

# ASEAN makes tentative moves toward an East Asian economic bloc

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At an Association of South East Asian Nations (ASEAN) meeting in Singapore last weekend, regional leaders along with their counterparts from three north-east Asian countries—Japan, China and South Korea—took tentative steps toward the formation of an East Asian trade bloc.

A study group of government officials from the 13 Asian nations will be established to examine two proposals: firstly, the establishment of a formal East Asian summit meeting to replace the existing informal ASEAN+3 meetings, and secondly, the setting up of a regional free trade and investment area. The group is to report back in 12 months.

Proposals were put forward for a \$2 billion rail line from Singapore to Kunming in China's Yunnan Province to improve transport ties between ASEAN members and for high-speed Internet links between major regional cities, including Kuala Lumpur, Singapore, Bangkok, Tokyo, Seoul and Shanghai. Japan has promised to foot much of the \$15 billion bill for the Internet upgrade, to be known as e-ASEAN.

Singapore's Prime Minister Goh Chok Tong, who hosted the talks, underscored concerns in ASEAN that a broader grouping would be dominated by the north-east Asian economies. "Until ASEAN is strong enough I think we should not move too quickly into that kind of a grouping because there is a danger that ASEAN may be eclipsed," he said.

ASEAN, set up in 1967 amid the escalating US military intervention in Vietnam, initially comprised Indonesia, Malaysia, Singapore, Thailand, Brunei and the Philippines. Following the end of the Cold War, it has expanded in the 1990s to include the three Indochinese states—Vietnam, Laos and Cambodia—as well as Burma. But the combined Gross Domestic Product of the 10 members amounts to about \$US500 billion, only slightly higher than South Korea and far less than China or Japan.

Goh was defensive about the move toward a trade bloc, saying: "I don't see why we should not [do this] because North Americans compete as such a group—they have NAFTA." He emphasised: "This is not, I repeat, an attempt

to shut Washington from East Asia." Goh's assurances to Washington reflect fears that any new Asian economic grouping could provoke US retaliation. All of the East Asian countries rely on high levels of exports into the US market.

The formation of an East Asian economic bloc has been on the agenda for more than a decade. Japan, concerned at the moves by its US and European rivals to consolidate free trade blocs, initiated behind-the-scenes discussion on the idea in the late 1980s. But Japanese governments were reluctant to openly campaign for an Asian grouping. They feared an adverse US reaction, and were conscious of painful memories throughout the region of Japan's wartime role and its "Greater Asian Co-prosperity Sphere".

Australian Prime Minister Bob Hawke first mooted an Asia-Pacific "economic co-operation forum" in 1989, after top-level talks in Tokyo. Significantly, the initial proposal did not include the US. But Washington insisted on attending the first meeting in Canberra of what became the Asia Pacific Economic Co-operation (APEC) forum, effectively neutralising its original East Asian focus.

In the early 1990s, Malaysia's Prime Minister Mahathir Mohamad, backed by sections of Japanese big business, pushed for the formation of an alternative East Asia Economic Caucus, excluding not only the US but Australia and New Zealand as well. The plan was effectively shelved as a result of US opposition, however.

As for APEC, with both Japan and the US involved, it has been little more than a ceremonial get-together of an increasing number of countries. Its most recent meeting, held in Brunei just before the ASEAN meeting, was preoccupied with restarting trade talks within the framework of the World Trade Organisation, but little progress was made. Singapore's Senior Minister Lee Kuan Yew commented at a dinner in Sydney last week that he felt APEC had lost its focus.

The latest moves towards closer East Asian ties have been sparked by the 1997-98 Asian financial collapse, which has fueled political and economic instability throughout the region. A brief examination of the leaders present at last

weekend's meeting is enough to undercut claims by some media commentators that the “Asian tigers” have recovered from the economic crisis.

Japanese Prime Minister Mori has just only just survived a parliamentary no-confidence motion and is presiding over an economy that has barely responded to huge financial stimulus packages aimed at boosting growth. Philippine President Joseph Estrada has been impeached over alleged bribe-taking and the only factor holding up the value of shares and the peso appears to be the likelihood that he will soon be out of office.

Thai Prime Minister Chuan Leekpai is behind in the polls in the lead-up to next January's national elections, Indonesian President Abdurrahman Wahid is embroiled in scandals and threats of impeachment... and the list could go on.

While economic growth rates have improved from the disastrous negative levels of 1998, share and currency values have declined sharply in a number of Asian countries this year. More fundamentally, none of the underlying problems bound up with huge levels of bad debt and the fragility of the financial sector have been overcome. The recovery that has taken place has been largely dependent on a combination of government spending and high levels of exports, particularly to the US.

Most ASEAN members are suffering as a result of higher oil prices, and prices for their electronic exports are falling. Overall foreign investment in ASEAN countries has contracted from \$21.5 billion in 1997 to \$19.6 billion in 1998 and \$13.1 billion last year. According to one report, 60 percent of investment in so-called developing economies in Asia this year went to China and that percentage could increase after China's entry into the World Trade Organisation.

Fearing its growing irrelevance, ASEAN initiated closer links with Japan, China and South Korea through “informal” ASEAN+3 meetings. The grouping was brought together in part by mutual resentment of the aggressive intervention by the US and the International Monetary Fund (IMF) during the Asian financial meltdown. Washington seized on the opportunity to insist that countries like Indonesia and South Korea open up their markets and investment opportunities. The US and the European Union opposed Japan's offer at the time to establish an Asian Monetary Fund.

While the latest ASEAN meeting discussed the possibility of closer collaboration, sharp conflicts exist, reflecting the disparate nature of the member states and their relationship to the world economy.

Differences have emerged over a plan to substantially lower tariffs in the ASEAN Free Trade Area (AFTA) on a range of more than 9,000 manufactured and agricultural

products. The six ASEAN founding members—Thailand, Malaysia, Brunei, Singapore, the Philippines and Malaysia—have to 2002 to comply, while the others have longer. In May, Malaysia demanded a three-year period of grace for lowering tariffs on auto imports, provoking tensions with Thailand, which is a major regional auto producer.

At last weekend's meeting, Malaysia and Singapore came to blows over Singapore's decision to pursue individual bilateral trade agreements outside ASEAN's auspices. It has already signed a deal with New Zealand, has others under discussion with Australia, Japan and the US, and is studying links with Mexico and Canada. Singapore Prime Minister Goh hit back at criticism from an unnamed Malaysian minister by saying that Kuala Lumpur was exploring a similar deal with Japan—a claim that Malaysian Prime Minister Mahathir promptly denied.

But the most telling sign of the underlying tensions was an extraordinary outburst by Indonesian President Wahid against Singapore. After Lee Kuan Yew ruled out Indonesia's calls for East Timor and Papua New Guinea to be included in ASEAN, Wahid threatened to set up his own “West Pacific Forum” and launched into a tirade against Singapore at a meeting at the Indonesian embassy.

Wahid accused Singapore of “only looking to reap profits from its relations with its neighbours,” of failing to tell Indonesia about defence arrangements with Australia and New Zealand, and of having racist attitudes towards its Malay minority. He praised Mahathir for being “the only person who has been critical of Singapore,” adding that “Mahathir has a new friend”. He went so far as to suggest that Indonesia and Malaysia “teach it [Singapore] a lesson” by cutting off water supplies to the island state.

The bitterness of Wahid's attack, which panders to anti-Chinese sentiment in Indonesia, reflects both his political weakness at home and the sharpness of the tensions underlying ASEAN, even as it attempts to establish closer regional economic cooperation.



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