CHAPTER - VII

ASEAN INDUSTRIAL COOPERATION

In the post Second World War period, rapid industrial development appears to have become a dominating concern in the developing countries. Not only the growth of manufacturing industry is equated with economic development in the developing countries; the developing countries, confronted with the problems of over-population, poverty, unemployment, economic inefficiency and backwardness, sluggish growth and balance of payments difficulties, essentially seem to perceive quick industrial growth as a panacea for their economic problems. Highlighting this positive linkage between economic development and growth of manufacturing industry, Gunnar Myrdal rightly sums up:

Manufacturing industry represents, in a sense, a higher stage of production. In advanced countries, the development of manufacturing has been concomitant with these countries' spectacular economic progress and a rise in levels of living... [However] in the underdeveloped countries, the productivity of manpower in industry tends to be considerably greater than in the traditional agricultural pursuits. Industrialisation and growth of that part of the working population that is engaged in industry, is therefore, a means of raising national income per capita. In countries... with a high ratio of population to natural resources and in particular to land, manufacturing represents virtually, the only hope of greatly increasing labour productivity and raising level of living....

Southeast Asian region, being a developing one, is no exception in this respect. Rather, Southeast Asian countries seem to face an enigmatic problem of how to rapidly develop their manufacturing industries on the one hand and circumvent inefficient and high cost industrial output on the other. Therefore, the rationale behind the Southeast Asian countries' ambitious drive to industrialization seems obvious. Given the tendency to equate industrialization with economic development in this region as well, manufacturing industry has been perceived "as uniquely capable of providing the dynamic force for economic progress that could catapult an underdeveloped economy into the modern world of high standards of living and full employment". Therefore, it appears that the primary objective behind ASEAN countries' endeavours for regional Industrialization is their desire to overcome the problem of economic backwardness and to achieve rapid economic development. Besides, it seems that ASEAN countries perceive regional industrial cooperation as a mechanism for reinforcing economic unity among the members.

However, before we proceed to discuss ASEAN industrial cooperative ventures, it seems relevant to refer to and discuss, in detail, the UN Report on Economic Cooperation

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for ASEAN countries, which not only discusses the rationale for, but also provides a blue-print for ASEAN industrial cooperation that ASEAN industrial cooperation (like overall ASEAN economic cooperation) follows, albeit with certain modifications. Diagnosing the reasons for industrial backwardness of the region the UN Team notes:

...process of continuous adaptation to changing circumstances has always been taking place in the ASEAN countries. But the problems of adaptation have been changing in character and have been becoming progressively difficult over the past 20 or 30 years. Down to 1940, the ASEAN countries were predominantly primary producers, selling their primary products in world markets and exchanging them for manufactured imports. But that economic structure, even if it were congenial to the national ambitions of today, no longer provides a satisfactory basis for development. It has for some time been accepted that, if the countries of the region are to grow faster and more steadily, the rate of industrialization must be increased.  

But the problem which plagues the prospects for rapid industrialization is that the markets of individual ASEAN countries are, at present, and are likely to remain for some decades, too small to permit efficient and competitive production. Therefore, the Team argues:

The industrial development that has already taken place has covered most of the local consumption of goods produced in industries that are everywhere


5 Ibid., p. 23.
small-scale and labour intensive... What has been holding back the industrial and economic development of the region is the fact that for the next steps in the region's advance there are two requirements, both of them difficult or impossible to meet on the basis of present national economic structures of the ASEAN region. They require markets substantially larger than any industrial ASEAN country can provide. They require the introduction of modern science-based industries, the expensive capital equipment that they involve and the high managerial and operative skills that are essential to them.

Against this backdrop, the emphatic recommendation of the UN Team for ASEAN countries is to establish large-scale regional industries and "to embark on types of production which are inevitably more capital intensive, and require larger scales of production, and thus, larger market, to make it possible to reduce costs to the levels established by mass production in the advanced countries". Therefore, all industrial projects under study are large-scale, capital-intensive and modern science-based industries.

Parenthetically, however, it may be noted that approach of the Team towards industrialization appears to be lopsided. The Team seems to overlook the fact that many medium-size and small-scale industries need to be modernized and that there is much more scope of ASEAN economic cooperation in modernising these industries by widening their markets (intra-trade liberalization) and providing technical aid, and financing them on special terms. Also,

6 Ibid., p. 43. Emphasis added.
7 Ibid., p. 249.
it appears to neglect the fact that big industrial projects and small-scale industries can be simultaneously promoted on regional basis. The attitude of the Team in underestimating the role of small-scale industries, it may be noted, is evident from the Report which clearly states that, "it was of no interest or practical value to study industries that were obviously and everywhere small scale industries, capable of efficient and [sick] economic development for the separate national markets of ASEAN countries".

The Team also analysed, in detail, the national Vs regional industrialization approach to development, and examined their comparative advantages. The saving in costs were found to be very significant. The average saving in the capital, invested in the regional plant as compared with the group of national plants, was 25 per cent; the average saving in the foreign exchange cost of initial equipment was 26 per cent; and the average reduction in the unit cost of production was 19 per cent. Therefore, the Team unambiguously emphasised the need to adopt regional industrialization approach because it believed that "a series of national solutions, based on plants of inadequate size and shattered by tariff or other protection; will increasingly lead to the emergence of small-high-cost economic structures, unable to compete in world markets, requiring more capital for any given economic growth, and in

8 Ibid., p. 107.
9 Ibid., p. 46. Words within brackets added.
As far as the strategy recommended is concerned, it is that of regional import-substitution, instead of export-orientation towards extra-ASEAN countries. Though the Team clearly did not intend "to advocate a policy of the insulation of the ASEAN countries from the competitive pressures of the outside world", yet it presumed that it was much easier to follow the regional or collective import-substitution strategy. It was so because the Team found that it was very difficult to export to the outside world on account of the restricted trade policies of all developing countries and most of the developed countries, protecting even labour intensive industries such as the textiles, clothing, shoes etc; extremely competitive world market, dominated by the highly industrialized mass-production countries of the world; and domination of the market by business giants with large capital, world-wide connections, established brands and advertising.

Thus, having found regional industrialization strategy more fruitful than the national one, the Team conducted pre-

10 Ibid., p. 47.
11 Ibid.
12 Ibid., p. 45-46.
TABLE 1

TOTAL CONSUMPTION BY ASEAN COUNTRIES OF THE PRODUCTS OF ASEAN INDUSTRIAL PROJECTS, 1990 (PROJECTIONS) (US $ MILLION AT 1970 PRICES)

<table>
<thead>
<tr>
<th>Product</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nitrogenous Fertilizer</td>
<td>42.6</td>
<td>7.0</td>
<td>13.9</td>
<td>17</td>
<td>21.8</td>
<td>87.0</td>
</tr>
<tr>
<td>Phosphate Fertilizer</td>
<td>6.7</td>
<td>4.2</td>
<td>-</td>
<td>-</td>
<td>8.9</td>
<td>19.8</td>
</tr>
<tr>
<td>Soda-ash</td>
<td>2.7</td>
<td>2.3</td>
<td>5.9</td>
<td>2.4</td>
<td>4.2</td>
<td>17.5</td>
</tr>
<tr>
<td>Small internal combustion/diesel engine</td>
<td>3.3</td>
<td>2.0</td>
<td>6.1</td>
<td>-</td>
<td>3.8</td>
<td>15.2</td>
</tr>
<tr>
<td>Total</td>
<td>55.3</td>
<td>15.5</td>
<td>25.9</td>
<td>4.1</td>
<td>38.7</td>
<td>139.5</td>
</tr>
</tbody>
</table>

Note: The UN pre-feasibility studies did not include superphosphate project allocated to the Philippines.

- indicates data not available.

feasibility studies of thirteen regional projects and recommended their adoption and implementation as regional projects by ASEAN.

ASEAN 'PACKAGE DEAL' INDUSTRIAL PROJECTS

Following the UN Report, and an agreement among members to establish large-scale industrial plants, the Second Meeting of the ASEAN Economic and Planning Ministers held in Kuala Lumpur in March 1976, announced an accord on the allocation of the five ASEAN industrial projects among the ASEAN members. These were: Urea production in Indonesia and Malaysia, Superphosphate production in the Philippines, Diesel Engines in Singapore, and Soda-ash production in Thailand. The establishment of these projects was expected to save valuable foreign exchange (US $ 139.5 million) through regional import-substitution (See Table-I).

13 These were nitrogen fertilizer, phosphate fertilizer, carbon black, caprolactam, dimethyl terephthalate, ethylene glycol, soda ash, sheet glass, newsprint, hermetically sealed compressors, small internal combustion engines, typewriters, and steel billets. For details of the findings of the UN Team, See, Ibid., pp. 108-120.


But, what precisely is the package deal approach and what does it aim at, and how? The package deal approach which is designed for the allocation of large-scale industrial projects to ASEAN countries through the initiative of governments, in essence, is a "technique of regional cooperation in which the member countries of the regional scheme agree to allocate certain specified industrial activities for a specified, agreed and limited period of time to individual member countries, and in which they also agree to grant unidirectional trade liberalization and any other necessary incentive measures to the resulting imports of manufactured products from that particular country to which the project has been allocated". Take for instance, project A is assigned to Brunei, B is assigned to Indonesia, C to Malaysia, D to the Philippines, E to Singapore and F to Thailand. All ASEAN countries, will give preference to Burnei for buying products of the project A; all countries will give preference to Indonesia for buying the products of project B, all countries will preference to Malaysia for buying the products C and so on.

The broad objective of the scheme, thus, is to make possible, through cooperation, the establishment of a small number of large, efficient and low-cost industrial plants in the ASEAN region in circumstances in which, without

16 United Nations, n. 4, p. 63.

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cooperation, such a venture would be impossible. Viewed thus, ASEAN package seems to be "based on the presumption that in certain large-scale industries a combined ASEAN market is needed to induce efficient and competitive production and that a group agreement on location will result in a more equal distribution of such enterprise and/or the subsequent economic benefits". In other words, the rationale behind these projects is to establish industrial project in one country to produce the region's requirements for a given product, in order to realize the economies of scale, and to create a sort of regional import-substitution.

Therefore, it appears that package deal agreements would help setting up large industrial projects that cannot be sustained on a national basis. Thus, these projects seem to provide the best solution, particularly in those cases where new industries, that do not at present exist in ASEAN, are to be established.

The Package Deal approach involves a series of steps viz., (a) identification of suitable projects. (b)
undertaking pre-feasibility studies, (c) provisional acceptance of a certain group of projects and their allocation to member-countries, (d) undertaking the detailed feasibility studies; and (e) the provision of measures necessary to allow free movement within the markets of ASEAN member countries.

Following the allocation of projects, an expert group was set up to "examine the feasibility of immediately establishing... ASEAN Industrial Plants (to produce) Urea in Indonesia and Malaysia, Superphosphates in the Philippines, Diesel Engine in Singapore, and Soda-ash in Thailand..., investigate the technical and economic feasibility of establishing additional manufacturing capacity within the region to supply regional requirements for newsprint and Potash; consult one another on national programmes for developments of integrated steel and basic petrochemical industries... and exchange information... to identify possibilities for complementation among industries". The ASEAN Economic and Planning Ministers also entertained possibility that it might take one or two years to complete a feasibility study of such projects, and therefore, invited member countries to prepare other industrial projects for adoption as ASEAN industrial projects to be established and operated within a reasonable time. In this connection, the

21 Ibid., p. 64.
22 Malaysia, n. 15, pp. 64-55.
Ministers further agreed to conduct the feasibility studies of the following projects: (i) Metal working machine tools, (ii) Fisheries, (iii) Electrolytic tin plating, (iv) Heavy-duty rubber tyre, and (v) Electronic components.

In August 1976, their special meeting agreed that ASEAN industrial projects (AIPs) would be joint ventures among the five member countries. As per the agreement, each member country is allocated a large scale industrial project costing about US $200 to US $300 million, "the output of which is to be accorded preferential access under PTA". The finance of the AIPs was agreed in principle as follows:

Contribution of the country where project is located: 25
Each of the other four countries contributing 10 per cent: 26

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23 Ibid., p. 65.
25 Although rules stipulate that the host government must hold at least one third of the subscription and the rest can be raised from the private sector, it is expected that all or most of the subscription shall be held by the host government.
26 However, after a dispute over Singapore's diesel engine project, Singapore decided to withdraw from the AIPs, and now contributes only a token 1 per cent to the AIPs. Thus, at present, 60 per cent (of ASEAN share i.e., 30 per cent) of the equity capital in the AIPs is held by the host government and 13 per cent each by non-host member countries other than Singapore. ASEAN Secretariat, An Overview of ASEAN, ASEAN Information Series, n. 4, (Jakarta, 1987), p. 13.
However, the equity capital comprises only 30 per cent of the total project cost. The remaining 70 per cent of the finance needed for the AIPs is to be raised in the form of soft loans from Japan, United States, the EC, the ADB and the World Bank. Japan, has offered US $ 1 billion soft loans after the former Japanese Prime Minister Takeo Fukuda's meeting with the ASEAN Heads of Government at Kuala Lumpur in 1977. The loan is subject to the fulfilment of two conditions viz; confirmation of feasibility of the project, and establishment of a project as an ASEAN project.

The text of the basic agreement on AIPs was accepted in principle at the Sixth ASEAN Economic Ministers Meeting held at Jakarta on June 5-6, 1978. The agreement covered the rules governing the establishment of AIPs, pre-dominant equity participation in such projects, membership of Board of Directors, Project Financing, entitlement of projects to PTA, tax and incentive treatment, applicability of the laws of the host country, and product pricing for member countries. The agreement was formalized by the signing of the Basic Agreement on ASEAN Industrial Projects in March 1980.

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28 ASEAN Secretariat, n. 26, p. 13.
The ASEAN 'Package Deal' Industrial Projects: Record of Deeds or Rhetorics?

Although the allocation of regional 'package deal' industrial projects to the member countries was largely based on the recommendations of the preliminary feasibility studies conducted by the UN Team and appeared to be quite rational in terms of location, factor endowment, raw material supply and market potential, yet majority of these projects have gone into rough weather, and are facing formidable problems. A question that naturally arises, therefore, is: what has really gone wrong with these projects and why? Has the economic feasibility of these projects been negated by political non-feasibility? To answer these question, it seems desirable to analyse these projects in a systematic manner.

Urea: Indonesia and Malaysia

The selection of Urea Projects as ASEAN Industrial Projects (AIPs) seems fairly logical. At the time when the UN Team conducted the pre-feasibility of AIPs, though Urea, also known as carbonide, was (and continues to be) the most popular and widely used fertilizer by the farmers in the ASEAN region, and the demand of urea (both nitrogen and phosphate fertilizers) had been growing rapidly in the region; it was not matched by a corresponding growth in
For example, in 1969, the UN Team estimated 4,42,000 Tons (3,12,000 tons of nitrogen and 1,30,000 tons of phosphate fertilizers) of plant nutrient in the form of urea were used in the ASEAN region as a whole. Of this, region produced only 2,20,000 tons (1,30,000 tons nitrogen and 89,000 tons phosphate). Thus, the region produced only 49.7 percent of its urea requirement and was dependent on the import of urea to the tune of 2,22,000 tons (1,81,000 nitrogen tons and 41,000 tons phosphate) per annum. It further estimated that at the existing rate of growth in urea consumption in the ASEAN region, (if regional urea plants were not established) by 1980, the region would have to import 8,74,000 tons (5,87,000 nitrogen and 2,87,000 tons phosphate) of urea annually at a cost of about US $ 149 million.

Against this backdrop, the imperative for establishing urea AIPs could hardly be belittled. It seemed quite rational to expect that their establishment would not only create regional self-sufficiency in urea but also save valuable foreign exchange of member nations, and thus, improve the balance of payments situation.

29 It may be noted that given the fact that the agriculture sector is a substantial source of foreign exchange earnings in the region, and urea seems as indispensable input required to increase agricultural output, the need for regional self-sufficiency in urea assumes an added importance.

30 All these figures are computed from United Nations, n. 4, pp. 108-09.
ASEAN Aceh Urea Project: Malaysia

The first AIP to get off the mark is a large ammonia urea plant, adopted at the Fifth Meeting of the ASEAN Economic Ministers held at Pattaya, Thailand, on September 2-4, 1977. It was agreed that the proposed plant would consist of two modern large-scale units, incorporating an ammonia and urea unit with an annual production capacity of 5,70,000 tons, and would be operational in 1981. It was to be located near Lhokseumawe in the province of Aceh in north Sumatra, Indonesia, because of an easy availability of resources of natural gas (to be used as feedstock and fuel for production of ammonia and urea) from the Arun offshore fields. The total cost of the project was estimated to be US $202.3 million. Indonesia was to contribute 60 per cent i.e., US $52.2 million of the total ASEAN share and each of the four remaining partners 3 per cent each (US $8.67 x 4 = 34.6 million). Reaching an agreement in the case of Indonesian project, it may be noted, proved easier because the project had already been adopted as a national project by the Indonesian government and pre-feasibility study by a West German Team had been completed. It merely

However, as a result of Singapore's withdrawal from the AIPs, currently, the country-wise equity capital in the project is: Indonesia - 30 per cent i.e., US $52.2 million, Malaysia, the Philippines, and Thailand - 13 per cent i.e., US $11.2 million each, and Singapore making only a token contribution of 1 per cent i.e., US $0.867.

**TABLE II**

PROJECTED PRODUCTION AND DEMAND FOR UREA IN ASEAN COUNTRIES 1974-85

<table>
<thead>
<tr>
<th>Year</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
<th>Total ASEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Production</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>442.0</td>
<td>-</td>
<td>26.0</td>
<td>-</td>
<td>13.0</td>
<td>481.0</td>
</tr>
<tr>
<td>1977</td>
<td>763.0</td>
<td>-</td>
<td>30.0</td>
<td>-</td>
<td>13.0</td>
<td>906.0</td>
</tr>
<tr>
<td>1978</td>
<td>1,204.6</td>
<td>-</td>
<td>40.0</td>
<td>-</td>
<td>13.0</td>
<td>1,257.0</td>
</tr>
<tr>
<td>1979</td>
<td>1,675.6</td>
<td>-</td>
<td>40.0</td>
<td>-</td>
<td>13.0</td>
<td>1,728.6</td>
</tr>
<tr>
<td>1980</td>
<td>1,951.0</td>
<td>-</td>
<td>40.0</td>
<td>-</td>
<td>13.0</td>
<td>2,004.0</td>
</tr>
<tr>
<td>1981</td>
<td>2,302.4</td>
<td>399.0</td>
<td>292.0</td>
<td>-</td>
<td>-</td>
<td>3,006.4</td>
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<tr>
<td>1982</td>
<td>2,587.9</td>
<td>427.0</td>
<td>368.0</td>
<td>-</td>
<td>-</td>
<td>3,322.9</td>
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<tr>
<td>1983</td>
<td>2,673.6</td>
<td>456.0</td>
<td>443.0</td>
<td>-</td>
<td>-</td>
<td>3,572.6</td>
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<tr>
<td>1984</td>
<td>2,730.1</td>
<td>513.0</td>
<td>443.0</td>
<td>-</td>
<td>-</td>
<td>3,726.1</td>
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<tr>
<td>1985</td>
<td>2,772.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Demand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>951.5</td>
<td>117.0</td>
<td>186.0</td>
<td>8.7</td>
<td>118.9</td>
<td>1,382.1</td>
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<tr>
<td>1977</td>
<td>1,087.5</td>
<td>132.0</td>
<td>226.0</td>
<td>10.9</td>
<td>141.9</td>
<td>1,597.4</td>
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<td>1978</td>
<td>1,242.5</td>
<td>146.0</td>
<td>272.0</td>
<td>13.0</td>
<td>158.9</td>
<td>1,692.4</td>
</tr>
<tr>
<td>1979</td>
<td>1,349.5</td>
<td>160.0</td>
<td>314.0</td>
<td>15.2</td>
<td>181.3</td>
<td>2,020.0</td>
</tr>
<tr>
<td>1980</td>
<td>1,519.0</td>
<td>174.0</td>
<td>359.0</td>
<td>17.4</td>
<td>203.4</td>
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<td>1,689.5</td>
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<td>407.0</td>
<td>17.4</td>
<td>231.7</td>
<td>2,524.6</td>
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<td>1982</td>
<td>1,699.5</td>
<td>203.0</td>
<td>456.0</td>
<td>17.4</td>
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<td>2,785.0</td>
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<tr>
<td>1983</td>
<td>2,010.9</td>
<td>217.0</td>
<td>511.0</td>
<td>17.4</td>
<td>266.3</td>
<td>3,022.6</td>
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<tr>
<td>1984</td>
<td>2,155.9</td>
<td>231.0</td>
<td>572.0</td>
<td>17.4</td>
<td>279.9</td>
<td>3,255.2</td>
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<tr>
<td>1985</td>
<td>2,303.5</td>
<td>246.0</td>
<td>638.0</td>
<td>17.4</td>
<td>290.0</td>
<td>3,494.9</td>
</tr>
</tbody>
</table>

a Unexplained discrepancy of 1,000 tons.

required adoption by the other four members, and a regional tag.

However, right from the beginning doubts were expressed about the viability of Indonesian urea plant. The reason was that it seemed to have had an inherent problem of market prospects. As Table-II suggests, by 1985 Indonesia's urea production was to reach 2,272,9000 tons, resulting in an exportable surplus of 4,69,4000 tons. The table also reveals that the potential markets for Indonesian urea in the ASEAN region was quite small as compared to Indonesian productive capacity and possible surplus. Therefore, at the Manila Meeting of ASEAN Committee on Industry, Minerals and Energy (COIME) in April 1978, there was concern that by 1985, there would be a glut of surplus urea production in the region and that Indonesia's estimated production alone would be able to supply the whole ASEAN market (including domestic). Though this seemed to be a little over-estimation but it was clear that Indonesia would have to look for extra-regional markets for the export of urea. But the problem of exporting urea outside the region seemed formidable in view of the fact that all AIPs, including Indonesia's urea project, have been essentially perceived as import-substitution projects, and also because of an emphatic conclusion of the UN study Team that due to restricted trade policies, extremely competitive world market, established branch and advertising, it would be very

difficult for ASEAN countries to export products to the outside world. But surprisingly, Indonesia has been successful in finding the export markets, and has in the past, exported urea to China, Australia, USA etc.

However, due to some financial difficulties (especially, delay in loan from Japan) Indonesian urea plant could not meet the 1981 deadline of starting production. It was finally commissioned in 1984, and since then has been moving ahead smoothly.

During 1986, it produced 6,29,271 metric tons (MT) of urea. While Indonesia purchased 359.125 MT of urea for its domestic requirements, exports amounted to 2,59,430 MT with about 85 per cent being absorbed by other ASEAN countries. The extra-regional export destinations were China, Australia and the US - each importing 1,4200 MT, 24,118 MT and 10,481 MT respectively. In 1989, the project produced 611,540 MT of urea. Of this 4,70,218 MT met the regional requirement, while 141,322 MT (23.2 per cent) was exported to the non-ASEAN countries (See Table-III). During the first three months of 1990, the project produced 163,245 MT or 28.64 per cent of its design capacity. The sale registered a volume of 153, 232 MT at the average selling price of US $ 105 MT. The projected volume of production and sale of urea in 1990 was at 6,27,000 MT and 15,000 MT of ammonia.

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The Malaysian ammonia-urea plant, of the same size as the Indonesian, was approved and adopted as an ASEAN project at the Seventh ASEAN Economic Ministers Meeting held in Kuala Lumpur in December 1978. The plant is located at Bintulu, Sarawak, and uses, like the Indonesia Plant, local resources of natural gas. The cost of the plant is about US $265 million and it has a capacity of about 825,000 tons per annum (495,000 urea and 330,000 ammonia).

The Malaysian urea project became operational on 22 September 1985. The first ammonia shipment of 3,679 MT was to the Philippines in October 1985 while the first urea bulk shipment of 15,748 MT was made to India in the same month. In 1987, the project production of ammonia and urea went up to 352,330 MT and 558,678 MT and 543,015 MT respectively. The project, it may be noted, was able to sell urea at competitive world prices. During the period 1989-90, the project produced 530,371 MT urea and 338,590 MT ammonia, representing an increase of 3.8 per cent for urea and 2.0 per cent for ammonia from the previous year's production. The sale volume of urea and ammonia was 550,327 MT and 34,443 MT respectively, representing an increase of 8.9 per cent and 38.6 per cent over the previous year's sale.

36 ASEAN Secretariat, n. 34, p. 34.
TABLE IV

BREAKDOWN OF SALE BY BINTULU PROJECT, MALAYSIA (METRIC TONNES)

(APRIL 1989 TO MARCH 1990)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>72,486</td>
<td>13.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>236,103</td>
<td>42.9</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>308,590</td>
<td>56.1</td>
</tr>
<tr>
<td>Non-ASEAN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>167,004</td>
<td>33.3</td>
</tr>
<tr>
<td>Japan</td>
<td>13,597</td>
<td>2.5</td>
</tr>
<tr>
<td>China</td>
<td>21,363</td>
<td>3.9</td>
</tr>
<tr>
<td>UK</td>
<td>17,659</td>
<td>3.2</td>
</tr>
<tr>
<td>France</td>
<td>21,914</td>
<td>4.0</td>
</tr>
<tr>
<td>S.Korea</td>
<td>200</td>
<td>0.05</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>241,737</td>
<td>43.95</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>550,327</td>
<td>00.05</td>
</tr>
</tbody>
</table>

Table-IV). While the ASEAN countries bought 56.1 per cent urea from the project, the remaining was imported by the extra-regional countries, with Australia importing the largest quantity.

The Philippines: Superphosphate / Newsprint, / Compound Fertilizer, / Integrated Pulp and Paper, or Cooper Fabrication?

The reason behind the allocation of superphosphate to the Philippines as an AIP primarily appeared to be the availability of sulfuric acid from the Philippines Copper smelting project which was to be operational in 1979. But right from the beginning, superphosphate plant of the Philippines had an air of uncertainty about the economic feasibility. The reason was that it was bound up with that of large, planned national copper smelter project of the Philippines, for which the clearance was withheld by the Philippines government and the planned copper smelting plant was dropped at a later date. Further, at the time when the Philippines had put forward the proposal for superphosphate project, the price of superphosphate was very high. It was about US $ 308 per MT in 1974. But in 1977, the price fell to US $ 198 MT and by the first quarter of 1978, it nose-dived to US $ 96 per MT. With the sudden

39 Arndt, n. 32, p. 124.

fall in the prices, the Philippines started having second thoughts about the project, and during 1977 the Philippines government seemed to have more or less decided to abandon the superphosphate project in favour of newsprint project. Finally, in 1978, the Philippines government, finding the superphosphate project as totally uneconomical, officially decided to abandon it, and instead, considered setting up a compound fertilizer project as the Philippines AIP. However, faced with the time constraint in implementing compound fertilizer project, in April 1980 the Philippines proposed instead to set up an integrated pulp and paper project. However, the Philippines once again decided not to go ahead with an integrated pulp and paper project in 1980, and as a substitute, it proposed a copper fabrication plant as an ASEAN-AIP for the Philippines.

Although the copper fabrication project was later adopted by ASEAN as an AIP but no progress was made towards its implementation till 1986. It was only in June 1987

41 The Philippines, it may be noted, found the alternative of newsprint plant quite attractive because there was no newsprint plant in the ASEAN region and the price of newsprint was phenomenally high. Interestingly, all other ASEAN countries except Singapore are on the record of having, at one time or another, shown a very keen interest in starting a newsprint industry. See, Asia Research Bulletin, July 31, 1973; August 31, 1973; and November 30, 1974.


43 Castro, n. 19, p. 84.

44 FEER, August 13, 1982, p. 66.

45 ASEAN Secretariat, n. 37, p. 32.
that the Annual Stockholders' and Board of Directors Meeting decided that the project would be undertaken in phases, with the first phase concentrating only on the production of flat products amounting to about 30,000 MT. This would be followed by rods, tubes, bars and other products in subsequent phases. Currently, following the signing of a 'Protocol of Understanding' between the Philippines and Japan in October 1989, the possibility of starting the project is now being examined. It is earnestly hoped that the Philippines will not find even the copper fabrication project as economically unviable and opt for some other project.

**Thailand : Soda-ash/Potash Mining Project**

The soda-ash project was allocated to Thailand as an AIP primarily because of the availability of large scale rock-salt deposits (used as raw material in the manufacturing of soda-ash) from Koral Plateau in the northeast Thailand. The soda-ash project adopted by ASEAN as an AIP was recommended by the UN Team. The primary reason for this recommendation was that in 1970 while there was no production of soda-ash in the ASEAN region, it consumed about 114,000 tons of soda-ash annually. The Philippines was the largest consumer of Soda-ash, accounting

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46 ASEAN Secretariat, n, 38, p. 38.
47 ASEAN Secretariat, n. 26, p. 13.
48 ASEAN Secretariat, n. 35, p. 47.

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for 38.59 per cent of the total ASEAN Consumption. Singapore and Malaysia each accounted for 21.92 per cent while both Thailand and Indonesia jointly consumed 17.54 per cent. It was also estimated that keeping in view the growing demand of Soda-ash in the region, it would reach 4,50,000 tons by 1985, and in 1980 the total value of the import of soda-ash would be about US $ 17.5 million a year (See Table-V). Thus, keeping in view the non-production of soda-ash and the region's growing demand for soda-ash, selection of soda-ash project as an AIP by the ASEAN seemed to be quite rational.

But like the Philippines' superphosphate project, Thailand's soda-ash project, too, had to face many difficulties. First, the location and accessibility of the rock-salt deposits proved to be a contentious issue because of insurgency and security problems in the northeast region. Besides security problems, the project was considered economically uncompetitive because of the under-developed transport facilities. The reason was that the transportation of the rock-salt to the proposed factory at the deep-water port at Laem Chabang on the Gulf of Thailand required the construction of a long (about 500 km.) network of railway lines and roads at the cost of about US $ 20 million.

49 Figures computed from United Nations, n. 4, p. 111.
51 FEER, January 6, 1978, p. 70.
Thus, faced with the twin difficulties of political insurgency and economic unviability, in 1985, the Thai Council of Economic Ministers finally decided to drop the Soda-ash project as a Thailand's AIP, and instead, identify another AIP. This decision was approved by the Eighteenth Meeting of the ASEAN Economic Ministers in 1986.

Subsequently, in 1988, Thailand decided to adopt potash mining project as its new AIP, which was given approval by the Twenty First Meeting of the ASEAN Economic Ministers in December 1989. Following the approval, at the Thirty Third COIME Meeting, it was agreed that Brunei Darussalam should also be considered as a participant to the ASEAN potash mining project, although it is not yet a signatory to the Basic Agreement on the AIPs.

The project is to be located at Chiang Mai, Thailand. Its estimated initial cost is US $ 289 million and it will have an annual capacity of 1 million ton. Recently, a

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52 ASEAN Secretariat, n. 37, p. 32.
55 ASEAN Secretariat, n. 35, p. 48.
Joint Agreement has been signed and ASEAN Potash Mining Co. Ltd. established on March 6, 1991. But it seems that it is still a long way to go before Thailand's AIP of potash mining gets off the mark.

Singapore: Diesel Engine / Hepatitis-B Vaccine / a New AIP?

The diesel engine project allocated to Singapore proved to be the most controversial of all the AIPs. Like other AIPs, it was also based on the UN Team recommendations, which had conducted a pre-feasibility study and found that there was a great potential for diesel engine (internal combustion engine) market in the ASEAN region. It estimated that in 1970, about 60,000 small diesel engines of between 1 to 15 hp were purchased in the ASEAN region. But given the 15 per cent annual growth rate in demand, the demand was estimated to rise to 225,000 in 1980 and 360,000 units in 1985, which would cost about US $ 43 million in 1985. Therefore, the Team recommended to ASEAN to achieve the economies of scale by establishing a regional diesel engine plant. The imperative to adopt diesel engine project as an AIP was considered even more important because the "sales by any plant [manufacturing diesel engines] will greatly depend on the achievement of a reputation of quality and reliability, and this can be secured only with the help of equipment that is expensive and likely to be under-utilized

in a small plant”. Moreover, setting up a regional project was found to be more economical — costing about US $14 million as against establishing numerous national projects costing about US $22 million, thus resulting in a net saving of US $8 million or 36 per cent.

Thus, given the potential and projected demand of diesel engines in the ASEAN region, it was adopted as an AIP, and allocated to Singapore because Singapore, being the most industrially advanced of the ASEAN members appeared to have comparative advantage in the form of sophisticated industrial skill required for the manufacturing of diesel engines. But as noted, Singapore’s AIP had to encounter numerous problems right from the word go.

Although, to begin with Singapore was quite enthusiastic about the project and, as per the Package Agreement, successfully carried out a feasibility study of an integrated plant to produce diesel engines up to 1,000 hp, the other ASEAN members objected to the production of diesel engines at either the lower or upper levels of this capacity. The reason was that the other ASEAN members perceived that Singapore’s diesel engines provided a potential competition to their national products, because

59 Ibid.
it amounted to give "complete freedom in producing various sizes of diesel engines for a protected ASEAN market". Initially, the main opposition came from Indonesia but eventually, all the other ASEAN members raised the objections because they either already had or planned to set up similar national projects. Indonesia, which already had four plants of diesel engines in Surabaya which produced small diesel engines of under 150 hp, and desired to expand the plant capacity, contended that Singapore's diesel engine project be limited to the production of diesel engines larger than 500 hp. It, therefore, refused to give any tariff concessions except to those engines above 500 hp, because it perceived that diesel engines below 500 hp, would undermine her own existing diesel engines for domestic use. Likewise, the Philippines and Malaysia, too, had four and five diesel engine projects of upto 45 hp, and 200 hp, respectively.

However, at the September 1977 meeting of Economic Ministers at Pattaya, Thailand, a compromise was reached at. It was agreed that another feasibility study would be conducted on the ASEAN diesel engine plant in Singapore, on the condition that tariff preferences be given to stationery


63 Chong-Yah, n. 40, p. 135.
diesel engines only and not to automobile engines, beyond 200 hp. capacity in case of Malaysia, the Philippines and Thailand, and beyond 500 hp. in case of Indonesia. It was agreed that Singapore's diesel engine plant would not produce diesel engines of less than 200 hp. capacity and it would further negotiate with Indonesia for preferential tariffs on engines of 200-500 hp. capacity. However, at the Sixth Meeting of ASEAN Economic Ministers held in Jakarta in June 1978, this compromise broke down.

Meanwhile, the deadlock over the engine hp. issue remained unresolved, Indonesia continued to develop its own diesel engine industry by planning to give US $ 250 million extension to the Surabaya Plant in conjunction with the Japanese manufactures. Likewise, the Philippines also announced the selection of Perkins Engine Ltd. and Machine-fabrik Angusburg Nuremburg to establish diesel engine factories in the country.

Thus, faced with an obdurate and uncompromising attitude of the four ASEAN partners, Singapore found the project to be economically unviable, and in September 1978, finally decided to withdraw from the first ASEAN industrial package deal projects. Instead, it went ahead with the diesel engine plant on non-ASEAN basis, and decided to

64 Brian Wawn, The Economies of ASEAN Countries: Indonesia, Malaysia, Philippines, Singapore and Thailand (London, 1982), p. 170
### ASEAN "PACKAGE DEAL" INDUSTRIAL PROJECTS: 1990.

<table>
<thead>
<tr>
<th>A-Category of the Project</th>
<th>B-Indicative Status</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-1 Short - term</td>
<td>B-1 Preparatory Stage</td>
<td><strong>Indonesia</strong></td>
<td>Japan</td>
<td>Unknown, Aceh</td>
<td>Production rate achieved in 1989 and the first 3 months of 1990 were at 96.3% and 28.6% of its design capacity. Project volume in 1991 was expected to be 611,000 MT with an average price of US $148/MT F.O.B. bulk.</td>
</tr>
<tr>
<td>A-2 Long - term</td>
<td>B-2 Implementation Stage</td>
<td><strong>Malaysia</strong></td>
<td>Japan</td>
<td>Bintulu, Sarawak</td>
<td>During April 1989-March 1990, production of urea and ammonia amounted to 503,317 MT &amp; 330,590 MT respectively. In 1990-91, the company's production rate decreased by 13% for urea and 18% for ammonia.</td>
</tr>
<tr>
<td></td>
<td>B-3 Completed</td>
<td><strong>Philippines</strong></td>
<td>Philippines</td>
<td>Philippines</td>
<td>The Philippines government found the project as economically unviable and decided to drop it in 1978.</td>
</tr>
<tr>
<td></td>
<td>B-4 Withdrawn by the Host Country</td>
<td><strong>Singapore</strong></td>
<td>Singapore</td>
<td>Singapore</td>
<td>The Protocol of Understanding between the Philippines and Japan was signed in October 1989. Invitation for Japanese investment is being proposed.</td>
</tr>
<tr>
<td></td>
<td>B-5 Withdrawn by ASEAN</td>
<td><strong>Thailand</strong></td>
<td>Thailand</td>
<td>Chiang Mai</td>
<td>Singapore government dropped the project in 1978 because of disagreement among ASEAN countries on the issue of hp. of the diesel engine. The evaluation of the latest technology was completed in 1986 but Singapore government decided to abandon the project. Singapore is in the process of identifying a new AIP.</td>
</tr>
</tbody>
</table>

The Thai Council of Economic Ministers reconsidered the review report on the project in 1985 and decided that the project be dropped. The joint agreement has been signed and ASEAN Mining Co. established on March 4, 1991.

contribute only a token of 1 per cent as equity share to the AIPs to keep alive the regional spirit of the AIPs.

However, eventually Singapore rescinded its decision to withdraw from the AIPs. In 1984, it adopted a small hepatitis-B vaccine project as Singapore's AIP, which was subsequently approved by the ASEAN Economic Ministers in May 1984. By the end of 1986, the evaluation of the latest technology to be used in the vaccine project was completed, and the project company was to look into the requirements of applying a new technology. But in 1987, Singapore once again decided to abandon the vaccine project because its felt that due to changes in the economies of the project, "it was no longer possible to go ahead with the Hepatitis-B Vaccine Project". And currently, Singapore is in the process of identifying a substitute AIP.

The above discussion of the AIPs clearly reveals that the progress of AIPs has been hampered by the sudden changes in international economic situation as well as intra-regional clash of economic interests. As in 1990, of the five projects allocated, only two (Indonesian and Malaysian) had really taken off and commenced production (See Table-V). Indeed, the implementation of the AIPs has proved to

67 ASEAN Secretariat, n. 34, p. 37.
68 ASEAN Secretariat, n. 38, p. 38.
69 ASEAN Secretariat, n. 57, p. 39.
be much more hazardous than anticipated at the time of launching these AIPs.

ASEAN INDUSTRIAL COMPLEMENTATION SCHEME (AICS)

The third principal technique of cooperation recommended by the UN Team was the "Complementarity Agreements Approach" of ASEAN Industrial Complementation Scheme. The Scheme aims at the expansion of trade and industrial liberalization. The essence of this technique, which has been widely practised in Latin America, lies in:

holding a series of meetings of the representatives of the private sector in specific industry in each participating country, so that they may work out together proposals for specialization and exchange of products within the industry, and also for any necessary fiscal or financial changes or incentives necessary to permit this, for submission to their governments. It is, in fact, a system by which the specialized knowledge of the business community is used to help governments to develop means of cooperation that are most likely to prove practicable.

In other words, under the AICS, member countries produce complementary products in specific industrial sector for preferential exchange among themselves. Obviously, the AICS assigns a central role to and encourages the private sector to establish, in consultation with ASEAN governments, industries to produce specialized and specific products. An AIC package is defined as consisting of organised complementary trade exchanges of specified processed or


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manufactured products of ASEAN origin, allocated to a particular country. Such a product shall enjoy "exclusivity" privileges for a two year period if it is already being manufactured in the ASEAN region or three years of exclusivity, if it is to be a new product. Exclusivity means that no other ASEAN country can set up new production facilities or expand existing facilities to make the same product which has been allocated to a particular country under AICS, unless 75 per cent of its production is for export outside the ASEAN region.

Thus, it seems that while AIP aims at "public (sector) based inter-industry division of labour", the AICS follows "a [vertical] intra-industry division of labour, jointly organized by the private and public sector". Again, while the raison d'etre for AICS, appears to be to seek to develop a rationalized system of manufacturing activities between the member countries for similar products or components", the complementary arrangement refers to the deliberate regional division of labour by the private sector to produce a particular commodity, such as an ASEAN car,

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73 Chong-Yah, n. 40, p. 132.
each nation would produce some assigned parts.

The AIC Package involves the following steps: the establishment of a legal framework for inter-industry negotiations and agreement, negotiations conducted in accordance with the procedures laid down in the framework, approval of these arrangements by the ASEAN governments, and implementation of these agreements.

Following the Bali Summit of 1976, a working group of ASEAN-CCI was entrusted with the task of identifying possible areas for ASEAN industrial complementation in consultation with the COIME. Subsequently, the Eighth Economic Ministers' Meeting in May 1978 adopted the first guidelines for ASEAN Industrial Complementation and these were passed to the private sector working group. The basic agreement on ASEAN Industrial Complementation Scheme was signed in June 1981. A first package of complementation, which was primarily the result of the work of the ASEAN Automotive Federation (a private sector body), involved products in the automotive industry. The products included in the first package were: the production of diesel engines (80-135 hp) by Indonesia; spokes, nipples, etc.

75 United Nations, n. 4, p. 58.
76 Castro, n. 19, p. 85.
77 ASEAN Secretariat, n. 26, p. 13.
### INDUSTRIAL COMPLEMENTATION

<table>
<thead>
<tr>
<th>A-1 Short-term</th>
<th>A-2 Long-term</th>
<th>B-1 Preparatory Stage</th>
<th>B-2 Implementation Stage</th>
<th>B-3 Completed</th>
<th>B-4Withdrawn by the Host Country</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Package of Automotive Component Manufacturing:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) 80-135 hp. diesel engines; motorcycle axles; and wheel rims for motorcycle</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Spokes and nipples; timing chains and drive chains; crown wheel and pinions; and seat belts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii) Body panels for passenger cars; transmission/transmission rear axles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv) Universal joints; oil seals; and v-belts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>v) Body panels for commercial vehicles of one ton and above; brake drums for trucks; heavy duty shock absorbers; stabilisers; bumper and trim brackets.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Remarks:**

- **NOTE:** MOU on Brand to Brand Complementation on the Automotive Industry under the BHALI signed on October 18, 1988.
- **Agg'egate value of intra-ASEAN trading involving the first AIC package amounted to only US $63.1 million from 1982 to 1985; representing less than 1% of total intra-ASEAN trade for the same period.**

**Models 200 E, 250 E, 260 E, DH 1625, DI 1621 schemes are being participated by Malaysia and Thailand.**

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and drive chains and seat-belts by Malaysia; body panels for Ford Cortina by the Philippines; universal joints by Singapore; and body panels for commercial vehicles of one ton or more by Thailand.

However, Singapore, it may be noted had reservations about the economic efficiency of such an approach and argued that such a scheme would give more or less complete monopoly privileges to the firms participating in it, which was not acceptable to it. However, a compromise was reached at the Ninth ASEAN Economic Ministers Meeting. It revised the original basic agreement on private sector industrial complementation to take account of the following three principles: (a) the projects will be organised on a product basis allotted to member nations for period of two or four years; (b) preferences granted under the PTA for any product will be extended on a most-favoured-nation basis; and (c) member countries may grant additional preferences on a country basis. Such preferences would be negotiated separately between the member countries concerned.

Currently, while the first package of industrial complementation is still in the implementation stage (See Table-VI), to strengthen and broaden the AICS, the member countries have signed a Memorandum of Understanding (MOU) 

79 Wawn, n. 64, p. 171.
for Brand to Brand Complementation (BBC) scheme.

But what have been the net-results which the AICS has achieved? Given the fact that at present, regional trade covered under AICS constitutes nearly 1 per cent of the total volume of intra-regional trade, it may be inferred that AICS has failed in its ultimate goal of stimulating intra-ASEAN trade. However, efforts are being made to invigorate AICS. To achieve this purpose, the NGO's covering various aspects of industrial cooperation have come up or established under the aegis of the ASEAN-CCI and by February 1988, 31 such NGO's had already been established. The important NGO's include: ASEAN Chambers of Commerce and Industry (ASEAN-CCI), Federation of ASEAN Shipowners Association (FASA), ASEAN Federation of Furniture Manufacture Association (AFFMA), ASEAN Handicraft Promotion and Development Association (AHPDA), ASEAN Federation of Electrical Engineering Contractors (AFEEC), ASEAN Federation of Mining Association (AFMA) etc. These NGO's, particularly

81 The BBC scheme involves complementary trade exchanges of specified parts/components of a specific vehicle model traded and used by the Brand owners and Brand Related Original Equipment Manufacturers in their respective Original Equipment Products. For detail see, ASEAN Secretariat, "Memorandum of Understanding : Brand to Brand Complementation on the Automotive Industry under the Basic Agreement on ASEAN Industrial Complementation (BAAIC), Pattaya, Thailand, 18, October 1988", ASEAN Newsletter, n. 29, (September-October 1988), pp. 17-20.

ASEAN-CCI, not only help to inculcate regional awareness for industrial cooperation but are also working closely with the government level organisations, and their representatives have, in fact, participated in some official negotiations. Thus, the ASEAN private sector appears to be playing an effective and positive role in efforts towards regional economic cooperation and helping usher in a new era of ASEAN based Industrialization.

ASEAN INDUSTRIAL JOINT VENTURES SCHEME (AIJVS)

Another major scheme which not only aims at invigorating ASEAN industrial cooperation but also providing encouragement to the private sector to embark on industrial cooperation is the ASEAN industrial Joint Ventures Scheme (AIJVs). The scheme was initiated in June 1981, and the Basic Agreement on ASEAN Industrial Joint Ventures was signed in Jakarta in November 1983.

Under this scheme, the private sector through the ASEAN-CCI is required to submit a list of products to the COIME for approval for regional production and preferential trade. The approval of COIME, in turn, is subject to the consent of ASEAN Economic Ministers (AEM). A key provision of the scheme is that any two or more ASEAN countries can

83 ASEAN Secretariat, n. 26, pp. 17-18.
84 Ibid., p. 14.

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participate in respect of an AIJV project. Further, AIJV can be located in any of the participating countries because there is no prior country allocation. Therefore, as compared to the AIPs, the AIJVs appear to provide for a far more flexible framework for the promotion of regionally based industries. Clearly, it seems that it constitutes "a further step towards flexibility and decentralization as the number of ASEAN countries involved is reduced to two and approval procedure are less cumbersome". Also, the provisions make it much easier to decide on a project and thus, reduce "the possibility of mismatching or lack of matching among the member countries".

The Agreement further provides that equity of ASEAN in an AIJV must not be less than 51 per cent and that after the establishment and commencement of production of AIJV, the participating countries shall grant a 50 per cent margin of tariff preference (MOP) to each other on that particular product for four years, while the non-participating ASEAN countries shall enjoy the same MOP for that product after the four year period. Besides, it has an important provision of 'exclusive rights' which stipulates that AIJV

85 ASEAN Secretariat, n. 24, p. 13.
86 Langhammer, n. 72, p. 41.
projects manufacturing a product hitherto not produced in
the ASEAN countries would have exclusive rights to
manufacture that product for three years. The other
projects for the production of the same product cannot be
established, unless 75 per cent of the production is for
extra-ASEAN exports.

The first two projects agreed upon under the AIJV
scheme were: constant velocity joints, and mechanical and
power rock and pinion steering. Approved in May 1984, the
participating countries in these projects were Malaysia and
the Philippines, the former owning them majority shares.
The two other projects that were adopted the same year were:
frit, and motorcycle parts. While Indonesia, Malaysia and
Thailand were the participating countries in the frit
project, the motorcycle parts project was a joint venture of
Malaysia and Thailand. In 1985, three more projects were
approved as AIJVs. These were security paper (Brunei,
Malaysia and Thailand), potash feldspar quartz (Indonesia
and Thailand), and slaughtered meat (Philippines and
Thailand). As per the decision of the participating
countries, all these projects were to be located in
Thailand. In 1986, the Eighteenth AEM, with an objective

89 Palmer and Reckford, n. 71, p. 96.
90 ASEAN Secretariat, n. 38, p. 43.
91 ASEAN Secretariat, n. 37, p. 36.
92 Ibid.

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of expediting the process of approval of AIJVs, in a major policy decision, decided to delegate to COIME the power to approve AIJV projects. Also, it agreed in principle to deepen the minimum margin of tariff preferences (MOPs) for AIJV products from 50 per cent to 75 per cent. The decision was subject to the approval of ASEAN Foreign Ministers. It was hoped that the deepening of MOPs would encourage ASEAN as well as non-ASEAN investors to invest in AIJVs.

Subsequently, in June 1987, a "Supplementary Agreement to Amend the Basic Agreement on ASEAN Industrial Joint Ventures (BAAIJV) was signed by the ASEAN Foreign Ministers, which endorsed the decision of the Eighteenth AEM.

In July 1987, with a view to make AIJVs more effective, the Nineteenth AEM Meeting made some significant recommendations to the Third ASEAN Summit. These included among others: deepening further the MOPs on AIJV products to 90 per cent; raising of ceiling on non-ASEAN equity in an AIJV from 49 per cent to 60 per cent; extending the period during which only participating countries would enjoy the MOPs from 4 years to 8 years; and preparation of a pre-approved list of AIJV products by COIME providing for


94 For the text see, ASEAN Secretariat, "Supplementary Agreement to Amend the Basic Agreement on ASEAN Industrial Joint Ventures (BAAIJV), Singapore, 16 June 1987", ASEAN Newsletter, n. 21, (May-June 1987), pp.18-19.
automatic designation of any valid AIJV entity which produces such products as an AIJV project.

Following the recommendations of the Nineteenth AEM Meeting and realizing the imperative to improve AIJVs to make them more flexible, quicker to implement, and more attractive to the private investors, the Third ASEAN Summit held at Manila in December 1987, signed a Revised Basic Agreement on ASEAN Industrial Joint Ventures (BAAIJV).

The Agreement superseded BAAIJV, 1983 and Supplementary BAAIJV, 1987. However, while some of the earlier rules governing AIJVs discussed above were retained, some revised as well as new rules were incorporated into the revised BAAIJV. Apart from the recommendations made by the AEM Meeting, at least two significant new rules were enshrined into the Revised Agreement viz:

(i) Liberalizing the non-ASEAN AIJVs equity from 49 per cent to 60 per cent up to 31st Dec. 1990 subject to only a


97 Ibid., Article V, p. 61.

98 The period was extended to December 31, 1993 by the ASEAN Economic Ministers Meeting in 1990. ASEAN Secretariat, n. 56, p. 23.
minimum 5 per cent equity from each participating ASEAN country; and

(ii) Protection of AJIV products in case of dumping, unfair trade practices or any other form of unreasonable pricing of similar products obtained from sources outside the participating countries.

Though the Revised BAAIJV appears a step both imperative and in the right direction to strengthen AIJVs, but what has been the balance-sheet of the AIJVs? The net achievements of AIJVs seem to be much below expectations. Beginning with two projects in May 1984, although the number of approved AIJVs increased to 7 in 1985, to 15 in 1987, and 17 in 1990 and the number of products included in the pre-approved list to 123 in 1989, the pace of the implementation of AIJVs has been, to put it mildly, sluggish. By the end of 1990, out of 17 approved AIJVs only 4 (mechanical and power rock and pinion steering; constant velocity joints; motorcycle electrical parts; and balljoints for motor vehicles) had really taken off and

99 ASEAN Secretariat, n. 96, p. 58.
100 Ibid., Article 3(II), p. 60.
101 ASEAN Secretariat, n. 37, pp. 32-33.
103 ASEAN Secretariat, n. 56, p. 23.
104 Figures Computed from ASEAN Secretariat, n. 35, p. 8.
started production (See Table-VII). Of remaining 13, while 11 AIJVAs (c,e,f,g,h,i,k,l,m,n,o, and q - approved during 1984-1987 period) were still in the preliminary stage, only two AIJV (m and p) were in the implementation stage.

However, efforts are being made to improve upon AIJV scheme by initiating and adopting measures, which it is believed, would make the AIJVs more attractive to the investors. For example, recently, the AEM has agreed to relax the rule of required ASEAN equity, thereby, providing greater accessibility of AIJVs to the investors; extend more attractive tariff preferences on AIJV products; and adopt a common effective preferential tariff on selected industrial products etc.  

**Impediments to and Prospects for ASEAN Regional Industrialization**

As is clear from the preceding discussion, ASEAN industrial cooperation has hitherto hinged on three types of projects viz; AIPs, AICS, and AIJVs. To quickly recapitulate the rationale of these projects; the AIPs aim at providing regional self-sufficiency in selected industrial products by achieving regional Import-substitution and markets of scale; AICS has been adopted to encourages industrialization in the ASEAN region for complementary benefits; and the key feature of AIJVs is that it encourage private sector investment.  

105 ASEAN Secretariat, n. 57, p. 7.
However, an analysis of the preceding discussion seems to reveal that the ASEAN industrialization ventures have failed to live up to the expectations of the UN Team which recommended them as well as the ASEAN leaders who initiated, adopted, and endeavoured to operationalize them. Clearly, a quick glance through their balance-sheet brings forth that their net-results are anything but encouraging. By the end of 1990, only 2, (Aceh and Bintulu Fertilizer Projects) of the five AIPs had commenced production. While Singapore is yet to identify a new AIP, the Philippines and Thailand's new projects are in the implementation and preliminary stages respectively. Surely, they have a long road to tread before they start production. On the other hand, the AICS, ironically considered by the UN Team as the most flexible and particularly suitable technique of industrial cooperation for ASEAN, too, has failed in its primary objective of encouraging regional industrialization as well as in the ultimate goal of stimulating intra-ASEAN trade in industrial products. Though, all the five projects allocated under the first package of automotive component package are in the implementation stage, during 1982-85, the aggregate value of intra-ASEAN trading under the first package amounted to less than 1 per cent of total intra-ASEAN trade during the same period. Similarly, the track record of AIJVs is none-too-encouraging. Of the 17 approved AIJVs, only 4 had really got off the mark and commenced production.

106 United Nations, n. 4, p. 58.
Thus, against the backdrop of this frustrating and sluggish pace of the implementation of ASEAN industrial cooperative ventures, an inescapable conclusion seems to be that while (keeping in mind the ASEAN approach of 'making haste slowly'), the adoption of ASEAN industrial projects was indeed dramatic, their performance and balance-sheet has however, been pathetic, if not traumatic.

Here, a question worth addressing ourselves is: where and what has gone wrong with the ASEAN industrial cooperative ventures? Why in ASEAN industrialization schemes, is there a wide gap between theory and reality; between the desired and actual results? To put the question in a capsule form; what have been the outstanding barriers in the way of the viability of ASEAN industrial cooperative projects, which, in the past, have impeded or slowed down the pace of ASEAN industrial cooperation, and what are the prospects, if any, for future ASEAN industrial cooperation?

The foremost problem faced by the ASEAN industrial cooperative ventures is that of finance. For example, in case of AIPs, each project is estimated to cost about average US $ 300 million. But of this amount, only 30 per cent is to be contributed by ASEAN countries as equity capital while the balance 70 per cent is to be contributed by Japan in terms of soft loans. As noted in the preceding discussion, though at the August 1977 meeting with the Heads of Government, Japan had promised to give US $ 1 billion
soft loans for ASEAN industrial projects, this loan was subject to the fulfilment of two important conditions viz; confirmation of feasibility of the project, and establishment as an ASEAN project. But the trouble is that the above two conditions have so far been fulfilled only in case of three (Aceh, Bintulu and Copper Fabrication) of the five AIPs. Though, ASEAN explains these delays in terms of prolonged Japanese studies and evaluations, the Japanese allege that the delays were largely a result of the lack of ASEAN preparedness. Similarly, the AICS and AIJVs, which, too, depend upon foreign investments, have also encountered the problem of finance, albeit to a lesser extent. At present, an important reason for the withholding or delays in finance from extra-regional sources, it may be noted, is the severe constraints encountered by some donor countries, which has resulted in their change in priorities vis-a-vis ASEAN industrial cooperative ventures. Thus, given the fact that ASEAN industrial cooperation is heavily dependent upon foreign funding, it may be inferred that the problem of finance is intrinsically linked with other fundamental problems that confront ASEAN industrial cooperation.

107 For details see, Malaysia, n. 27, pp. 58-59, Also see, Asian Recorder, August 20-26, 1977, p. 13897.
108 Mukherji, n. 87, p. 84.
109 ASEAN Secretariat, n. 35, p. 8.
Further, it appears that the progress of the ASEAN industrial cooperation has also been adversely affected due to certain structural and procedural defects in the approval of ASEAN industrial cooperative schemes. The problem arises when an ASEAN industrial cooperation scheme adopted at one ASEAN Committee or Ministerial Meeting is modified or abandoned at another such meeting. This flexibility and protracted negotiations involved in the ASEAN decision making process not only affect continuity in progress of ASEAN industrial cooperation, but also make them susceptible by giving a room for manoeuvrability to business and industrial pressure groups within each ASEAN country.

Another important impediment to ASEAN industrial cooperation seems to be the lack of harmonization of domestic policies within ASEAN countries such as exchange controls; taxes; setting technical and product safety standards; certification procedures etc. And given the fact, that ASEAN countries have basic structural economic differences in terms of uneven levels of economic development, existence of competitive economies etc.; the lack of harmonization of domestic policies as an impediment to regional industrial cooperation assumes greater proportions.

Furthermore, there appears to be an extremely formidable barrier of national sovereignty and national self-interest. Here, to put the problem in a proper perspective, Hans J. Morgenthau's principle of political realism may be taken into account i.e. 'national interest is the Key around which the whole gamut of international relations revolves'. Since the main thrust of ASEAN industrial cooperation has been on regional import-substitution, it seems, in a sense comparable to national import-substitution policy, with the difference that independent sovereign countries with different, if not incompatible, interests are involved. But while in case of a large national project, aiming at national import-substitution, intra-country tariffs can be agreed upon by the central government with or without facing much opposition from the federal units, it seems very difficult to fix intra-regional tariffs for regional industrial products not only because of different levels of industrial development of member nations but also due to different interest perceptions of independent sovereign members of ASEAN. In this context, Langhammer seems nearer the truth when he observes:

There were good reasons for regional organisations not to engage in this field [industrial cooperation]. First, in the past, targeting had often proven to be ineffective at the national level because of ... planners' inadequate knowledge of future market conditions and/or disputes between the central government and the

federal states on regional polices inside an economy. How then could industrial targeting work on the inter-country level when politically sensitive issues such as different philosophies of partner countries are added to the agenda? One should note that while ASEAN member states were collaborators, they were always competitors with their economic and political systems too.

Thus, it seems safe to argue that it is unlikely that ASEAN countries would adopt or undertake any joint ASEAN project if it goes against their respective national interests, and each member state would like to see to it that no other member country benefits more than necessary in any industrial cooperative endeavour -- witness the fate of Singapore's diesel engine project. This persistent preoccupation with the national economic interests and difficulty in its benefits to the recipient country has been, in fact, the major problem with ASEAN industrial cooperation. It is precisely because of this reason that it has proved "difficult to identify economically viable projects that can also pass the test of political accountability by the individual member countries".

Viewed thus, it goes without saying that notwithstanding their oft-repeated commitment to the Association and its objectives, the ASEAN countries would promote intra-regional

112 Langhammer, n. 72, p. 140.


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economic cooperation by way of implementing ASEAN industrial cooperative schemes only if suits their national economic interests.

Another vital factor which appears to have taken the wind out of ASEAN industrial cooperative endeavours is that there is a conflict of interest between national and regional projects. While all ASEAN countries continue to give lip-service to the cause of regional industrialization, it appears that no country is willing to ignore the products manufactured by its own industrial sector vis-a-vis the products manufactured at a regional level and thereby, sacrifice its indigenous industry in the name of regional industrialization. It was precisely this concern which made Singapore's diesel engine project a still-born.

Further, the failure to allow latest foreign technology, particularly in AIPs and AICS, also seems to have impeded ASEAN industrial cooperation. This failure is, probably, attributable to an urge to save foreign exchange as well as to a misconception that the foreign firms come to developing countries only to take advantage of cheap-labour. Surely, the employment of an indigenous technology, in order to save foreign exchange, in ASEAN industrial projects has failed to yield the desired results of quick and efficient production by these projects.

115 Devan, n. 110, p. 207.
In addition to these barriers, it seems that there are certain procedural factors that have hindered progress of ASEAN industrial cooperative ventures, especially AIPs viz; the country designations were made prior to the completion of general feasibility studies. This factor, it may be noted, has resulted in increasing the host country's (where project is located) bias toward supporting the existing projects and thus, made it difficult to discard or unnecessarily delayed the abandoning of an allocated industry found unviable -- witness Thailand's soda-ash project which was withdrawn only after a considerable loss of time and money.

In short, the implementation of ASEAN industrial cooperative ventures has been hampered by both intra as well as extra-regional economic factors such as the changed economic situation which affected the price and demand of the product, particularly for the superphosphate project allocated to the Philippines; market fragmentation arising from duplication of production within the region, which affected the viability of Singapore's diesel engine project; low volume of demand for the product within the region, which plagued motorcycle electrical parts project (a joint

116 It may be noted that although the UN Team had conducted pre-feasibility studies in case of the AIPs but it had neither examined nor recommended the country-wise allocation of these projects.

117 Naya, n. 18, p. 35.
venture of Malaysia and Thailand), inadequate infrastructure facilities required for implementation of the project, which affected the soda-ash project of Thailand as well as the frit project, a joint venture of Indonesia, Malaysia and Thailand.

In this context, it may be pointed out that there are some inherent difficulties in assigning a package to each ASEAN country for the projected ASEAN market. Such difficulties, it appears, in an euphoriism for regional cooperation are, more often than not, underestimated at the time of allocation and approval of these projects. Further, it seems that there has been no lack of will for regional industrial cooperation, but the lack of clearly convincing rationale that such separate projects could truly be beneficial to the ASEAN nations. In fact, as Lim Chong-yah cogently observes:

The package deal approach is basically a difficult and cumbersome method of cooperation among independent nations. Countries that practise this approach such as those in Central America have found it difficult to implement projects. It is difficult to reconcile conflicting interests... one cannot force cooperation for the sake of cooperation.

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Highlighting the same concern Naya and Plummer seem to hit the nail when they conclude:

It [Industrial Package deal Approach] was a large scale government owned instrument or in other

words, the nucleus of regional industrialization targeting. Its ideological origin came from the ill-fated Socialist Council for Mutual Economic Assistance where the bureaucratic assignment of industrial projects to individual member countries was the rule. Except for a parallel endeavour in the Andean Pact in the 1970s, the so called Sectoral Industrial Development Programs which failed completely, regional targeting has never been envisaged in Western economy types of regional cooperation.

From the above discussion, it may be inferred that the future of ASEAN Industrial cooperative ventures is pregnant with serious problems. Given the enormous hazards involved in the implementation of the ASEAN industrial projects, one is tempted to ask a question i.e., if the package deal industrial approach is basically futile, why should these projects, be not abandoned all together?

However, while there seems to be no justification to be an incorrigible pessimistic about the fate of ASEAN industrial cooperation, quite a few guidelines or suggestions may be put forward to make the ASEAN industrial projects more viable, and thereby, accelerate the pace of their implementation:

I) The three techniques viz.; AIPs, AICS and AIJVs employed so far by ASEAN seem to be inadequate to ensure a smooth and effective development of industrial sector in the region.

What appears to be of paramount importance in this context, is the coordination and harmonisation not only of national industrial development plans but also of domestic policies. Therefore, it may be suggested that ASEAN should adopt harmonized policies in terms of exchange controls, taxes, setting technical and product safety standards. To take an hypothetical example, an industrial project, say, superphosphate in the Philippines, requires much larger a market than the domestic market of the Philippines. In this case, export avenues for the Philippines' superphosphate would have to be explored both within and outside the region. Therefore, in such a situation the other ASEAN partners should not set up a new superphosphate project to meet their domestic requirements. If so, this would defeat the very purpose of regional industrialization and regional import substitution.

II) Once a project has been identified, time-bound targets should be set for the various phases of its implementation. Such targets, it appears, would not only help shed complacency and an attitude of 'making haste slowly', but also serve to reinforce member nations' commitment to the task of regional industrialization.

III) To ensure speedy implementation of projects, closer cooperation between the public and private sector in the ASEAN region should be encouraged. Although, as noted in

120 Devan, n. 110, p. 207.
the preceding discussion, steps have already been taken in this regard, yet they leave much to be desired.

IV) To avoid duplication in production, only those projects should be adopted as regional projects whose products are not already produced in the region on a large scale. Similarly, more than one ASEAN country should not be allocated regional projects manufacturing the same product. For example, the allocation of urea projects for both Indonesia and Malaysia does not seem to be based on the principle of regional specialization of industries. Such an allocation, it goes without saying, would encourage duplication in production. In this context, it may be suggested, that if more than one country insists on the allocation of a same industrial project, the project should be allocated to a country which as comparative advantage in the form of resource endowments, technical skills, invigorating industrial climate suitable for the project etc.

(v) Rules and procedures for the adoption and implementation of projects should be simplified and streamlined. Further, before the implementation of a project begins, all legal formalities as well as a thorough final feasibility study of the project should be completed. This measure, it seems, shall not only help avoid delays in the implementation but also save a considerable time and money. The reason is that once the legal and feasibility
study aspects of a project are finalised, project would not have to be abandoned or withdrawn at later stage as has been the case with most of the ASEAN industrial projects.

These suggestions, it may be argued, if considered and adopted would contribute to a smooth and speedy implementation of ASEAN industrial cooperation, and thereby, go a long way to ensure greater regional self-sufficiency in industrial sector.