	35.44	-3.20	-5.20	3.50	-15.10	-20.20
Malaysia	3.66	25.18	3.50	17.20	17.02	-7.00	-10.20
Philippines	6.38	18.73	-4.40	-0.40	6.80	-13.60	3.80
Singapore	3.18	28.70	3.43	5.00	10.20	-5.20	-1.50
Thailand	5.65	24.79	1.80	-8.50	16.40	-4.00	23.20

SOURCES: United Nations, *Yearbook of International Trade Statistics*, various years, and *Commodity Trade Statistics*, 1986; International Monetary Fund, *Direction of Trade*, 1970-1986.

TABLE 4 Average Annual Rates of Growth of Imports in ASEAN, 1960-1986 (percentage)

	1960-70	1970-80	1980-85	1983	1984	1985	1986
Brunei	14.14	21.26	1.13	-0.80	-14.30	-2.60	83.83
Indonesia	4.51	28.35	-1.15	-1.10	-15.20	-26.30	4.87
Malaysia	4.68	22.59	2.60	7.00	6.20	-12.50	-12.05
Philippines	7.20	21.27	-8.39	-3.50	-20.40	-14.60	-2.60
Singapore	6.33	25.58	1.79	-0.03	1.80	-8.40	-2.80
Thailand	11.06	21.64	0.10	20.50	2.30	-11.10	0.50

SOURCES: United Nations, *Yearbook of International Trade Statistics*, various years, and *Commodity Trade Statistics*, 1986; International Monetary Fund, *Direction of Trade*, 1970-1986.

ASEAN countries by and large do not face serious external payments difficulties.²

The ASEAN economies have closer trade links with countries outside the region than they have among themselves. Japan, the United States, and the European Economic Community (EEC) are the main trading partners of ASEAN countries in terms of both exports (see Table 6) and imports (see Table 7). ASEAN's trade pattern thus clearly shows why market access to the developed country markets is of paramount importance. This is especially the case for ASEAN's exports of manufactures, as shown in Tables 8 and 9. It can be inferred from all this

TABLE 5 Current Account Balance in ASEAN, 1984–1988
(US\$ millions)

	1984	1985	1986	1987	1988
ASEAN	-4,565	-1,825	-826	1,535	667
Brunei	2,646	2,300	1,500	1,500	1,400
Indonesia	-1,856	-1,923	-4,004	-1,820	-1,200
Malaysia	-1,612	-632	-80	2,452	2,735
Philippines	-1,268	-18	996	-539	-542
Singapore	-366	-15	-479	533	1,700
Thailand	-2,109	-1,537	247	-591	-1,760

SOURCES: International Monetary Fund, *International Financial Statistics*, various years; Malaysia, Ministry of Finance, *Economic Report 1989/90*.

how important international trade issues are to ASEAN countries and how relevant GATT is to policy making in these countries.

The level of industrialization varies considerably among ASEAN countries, which may be attributable to differences in domestic market size, resource endowments, historical factors, and the general level of economic development. Brunei, with its huge oil resources and tiny population, has no industries except for oil refineries. Indonesia, with a vast domestic market, rich natural resources, and historically strong primary trade specialization, is the least industrialized among the ASEAN countries. Singapore, with a small domestic market, sparse natural resource endowments, and a long tradition of *entrepôt* trade, has become the most industrialized among the ASEAN countries. It is the Philippines, however, that has had the longest industrial experience, from the late 1940s to the present, with Malaysia, Thailand, and Singapore lagging behind by almost a decade, Indonesia by almost two decades, and Brunei yet to make a serious start. It was no accident that ASEAN countries had followed the familiar path of import substitution before they adopted export orientation in their manufacturing.

The success of the inward-looking industrialization strategy in ASEAN countries was circumscribed by the limits of domestic market size. The early impetus in industrial expansion could not be sustained once domestic market frontiers were reached. ASEAN countries

TABLE 6 Direction of Exports of ASEAN by Country, 1970, 1981, 1984 (percentage)

	Brunei			Indonesia			Malaysia			Philippines			Singapore			Thailand		
	1970	1981	1984	1970	1981	1984	1970	1981	1984	1970	1981	1984	1970	1981	1984	1970	1981	1984
Japan	n.s.	69.7	69.2	33.3	47.4	47.3	1.1	21.1	22.3	39.6	22.0	19.2	7.6	10.1	9.4	26.3	14.6	13.1
NICs																		
Hong Kong	n.s.	n.s.	n.s.	1.0	0.6	1.2	0.6	2.0	1.4	1.1	3.9	4.3	4.1	9.8	6.9	7.6	4.9	3.8
Taiwan	0.1	0.0	0.0	2.2	1.9	1.1	0.8	0.8	0.8	1.1	1.2	0.6	2.4	2.6	2.9	1.7	0.9	0.8
Korea	n.s.	n.s.	5.5	0.8	1.3	2.7	0.4	3.7	5.0	2.9	3.5	1.8	0.7	1.4	1.2	0.3	2.2	1.7
ASEAN																		
Brunei	—	—	—	n.a.	n.a.	n.a.	0.3	0.2	0.6	n.a.	0.1	n.a.	1.6	1.5	1.3	n.a.	0.2	0.1
Indonesia	—	—	—	—	—	—	0.6	0.5	0.6	0.1	2.7	0.1	n.a.	n.a.	n.a.	2.3	2.0	0.6
Malaysia	99.7	0.6	0.1	8.7	0.3	0.4	—	—	—	0.1	1.8	3.3	21.9	15.6	15.5	5.6	4.7	4.6
Philippines	—	3.0	1.7	2.4	1.8	0.8	0.2	1.6	2.2	—	—	—	0.3	1.3	0.9	0.1	0.3	0.3
Singapore	0.2	7.1	6.9	15.8	9.8	9.7	16.4	22.8	20.4	0.7	2.3	5.8	—	—	—	6.6	8.0	8.1
Thailand	—	3.2	6.6	0.0	0.2	0.4	0.6	1.7	2.8	0.3	0.4	0.2	3.3	4.2	4.2	—	—	—
United States	n.s.	10.8	5.6	14.0	18.3	20.1	12.5	13.0	13.6	41.7	31.0	38.6	11.1	13.2	21.2	13.5	13.3	17.5
EEC	0.1	1.4	2.3	16.2	4.9	4.7	20.3	15.7	12.6	6.7	16.6	15.7	17.4	10.9	10.6	16.3	22.3	20.7
Australia	n.s.	0.6	n.a.	3.4	2.0	1.3	1.2	1.7	1.6	0.4	2.1	1.6	3.4	4.0	3.3	0.5	1.2	2.7
China	n.s.	n.s.	n.s.	n.a.	n.a.	n.a.	1.3	0.8	1.0	n.a.	1.4	1.0	1.5	0.9	1.5	n.a.	2.7	2.5
Total LDCs	99.9	15.1	28.9	32.8	25.9	24.5	42.1	46.5	48.1	8.8	25.8	22.0	57.2	58.4	52.6	38.0	46.0	43.4
Total DCs	0.1	84.9	71.1	67.2	74.1	75.5	57.9	53.5	51.9	91.2	74.2	78.0	42.8	41.6	47.4	52.0	54.0	56.6
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

NOTES: n.a. = not available; dash = not applicable; n.s. = not significant; NIC = newly industrialized country; LDC = less-developed country; DC = developed country.

SOURCES: United Nations, *Commodity Trade Statistics*, 1970–1984; Republic of China (Taiwan District), *Monthly Statistics of Exports*, April 1987, no. 212.

TABLE 7 Direction of Imports of ASEAN by Country, 1970, 1981, 1984 (percentage)

	Brunei			Indonesia			Malaysia			Philippines			Singapore			Thailand			
	1970	1981	1984	1970	1981	1984	1970	1981	1984	1970	1981	1984	1970	1981	1984	1970	1981	1984	
Japan	15.7	22.5	20.1	29.5	30.0	23.8	14.7	24.5	26.3	30.5	19.0	13.5	19.4	18.8	17.0	37.6	24.0	26.9	
NICs																			
Hong Kong	2.9	1.2	1.5	2.3	0.5	0.6	1.4	1.3	2.0	1.0	2.6	3.8	2.5	1.9	1.9	1.4	0.9	1.2	
Taiwan	0.1	n.a.	0.2	0.8	2.2	1.9	1.9	2.1	2.5	1.4	0.6	0.6	0.3	0.9	1.4	2.7	0.6	0.6	
Korea	n.a.	0.5	1.0	0.4	3.7	1.5	0.2	1.4	1.8	0.1	1.4	2.4	0.5	1.1	1.6	0.5	1.4	2.8	
ASEAN																			
Brunei	n.s.	n.s.	n.s.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.4	0.9	n.a.	1.2	0.9	n.a.	1.5	2.6	
Indonesia	0.2	0.1	0.2	n.s.	n.s.	n.s.	4.7	0.6	1.2	2.4	2.7	3.2	n.a.	n.a.	n.a.	1.5	0.2	0.9	
Malaysia	6.9	5.3	5.4	0.6	0.4	0.6	n.s.	n.s.	n.s.	2.3	2.2	5.8	18.6	12.4	14.4	0.5	2.7	4.9	
Philippines	n.s.	0.5	0.2	0.2	1.9	0.1	0.1	0.8	1.7	n.s.	n.s.	n.s.	0.4	0.4	0.8	0.3	0.2	0.2	
Singapore	16.9	23.8	24.3	5.5	9.4	12.9	5.2	13.0	13.0	0.4	1.3	1.9	n.s.	n.s.	n.s.	1.0	6.8	7.9	
Thailand	2.4	2.5	2.6	1.1	1.1	0.4	3.1	3.4	3.4	n.a.	0.3	0.8	2.0	1.7	2.1	n.s.	n.s.	n.s.	
United States	20.5	18.8	15.3	17.7	13.5	18.5	6.5	14.5	16.3	29.3	22.9	27.1	10.8	12.6	15.2	14.9	13.5	17.4	
EEC	23.4	15.2	22.2	22.2	17.1	14.9	23.4	14.1	13.4	11.4	10.4	11.1	15.7	9.9	11.3	14.2	13.1	12.1	
Australia	3.7	2.2	3.3	2.8	2.7	2.7	5.2	5.5	4.0	4.7	2.9	2.3	4.5	2.1	2.6	3.2	1.9	1.9	
China	3.4	2.2	2.0	3.4	1.9	1.6	3.8	2.4	2.0	n.a.	2.5	3.6	5.1	2.8	8.6	n.a.	3.2	3.6	
Total LDCs	35.7	40.2	43.9	25.8	32.9	34.5	41.0	37.1	35.9	15.0	41.2	42.9	46.3	53.7	50.8	16.7	42.5	40.7	
Total DCs	64.3	59.8	56.1	74.2	67.1	65.3	59.0	62.9	64.1	85.0	53.8	57.1	53.7	46.3	49.2	83.3	57.5	59.2	
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	

NOTE: n.a. = not available; n.s. = not significant.

SOURCES: United Nations, *Commodity Trade Statistics*, 1970–1984; The People's Republic of China (Taiwan District), *Monthly Statistics of Exports*, April 1987, no. 212.

TABLE 8 Exports of ASEAN Countries by Principal Commodity Group and Destination, 1970, 1981, 1984 (percentage of total exports)

Destination	Clothing (84) ^a			Electrical Machinery (76+77)			Textile yarn, Fabrics (65)			Manufactured exports (5+6+7+8-67-68)		
	1970	1981	1984	1970	1981	1984	1970	1981	1984	1970	1981	1984
Japan	n.s.	2.3	1.2	n.s.	3.9	5.1	10.3	10.7	9.1	6.7	6.9	6.5
NICs	6.0	5.1	3.3 ^b	30.3	33.9	21.3 ^b	31.1	25.0	18.6 ^b	27.2	25.7	22.4 ^b
ASEAN	7.9	0.4	0.6	13.4	3.6	2.8	11.0	5.2	5.5	8.0	3.9	4.1
United States	66.0	29.2	53.0	n.s.	44.8	52.0	17.8	11.8	16.3	28.6	27.9	36.2
EEC	n.s.	36.4	21.7	n.s.	11.4	14.5	12.7	18.7	22.9	10.8	18.6	16.9
Australia	n.s.	2.2	1.0	n.s.	0.3	0.3	1.2	4.8	5.3	3.7	3.1	2.2
Total Pacific ^c	79.9	37.0	58.1	43.7	86.2	91.2	70.2	52.7	49.5	70.5	64.3	69.2
Total LDCs	20.4	21.5	14.2	96.5	38.8	27.1	48.8	48.1	41.5	47.8	39.1	34.7
Total DCs	79.6	78.5	85.8	3.5	61.2	72.9	51.2	51.9	58.5	52.2	60.9	65.3
Total	100	100	100	100	100	100	100	100	100	100	100	100

a. Numbers in parentheses indicate Standard International Trade Classification (SITC) commodity groups.

b. Excludes Taiwan.

c. Includes NICs, ASEAN countries, Japan, and the United States.

NOTE: n.s. = not significant.

SOURCE: United Nations, *Commodity Trade Statistics*, 1970-1984.

TABLE 9 Exports of ASEAN by Principal Commodity Group, 1970, 1981, 1984 (percentage of total exports)

SITC commodity group	Indonesia			Malaysia			Philippines			Thailand		
	1970	1981	1984	1970	1981	1984	1970	1981	1984	1970	1981	1984
Primary commodities	98.6	96.8	90.7	92.8	80.0	73.4	89.5	55.4	45.7	89.5	71.6	65.4
Raw materials	79.0	91.7	93.6	80.2	63.1	54.2	49.5	21.2	15.5	39.0	17.6	15.0
Agriculture and food products	19.6	5.1	5.1	5.9	7.1	16.9	40.0	34.2	30.2	50.5	54.0	50.4
Manufactured exports	1.2	2.9	9.3	6.3	19.5	26.6	6.4	22.8	54.3	5.2	24.8	34.6
Resource-based manufactures	n.s.	1.1	3.7	2.6	2.3	1.3	4.4	4.3	2.8	2.1	5.1	6.0
Miscellaneous manufactures	n.s.	0.1	n.s.	0.3	0.5	0.7	0.6	2.9	2.7	0.4	1.7	2.6
Textiles	0.2	0.2	0.9	0.4	1.2	1.1	0.5	1.2	0.7	1.2	4.9	5.4
Clothing	n.s.	0.4	1.4	0.3	1.4	1.8	n.s.	6.1	4.7	0.1	4.9	7.4
Transport equipment	n.s.	0.3	0.0	0.6	0.3	1.3	n.s.	0.7	0.5	0.3	0.2	0.2
Chemicals	0.5	0.3	0.8	0.7	0.7	1.1	0.5	1.8	2.0	0.4	0.8	1.0
Electrical machinery	n.s.	0.3	0.6	0.3	10.9	15.8	n.s.	1.9	7.2	0.1	4.5	5.5
Nonelectrical machinery	0.3	0.1	0.4	0.7	1.0	1.7	0.1	0.2	0.2	0.2	0.4	1.2
Precision instruments	n.s.	n.s.	n.s.	0.1	0.3	0.2	0.2	0.5	n.s.	0.2	0.5	0.2
Total exports	100	100	100	100	100	100	100	100	100	100	100	100

NOTE: n.s. = not significant.

SOURCE: United Nations, *Commodity Trade Statistics*, 1970-1984.

shifted to export-oriented industrial strategies, beginning with Singapore in the mid-1960s, followed by Malaysia, the Philippines, and Thailand in the late 1960s, and by Indonesia in the early 1980s (Ariff and Hill 1985).

The import-substitution phase of industrialization in the ASEAN region was supported by protectionist policies toward infant industry. There is so much diversity in the structure of protection in ASEAN countries that generalizations are difficult to make. In terms of simple average tariff rates in 1978, the Philippines ranked highest (44 percent), followed by Indonesia (37 percent), Thailand (29 percent), Malaysia (15 percent), and Singapore (6 percent), as shown in Table 10. More important, the Philippines's average tariffs for manufactures have been the highest in the ASEAN region, with Indonesia and Thailand having the second and third highest average tariff rates, respectively, for manufactures. The Malaysian tariff rates for manufactures have been relatively mild, while those of Singapore are close to zero.

The above nominal tariff rates, however, provide only a partial picture of the protectionist regimes operating in the ASEAN region. Effective rates of protection (EPRs) in ASEAN countries, which include tariffs, taxes, and subsidies affecting not only the final outputs but also the inputs, have been substantially higher than the nominal rates of protection (Table 11). EPRs vary considerably not only among countries but also among industries. There has been considerable dispersion of EPRs, manifested by the escalation of effective protection ranging from low or negative rates of protection on raw materials and intermediate inputs to high rates for finished goods (Ariff and Hill 1987). The structure of protection in ASEAN has thus been biased in favor of consumer goods industries at the expense of industries producing intermediate goods. High EPRs in ASEAN are indicative of high rents in the form of excess profits, which lure factors into the industry, or of high levels of inefficiency, the cost of which is borne by the consumers and the taxpayers. It also appears that the structure of protection in ASEAN has penalized ASEAN exports. Several export activities suffer from negative effective protection. Even for those export industries with positive EPRs, the anti-export bias tends to be strong, since the value added of export sales is frequently less than that of domestic sales.

TABLE 10 Comparison of Simple Averages of Tariff Rates in ASEAN, 1978 (percentage)

SITC code	Commodity group	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN
0	Food and live animals intended chiefly for food	42.9	10.7	67.2	1.3	42.6	33.0
1	Beverages and tobacco	46.0	346.8	82.5	458.2	62.4	192.2
2	Crude materials, excluding fuels (all nonedible)	14.2	2.8	27.4	0.0	18.4	12.6
3	Minerals, fuels, lubricants, and related materials	15.2	7.1	14.9	9.0	14.2	12.1
4	Animal and vegetable oils, fats, and waxes	30.0	0.3	43.9	0.0	24.7	19.8
5	Chemicals and related products not elsewhere specified	26.8	49.2	41.1	37.2	28.1	30.5
6	Manufactures classified chiefly by input materials	37.9	14.9	52.0	0.4	32.0	27.4
7	Machinery and transport equipment	18.0	10.7	23.0	1.4	18.0	14.2
8	Miscellaneous manufactures	49.9	19.0	68.9	3.4	37.8	35.8
9	Commodities and transactions not classified elsewhere	21.7	7.7	62.5	0.0	20.8	22.5
	Overall	33.0	15.3	44.2	5.6	29.4	25.5

SOURCE: Bautista 1981, table 5.

TABLE 11 Average EPRs in ASEAN, various years (percentage)

	Year	Exportables	Importables	Total manufacturing
Indonesia	1975	-6	98	39
Philippines	1974	4	61	44
Thailand	1980	24	89	65
Malaysia	1978	13	53	34
Singapore	1979	4	1	3

NOTE: Effective rates of protection (EPRs) are weighted by value added. Industries are classified by whether net exports are positive or negative.
SOURCE: Findlay and Garnaut 1986, introduction table 1.

Nontariff barriers (NTBs) applied in the ASEAN countries are numerous and include import quotas, import licenses, import prohibition, advance deposit requirements, state trading practices, packaging and labeling regulations, health and sanitary regulations, and safety standards. The use of quantitative restrictions (QRs), particularly quotas, is widespread in some ASEAN countries, especially Indonesia, the Philippines, and Thailand.

The above analysis underscores the need for a systematic reform of the structure of protection in all ASEAN countries except Brunei and Singapore, which maintain remarkably low profiles. Reforms should be aimed at the gradual dismantling of NTBs, a reduction in the overall level of protection, and restructuring of tariff schedules to avoid tariff escalation and bias against exports. To be sure, some ASEAN countries did undertake liberalization measures in the 1970s. Efforts by Singapore and the Philippines in this regard are commendable, although the level of protection in the Philippines still remains high. In the early 1980s, Malaysia, the Philippines, and Thailand formulated tariff reforms that were not, however, fully translated into action because of difficult circumstances facing their economies. Indonesia, which keeps a high protection profile, unilaterally reduced its tariff rates and relaxed its QRs on many items in 1987.

An important element of the trade regimes in ASEAN is the presence of export taxes. These are levied on primary commodities such as rubber, tin, palm oil, and timber in Indonesia, Malaysia, the

Philippines, and Thailand. Export taxes serve mainly revenue purposes. But, they also indirectly encourage domestic processing of primary products because export taxes tend to penalize the processing of these materials overseas.

The preceding analysis raises an important policy issue that concerns the objective of trade policy itself. It suggests that ASEAN's trade policy should be directed at creating appropriate domestic industrial structures instead of being used as a bargaining chip in negotiation with other countries.

The MTN Experience

The trade liberalization process, under the auspices of GATT, has gone through seven previous rounds. By the third MTN, the Torquay Round, in 1951 over 58,000 individual items had tariff concessions negotiated for them. In the two subsequent rounds, however, Geneva (1956) and Dillon (1960–61), little was accomplished. In the Kennedy Round (1964–67), trade liberalization covered only industrial goods, with many exceptions, while agricultural protection remained almost intact. The Tokyo Round (1973–79) was unquestionably the most complex round in terms of coverage of issues and the most far-reaching in terms of tariff cuts. Even so, the Tokyo Round concessions were confined largely to industrial products of export interest to developed countries, with agricultural protection being once again sidestepped.

As mentioned earlier, ASEAN countries had opted to take sideline positions in the MTN. Their decision not to play any important role in GATT negotiations was partly due to the notion that GATT was a "rich men's club" in which developing countries had hardly any legitimate role to play. Nonetheless, there were some benefits accruing to ASEAN countries through Article I of GATT, stemming from unilateral tariff cuts and concessions exchanged among the developed countries based on the most favored nation (MFN) principle. To be sure, ASEAN countries had expected a lot from the Tokyo Round and were disappointed, like other developing countries, by its outcome. ASEAN countries found to their dismay that many items of export

TABLE 12 Estimated Increase in Annual Exports of ASEAN and Asian NICs due to 60 percent Cut in U.S. Tariffs and Agriculture NTBs (US\$ millions)

	Agriculture	Manu- factures without textiles	Subtotal without textiles	Textiles	Subtotal with textiles	Agriculture NTBs	Total increase
Taiwan	54.4	256.0	310.4	313.1	623.5	4.6	528.0
Hong Kong	3.9	427.3	431.2	639.7	1,070.9	0.7	1,071.6
South Korea	13.4	105.8	119.2	235.4	354.5	1.9	356.5
Indonesia	22.1	1.5	24.0	0.1	24.1	4.1	28.2
Singapore	6.9	36.4	43.9	20.5	63.9	0.1	64.0
Malaysia	13.5	10.0	32.6	4.8	37.4	0.9	38.2
Philippines	75.9	23.0	98.8	26.0	124.8	1.0	125.8
Thailand	19.4	4.3	23.7	2.9	26.5	9.0	35.5

NOTE: NTB = nontariff barrier.

SOURCE: Birnberg 1979.

interest to them, such as textiles, clothing, and footwear, were labeled as sensitive items that were subject to no or lower than average tariff cuts. It was particularly distressing for ASEAN countries to see that NTBs were left almost untouched.

Readily available estimates of gains from the Tokyo Round show how little ASEAN countries gained. A study by Birnberg (1979), which was based on models developed by Baldwin (1972) and Cline and associates (1978), and which assumed a 60 percent U.S. tariff cut, showed that gains to ASEAN countries in terms of potential increase in their exports to the United States were rather small, both absolutely and relatively. As can be seen in Table 12, Indonesia gained the least (US\$28.2 million) from the Tokyo Round. Even the gains of the Philippines, estimated to be the highest among ASEAN countries at US\$125.8 million, paled in comparison with those of East Asian NICs. Export gains resulting from Tokyo Round tariff cuts made no more than marginal difference to total export earnings and GNP for ASEAN countries, while in per capita terms the gains were simply negligible (Table 13).

TABLE 13 Per Capita Export Increase of ASEAN and Asian NICs, Excluding Textile Foli, 1974

	Total increase (1974 US\$ millions)	Exports per capita (1974 US\$ millions)	Percentage of total exports	Percentage of GNP
Taiwan	310.4	19.04	5.62	2.35
Hong Kong	431.2	98.00	7.24	6.09
South Korea	119.2	3.42	2.67	0.71
Indonesia	24.0	0.18	0.32	0.10
Singapore	43.3	18.84	0.75	0.84
Malaysia	32.6	2.63	0.77	0.39
Philippines	98.8	2.25	3.70	0.68
Thailand	23.7	0.55	0.97	0.18

SOURCE: Birnberg 1979.

In fact, the above estimates tend to overstate the actual gains, because the actual average tariff cut conceded by the United States was only 29.6 percent as calculated by Laverge (1983), not 60 percent as presumed by Birnberg.

ASEAN countries are among the beneficiaries of the various generalized system of preferences (GSP) schemes operated by several developed countries. It now appears that the benefits of these schemes are not as large as often assumed. Estimates of gains to ASEAN countries from the U.S. GSP scheme show that they are rather small, especially in terms of agricultural exports (Table 14).³ For ASEAN manufactures, the gains from the U.S. GSP scheme are estimated at slightly higher levels, ranging from US\$3.7 million in Thailand to US\$19.7 million in Singapore. But, these gains are small compared with those accruing to the East Asian NICs. The extent of tariff cuts under the Tokyo Round for ASEAN exports to Japan, based on the 1979 export value weights calculated by Koomsup and Kawanabe (1985), is shown in Table 15. The average rate of Japanese tariffs on Thai exports was the highest among ASEAN countries both before and after the Tokyo Round, with the Philippines being offered the lowest rate of tariff reduction. The high rates of tariff reduction in the case of

TABLE 14 Estimated Increase in Annual Exports of LDCs, with Special Reference to ASEAN and Asian NICs under U.S. GSP (US\$ millions)

	Agriculture	Manufacturing	Total	Percentage of total increase
Taiwan	1.6	119.9	121.5	20.0
Hong Kong	1.2	75.2	76.4	12.6
South Korea	1.0	54.6	55.6	9.1
Singapore	0.3	19.7	20.0	3.3
Malaysia	0.1	13.6	13.7	2.2
Philippines	0.9	8.3	9.3	1.5
Thailand	0.2	3.7	3.9	0.6
Total LDCs	62.3	545.3	607.6	100.0

NOTE: GSP = generalized system of preferences.

SOURCE: Birnberg 1979.

TABLE 15 Average Rate of Tariff for ASEAN with and without GSP (percentage)

	No GSP			Full GSP		
	Base	Offer	Rate of reduction	Base	Offer	Rate of reduction
Indonesia ^a	7.5	1.6	78.0	7.3	1.6	78.7
Malaysia ^a	1.2	0.9	26.0	0.6	0.5	13.5
Philippines ^b	12.3	11.4	7.0	10.5	10.2	2.7
Singapore ^a	10.5	6.0	43.0	2.5	1.9	23.7
Thailand	16.5	15.1	10.1	15.6	14.3	8.3

a. Petroleum excluded.

b. Bananas and sugar excluded.

SOURCE: Koomsup and Kawanabe 1985.

other ASEAN countries were due to small base rates rather than generous offers. The low average rates were due mainly to the presence of industrial materials (mining and forestry products) with no tariffs. It must also be pointed out that the low average rates conceal many high tariff rates on individual items.

It is clear from all this that ASEAN countries have not gained much from the Tokyo Round. This, however, provides no basis to assess ASEAN countries' potential gains in the Uruguay Round. First, the small gains under the Tokyo Round were due mainly to the relatively small volume of ASEAN manufactured exports in the 1970s. Now that ASEAN countries export substantial amounts of manufactures, the gains from a given cut in tariffs are likely to be significantly larger. Second, as alluded to earlier, ASEAN countries' meager gains from the previous MTN rounds were due partly to their inactive participation in the negotiation process. The major players concentrated on items of immediate interest to themselves with little regard for those who had kept themselves out of the process. ASEAN countries thus seem to have lost out in the previous MTN rounds by sheer default. Besides, by not participating in the Tokyo Round, some ASEAN countries also lost an opportunity to bring about tariff reforms of their own.

Rationale for Active Participation in the New Round

On the basis of the preceding analysis, one may hypothesize that ASEAN countries could have benefited more from the previous multilateral trade negotiations had they opted to play a more active role. In addition, one may also argue that the current economic conditions are much more conducive to serious negotiations. The world economy has become so increasingly integrated, despite protectionist pressures, that only a multilateral approach can provide optimal solutions to problems that threaten to disrupt international trade flows. ASEAN countries, whose stake in the international economy has increased over time, are painfully aware of the need to prevent a collapse of the multilateral trading system.

ASEAN countries' attitude toward the MTNs has changed markedly in recent times. The GATT is no longer regarded as an exclusive club, and ASEAN countries no longer look upon themselves as second-class members of the organization. It is abundantly evident from the flurry of activities in the region that ASEAN countries, both individually and collectively, are taking the MTNs seriously. The high level of ASEAN participation at Punta del Este, the establishment of

task forces (parallel to the fourteen groups in Geneva) in several ASEAN countries, the regularity and frequency of the meetings of ASEAN senior trade officials, ASEAN participation at frequent intervals in regional meetings together with Australia, New Zealand, Japan, and Korea, and the role played by the four ASEAN countries (Indonesia, Malaysia, the Philippines, and Thailand) in the Cairns group⁴ are all indicative of the importance that ASEAN has attached to the ongoing eighth MTN round.

ASEAN's newfound interest in GATT affairs is motivated partly by an outright fear of what might happen to the world economy in the absence of trade talks and partly by the realization that the trade interests of ASEAN countries might not be addressed in the trade negotiations if left entirely to the major players. In addition, ASEAN countries have high stakes in the Uruguay Round, as their long-term goal of joining the ranks of the NICs hinges in part on the results of the trade talks (as well as on ASEAN's own trade policies).

One important explanation for ASEAN countries' keen interest in the MTNs this time around lies in the economic downturn experienced in the early 1980s. It appears that this slowdown, triggered by declining external demand for ASEAN exports, was aggravated by protectionist trends in developed countries, with protectionist and recessionary forces reinforcing each other. The prolonged recession of the early 1980s has hammered home the point that ASEAN countries' economic prosperity is heavily influenced by events that take place outside the region. It has dawned on ASEAN policy makers that apathy and indifference to international happenings that have global ramifications will jeopardize ASEAN interests.

A second explanation is that GATT has become increasingly relevant to the internal adjustments and industrial restructuring taking place in the ASEAN region. It has become increasingly evident that structural changes at home cannot be undertaken in isolation without considering the international constraints within which open economies must operate. Accordingly, trade policy reform is now deemed an important ingredient of economic restructuring and economic growth. ASEAN policy makers are aware of the fact that trade policies designed to promote import substitution in general, and the strong anti-export bias present in the ASEAN tariff structures in particular, are

inimical to the growth of their manufactured exports. ASEAN countries are certainly conscious of the fact that their own tariffs have been out of line with their export drive. In fact, some have unilaterally lowered their tariff rates, although there is certainly room for further tariff reforms. Seen from this angle, the Uruguay Round presents a golden opportunity for ASEAN countries to take a hard look at their own trade regimes and to bring down the tariff and nontariff barriers that are inconsistent with their outward-looking strategies.

A third reason for ASEAN's active participation in the Uruguay Round is the looming threat to the multilateral trading system. ASEAN countries are concerned that their interests are often sacrificed when major players resort to bilateral solutions to trade disputes. A special case in point was the differential tariff treatment accorded by Japan to American plywood, discriminating against Southeast Asian substitutes. What is particularly frightening to ASEAN is the growing number of bilateral trade disputes among Japan, the EEC, and the United States. The danger is that ASEAN countries might get caught in the crossfire in the event of trade wars between the major actors, a fear that has been fueled by the growing incidence of bilateral solutions.⁵

Finally, ASEAN is also encouraged to participate by the major players' willingness to make compromises. In this regard, reference may be made to the compromise struck in Punta del Este, where the EEC agreed to include agriculture in the agenda of the new round, whereas such an inclusion had long been an anathema to the EEC. In the same vein, one should also mention the compromise between the United States and the group of hardline developing countries (G-10), led by India and Brazil, to include services trade in the agenda, with services trade being relegated to a negotiation distinct from goods trade negotiation.

ASEAN clearly sees opportunities in the new MTN round to find solutions to old unresolved issues of the previous rounds. As will be seen, what matters most to ASEAN countries is the question of freer market access for their exports, an issue that was only glossed over in the past. While the ASEAN countries' focus is unambiguously on old unresolved issues, they are willing to discuss the new ones as well. To what extent ASEAN can exploit the new opportunities to its advantage will depend on what it has to offer. In this regard, there are constraints

that ASEAN countries must come to terms with, which are discussed in the following sections.

Issues and Interests

Given the heterogeneous nature of ASEAN, one may well expect considerable diversity with regard to issues that ASEAN countries would like to take up in the Uruguay Round. The weight attached to the various issues included in the MTN agenda are bound to vary from country to country. Thus, for instance, issues of utmost importance to the city-state of Singapore must be different from those of immediate interest to Indonesia. This notwithstanding, there is room for unanimity among ASEAN members with respect to issues of common interest to all, as this paper shows.

In this section, no attempt is made to present the official positions of individual ASEAN countries on various issues or to portray ASEAN's common stance on specific issues. Instead, the approach taken is an academic one that looks at the various issues independently. To put it differently, the stress in this section, and indeed in all the subsequent ones, is on what the official positions should be rather than on what they actually are.

Trade in agriculture. Not all ASEAN countries have much stake in agricultural exports. Brunei has virtually none, while Singapore's interest in it is somewhat indirect, only to the extent that agricultural products figure somewhat prominently in its entrepôt trade. But because the latter has become less important over time, issues relating to agricultural trade should cause no more than ripples in Singapore.

Indonesian exports of agricultural products consist mainly of fish, coffee, tea, cocoa, and spices, which jointly account for 86 percent of total agricultural exports. The implication is that what is understood as agricultural trade issues are of little relevance to Indonesia, with the notable exception of Indonesia's new export interest in vegetable oils, especially palm oil. Conversely, Indonesia's agricultural imports are dominated by items that have become the focus of agricultural trade issues in recent times (for example, cereals, which constitute 44 percent

of total agricultural imports). In other words, Indonesia's interest in agricultural trade issues in the Uruguay Round is basically the interest of an importer rather than that of an exporter.

As an importer, Indonesia has benefited (in terms of balance of payments) from agricultural subsidies provided by developed countries; and as a producer, Indonesia heavily subsidizes its own agricultural production. It is therefore unlikely that the Indonesian officials will speak loudly against agricultural subsidies in the current MTN round. Indonesia's support for its agricultural sector takes the form of subsidized inputs (for example, fertilizers, water, and insecticides), credit subsidies, and price supports, in addition to tariff and nontariff measures against imported substitutes.

There are many in Indonesia who argue strongly in favor of protection for Indonesia's agricultural sector on the grounds of defending infant industries. They hypothesize that the country has latent comparative advantage in a wide range of agricultural products, given its vast and diverse natural resources (Mangkusuwondo and associates 1988). The fact that Indonesia has emerged as a net exporter of rice, thanks to protectionist measures, after having been the biggest importer of rice in the ASEAN region in the 1970s, is often cited as an empirical support for the hypothesis. It is also contended that high domestic prices of agricultural products (relative to world prices) do not indicate comparative disadvantage, because world prices have been distorted by the subsidy war waged by the major exporters.

It is unlikely that Indonesia will get any mileage out of the Uruguay Round by sticking to the above line of reasoning. For one thing, Indonesia cannot have the so-called latent comparative advantage in all agricultural products. For another, infant industry protection must be time bound, as there can be absolutely no justification for indefinite protection granted to any product. Indonesia cannot call for the elimination of subsidies given to soybean oil by developed countries, just because it hurts Indonesian palm oil exports, while it condones similar subsidies for cereals imported by Indonesia and continues its own agricultural subsidy programs.

Malaysia exports a variety of agricultural products, including natural rubber, palm oil, cocoa, and pepper. Palm oil generates the most export earnings but also encounters the most protectionist barriers to

export. Like Indonesia, Malaysia had shown little interest in agricultural trade issues in the past. The recent threat by the EEC to impose additional tariffs on palm oil imports and the proposed U.S. legislation to classify palm oil as a saturated fat have forced Malaysia to reconsider its position (Salleh and associates 1988). The swelling protectionist pressures against palm oil in developed country markets is posing too serious a threat for Malaysia to remain complacent. The question of subsidies given by developed countries for soybean oil, a close substitute for palm oil, is also a major area of concern to Malaysia.

These concerns explain Malaysia's newfound interest in MTN issues relating to agricultural trade centers of palm oil as well as Malaysia's participation in the new activism undertaken by the Cairns Group. Malaysia, too, subsidizes its rice production through input price subsidies and minimum guaranteed prices. The poverty of rural Malays can be largely attributed to the fact that they are engaged in rice farming, in which Malaysia has a comparative disadvantage. Ironically, government subsidies have discouraged the poor Malay paddy farmers from venturing into more lucrative activities. One can only resort to noneconomic arguments in defense of this subsidy scheme, for example self-sufficiency for the sake of food security. To be fair, however, it must be mentioned that Malaysia does not aim at 100 percent self-sufficiency in rice and has in fact progressively reduced the intended level of rice self-sufficiency to about 65 percent. In the same vein, one must also take pains to distinguish between subsidies aimed at less than 100 percent self-sufficiency and those that give rise to, say, 1,000 percent self-sufficiency as practiced in some developed countries. Distortions caused by resource misallocation are far more serious in the latter case.

For the Philippines, agricultural exports are by no means unimportant. Coconut oil, bananas, sugar, pineapples, coffee, and shrimp are among the major exports of the Philippines. But, like Indonesia, the Philippines has kept a low profile in regional activism against agricultural protection in developed countries. An important explanation for this is that the bulk of the Philippines' agricultural exports are directed at the U.S. market so that it could resort to bilateral solutions without having to voice its agricultural grievances in the GATT round

(Pante and associates 1988). Agricultural trade issues in the Uruguay Round deserve a lot more attention than the Philippines seems prepared to accord it.

Thailand, unlike other ASEAN countries that have marginal or peripheral interest in agricultural trade issues, attaches considerable importance to agricultural trade in the MTN, and rightly so. Agricultural protection in export markets has affected Thailand's agricultural exports, especially rice, cassava, sugar, and maize. In the case of rice, Japan applies a total import prohibition, while the EEC has imposed a variable tariff. The most serious threat to Thai rice exports, however, comes from the United States, whose government has invoked the Food Security Act, which is aimed at protecting not only their rice farmers at home, but also the American share of the world rice market. Thailand's cassava exports to the EEC are subject to the so-called voluntary export restraints (VERs). Thailand's sugar exports to the United States have declined sharply since 1982 because of the GSP exclusion and the imposition of quotas by the U.S. government. Thailand's sugar exports elsewhere have also been affected by subsidies given to sugar farmers in the United States under the 1985 Food for Peace program. Another casualty of this bill is Thailand's maize. Thai maize exports are aimed mainly at developing countries where the heavily subsidized U.S. maize exports have undermined Thailand's market share, especially in Korea and the Middle East. In addition, Thai agricultural exports have been badly hurt by unfair trade practices that were outside GATT's scope in the past as well as in successive MTN rounds (Ajanant and associates 1988).

Understandably, Thailand has an ax to grind regarding agricultural trade at the Uruguay Round. Unlike some other ASEAN countries, Thailand can raise the question of agricultural subsidies with a fairly clear conscience, the Thai agricultural sector being relatively free from such distortions.

Trade in manufactures. As mentioned earlier, ASEAN's manufactured exports have grown in importance during the past fifteen years. As in the case of agricultural exports, there are important inter-country variations. Brunei is not an exporter of manufactures, as its factor endowments do not favor extensive industrial pursuits. Indone-

sia is only a newcomer as an exporter of manufactures. For the other four ASEAN countries—Malaysia, the Philippines, Singapore, and Thailand—manufactures figure prominently in total exports, thus making MTN issues relating to trade in manufactures of greater importance.

Protectionist forces are most vicious in the realm of manufactures. Tariffs as a protectionist device, however, have declined in importance. There are nonetheless considerable intercountry and intercommodity differences in tariff rates. Of immediate concern to ASEAN are tariffs on textiles, footwear, wood products, and electronics and electrical goods. As can be seen in Table 16, the highest U.S. tariffs apply to footwear, while the highest EEC and Japanese tariffs are imposed on woven textiles and furniture, respectively. Although electronic components face no tariffs in industrial countries, consumer electronics and electrical goods (for example, television sets and radios) do encounter high tariff barriers.

NTBs pose the greatest threat to ASEAN's manufactured exports, as they involve administrative discretion rather than open rules of protection and are based on bilateralism rather than multilateralism. Although Japan and the EEC are seen in ASEAN circles as the main villains in this regard, it is the United States that has been turning up the heat in recent times. Apparently, the protectionist tide is rising faster in the United States than elsewhere.

The question of tariff escalation in industrial countries also represents a major MTN issue for most ASEAN countries that have stepped up processing of raw materials. In the EEC, for example, crude food-grade palm oil faces a 4 percent tariff, while processed palm oil is penalized with a relatively high 12 percent tariff. Likewise, in Japan, tropical logs are allowed duty free, while semiprocessed tropical wood products face 17 percent to 20 percent tariffs. In addition, there are NTBs, such as quotas, which limit ASEAN exports of processed raw materials. Thus, for instance, plywood imports are subject to quota restrictions in Japan.

It is, of course, in ASEAN's interest to have developed countries reduce tariffs and dismantle NTBs so that ASEAN manufactures can have freer access to their lucrative markets. The Uruguay Round presents a valuable opportunity for ASEAN countries to make sure that

TABLE 16 Average Level of Tariffs Imposed on ASEAN Exports before and after Tokyo Round (percentage)

SITC code	Commodity group	United States			EEC			Japan		
		Pre-Tokyo	Post-Tokyo	Reduction	Pre-Tokyo	Post-Tokyo	Reduction	Pre-Tokyo	Post-Tokyo	Reduction
851	Footwear	23.1	23.1	—	11.0	11.0	—	10.0	10.0	—
653	Woven textiles	21.0	20.6	1.9	15.7	10.8	31.2	5.0	5.0	—
841	Clothing	19.7	9.8	50.3	1.8	1.3	27.8	8.9	7.8	12.4
651	Textiles, yarn, and thread	16.3	12.0	26.4	10.8	8.8	18.5	6.9	5.7	17.4
652	Woven cotton fabrics	11.0	7.9	28.2	0.1	0.1	—	3.0	3.0	—
729	Electrical machinery not elsewhere specified	5.8	4.0	31.0	0.4	0.4	—	4.5	1.6	64.4
621	Rubber materials	4.6	—	100.0	—	—	—	—	—	—
51, 55	Fresh and prepared fruits and vegetables	2.9	1.0	65.5	14.7	14.7	—	19.7	16.8	14.7

631	Veneers, plywood, and related	2.7	2.6	3.7	12.4	9.6	22.6	0.6	0.6	—
722	Electrical machinery and switchgears	0.8	0.8	—	—	—	—	5.4	2.6	51.9
632	Wooden manufactures	0.1	—	100.0	3.9	2.3	41.0	10.0	5.7	43.0
821	Furniture	0.1	0.1	—	—	—	—	10.1	4.8	52.5
741	Other machinery	—	—	—	13.7	11.7	14.6	—	—	—
41, 243	Wood and cork	—	—	—	0.1	0.1	—	0.1	0.1	—
725	Domestic electrical equipment	—	0.1	—	—	—	—	—	—	—

NOTE: Dash = not applicable.

SOURCE: International Bank for Reconstruction and Development (IBRD).

manufactured items of export interest to them are duly covered. But some ASEAN countries do have tariffs and NTBs of their own, as was seen earlier. Some of them have lowered their tariff rates unilaterally over time, although there is still considerable room for further liberalization. In fact, as noted earlier, some ASEAN countries do have plans to realign their tariff regimes with their export orientation, but have postponed their tariff reforms for various reasons. The timing of the Uruguay Round is apparently opportune for these countries to go ahead with tariff reductions. This is easier said than done, however, as there are pressure groups and vested interests that would strongly resist any attempt to take away the protection given to their products.

Generalized system of preferences. The GSP may be seen as a variant of special and differential (S & D) treatment accorded by developed countries to the ASEAN countries. Even the United States, which did not ratify S & D treatment embodied in Part IV of the GATT, provides GSP facilities. About 60 percent of the ASEAN exports under the GSP schemes belong to the agricultural category. It is in this sense that ASEAN manufactures have benefited less from the GSP than primary commodities. While ASEAN countries have benefited (particularly in terms of employment generation) from duty-free access, under the GSP, to countries that offer the facility, there are severe constraints. Despite periodic review and revamping, the GSP schemes still exclude manufactures of primary interest to ASEAN countries, such as textiles, clothing, and footwear. Quantitative limits have also been imposed on GSP imports. Japan and the EEC have slammed both overall and individual ceilings on the use of the GSP for many products. The United States restricts GSP imports by applying the "competitive need" rule, according to which a beneficiary will lose its GSP facility for a particular product if its exports to the United States exceed a certain amount that is arbitrarily fixed. The rules of origin, despite some relaxation to permit equal treatment for all ASEAN countries, are still restrictive.

In spite of these and other shortcomings, ASEAN countries seem to value the GSP so much that they do not want to part with it. This is partly due to pressure from vested interests that have collected a lot of rent from the duty-free treatment. There is no denying that ASEAN

countries have benefited from the GSP in the early stages of export-oriented industrialization. To be sure, it was the untapped GSP facilities of ASEAN that attracted some foreign investors into the region. The point is, however, that the GSP has served its purpose, and its continued existence may not serve the long-term interest of the ASEAN countries. For one thing, preferential margins have been eroded by MFN tariff cuts. For another, ASEAN countries stand to gain more from MFN tariff reductions, as they are fairly price competitive in the products currently covered by the GSP schemes.

The future of the GSP is tied to the question of "graduation." That the Asian NICs, including Singapore, have recently graduated out of the U.S. GSP scheme suggests that other ASEAN countries will have to follow suit sooner or later. The message that ASEAN's GSP days are numbered is written on the wall. One of the main drawbacks of the scheme is the uncertainty that surrounds it. ASEAN countries might well be better off without the GSP, provided that the GSP is replaced by substantial MFN tariff reductions without QRs.

Some areas of concern. The Multifibre Arrangements (MFAs) make up a gray area in trade measures. MFAs (phases I through IV) have provided a sheltered, albeit limited, market for ASEAN's exports of textiles and clothing. From 1974 through 1977, MFA I allowed a quota increase of 6 percent per annum, while the next phase, MFA II, from 1978 through 1981, left quota increases to bilateral negotiations between exporting and importing countries. MFA III, from January 1982 through July 1986, was even more restrictive than the preceding phases. Currently, MFA IV has wider coverage with increasing numbers of textile and clothing items being subjected to greater control.

The evidence suggests that ASEAN exporters of textiles and clothing prefer bilateral agreements to open-market competition. Undoubtedly, bilateral quotas have given rise to rent-seeking activities, while trade cartelization has tended to prevent new entry into the market. All this is clearly in the interest of the existing operators, but it does not serve the long-term interest of the industry in the region. The MFA phases also tend to impede structural changes in the local textile industries by obviating the need for cost-cutting measures and product upgrading. Distortions caused by MFA quotas are far more serious

than those inflicted by tariff equivalents. Besides, MFAs tend to penalize rather than protect the less developed among exporting countries (Spinanger 1987). That China has emerged as the largest exporter of textiles to the United States despite the current MFA casts serious doubts on the ability of the MFA to guarantee economic rents. ASEAN countries will therefore have much to gain if the MFA is abolished and the textile and clothing trade is subjected fully to the GATT rules and discipline.

Issues relating to subsidies, countervailing duties (CVDs), and dumping activities are of considerable concern to ASEAN countries. Although ASEAN countries are less affected by CVDs and antidumping actions than the East Asian NICs, the specter of potential CVD actions does haunt them. The United States slapped a 17.7 percent CVD on Malaysian iron rods in April 1988. Other Malaysian exports under CVD investigation in the United States include thermoplugs and welded carbon steel pipe and tube products. The United States conducted CVD investigations into Indonesian and Malaysian textiles and into Thai rice; the results of these investigations showed that the subsidy levels were below the trigger point of 0.5 percent in all three cases. But my point is that the CVD investigations do have a nuisance value. The fact that a large number of investigations have proved groundless warrants more discipline in initiating such investigations. The danger is that, once initiated, an investigation can lead to bilateral agreements that would further restrict ASEAN exports, irrespective of the final finding of the investigation. It must be pointed out, however, that CVD actions can have a salutary effect to the extent that they induce the export countries to eliminate costly and often unnecessary government subsidies.

Trade in services. There are diverging viewpoints among ASEAN countries on services trade, a new issue on the MTN agenda. Brunei does not seem to have strong views. Indonesia, Malaysia, and the Philippines, which have substantial deficits in the services account of their balance of payments, are quite cautious about services trade liberalization. Banking, insurance, and telecommunications represent the most important segments of the highly protected services industries in ASEAN countries. There is some basis for the fear that services trade

liberalization, at the present juncture, would cause strain on the balance of payments, particularly for Indonesia and the Philippines. This, however, does not constitute a valid argument for continuing to protect domestic services that have no comparative advantage whatsoever.

Thailand, despite its deficits in the services account, is somewhat enthusiastic about services trade liberalization. The main explanation for this is that Thailand sees new opportunities in liberalization for its tourist trade and service industries, especially construction services. It appears that Thailand has a comparative advantage in certain services that involve labor movements.

Not surprisingly, Singapore seems particularly keen about services trade negotiations. Singapore enjoys a sizeable surplus in the services account of its balance of payments, with services contributing as much as 60 percent of the country's GDP. It is believed that liberalization of the services trade will lead to significant gains for Singapore because it has a comparative advantage in certain services, especially professional and technical services (Chng and associates 1988). This does not mean, however, that Singapore will adopt an open-door policy with respect to the services trade. An area of particular concern will be the liberalization of trade in financial services. On the one hand, liberalization may result in the infusion of foreign talents that can help Singapore achieve its aspirations to be an international financial center. On the other hand, financial services liberalization may impinge upon its macroeconomic management policies, causing dents in the country's very sovereignty.

Given the present state of the art, it is extremely difficult to say whether liberalization of services trade will benefit ASEAN countries, especially because the whole issue is beset by a host of conceptual and practical problems; there is also too severe a data constraint on the services trade of ASEAN countries to arrive at useful policy suggestions. Under these circumstances, one can only recommend an open-minded approach. One must not, however, underestimate the potential comparative advantage of ASEAN countries in several categories of services, such as tourism, consultancy services, and computer software.

Intellectual property rights. There is some ambivalence in ASEAN's position with regard to protection of intellectual property

rights. On the one hand, such protection will imply an increased outflow of payments in the form of licensing fees, royalty payments, and the like, while on the other it would encourage local R & D investments and facilitate a smooth transfer of foreign technology. Arguably, intellectual property rights protection is in the interest of ASEAN countries themselves. In fact, some ASEAN countries have already taken some unilateral actions to provide such protection. The Philippines has its own legal framework to provide such protection. Malaysia and Singapore have recently enacted copyright laws. Indonesia has amended its copyright law extending protection to foreign firms. Thailand, too, has its own copyright and patent laws, which, however, do not provide adequate protection to foreign interests. ASEAN countries cannot afford to ignore the external pressure exerted by the United States in this regard.

There are two practical problems regarding intellectual property rights. First, it is not easy to draw a line between what constitutes an infringement of intellectual property rights and what does not. For example, the Thai pharmaceutical industry holds the view that it has paid the full price for intellectual property when it has bought drug-processing equipment from the United States and that this implies the right to freely use close substitutes of generic ingredients in production. From the standpoint of the United States, specified ingredients constitute part and parcel of the processing. Besides, it can be argued that all intellectual property rights will sooner or later become public goods, which means that protection should be time bound, although it is hard in practice to draw the line.

Second, enforcement problems may render the enactment of intellectual property laws and the signing of agreements no more than exercises in futility. Strict enforcement can be an extremely costly affair that not all ASEAN countries can afford. Moreover, rapid advancement in electronic technology itself has rendered the task almost impossible. Seen from another angle, the whole issue revolves around the question of pricing. Infringements of intellectual property rights may be attributed largely to excessive overpricing by the developers of new ideas. Arguably, there will be less incentive for illegal copying in the absence of exorbitantly high patent royalties.

Apparently, the days of free riding are over for ASEAN countries,

and there is no way they can avoid paying full price for the use of intellectual properties. After all, such protection will be in the interest of ASEAN countries' own R & D activities. It is one thing to pass laws, however, and quite another to enforce them. Be that as it may, there are serious doubts as to whether GATT is really the proper forum for this particular trade issue.

Trade-related investment measures—TRIMs. All ASEAN countries have regulations of sorts governing foreign investments. Some of these measures limit foreign equity participation to certain activities, while some others specify the extent of foreign ownership in various industries. Thus, domestic market-oriented activities are, more often than not, closed to foreign investors, while generous incentives are given to those foreign investors who venture into export-oriented manufacturing. Such measures are said to be trade distorting, as they amount either to denying foreign corporations access to the host country's domestic market or to subsidizing exports, both of which subvert the underlying principles of the GATT system.

ASEAN's position in this regard is that of a defendant rather than that of a plaintiff. The implication is that ASEAN countries may have to do away with TRIMs, which should not be too difficult for ASEAN countries, and may well be in their own interest. After all, regulations that keep foreign investors away from the domestic market appear rather redundant in many industries, as the domestic markets are already saturated, with very little scope for further import substitution. Foreigners show little interest in investing in such activities. Besides, the higher the tariff cuts under the Uruguay Round, the less attractive the import-substitution activities are to foreign investors. Thus, discrimination against foreign investors in terms of the market orientation of the investment projects may well become a nonissue, particularly if significant tariff reductions take place in ASEAN countries under the Uruguay Round.

Performance requirements for export-oriented activities in ASEAN countries, however, present a different set of problems. Performance requirements imposed by host governments in the ASEAN region are not hard to document, but the extent to which they affect investment decisions and trade patterns is hard to assess. For one thing, not all

performance requirements are really binding. For another, there is no standard definition of trade-related performance requirements.

ASEAN countries' emphasis on export-oriented industrialization has led to the formulation of incentive schemes that reward those firms that export more than a minimum amount of their output. In some cases, export performance requirements may not be binding, in the sense that these firms are required to do what they would have done anyway. It even appears that export incentives offered are sometimes windfall gains for the exporting firms at the expense of the host country's treasury.

To be sure, incentives conditioned on export performance are clearly trade distorting, as their effects are similar to those of export subsidies. In ASEAN countries, however, export incentives are seen not as subsidies but as compensations for the anti-export bias present in their tariff regimes. It would make better economic sense if this bias were eliminated at the source through tariff reductions rather than offset by export subsidies.

Domestic content requirements imposed by some ASEAN countries are also trade distorting. The main rationale behind domestic content ratios is that local content will not only reduce foreign exchange cost but also raise local value added. Nevertheless, in the export-oriented industries in which foreign investors are active, import content is substantially high, mainly because of duty-free imports of raw materials and intermediate inputs. This is especially the case for firms operating in the export processing zones where local content in manufacturing is negligible (Ariff 1987). In any case, it will not be in the interest of ASEAN countries to insist on local content, as it would raise production cost and render their exports uncompetitive internationally.

While ASEAN countries may be justified in jealously guarding their sovereignty with respect to their domestic investment policies, they stand to lose from the intense competition among themselves in attracting foreign investments. They have been outbidding one another by offering all sorts of generous incentives to foreign investors. Some discipline in this regard will prove beneficial for all ASEAN countries.

Ironically, more often than not, it is the local investors in ASEAN countries who feel that they are being discriminated against while foreign investors are being pampered. Arguably, the privileges granted

to foreign investors have tended to thwart the development of local entrepreneurship. The small-scale domestic industrialists, in particular, feel that they are a neglected lot. Thus, strange as it may seem, it is not a question of extending to foreign investors the same treatment given to the nationals, but rather the other way around.

Objectives and Strategies

There can be no question of ASEAN's participating in the multilateral trade negotiations. ASEAN countries will be the big losers by default if they do not actively participate in the current MTN round. The pertinent question is: What should active participation mean for ASEAN? The answer to this will depend on what objectives ASEAN countries should pursue in the Uruguay Round and what strategies they should adopt.

Needless to say, ASEAN countries must prioritize their interests in the current round and concentrate on issues of immediate relevance rather than dissipating time, energy, and resources on each and every item on the MTN agenda. In terms of issues, however, priorities cannot be the same for all ASEAN countries in view of the fact that they are a heterogeneous lot. Thus, agricultural trade issues are far more important to Thailand and Malaysia than they are to Brunei and Singapore. Likewise, issues relating to services trade are far more relevant to Singapore and Thailand than they are to Brunei and Malaysia.

ASEAN countries must not let these variations obscure their commonality in terms of broad objectives that cut across the various issues on the MTN agenda. It follows from the preceding analysis that greater market access for ASEAN exports in world markets should be the overriding objective of all ASEAN countries. For the success of ASEAN countries' outward-looking industrialization programs will depend critically on whether foreign markets remain open.

ASEAN must therefore try to obtain substantial reductions in tariff and nontariff barriers in advanced countries on items of export interest to them. Nontariff measures are far more formidable than tariffs as barriers to trade, and ASEAN should therefore pay particular attention to NTBs. If NTBs cannot be dismantled altogether, efforts should be

made to have them converted into tariffs that are visible. ASEAN should seek a commitment on standstill and rollback of protectionist measures. A firm commitment on standstill in itself will constitute a major achievement under the present circumstances. It will also be in ASEAN's interest to have tightly defined conditions for the application of safeguards to avoid selectivity.

On tropical products, ASEAN should aim at lower tariffs and consumption taxes, tariff de-escalation, and the removal of agricultural subsidies, especially for rice, sugar, and vegetable oils. Trade liberalization in this area would certainly benefit ASEAN exports. The argument should cut both ways in that ASEAN will benefit from its own trade liberalization in this regard. Agricultural trade deserves priority attention, since agriculture is the backbone of the ASEAN economy, offering the majority of contributions to GDP, employment, and exports, despite the growing importance of the manufacturing sector.

ASEAN should do away with its current ambivalence toward gray-area measures such as MFA. It would be totally inconsistent for ASEAN to seek MFN tariff and nontariff reductions while hanging on firmly to MFA. As was seen earlier, MFA tends to benefit only certain producers, encourage rent-seeking activities, put up barriers to new entry, and obstruct structural adjustment. In short, MFA has tended to obliterate the need to remain price competitive. The elimination of MFA and the return to MFN treatment would benefit ASEAN countries' textile and clothing industries in the long run.

ASEAN should also take a clear and bold stance with respect to GSP. ASEAN's position is extremely ambivalent. For instance, ASEAN is highly critical of the way in which GSP is administered, although it enjoys the benefits of the facility. ASEAN also advocates tariff reductions while it frowns upon erosion of the preferential margin resulting from MFN tariff cuts. As argued earlier, GSP has served its purpose, and its continuation may do more harm than good for ASEAN. The question of GSP is related to the issue of S & D treatment to the extent that it smacks of preferential treatment. ASEAN countries must realize that S & D treatment given to them centers on nonsensitive items and does not constitute a long-lasting privilege on which they can depend without uncertainty. S & D treatment often

entails high opportunity costs. For concessions given in the form of S & D treatment have served to distract attention from the need for significant MFN tariff reductions. In fact, GSP has degenerated from being a means of preferential treatment to an instrument of managed trade. The United States, in particular, has been using its GSP programs as a bargaining tool in bilateral talks with ASEAN countries.

It was pretty obvious that the latest U.S. offer of a generous GSP package to Singapore was in appreciation of Singapore's enactment of tough copyright laws in 1987. Seven months later, Singapore was graduated out of the U.S. GSP scheme. Singapore's experience with the U.S. GSP should serve as a lesson to all other ASEAN countries.

The irony is that the main beneficiaries of the GSP scheme are foreign companies. It is the U.S. and Japanese multinationals operating in the ASEAN region that have benefited most from their own GSP facilities. ASEAN's share of the GSP gain stems primarily from the employment component.

S & D treatment is fraught with hidden dangers to the recipients. It has led to the marginalization of developing countries in the GATT process. There is also an apparent contradiction in ASEAN's position in sticking to the S & D principle and at the same time wanting to return to the MFN fold. S & D had served in the past as a passport for free riders who would only take concessions and not give concessions. The free ride has turned out to be a bumpy ride for the LDCs, and it has not taken them far enough. Moreover, free riders cannot play an active role in the liberalization process, as they are no more than insignificant and marginal players. If ASEAN countries want concrete results from the Uruguay Round, they must play an active role in it. To play an active role, ASEAN countries must be prepared to compromise on S & D.

On the so-called new issues, ASEAN countries should keep an open mind. There are opportunities that they must not miss, and there may well be pitfalls. There is so much ambiguity in all these issues that it would be unwise to rush headlong in one direction or another.

What role should ASEAN countries play in the Uruguay Round? As alluded to earlier, the role they assign to themselves will be circumscribed by what they hope to achieve in the new MTN round and what methods they employ. It is argued in this paper that freer access

to international markets for their products should be the primary objective of ASEAN countries under the present circumstances. Freer market access calls for lower tariffs and subsidies, reduced NTBs, greater transparency of tariff measures, nonselectivity, and stricter adherence to GATT rules and discipline. Although tariffs are generally low already in developed countries, thanks to the previous MTN rounds, tariff rates on items of export interest to ASEAN, most of which fall into the category of so-called sensitive items, are still high. Tariff rates in developing countries are even higher. ASEAN countries should therefore aim at tariff reductions for their products. There is an even stronger need to dismantle the nontariff measures, which are the most formidable barriers to ASEAN exports. If NTBs cannot be dismantled in toto, they should at least be converted into tariff equivalents. Agricultural subsidies, especially in advanced countries, that hurt ASEAN exports directly or indirectly should also be reduced, if not eliminated. Selectivity in the safeguards codes should be shelved to ensure nondiscrimination. Gray-area measures such as MFA should be brought under GATT rules and discipline.

Admittedly, all this amounts to a tall order. Whether ASEAN countries will be able to achieve these objectives under the current MTN round will depend to a large extent on what ASEAN countries themselves have to offer to the negotiations. As suggested earlier, playing an active role must be part of ASEAN's strategy. Active role means not only full commitment to the GATT rules and the MFN principle but also both making and receiving concessions. In other words, ASEAN countries must be prepared to let reciprocity be the basis for trade negotiations, although this does not necessarily imply absolute one-to-one exchange on a quid pro quo basis, in view of the fact that ASEAN countries are no match for the major players. To put it differently, ASEAN countries must not take a free ride, although they cannot afford to pay the full fare. ASEAN countries should seek cheap or excursion fares commensurate with their stage of development.

Cheap fare may mean, among other things, ASEAN countries' (a) giving lower tariff cuts than those given by their developed counterparts, (b) getting more time than developed countries to dismantle their NTBs, and (c) providing concessions on a limited MFN basis to the other developing countries.

As mentioned, reciprocity means exchange of concessions between contracting parties. But the term "concession" is really a misnomer, because protectionist measures hurt not only the countries that export to the protected markets but also the countries that impose such measures. Thus, ASEAN countries will be doing themselves a favor by reducing their own tariff rates. As was seen earlier, some ASEAN countries do have fairly high nominal tariff rates for many products, with effective rates rising to even greater heights. There is no doubt that their tariff regimes not only shelter inefficiencies in import-substituting industries but also penalize their export activities. Thus, tariff policies, designed in the 1960s and early 1970s during the import-substitution phase of industrialization, are no longer relevant for the ASEAN countries that have subsequently shifted their industrialization strategy toward exports. As noted earlier, some ASEAN countries reduced their tariffs during the late 1970s, but major tariff reforms have been put off in the wake of difficult times these countries endured in the early 1980s.

Should these ASEAN countries hold on to their tariffs and use them as bargaining chips at the multilateral trade negotiations? Because tariff reforms are in the interest of these countries, one must argue in favor of unilateral tariff reductions. ASEAN countries can then seek credit for such unilateral actions during trade negotiations. If, however, credits for unilateral tariff reductions are hard to obtain, purely from the standpoint of negotiating strategy, there may be some merit in using tariff reforms as bargaining chips. It must, however, be borne in mind that delays in tariff reforms have serious cost implications.

A major practical constraint on tariff reforms, however, is that tariffs also serve as an important source of revenue in some ASEAN countries. Significant tariff reductions would mean reduced government revenue for these countries. In this context, excise duties can replace tariffs, as they do not discriminate against imports. Export taxes are also an important source of government revenue in some ASEAN countries, where it is considered socially just that rents, especially those from nonrenewable resources, are taxed by the government. In this regard, production taxes would be less trade distorting than export taxes.

There is a lot of wisdom in ASEAN putting up a united front in the

MTN rather than each country going it alone. ASEAN's experience thus far clearly shows that the regional grouping was much more successful in its external dealings with third parties than in the handling of its intraregional affairs. ASEAN has gained a lot internationally by sticking together. There is evidence that ASEAN's views are taken far more seriously when the member countries act collectively or jointly than when they act individually. In Geneva, there are already indications that ASEAN countries as a group receive considerable attention. Now that ASEAN has refurbished its international standing after its historic third summit in Manila in December 1987, it is only appropriate that ASEAN countries act in concert in the Uruguay Round.

While there is a strong case for an ASEAN joint approach toward the MTN, one must not lose sight of the fact that ASEAN is not a homogeneous group. The stake of each ASEAN country in the MTN differs from that of the rest in one way or another. As was seen, issues of immediate interest to one member may be of little relevance to another. The spirit of ASEAN solidarity, however, has been strong enough to overcome such differences, and ASEAN has so far been able to find common denominators, a sort of unity in diversity. Thus, for example, Malaysia was willing to tag along with Singapore on the services trade issue, while Singapore had no difficulty in supporting Thailand's views on agricultural trade. Nonetheless, what appears to be a consensus on the face of it may turn out to be otherwise if one scratches the surface. Thus, for instance, ASEAN countries had no problem in joining hands on the inclusion of services trade in the MTN agenda. But, it is unlikely that this would be the case when the actual negotiations get under way. For example, Singapore is interested in the liberalization of services that do not entail labor movement, while Thailand is interested in the liberalization of services that do require international movement of labor.

It would therefore make a lot of strategic sense if ASEAN countries were to look for coalition partners outside their group on various issues. The case of the Cairns Group, in which four ASEAN countries have formed a coalition on agriculture with ten other countries from different parts of the world, is particularly instructive. Similar coalitions on other issues can be rewarding.

While ASEAN countries do find G-77—a subgroup of seventy-seven developing countries under the United Nations Conference on Trade and Development (UNCTAD) banner—a source of strength in international forums, such an alliance cannot be of much help insofar as the MTN is concerned. Issues of immediate interest to ASEAN countries tend to be overshadowed by those of utmost concern to the major players in G-77. In other words, one cannot expect G-77, with their very different economic profiles and orientations, to effectively articulate the views of ASEAN countries.

ASEAN, as a middle-power group, has an important bridging role to play by acting as the link between the extreme views of the hardliners of the North and South. ASEAN countries have always been middle-roaders in the UNCTAD forums. ASEAN's moderate posture has also been reflected in the readiness of its members to cooperate with the moderates in the northern caucus on many issues. ASEAN is therefore well qualified to play a moderating role in GATT so that multilateral trade negotiations do not come to a grinding halt as a result of uncompromising stances adopted by the hardliners.

Conclusion

Trade being the lifeblood of ASEAN economies, it makes considerable economic sense for ASEAN to take a keen interest in the eighth MTN round initiated by GATT.

ASEAN countries' main trading partners are the United States, the EEC, and Japan. The EEC and Japan have long been perceived as the main villains in terms of pursuing protectionist policies, while the United States has been looked upon as the torchbearer of free trade. The U.S. position in this regard has been changing drastically in the wake of huge budget and external payments deficits.

ASEAN has been relying heavily on bilateral negotiations with its so-called dialogue partners by virtue of the fact that they are the major trading partners of ASEAN countries. Although one cannot deny the usefulness of the bilateral approach, one must not lose sight of its limits. With the world economy becoming increasingly integrated and

the trading nations growing increasingly interdependent, the situation calls for multilateral approaches.

Bilateral solutions are often formulated without taking into account the interest of others whose well-being is affected by the decisions made. Besides, bilateralism is based on power play in which small countries have hardly any say. The main danger of bilateral solutions is that concessions, which are seldom unconditional, are subject to sudden withdrawal. This was recently demonstrated when the U.S. offered a generous GSP package to Singapore, and then subsequently withdrew it. The United States is viewed in ASEAN circles with growing skepticism, as the various moves by the United States in recent times have shown diminishing predictability. Moreover, bilateral arrangements often entail trade diversion, which misallocates scarce resources.

It is clearly in the best interest of all countries to opt for multilateralism, which is based on GATT rules and discipline. This is especially so for the small ASEAN countries, which have little leverage. The GATT system has become increasingly relevant to ASEAN countries, whose trade links with the rest of the world have grown markedly. That ASEAN countries gained very little from previous MTN rounds can hardly be an argument for not participating in the Uruguay Round; the MTN benefits are often a function of the role played by contracting parties themselves. ASEAN countries can turn the current MTN round to their advantage by moving to the center stage as active players. An active role, of course, entails making concessions to the rest of the world while receiving concessions from others. ASEAN countries must realize that reciprocity is the name of the game and that they have much to gain and little to lose from such reciprocity. For it is in their own interest to undertake trade liberalization measures, even unilaterally. Evidently, some of the trade barriers in the ASEAN region are totally out of line with the structural changes that have been taking place in the countries' economies.

Reciprocity, however, need not necessarily be premised on a strict *quid pro quo* basis, as there are constraints that limit the ASEAN countries' capacity to reciprocate. Obviously, ASEAN countries are no match for the major players. In terms of economic development, they are far behind the United States, the EEC, and Japan. ASEAN coun-

tries lack the experience, expertise, and negotiating skills of the major players. There are limits to the extent to which ASEAN countries can stretch themselves, as there are domestic political, economic, and social constraints. ASEAN countries can therefore legitimately argue that they should be allowed to pursue trade liberalization at a slow pace. In this context, it is of interest to note that ASEAN countries already have a well-structured program to liberalize their intraregional trade. This program can be taken as a first step toward a more generalized trade liberalization.

In other words, S & D treatment will have to be redefined. In the past, it meant a free ride for the LDCs without their having to reciprocate. Now it may be redefined in such a way as to make the degree of reciprocity a function of the stage of economic development of the contracting parties, which amounts to allowing the less-developed countries some flexibility with respect to the magnitude and timing of their reciprocal concessions. There is no reason why ASEAN countries should feel uncomfortable with this form of S & D treatment.

It is argued in this paper that it is in ASEAN countries' interest to focus on the unresolved issues and to have an open mind on the new ones. It is also stressed that ASEAN should make freer access to the international markets its overriding objective in the Uruguay Round, as the success of ASEAN countries' development programs will depend crucially on the extent to which the world markets remain open. Freer market access, however, does not necessarily mean easier market access for ASEAN products, as ASEAN countries will have to compete with the rest of the world for a market share on the basis of price and quality.

A group approach by ASEAN countries is likely to pay better dividends than the individualistic alternative, if ASEAN's past experience in its dealings with third parties is anything to go by. It will not be possible, however, for ASEAN countries to arrive at common positions on all issues, given the heterogeneity that characterizes the regional grouping. ASEAN countries therefore need to look beyond their regional boundaries for partners with similar interests on specific issues, in order to form coalitions with entities outside the ASEAN region to articulate their position in the MTN, for ASEAN is too small an entity to influence the international scene. Such coalition building

along the lines of the Cairns Group, on an issue-by-issue basis, can yield better results than ASEAN nations acting individually.

ASEAN already has the reputation as a group of moderate nations on many issues that have sharply divided the North from the South. It is now time for ASEAN to capitalize on this reputation and put it to good use for arriving at compromise solutions on difficult issues. In this way ASEAN can play a useful bridging role in the Uruguay Round, thereby making a significant contribution to the success of the eighth MTN round.

The world needs the GATT now more than ever before to ward off threats to the multilateral trading system. GATT, however, designed for the 1940s and 1950s, requires important changes so that it can play an effective role in the 1980s and beyond. As an international organization, GATT has become increasingly relevant to ASEAN countries, which have been integrating themselves smoothly into the global economy. It is clearly in ASEAN's interest to have a strong GATT. ASEAN's contribution may take the form of greater involvement of its trade ministers in GATT affairs and cooperation in GATT's surveillance efforts. More important, ASEAN should give more prominence to GATT in local politics so that domestic protectionist forces can be overcome with greater ease.

Finally, a word of caution is in order. One cannot reasonably expect the Uruguay Round to satisfy all the contracting parties. Unrealistic expectations may lead to disappointment. Also, one must not lose sight of the fact that GATT, after all, is only a cog in a machine, the functioning of which depends on factors that lie beyond GATT's control. Whether the Uruguay Round can effectively restore the multilateral trading system will depend not only on how committed the contracting parties are to the GATT principles but also on how the world economy is being managed. The GATT system cannot work well if the world economy is not in good health in the first place.

The scenario in which the world is divided into a number of trading blocs through bilateral or plurilateral arrangements—"plurilateral" referring to reciprocal arrangements between, say, ASEAN and three or more industrialized nations—is not far fetched. There are already several regional groupings that are seemingly consistent with the GATT system. It is reasonable to surmise that the world will have

more of these should the Uruguay Round fail. The EEC has already announced that it will become a fully integrated group by 1992; the United States, meanwhile, is exploring the possibility of bilateral free-trade areas with several countries. ASEAN may well become a candidate for such bilateral or plurilateral arrangements. The pertinent point, however, is that such alternatives are unambiguously inferior to the multilateral option, in which ASEAN would participate fully in the GATT initiative. Trade liberalization on an MFN basis will provide the best solution. Discriminatory or preferential arrangements are likely to result in substantial trade diversion. Considerations such as this underscore the dangers of abandoning the multilateral approach in favor of bilateral or plurilateral options.

Notes

1. Ratios of exports to GDP average more than 100 percent for Singapore, 50 percent for Malaysia, and about 25 percent for the other countries.

2. The Philippines is an exception in the sense that it has a severe external debt problem.

3. The U.S. GSP generally excludes preferential treatment for agricultural products within the Combined Customs Commodity Nomenclature (CCCN) categories 1 through 24.

4. The Cairns Group consists of fourteen countries from the North and South that claim to have the common characteristic of being nonsubsidizing agricultural exporters. The participating countries are as follows: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

5. These solutions have taken a number of forms. One of these is the market-sharing agreement on machine tools and semiconductor chips between the United States and Japan. Another variant is the recent voluntary export restraint agreement by Japan to limit the number of cars exported to the United States. Reference may also be made to the EEC pressure on Japan to limit its exports of photocopiers, video cassette recorders, and telecommunications equipment to the EEC market. It is indeed ironic that some of these bilateral agreements were signed subsequent to the Punta del Este meeting on September 15, 1986.

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