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Abstract
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As 1997 AND its thirtieth anniversary approached, the Association of Southeast Asian Nations (ASEAN)(1) seemed to have every reason for unrestrained celebration. Peace and cooperation within its ranks, the sense of identity developed among a highly diverse group of nations, the outstanding economic performance of its members - all these had given ASEAN an international role of some importance and contributed significantly to the confidence and well-being of its members. Buoyed by its past achievements, ASEAN had adjusted skillfully to post-cold war challenges, pursuing new opportunities to complete its Southeast Asian membership and extend its consensus and conflict-avoidance practices beyond its own borders, while also seeking once more to achieve its long-elusive regional economic cooperation goals.

By ASEAN's mid-August 1997 summit, however, euphoria had been dispelled. Instead its members were confronted with a severe and unexpected economic crisis that had brought with it new challenges to ASEAN's prestige, the strength of its members, their ties with one another, and their capacity for joint action. ASEAN as an organization had little to contribute to its members as the economic crisis spread. Likewise, it will have little to contribute to their recovery, which will depend on national policies and the availability of external support. Nevertheless, the prospects that the organization will remain a significant factor on the regional and international scene will be fortified by longstanding patterns of cooperation and the value its members place on ASEAN's contribution to their national standing.

Foundations of ASEAN Unity

ASEAN's status owed much to agreement among its members on basic strategy and rules of the game. Its two pillars have been the subordination of bilateral disputes to the interests of regional peace and national economic development, and the avoidance by governments of interference in and even comment upon one another's domestic affairs. The intimacy among leaders has been matched by an "ASEAN consciousness" among bureaucrats, stimulated by procedures that minimize secretariat roles and rely heavily on the member states' foreign and economic ministries. ASEAN-wide business and professional organizations have also created and strengthened regional ties.

ASEAN decisions are typically reached by consensus; subjects on which consensus cannot be reached are usually set aside. The decision-making process engages both officials and political leaders. It can be a protracted one, sometimes involving quite intemperate local commentary and reflecting obstacles posed by conflicting interests, rivalries for leadership, and differing tactical approaches. But, as was demonstrated repeatedly during the Cambodian hostilities, the consensus process, patiently pursued, usually achieves a compromise that enables ASEAN members to speak with one voice on issues they see as important to their region.

ASEAN has contributed much more to conflict avoidance among its members than to conflict resolution. Indeed, many of the conflicts between ASEAN members that originally threatened its survival remain unresolved. The Philippines continues to dispute Malaysia's sovereignty over Sabah; the Thai-Malaysian border remains a troubled one whether the immediate focus is on insurgency, smuggling, drug dealing or Thai Muslim disaffection. Especially in recent years, the aggressive pursuit of dwindling fish stocks and the declaration of Exclusive Economic Zones have added to the number and intensity of disputes over maritime sovereignty and borders. Significantly, however, the dispute provisions in the 1976 Bali Treaty of Amity and Cooperation - ASEAN's touchstone - have never been invoked. Instead, bilateral disputes have been dealt with bilaterally through negotiations and joint commissions. ASEAN thus escapes responsibility for the delays and failures of the bilateral process, while at the same time, the value accorded to ASEAN comity reinforces the bilateral pursuit of peaceful settlement.

Conflict avoidance in ASEAN has been stimulated by common concerns with security threats, internal and external. As an organization, ASEAN has consistently rejected collective military security arrangements. Among its members, military cooperation has become increasingly common. In the 1960s, bilateral military cooperation was stimulated by the campaigns against cross-border insurgencies. In due course, joint patrolling on common borders was supplemented by intelligence and training exchanges, joint land, sea and air exercises, and facility-sharing arrangements. In 1975, concerned by Hanoi's victory, its revolutionary rhetoric and its military superiority, ASEAN encouraged its members to strengthen national defenses and bilateral military cooperation. By that time, much-reduced counterinsurgency requirements and markedly greater budgetary resources facilitated force modernizaton.(2) Some commentators have seen evidence of an arms race within ASEAN.(3) Neighbors, who have not forgotten past conflicts, do indeed cast a wary eye on military developments in bordering states. However, stronger than these suspicions is the conviction that each member strengthens ASEAN by strengthening its own defense capabilities.

In its cold war external posture, as in its defense policies, ASEAN distinguished its stance as an organization from the diverse policies of its members. Policies of individual states ranged from Jakarta's "active and independent foreign policy" to Manila's military alliance with the U.S. ASEAN nonalignment - vaguely articulated in the Zone of Peace, Freedom, and Neutrality (ZOPFAN) Declaration of 1971 - provided a principled basis for avoiding positions on the cold war and Indochina hostilities. It also bolstered ASEAN's credibility in the Third World, and provided Moscow and Beijing with a rationalization for soliciting ASEAN's good will when it suited their purposes. At the same time, ASEAN members pleased the West by their fervently anti-Communist domestic policies, and all of them relied heavily on Western trade and investment for their high priority economic objectives. Moreover, its neutrality notwithstanding, ASEAN has appreciated, as a collective advantage, the security umbrella provided by the external ties of its members.(4)

Economic Cooperation: An Elusive Goal

In contrast to its political accomplishments, ASEAN made little progress toward economic cooperation. As John Ravenhill has observed, "ASEAN has always presented observers with something of a paradox. Its reputation as the most successful regional grouping among less developed countries stands in marked contrast to its singular lack of achievement, despite a succession of proposals, in promoting economic cooperation among its members."(5)

This record notwithstanding, its leaders credit ASEAN with contributing to national economic success by maintaining peace among them and enabling them to concentrate their energy and resources on economic development. Moreover, national accomplishments in economic performance gave ASEAN collectively an aura of importance on the global trading scene that encouraged outside powers to take the association into account.

Although ASEAN's founding document, the 1967 Bangkok Declaration, called for joint endeavors to accelerate economic growth, it was not until 1976 at the Bali Summit that ASEAN committed itself to specific economic activities. These included efforts to improve global market access, cooperative approaches to international commodity issues, and cooperation in establishing region-wide industries. Subsequently, the ASEAN economic ministers met annually and announced plans for establishing an ASEAN Industrial Project in each country and developing a program for intra-ASEAN trade preferences.(6) The joint projects, when actually established, contributed little to regional economic performance, and low levels of intra-ASEAN trade continued to reflect economies that were competitive rather than complementary.(7)

Efforts to deal collectively with principal trading partners through the so-called dialogue relationship were also of limited economic significance, bringing ASEAN few trading concessions. However, these relationships, established over time with Australia, Canada, the EC, New Zealand and the United States, did have useful political consequences. Preparation for the annual meetings helped familiarize officials of the dialogue partners with the organization and with their ASEAN counterparts. During the Cambodian hostilities, the dialogues changed character, focusing more on political and security concerns.

Adaptation to the Post-Cold War World

For ASEAN, the beginning of the cold war's end came with Vietnam's military withdrawal from Cambodia late in 1989, which opened the way for great power military disengagement in Southeast Asia, Moscow's disappearance as a factor in the region and the achievement within ASEAN of Southeast Asian unity. Such unity, fulfilling the aspirations of ASEAN's founders, would also be a source of strength in troubles that might arise from the uncertain intentions of China, Japan, and the United States - as well as from what appeared to be growing protectionism among ASEAN's principal trading partners. Facing these unsettling prospects, but with heightened self-confidence, ASEAN undertook to enlarge its membership, to expand its Asia-Pacific role through the creation of the ASEAN Regional Forum (ARF), and, once again, to seek economic integration - the ASEAN Regional Free Trade Area (AFTA).

The ASEAN 10: A United Southeast Asia?

ASEAN was no more prepared to move precipitously on expansion than it had been on other matters. The dangers were evident and widely noted.(8) The intimacy that leaders valued could become less close; arriving at a consensus among ten states would certainly become more difficult than among six; in addition, new members would be strained to field adequate numbers of English-speaking, technically qualified officials to participate in ASEAN's many meetings; Vietnam's membership could add a further element of jockeying for leadership within ASEAN; continued Communist party domination could set the Indochinese states apart from their fellow members; and a range of new disputes over borders, trade, and migrants would be added to the existing differences among the old members. Achieving consensus on economic policy would pose additional obstacles because of sharp disparities in economic development.

By 1997 - the target date for completing the enlargement process - much had been done to lessen the anticipated institutional problems. Familiarity between old and new members had been encouraged by frequent exchanges of high-level visits and technical delegations and by the practice of holding informal summits annually in the long intervals between formal ones. Aspiring members had been given opportunities to study ASEAN precedents and procedures and, in some cases, to participate in ASEAN projects and activities. The impact of economic inequality had been softened by the concessional AFTA and other arrangements. To serve a larger membership, the ASEAN secretariat had been strengthened and the position of the secretary general elevated.

Much more difficult still were the political problems surrounding membership for Vietnam, Myanmar and Cambodia. Vietnam's membership was seen as especially important, but time was required to overcome a heritage of antagonistic relations that had become much more confrontational during the Third Indochina War than during the Second.(9) By 1987, as the changing international scene brought changes to Southeast Asia, both sides began to see opportunities for dialogue. While ASEAN as an organization worked to bring an end to the war, its members began to draw closer to Hanoi.

Although by 1990, bilateral relations had been transformed, Vietnamese membership prospects in ASEAN remained clouded by mutual distrust. Until the October 1991 Paris Agreement - and even thereafter - Hanoi continued to be suspected of encouraging Cambodian Prime Minister Hun Sen's resistence to some of the settlement conditions. For the future, did Vietnam intend to retain its vaunted "Special Relationship" with Laos and Cambodia? If so, how would this affect prospects for a united Southeast Asia? Had Hanoi really abandoned its goal of exporting communism? Would Vietnam, larger and militarily much stronger than its Southeast Asian neighbors and committed to its Leninist principles of political control, be a comfortable partner? Did Hanoi's leaders really want to become latecomers in a long-established group?

For some time, ASEAN and Hanoi left the membership issue open. It was not until September 1991 that Hanoi took the obligatory first step, announcing its desire to adhere to the Bali Treaty. Only in 1995, after a good deal of discussion and preparatory activity, was Vietnam formally admitted to membership. Meanwhile, having also fulfilled the Bali prerequisite, Laos was admitted to observer status in 1992, followed by Cambodia in 1994. Myanmar, a more questionable applicant, had to wait until 1996 for its acceptance as an observer.

Myanmar's long absence from ASEAN reflected a strict nonalignment policy, rejecting membership in a group with so many ties to the West. Before 1989, the West would probably have welcomed Myanmar's decision to apply to ASEAN as perhaps portending some softening of the authoritarian military regime. In 1989, however, the human rights violations of the governing State Law and Order Restoration Council (SLORC)(10) came into question when it brutally suppressed political opposition and placed Aung San Suu Kyi under house arrest. In 1990, the die was cast when the SLORC nullified an election in which Suu Kyi's party won 80 percent of the vote. Henceforth, Myanmar faced increasingly strong protests from the West and demands that SLORC either restore legitimate government or face international isolation and sanction, policies in which ASEAN was urged to participate.

ASEAN, however, was unprepared to shun the SLORC, arguing instead for "constructive engagement", as consistent with its principles of dialogue and noninterference in domestic affairs, being more likely to bring positive results over time, and offering Myanmar an alternative to excessive reliance on China. Differences with the West became even sharper as decisions on Myanmar's prospective membership came closer. Preliminary steps - Myanmar's presence as a guest at the July 1994 Foreign Minister's Meeting and the summit decision in 1995 to complete ASEAN's ranks by the year 2000 - were greeted with vocal dismay over legitimizing the SLORC in this way.

In the ASEAN countries, especially in Thailand and the Philippines, the same concerns regarding the SLORC's legitimacy were expressed by journalists and human rights groups while, even within governments, doubts were voiced about the wisdom of courting Western hostility for so dubious a cause. Such reservations, however, took second place to other considerations. Myanmar's admission (together with Laos) at the Kuala Lumpur Summit in July 1997 reflected the strength of the group's ambition to represent all of Southeast Asia and its determination to make its own decisions, despite outside pressures. Despite ASEAN's attempts at "constructive engagement," Myanmar's admission to ASEAN does not seem to have modified the regime's behavior. For example, in the summer of 1998, the Myanmar government twice forcibly blocked Aung San Suu Kyi's attempts to travel outside Rangoon see Yangon and incurred considerable international criticism for its crude measures.

Cambodia could not even be considered for membership until the October 1991 Paris Peace Agreement had restored its sovereignty; even thereafter, the instability of the political arrangements established under the agreement raised questions about Cambodia's suitability. Then, in 1997, Hun Sen's expulsion of his co-prime minister, Prince Ranariddh, altered by force the political settlement embodied in the 1991 Paris Agreement and the subsequent U.N.-supervised elections. With ASEAN an important participant in these arrangements, Hun Sen's coup was seen as a direct challenge not only to the U.N. but to ASEAN as well. Accordingly, arrangements for Cambodian membership were suspended. Instead, once again, ASEAN representatives became active participants in efforts to encourage a new, democratic political settlement in Cambodia.

Of late, Cambodia has ranked much lower among ASEAN concerns in the face of grave economic difficulties, continuing political crisis in Indonesia and new unrest in Malaysia. Like their Western partners, ASEAN members have come to accept the July 1998 Cambodian elections and the installation of a new Hun Sen government with Prince Ranariddh as President of the National Assembly, despite the questionable features of both, as a tolerable outcome to which no acceptable alternative presently exists. Accordingly, at its December summit in Hanoi, ASEAN's agreement to admit Cambodia, albeit with some differences over timing, was not complicated by expectations of Western criticism.

Security with ASEAN Characteristics

The cold war's end did not dispel ASEAN apprehensions about the future policies of its northern neighbors. Concerns aroused by China's rapid economic growth, its continued military buildup and its military emphasis on an "offshore active defense strategy"(11) were heightened in 1995 and 1996 by the more assertive cast of China's policies toward Hong Kong, Taiwan, and the Spratly Islands. China's occupation of Mischief Reef and its assignment of military escorts for fishing vessels en route to Scarborough Shoal created a disturbing pattern as well. Although since then China's behavior has been more reassuring, the vision of a strong middle kingdom with potentially hegemonic ambitions never entirely disappears.

Japan, although much less a preoccupation, still hovers on the margins of ASEAN apprehensions. Fears of a more assertive Japanese foreign policy and even a revival of militarism linger, especially whenever there are reported tensions in Tokyo's security relationship with Washington. Meanwhile, questions about the reliability of the U.S. commitment have been raised anew by the disintegration of the Soviet challenge, the domestic debate on overseas responsibilities, and the fluctuations of American policy making. How long, Southeast Asians ask, will the United States retain the American military presence in the Western Pacific that Asians regard as essential to stability?

Reacting to these uncertainties and to the inescapably superior power of their northern neighbors, the ASEAN governments have adopted a multipurpose array of security policies. More overt inclusion of defense matters in ASEAN councils, strengthened national defense forces and enhanced bilateral cooperation make ASEAN a much harder target and provide an increased ability to deter or resist attempts at intimidation. Nevertheless, recognizing the practical limits on the regional effort, ASEAN continues to encourage the retention of an American military presence that it sees as essential to deterring Japanese rearmament, Chinese adventurism, war on the Korean peninsula, and other contingencies that might bring grave dangers to the region as a whole. While thus keeping its powder dry, ASEAN is seeking through ARF to expand its consensus-building, conflict avoidance process to the region as a whole, with China as a major focus.

Although still rejecting identification as a security organization, ASEAN has given high-ranking defense officials and military commanders at least a limited role in its councils and greater recognition to defense concerns. At the January 1992 Singapore Summit, it was agreed that senior military officials should meet periodically on an ASEAN-wide basis. Six months later, a Special Senior Officials Meeting (Special SOM) brought together foreign and defense ministry representatives who thenceforth met annually. In 1996, the Special SOM agreed to hold regular ASEAN seminars on joint defense planning.

In their military modernization programs, ASEAN governments have emphasized sea control capabilities. China's blue water naval aspirations and claims to sovereignty over vast areas of the South China sea are an incentive for naval preparedness. In addition, smugglers, pirates, and illegal movements across maritime boundaries have been familiar problems in Southeast Asian waters and concerns with threats from the sea have never been absent. These concerns have been heightened by Law of the Sea Treaty provisions significantly enlarging the waters in which coastal states have economic rights to be protected.

ASEAN maritime concerns have been reflected in qualitative and quantitative increases in national naval forces, with particular emphasis on longer-range, speedy, missle-armed patrol craft and supporting air power. The pace varies: Singapore has led the way; Thailand and Malaysia are much less advanced but have been moving ahead rapidly. Indonesia's fleet is relatively large by regional standards but, in relation to its enormous archipelago, its actual naval power is very limited. Vietnam's fleet is also relatively large but consists almost entirely of older Soviet or captured U.S. vessels which are difficult to maintain and repair. Philippine coastal defenses are negligible, but Manila has recently adopted ambitious expansion plans. For the immediate future, however, economic difficulties constitute a major obstacle to advanced weapons procurement.(12)

Concern with the reliability of U.S. commitments is a constant, moving in parallel with oscillations in U.S. policy but never wholly absent. Manila's ASEAN partners suffered a blow to their confidence when the United States withdrew from the Philippine bases. The large presence in the Philippines had provided a reassuring demonstration of U.S. power projection capabilities and of enduring American interests in Southeast Asia. Although Philippine unwillingness to renew the base agreement with Washington disappointed other members of ASEAN, it did not reduce their opposition to U.S. bases on their own soil. However, it did heighten willingness to do more to facilitate the American forward presence. Interests on both sides are served not only by long-established U.S.-Thai cooperative military. arrangements, but also by the more recent logistics facility in Singapore, arrangements for repairing and supplying American naval vessels on a commercial basis in Malaysia and Indonesia, and increased participation in joint exercises with ASEAN states.

The military ties between ASEAN states and Britain, Australia and New Zealand are also valued. The Five Power Defense Arrangement has contributed to the air defense strength of Malaysia and Singapore and provided a useful basis for cooperation between them. Joint military exercises have grown in recent years in size and sophistication. More recently, Indonesia and Australia have followed years of quiet military cooperation with a formal defense treaty.

Strengthened ASEAN military capabilities are intended for both conventional defense and deterrence. By contrast, the ASEAN Regional Forum (ARF) is concerned solely with deterrence or conflict avoidance through the application of ASEAN dialogue and consensus principles to the wider East Asia/Pacific region. ARF is a security organization only in the sense that it is concerned with developing understanding and substituting dialogue for conflict. Even in this role, ARF is not expected by its ASEAN members to move rapidly.

ARF is in some sense an outgrowth of the annual Post Ministerial Conference (PMC) between ASEAN foreign ministers and their dialogue partners which moved into security matters during the Cambodian hostilities. ARF's initiation in 1995 represented ASEAN's response to the post-cold war urge to devise some new security paradigm for the East Asia-Pacific region - accommodating to more benign power relationships while keeping defenses strong and countering the dangers of a security vacuum. Proposals in the early 1990s emanating from Australia, Canada, and Japan raised the prospect that, if ASEAN did not take the initiative, others might, and, as in APEC, move toward arrangements the ASEAN states would regard as premature. At the same time, it was evident in proposals initially centering around the PMC that other potential participants would welcome an ASEAN security initiative.

At its June 1992 summit, ASEAN, not yet ready to move into new ventures, agreed only to step up security discussions with outside powers, especially the PMC dialogue partners.(13) In 1993, the pace quickened somewhat. In July the ASEAN ministers met informally with the seven dialogue partners and the five observer countries (China, Laos, Papua New Guinea, Russia, and Vietnam) and agreed to inaugurate ARF in July 1994.(14) The inaugural meeting lasted only three hours,just long enough to permit a brief statement by each of the foreign ministers. Since then, ARF has met annually under ASEAN chairmanship, generally in conjunction with other ASEAN-based ministerial meetings. Between plenary sessions, four groups meet to consider cooperation in confidence building, peacekeeping, search and rescue, and disaster relief. In 1996, India and Myanmar became members.

ARF represents a significant advance in ASEAN's international status. Its insistence on leading and shaping the agenda of an organization that includes Asia's most powerful states as well as the United States, Russia and the European Union has been largely unopposed. For ASEAN, ARF provides additional opportunities for encouraging the United States to remain in the region and for China to recognize the advantages of participating in the regional comity. ARF's importance on the broader East Asian scene is more marginal. Its meetings provide opportunities for corridor conversations that may contribute to lessening bilateral differences. Yet, it is hardly unique in this. Over time, it could become a mechanism for cooperative action on law and order threats, such as piracy and the drug trade, or spur the adoption of concrete confidence-building measures. Nevertheless, it seems unlikely to become a vehicle for common action against real threats to the peace in an Asia where the policies of the United States, Japan and China continue to play the dominating role.

AFTA - Economic Cooperation Revisited

ASEAN's repeated efforts at economic cooperation have reflected, among other factors, the crucial importance of foreign trade to the economic growth of its members and their hope that joint programs will bring improved terms of trade. Although the ASEAN economies represent only about 2 percent of world Gross Domestic Product (GDP), they account for about 5 percent of world trade. This means ASEAN exports are twice the global national average and trade is larger than GDP for all members except Vietnam, Laos, and Myanmar. In the last two decades, ASEAN's total export growth has surged at a stunning rate of over 13 percent per year.

Today as in 1967, only about 20 percent of ASEAN's trade is among its members. Of the intra-ASEAN trade, about four-fifths is with Singapore, presumably bound for outside markets. In contrast, 40 percent of NAFTA's trade is among its members, while 70 percent of Western European trade is among EU members.(15) The desire to take better advantage of a regional market of 300 million people was thus an important factor in plans for the establishment of an ASEAN Free Trade Area (AFTA). This stimulus was reinforced by what ASEAN leaders saw as the growing threat to their foreign trade, reflected in both the long-delayed conclusion of the Uruguay Round and the movement toward regional trading blocs represented by the EU and NAFTA. Meanwhile, Indonesian and Malaysian confidence in their competitive ability had reduced the fear of dominance by Singapore, which was previously a factor in inhibiting economic cooperation.

Under the AFTA plan, trade among the members will eventually become tariff-free, but each state will retain its own tariffs against goods and services from outside AFTA. However, the tariff reductions apply only to ASEAN goods - defined as those with at least 40 percent local content or 40 percent value added inside ASEAN. The long-term goal is to have systematic treatment of all goods that are traded within ASEAN.(16) Current agreement calls for launching AFTA by the year 2000 and having most of its provisions in effect by 2003. This is to be achieved in phases by classifying goods into four categories: (a) fifteen products where the tariffs will be 0-5 percent by the year 2000, (b) two larger groups of products where the tariffs will be cut in two five-year steps so that they will be 0-5 percent by the year 2003, and (c) various "excluded products" that each member can specify in advance as warranting ongoing protection.(17)

Whether AFTA will fulfill ASEAN expectations remains to be seen. In assessing the first-order effects of a free trade area, economists try to estimate the quantity of trade "created" by lowering tariffs among the members versus the trade "diverted" because member states are keeping their external tariffs and not buying products from lower-cost suppliers. This equation can be modified by subsequent "dynamic effects" if the growth of an industry or sector in one country inside the free trade area stimulates growth in another. Intra-industry trade was growing in ASEAN before 1997, and this could be a source of dynamism in the future if member state firms are more willing to specialize in the production of specific parts or components which are then assembled into a final product somewhere else in ASEAN.

For Southeast Asia, because there is so little intraregional trade, both the trade creating and diverting effects will be small. It is the net effects (creation minus diversion) that count. In 1995, Ramaswamy estimated that the initial net change in trade after 2000 was likely to be less than $2 billion.(18) Given the lower economic growth rate now anticipated for Southeast Asia, the net positive benefits could be even less than the estimated $2 billion. Thus, some have argued that AFTA is a second-best alternative and that, given the character of its trade, Southeast Asia would benefit more by general trade liberalization - as envisaged in the Asian Pacific Economic Cooperation (APEC) goal of complete free trade by the year 2020.(19) ASEAN played a positive role in establishing this free trade goal. At the 1995 APEC summit in Bogor, Indonesian President Suharto used his position as host and convenor to press his ASEAN colleagues and other Pacific Basin leaders to aim for a significantly more open trading environment, overcoming Malaysian resistance and some skepticism elsewhere.

Another key difficulty in assessing AFTA's long-term effects lies in continued uncertainty over whether important nontariff barriers (NTBs) will be lifted. NTBs - such as health, safety and domestic content requirements - are often subtle but effective forms of protection. Continued subsidies and protection for favored industries (especially petrochemicals and automobiles) could also limit the future pace of economic integration. To encourage specialization and limit the protection of whole industries, ASEAN needs agreement on a clear investment code that limits the labyrinthine set of nontariff barriers that can arise when a government decides to establish or expand an uncompetitive sector.(20) A stronger and better-funded secretariat will be needed to monitor compliance with AFTA's rules or resolve differences among member states. This will be a major problem if the exemptions and NTBs continue for a substantial period. Also, given the current economic crisis, the demand for one another's products will decline, making it likely that the ASEAN states will continue their focus on exporting to the outside world as the principal source of their growth.

Thus, on balance, the initial economic effects of establishing AFTA will probably be limited. Neither trade creation nor trade diversion will be large. The long-run results will probably be determined far more by the macroeconomic environment and the willingness of the ASEAN governments to drop nontariff barriers than by the limited incentives included in the current AFTA accords.

The Current Economic Crisis

Until 1997, most commentators anticipated that the high growth rate characterizing most of Southeast Asia since the 1970s would continue into the future.(21) This optimism was shattered on July 2, 1997, when speculation against the Thai baht became so intense that the Thai government had to give up its peg to the U.S. dollar and let the currency float. Within a week, the baht had lost over 40 percent of its value. The crisis in Thailand then precipitated challenges to other currencies in the region.

In late July and August of 1997, many of the ASEAN governments still hoped that severe problems would be limited to Thailand. For example, the Indonesian government widened the range of permitted fluctuation for trading the rupiah and many commentators expressed the view that appropriate exchange rate policy would be adequate to avoid the type of problems evident in Thailand. This view proved panglossian. Instead, the currency panic in Bangkok led to greater scrutiny of financial practices throughout the region by outside investors. What was originally a monetary problem soon took on broader dimensions throughout ASEAN with many of the countries' financial systems becoming significantly weakened or insolvent. This crisis was not basically about profligate governments but about mismanagement in the private sector and poor regulatory oversight. Most of the governments in ASEAN were running budget surpluses, most had substantial foreign exchange reserves, and nowhere in ASEAN was inflation above 8 percent per year. Also, though irresponsible foreign borrowing was a key element in the crisis, it was not borrowing by governments but, instead, borrowing by private firms and banks that proved so catastrophic.

Earlier the severity and scale of the financial problems in Southeast Asia had been masked by the very favorable economic environment: world trade was expanding steadily, there was no global recession, and interest rates in global capital markets were low. Two principal changes in the early 1990s were, ultimately, to prove fateful for the ASEAN states: (i) financial deregulation and liberalization led to the opening of a large number of private banks and finance companies, particularly in Thailand and Indonesia, and many of these new institutions were poorly managed, lightly supervised, and took excessive risks;(22) and (ii) slow growth in Western Europe and Japan meant that investors were looking for lending or investment opportunities elsewhere, and this combined with high savings rates in Southeast Asia to ensure that capital was readily available.

The surge of capital into the ASEAN states in the 1990s created three principal problems. First, as current account deficits mounted,(23) foreign borrowing soared. Much of this borrowing was short term, unhedged, and used to fund long-term capital projects, so financial institutions in Southeast Asia had a vested interest in keeping their local currencies pegged to the U.S. dollar.(24) Second, the cascade of outside capital was going increasingly to riskier investments. For example, in Bangkok and Kuala Lumpur, much of the foreign capital was going into real estate projects in overbuilt markets, and in Malaysia there was also a pattern of overspending on elaborate infrastructure projects. Third, these problems were compounded by weak regulatory oversight. Because the flood of outside capital was funding less productive projects, banks had growing difficulties with nonperforming loans. In July of 1997, before the full magnitude of the financial crisis was felt, nonperforming loans already amounted to 19 percent of the total in Indonesia, 17 percent in Thailand, 16 percent in Malaysia, and 13 percent in the Philippines.(25) Then, once the exchange rates for the ASEAN countries declined, banks already facing difficulties collecting on domestic loans were obligated to repay their foreign creditors with more local currency than ever anticipated.

The crisis has already had devastating economic and social consequences in ASEAN.(26) In the Philippines, Malaysia, Thailand and Indonesia, national currencies initially lost between 35 and 80 percent of their value. Though currency values have recovered somewhat, resumption of normal economic activity will require massive injections of capital and new management. Singapore has been less hurt, to date, because its banking system was better managed than its neighbors' but it, too, is being affected as its trans-shipment and insurance business suffers and as its nonperforming loans throughout Southeast Asia grow.

The economic impact of the crisis has yet to be fully felt. The spiraling effects of bank closures, corporate bankruptcies and soaring unemployment will put stress on the entire region. Clearly, Southeast Asia's difficulties would be further exacerbated if the current malaise in Japan and the crisis in Russia were to become part of a world recession.

Social effects could well worsen over time, stimulating the kind of resentments, political difficulties, and disorders already so potent in Indonesia. The impact on employment and the least skilled elements of the region's population has been harsh. Thailand and Indonesia, in particular, will face growing underemployment and unemployment. In Indonesia, for example, with 1.5 million entering the labor force every year, unemployment could double. There, as in the Philippines, the forced return of migrant workers will aggravate the problem. The ranks of the truly impoverished will also increase. Today approximately 25 million Indonesians and about 15 million Filipinos live in absolute poverty; increased competition for low-skilled jobs and inflated prices for basic commodities will add to the numbers. The region's emerging middle class will also suffer. With the dramatic drops in all the region's stock exchanges and looming bankruptcies for thousands of businesses, the middle classes have lost much of their savings.(27)

Although the effects of the crisis extend throughout ASEAN, there are some significant national variations. The Philippines, long a laggard, appears to be benefitting from capital movement out of Hong Kong and looks likely to be least affected. Thailand and Indonesia are the hardest hit; Singapore, though it has the region's highest per capita income, will have its entire service sector crimped. Malaysia is hard hit as well and following a protectionist strategy.(28) In 1998, for Southeast Asia as a whole, because the Thai and Indonesian economies are so large, regional aggregate GDP may drop by a daunting 4 percent or more.

The table below presents some key economic indicators for the principal, market-oriented ASEAN states. If the estimates for 1998 GDP growth and inflation are accurate, the region is entering a period of stagnation at best and possibly major recession.

Table 1

ASEAN Economic Indicators

	% Decline in Currency(*)	1997 GDP Growth	1998 Estimated GDP Growth	1998 Estimated Inflation
Singapore	16%	7.6%	0%	1.3%
Philippines	34	4.5	.4	10
Malaysia	60	7.5	-6	8
Thailand	80	.5	-6	10
Indonesia	85	4.5	-14	60

Sources: 1997 data: Far Eastern Economic Review, "Economic Survey," February 19, 1998, pp. 52-60; forecasts: Economic Outlook (New York: J.P. Morgan, July 10, 1998).

* Decline in currency as measured between July 1997 and February 1998.

The prospects for recovery also vary. The Philippines is still growing in 1998 and is the only ASEAN country expected to grow at over 3 percent in 1999. Singapore's currency has declined least, but it appears likely to have a slow recovery as its activities depend heavily upon its larger neighbors. Malaysia and Thailand seem to have put plausible recovery strategies together - so may have modest growth by 1999. Whether Indonesia's new regime will be able to get a grip on the country's appalling problems remains to be seen, but few analysts expect good news out of Jakarta anytime soon.

The Economic Crisis and ASEAN's Role

ASEAN as an organization has been irrelevant in the current economic crisis. Neither as a group nor as individual members were the ASEAN countries able to provide the resources to one another that would have enabled them to restore financial stability. Nor did ASEAN have the mechanisms or even the habits of economic cooperation that would have supported a collective approach to the requirements of international lenders. Thus, ASEAN states in trouble were basically left on their own to deal with the I.M.F. and their creditors. There were two minor exceptions to this generalization: Singapore offered direct support to Indonesia, and the ASEAN finance ministers, with Hong Kong and Japanese encouragement, attempted to set up an "Asian Fund" as an additional source of financing to the I.M.F.

In November 1997 Singapore offered to lend $5 billion to the Indonesian government at commercial rates to be drawn upon after the $23 billion of the original I.M.F. package had been disbursed. Since the Indonesian government did not conform to either the original I.M.F. terms or those of two subsequent I.M.F. agreements (which followed in January and April 1998), it is unclear if the Singapore offer will ever be taken up.(29)

The Asian Fund concept as originally conceived was seen as an alternative source of emergency support to the I.M.F. and to be run by Asians with Asian resources. Earlier consideration of an Asian Fund with a performance monitoring system like that of the I.M.F. quickly faded. Instead, in December 1997, a far less ambitious concept was endorsed by the ASEAN finance ministers. The modified Asian Fund would be "mobilized from the private sector," used "to secure private debt," and accept government funding but be "independently managed by the private sector."(30) Despite the original enthusiasm within ASEAN for this concept, the United States opposed it and it has not garnered much new support. In February 1998, Malaysian Deputy Prime Minister and Finance Minister Anwar Ibrahim proposed another fund that would support regional infrastructure projects, but this too has languished.

It may be that ASEAN's inability to respond to the crisis will stimulate its members to move beyond AFTA, to which they have reaffirmed their commitments. There are some indications that they are looking to greater consultation and cooperation among their finance ministers (who did not begin to meet independently of other economic ministers until March 1997) and their central bank governors. However, it seems unlikely that such consultations will result in a new role for ASEAN any time soon. ASEAN-wide cooperation in finance, banking, securities markets and corporate governance would involve areas of great political sensitivity in which corruption and links to government are closely involved. To develop coordinated economic policies and a common pool of resources to help stabilize currencies would require not only new mechanisms but also agreement on substantial government transparency and accountability. It would also entail synchronized economic policy making and much greater infringements on sovereignty than ASEAN governments seem inclined to accept.

Meanwhile, ASEAN will also have to cope with the possible repercussions of the crisis on its external relations and internal cohesion. With the economic prowess of its members no longer enhancing its international prestige, policy makers in Washington, Tokyo and Beijing may accord less deference to its views. Already, ASEAN has been disappointed by the response of its principal partners: the United States because of its initial denial of assistance to its longtime Thai ally and its presumed responsibility for what are regarded as overly rigid and even punitive I.M.F. policies; Japan because its anaemic handling of its own recession has had a deeply depressing effect on the ability of the ASEAN countries to export their way out of the doldrums. Relations with the United States could also suffer from the view that American speculators, initially responsible for the crisis, are now taking advantage of the resulting difficulties to buy up Asian assets and subject local governments to new forms of outside pressure.

China, in contrast, thus far has won ASEAN's gratitude for such assistance as it has promised or provided and for its commitment not to devalue its currency - thus foregoing heightened competition with ASEAN exports. However, this commitment to a stable exchange rate may be one that China cannot keep. Moreover, something of a shadow has been cast by Beijing's warnings against Taiwan's efforts to strengthen its role in Southeast Asia through increased trade and direct investment.

Continued turmoil in Indonesia and the more recent unrest in Malaysia could also affect ASEAN's standing, bolstered as it was by appreciation of the progress its members had made toward political stability even if at the expense of political freedom. Especially if Indonesia remains enmeshed in political stalemate and economic paralysis, the weight ASEAN derived from the international importance and successes of its largest state will be lost. If, in a worst case scenario, Indonesian progress toward political reform is halted and continued disorder evokes harsh repression, ASEAN's image will be further damaged. Even with the most optimistic assumptions about a peaceful transition in Jakarta, the fall of Suharto - a key player in ASEAN's origins and development - will alter a long accepted order of precedence and influence within ASEAN and perhaps affect the pace at which intraregional differences are resolved.

Such differences may be precipitated by the financial crisis itself. Indonesia's resentment could be aroused by Malaysia's forced repatriation of hitherto welcome guest workers. Malaysia could become impatient with the continuing flow of Indonesian refugees, some associated with dissident groups in nearby Atjeh but most seeking a better livelihood. Thailand's treatment of guest workers from Myanmar could similarly disturb relations between Bangkok and Yangon. Major onslaughts against Indonesia's Chinese minority could complicate Jakarta's relations with Kuala Lumpur and Singapore. In some cases, at least, popular pressures will increase the difficulty of resolving such problems amicably, while official attention to neighboring sensitivities may falter in the face of preoccupation with the tasks of national recovery. Already, in fact, past patterns of restraint are being challenged. Representatives of Thailand and the Philippines have called into question the tradition of mutual silence on domestic affairs of fellow members while, in practice, a number of ASEAN statesmen have made known, with varying degrees of specificity, their disquiet over the excesses of Prime Minister Mahathir's campaign against Anwar Ibrahim.

Conclusion

Southeast Asian leaders will have to work hard to maintain the resilience and prestige of their regional organization. They will bring to this effort significant assets: their well-established pragmatic approach to policy problems; their keen appreciation of the contribution ASEAN's time-tested comity makes to their national well-being and international standing; their habits of consultation; and, the support of an ASEAN network that includes business and professional elites as well as officials.

Nevertheless, although ASEAN will remain important to its members, a period of reduced activity is likely as both leaders and officials are preoccupied with the daunting tasks of economic recovery. Recapitalizing banks, negotiating writedowns of external debts, and resuscitating local firms that have viable long-term prospects will be a time-consuming process, and ASEAN is not likely to play a significant part in it. Yet, the ASEAN economies have a number of basic strengths - adaptable labor, openness to foreign investment, and relatively new capital stock - that encourage hopes of an eventual recovery.

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1 ASEAN was organized in 1967 by Indonesia, Malaysia, the Philippines Singapore, and Thailand. Brunei became a member in 1984, Vietnam in 1995, and Myanmar (Burma) in 1997.

2 For an assessment of ASEAN defense spending patterns in the 1970s and 1980s, see D. Denoon, "Defense Spending in ASEAN: An Overview," in Chin Kin Wah, ed., Defence Spending in Southeast Asia (Singapore: Institute of Southeast Asian Studies, 1987), pp. 48-71; see also D. Emmerson's discussion of ASEAN as a "regional security regime" in Southeast Asian Security in the New Millenium, R. Ellings and S. Simon, eds. (Armonk: M. E. Sharpe, 1996).

3 Ball, D., "Arms and Affluence: Military Acquisition in the Asia-Pacific Region," International Security, vol. 18, no. 3 (Winter 1993/94), pp. 78-112.

4 Thailand and the Philippines have longstanding security ties with the United States. Malaysia and Singapore are part of the Five Power Defense Arrangements with Britain, Australia and New Zealand. Most recently in 1996, Indonesia and Australia have signed a bilateral security agreement.

5 Ravenhill, J., "Economic Cooperation in Southeast Asia," Asian Survey, vol. 25, no. 9 (September 1995), p. 850.

6 In 1977 the Preferential Trade Arrangement (PTA) was announced. This was followed in 1979 with efforts at ASEAN Industrial Complementation (AIC). In turn, these plans were succeeded in 1980 by the ASEAN Industrial Joint Venture (AIJV) Agreement and in 1983 by the "Brand to Brand Complementation" (BBC) program.

7 The exception to this rule was Singapore which provided trans-shipping facilities and services to the rest of the region.

8 See S. Paribatra, "From ASEAN Six to ASEAN Ten: Issues and Prospects," Contemporary Southeast Asia, vol. 16, no. 3 (December 1994), pp. 243-58.

9 For ASEAN-Hanoi relations in historical perspective, see E. Colbert, "Southeast Asian Regional Politics: Toward a Regional Order," in W. H. Wriggins, ed., Dynamics of Regional Politics (New York: Columbia University Press, 1992). For the evolution of the relations during and after the Third Indochina War, see E Brown, Second Chance: The United States and Indochina in the 1990s (New York: Council on Foreign Relations, 1989).

10 In November 1997, in what was primarily a change in nomenclature and some personnel, the SLORC became the State Peace and Development Council.

11 The chairman of the Central Military Commission for most of the 1990s, Admiral Liu Huaqing, took a particular interest in this naval build-up. See A. Huang, "The Chinese Navy's

Offshore Active Defense Strategy - Conceptualization and Implications," Naval War College Review, vol. 47, no. 3 (Summer 1994), pp. 7-31. On ASEAN concerns, see A. Whiting, "ASEAN Eyes China: The Security Dimension," Asian Survey. vol. 37, no. 4 (April 1997), pp. 299-322.

12 J. Morgan, Porpoises Among the Whales: Small Navies in Asia and the Pacific (Honolulu: East-West Center Special Report No. 2, March 1994), and H. Kenny, An Analysis of Possible Threats to Shipping in Key Southeast Asian Sea Lanes (Washington, D.C.: Center for Naval Analyses, February 1996).

13 In 1992, they were Australia, Canada, the European Union, Japan, New Zealand, the Republic of Korea and the United States.

14 M. Leifer in The ASEAN Regional Forum, Adelphi Paper No. 302 (London: International Institute of Strategic Studies, 1996) provides a detailed summary of the steps leading up to ARF's formation and an assessment of the motivation of the principal states involved.

15 At various points in the 1970s (when energy prices were high), intra-ASEAN trade dropped to as little as 15 percent of total ASEAN trade.

16 The term used to define the overall set of procedures is the Common Effective Preferential Tariff (CEPT).

17 The number of excluded products specified, in early negotiations, were Malaysia: 0; Brunei: 242; Singapore: 120; Indonesia: 50; the Philippines: 28; Thailand: 26. See J. Ravenhill, "Economic Cooperation in Southeast Asia," Asian Survey, vol. 35, no. 9 (September 1995), p. 858.

18 For example, B. Ramaswamy has estimated the net effects (trade creation minus trade diversion) as positive for Indonesia, Thailand and the Philippines, with negative total effects for Singapore and Malaysia. In none of the cases is trade diversion more than 10 percent of the intra-ASEAN trade. See B. Ramaswamy, "Trade Diversion in the ASEAN Free Trade Area," ASEAN Economic Bulletin, vol. 12, no. 1 (July 1995), pp. 10-17.

19 See T. M. Heng and L. Low, "Is the ASEAN Free Trade Area A Second Best Option?" Asian Economic Journal, vol. 7, no. 3 (1993), pp. 275-98.

20 For a discussion of investment codes in the Pacific, see S. Guisinger, "A Pacific Basin Investment Agreement," ASEAN Economic Bulletin, vol. 10, no. 2 (November 1993), pp. 176-83.

21 See, for example, H.S.B.C. James Capel, Asian Economic Trends, no. 2, (May-April 1997), p. 7; International Monetary Fund, World Economic Outlook (Washington, D.C.: I.M.F., May 1997), p. 31.

22 In Thailand, the institutions were typically called "finance companies," thus skirting many of the regulations for banks, while in Indonesia, by the time of the crisis, there were 212 private banks, most of which had been established in the 1990s.

23 In the 1990-96 period, Indonesia's current account deficit was 16 percent of GDP, while the Philippines' was 23 percent, Malaysia's 30 percent, and Thailand's 36 percent.

24 For example, by late 1997, short-term debt in Thailand was at least $60 billion and in Indonesia over $50 billion.

25 R. Cheetham, "The Financial Crisis in East Asia - Origins, Consequences, and Prospects" (Seattle, Washington: Asia-Pacific Investment Services Corporation, February 28, 1998), p. 11.

26 Because Vietnam, Myanmar and Laos are not fully linked with the world's trade and capital markets, the initial effects on them of the crisis were small. Their growth could be slowed in the long run, however, if their neighbors are in recession and they maintain protectionist, statist economic policies.

27 Dow Jones Global Indexes estimate that Southeast Asian stock markets lost about 60 percent of their value between July 1997 and April 1998. Source: "Prices and Trends," in the Far Eastern Economic Review, April 2, 1998, p. 58.

28 P. M. Mahathir's September 1st decision to ban currency trading in the Ringgit and to put strict controls on foreign ownership of Malaysian stock, combined with his September 2nd decision to dismiss Deputy P. M. Anwar Ibrahim, raises major questions about Malaysia's future course. See Bloomberg News, "Malaysia Imposes Controls on Trading Its Currency," New York Times, September 2, 1998, p. C-2.

29 A fourth Indonesian agreement was signed with the I.M.F. in August 1998, but it is too soon to know how it will fare.

30 Berita Harian (internet version), "ASEAN Finance Ministers, Dialogue Partners to set up Fund," December 3, 1997.