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BASRI ABD. GHANI

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25 YEARS OF ASEAN ECONOMIC COOPERATION: A CRITICAL OVERVIEW

by
Nicholas Amin

ABSTRACT

ASEAN has come of age with the marking of its Silver jubilee recently. In view of increasing globalisation of trade, the time is ripe for ASEAN to play its dominant role in promoting inter and intra-regional trade. This paper attempts to appraise ASEAN's past and future role in a dynamic world setting - the New World Economic Order. It traces its development and areas of economic cooperation from its inception till today including failures and successes and also the implementation of Common Effective Preferential Tariff (CEPT) scheme in an effort to move ASEAN towards a free trade area - ASEAN Free Trade Area (AFTA). It is hoped that AFTA, which will be expanded to include other ASEAN neighbouring countries, will further cement the economic integration in the region.

I. INTRODUCTION

The Association of Southeast Asian Nations (ASEAN) was formed on 8 August 1967 in Bangkok, Thailand. The founding members were Malaysia, Thailand, Singapore, the Philippines and Indonesia. It was a historic declaration which bound together the multifaceted nations of this part of Southeast Asia. In 1984, Brunei was admitted as the sixth member of Asean after gaining her independence from Britain. Addressing the First ASEAN Congress in Kuala Lumpur on 9 October, 1992 the Prime Minister Datuk Seri Dr. Mahathir Mohammad reiterated that the signing of the ASEAN Declaration was an act of conviction, reconciliation and ambition among the countries concerned. He went on further to state that

"Southeast Asia had been a region in turmoil. We had had separate paths of historical development and we were at different stages of economic development. Only one of us had escaped the tyranny of imperialism. The other four had three different colonial masters. We had achieved our independence at different times and in different circumstances. But because of our colonial backgrounds, even as free nations, we each went our separate ways."

This shows the tremendous tasks ahead facing ASEAN. ASEAN is a region of diversity both in its historical pasts, economic development, cultures, values as well as political regimes. However the formation of ASEAN has united these

countries across a formerly unbridgeable political and ideological division and this by itself is no small measure of success. Southeast Asia inter-state relations had never been cordial among the five founding member states. Just to name a few, the inter-country dispute between Malaysia and the Philippines over Sabah in 1962 (and the question is largely unresolved), the hostilities aroused by Indonesian 'Confrontation' towards the new Federation of Malaysia after September, 1963 as well as the tensions following the expulsion of Singapore from the Federation of Malaysia in 1965. However, against these backdrops there was a need to renew the cooperative spirit which led to the formation of ASEAN in 1967. Thus ASEAN has come a long way from then to the kind of success it has achieved.

Two earlier Associations, the Association of Southeast Asia and "MALPHILINDO", had failed and sceptics predicted a similar fate would befall ASEAN. But after 25 years, the efforts have come to fruition and ASEAN is increasingly being noticed for its role in international relations, trade negotiations and its geopolitics of the region and the world.

For the initial eight years (1967-1975) ASEAN achieved very little in intra-ASEAN trade. They were more preoccupied with the security and political aspects of the organisation reflecting the turmoils in the region. However, the impact of communist victories in Indochina in the mid 1970s stirred the inertia in ASEAN and efforts to promote greater economic interests among themselves were set in motion. Thus with the signing of the Declaration of the ASEAN Concord in 1976 at the First ASEAN Summit in Bali, ASEAN economic cooperation was put in place. By the late 1980's it was clear that ASEAN was serving the important economic and political interests of its members.

The objective of ASEAN as embodied in the Bangkok Declaration has the declared main aim of "promotion of economic growth, social progress and cultural development". The founding members shared a number of common concerns including a commitment to anti-communism and the anxiety about the long term prospects of the United States's intervention in Indochina and the perceived political and military hegemony of China over the region. The preamble to the Bangkok Declaration states that "The countries of Southeast Asia share a primary responsibility for strengthening the economic and social stability of the region and ensuring their peaceful and progressive national development...".

The spirit of cooperation and the far-sightedness of their leaders over the last 25 years have made ASEAN a powerful force to be reckoned with in the geopolitics and ecopolitics of the region and the world at large.

II. ECONOMIC COOPERATION IN ASEAN

The concept of economic cooperation or integration was a non-issue in Southeast Asia. The reason for this was that most of the countries in the region performed exceptionally well in a non-cooperative atmosphere, that is, each economy was doing what was considered best for itself, given the actions of others in the region. So far this scheme had worked pretty well ever since and thus there was little urgency to form an economic association. These countries had adapted and performed fairly well in open and market-driven economies. However, many reasons or issues necessitated economic integration and cooperation.

In the early years of economic integration since its inception to the Bali Summit in 1976, the existence of ASEAN was more of form over substance with very modest progress in the sphere of economic cooperation. Numerous meetings were held but progress was painfully slow partly because of the need to achieve a unanimous consensus of opinions. This state of affairs did not augur well for ASEAN in a fast moving economic world. A number of pilot projects were adopted but economic cooperation was largely confined to commodities protection and trade dialogues with its trading partners. While formal cooperative projects were limited and its members were divided on the major question of regional security, ASEAN paved the way for more formal and informal contacts which promoted consultation and fostered closer relationship among the leaders. This helped to reduce tension among the member states which was vital to ASEAN's own continued survival as well.

With the collapse of the non-communist regimes in Indochina there was a greater sense of urgency to rekindle ASEAN into a more active organisation. This new development was viewed among the ASEAN members as a threat to their interests especially with pockets of communist insurgents in Thailand, Malaysia and the Philippines. ASEAN response to this threat was to develop plans to increase the substance of the association by putting more emphasis on economic development and modernisation of their respective economies as well as fostering closer rapport among the leaders. The Bali Summit in February, 1976 adopted two main agreements, namely

- i) The Declaration of ASEAN Accord and
- ii) The Treaty of Amity and Cooperation in Southeast Asia.

The Declaration of ASEAN Concord stated that members would undertake to consolidate the achievements and expand cooperation in the economic, social, cultural and political spheres.

Of these provisions more details were accorded to economic cooperation and it is not wrong to say that the Bali Summit marked the watershed in the economic linkage and cooperation in ASEAN. This summit specifically mentioned four types of economic cooperation:

- cooperation on basic commodities, particularly food and energy
- cooperation in the establishment of large-scale ASEAN Industrial Project (AIP)
- cooperation in intra-regional trade liberalisation and
- joint approaches to international commodity problems and world economic problems

After the summit ASEAN member states were more assertive in increasing their efforts to achieve economic coordination and cooperation in two major directions. First, greater efforts were made to promote intra-regional trade liberalisation and rationalisation of production including conducting feasibility studies for five AIPs. Second, greater attention was given to efforts to secure closer relations and better market access with the ASEAN major trading partners such as the European Community (EC), Japan, USA, Australia and New Zealand. Between this Summit and the Kuala Lumpur Summit in 1977 the progress in economic cooperation was slow. The problems confronting the achievements of cooperation were great. Four out of the five original ASEAN members (with the exception of Singapore, which was a manufacturing and financial centre for the region) supplied primary commodities and industrial raw materials for the world market. Their economies were, strictly speaking, very competitive rather than complementary. This made economic cooperation a formidable task indeed.

The traditional role of ASEAN members as suppliers of most of the internationally traded primary commodities like rubber, tin, vegetable oils and major suppliers of timber to Japan and western countries had led to very extensive economic links between ASEAN and the industrial market economies of notably USA, Japan and Europe. This unfortunately contributed to a substantial degree the low level of intra-ASEAN trade.

The following table shows that only two ASEAN countries, Malaysia and Singapore, had a large growth share in intra-ASEAN trade of 26.4% and 47.1% in 1990 respectively. Even then Malaysia's portions were really with Singapore. With the exception of Thailand, the contributions of Brunei, the Philippines and Indonesia were not only very negligible but had also declined.

Intra-ASEAN trade growth between 1985 - 1990

COUNTRY	YEAR		PERCENTAGE CHANGE
	1985	1990	
BRUNEI	3.0	2.1	-30.0
PHILIPPINES	4.9	3.5	-28.6
THAILAND	10.2	12.8	25.5
INDONESIA	11.0	8.1	-26.4
MALAYSIA	25.2	26.4	4.8
SINGAPORE	45.6	47.1	3.3

Source: IMF Direction of Trade Statistics Year book, various years

The members' attitude to international trade also differed considerably. For instance, Singapore and Brunei were open and outward-looking; Indonesia practised protectionism while open and protected sectors co-existed in the other three states. These were some of the problems and differences which greatly hindered economic integration and cooperation. The Kuala Lumpur Summit in 1977 concentrated heavily on economic issues and ASEAN external relations. At one of the joint meetings the Prime Minister Fukuda of Japan made a major commitment 'in principle' by pledging US\$1 billion in assistance to ASEAN joint projects if they could be proven to succeed.

(A) Evaluation of Economic Cooperation Programmes

Most writers on ASEAN economic cooperation evaluate its performance by the specific programmes of instruments of cooperation. Rolf J. Langhammer used the following main programmes or instruments in evaluating the progress of Intra-ASEAN economic cooperation.

ASEAN Industrial Project (AIP)

ASEAN Industrial Complementation Scheme (AICS)

ASEAN Industrial Joint Venture (AIJV)

ASEAN Preferential Trading Agreement (PTA)

ASEAN Dialogue Partner System

Common Effective Preferential Tariff (CEPT) and ASEAN Free Trade Association (AFTA)

AFTA and CEPT, being new, will not be discussed.

ASEAN from its very beginning was formed based on the principle of voluntary consent without majority rule and without binding contractual agreements or commitments. According to Langhammer, only PTA is a trading bloc instrument, that is an instrument of integration. The AIJV which aims at cooperation between private companies is a borderline case. But its incentive primarily relies upon the effectiveness of the only integration instrument, the PTA Margin of Preference (MOP). Economic integration or cooperation as a topic in ASEAN discussion only came in the early 1970's after the Kansu Report which proposed these major avenues of integration.

- limited preferential trade liberalisation (falling short of Article XXIV GATT) which allows 100% preferences;
- regional intra-industry specialisation and regional inter-industry allocation of large scale ASEAN projects.

The Kansu proposal was operationalised and implemented through PTA, AICS and AIP.

The AIP was originally signed in 1980, the thrust of which was on decentralised private sector-based market mechanism. It was a really large-scale government-owned instrument or the nucleus of regional industrialisation targeting. This project failed because of external shocks, inadequate knowledge of future market conditions and politically sensitive issues related to it such as differences in economic philosophies of the partner countries. National policy objectives easily over rode the half-hearted regional approach to industrialisation planning. Thus AIPs were inconsistent with decentralised economic decision-making in private sector based economies, and they collided with national industrial policies. A good example is from Malaysia itself where the New Economic Policy (1970 - 1990) and the recent Industrial Master Plan may not exactly fit in the above plans.

Jointly organised by the private and the public sectors AIC scheme was designed to follow a vertical or intra-industry division of labour. It was established in 1981 with the resource policy and market sharing as considerations. The aim was to divide production and distribution stages of vertically integrated industries among the ASEAN countries to take advantage of economies of scale. The first scheme on production and distribution of different automotive parts and components was implemented in 1983, though unsuccessfully. One of the major obstacles of the complementation scheme was that the differences in brands and types of vehicles among the ASEAN countries made cooperation difficult.

The second AIC scheme involved Brand to Brand complementation (BBC) in the automotive industry. The problem arose from the choice of location for the various parts such as engine manufacture. Also preferences were with the production of the higher value added parts notably the engines.

AIJV was introduced in 1983 with the aim of promoting intra-ASEAN investment among private investors. Its basic aim was to increase industrial production in the region through resource pooling and market sharing. The main incentive given was the granting of the MOP, currently 90%, on the tariff normally imposed by the participating importing countries. Foreign investors were allowed to participate in the scheme. AIJVs required at least two ASEAN countries participating with the total minimum ASEAN equity ownership of 51% and at least 5% equity for each participating ASEAN partner. The minimum equity requirement was relaxed at the Manila summit in 1987 such that application submitted before December, 1990 could have a minimum ASEAN equity of 40%. To date, nine years after the inception of the scheme the response has not been encouraging. Many plants that have been given the AIJV accreditation are not yet in operation. Plant locations are overly concentrated in Malaysia and Thailand and the majority of AIJVs have foreign equity participation. Various writers have attributed this lack of response to the lack of promotion of the scheme through information dissemination or active promotion programmes. The level of awareness was low amongst ASEAN entrepreneurs and foreign investors. Also the lengthy bureaucratic process involved in the approval of applications did not help at all.

PTA had little impact either. Insufficient product coverage and depth of tariff cuts, the insignificance of tariff barriers relative to non-tariff barriers made the scheme unattractive. The Agreement on ASEAN PTA was signed in Manila on 24 February 1977. The stated aim of PTA was to encourage greater intra-regional trade through the use of long term quantity contracts, preferential treatment of imports by government agencies, preferential tariff rates, and liberalisation of non-tariff barriers to regional trade. The agreement also allowed for temporary suspension of tariff cuts where local industries or foreign exchange reserves were seriously affected. The main instrument for trade liberalisation that has been applied to date is the granting of tariff preferences to ASEAN member countries. In the initial stage of the scheme, preferences were granted on a product-by-product basis with each member country committed to offering a set number of tariff preferences each year.

This PTA grants tariff preferences called Margin of Preference or MOP for imports among ASEAN countries. To be eligible for tariff preferences, the current ASEAN content (rules of origin) of the product is 50% although it can be reduced to 35% on a case to case basis. Inclusion of PTA items was initially undertaken through voluntary offers and product by product negotiations.

Prior to the Manila Summit, progress on the implementation of PTA was slow and this can be attributed to several implementation problems such as inclusion of irrelevant or untraded items, too detailed disaggregation tariff preferences on zero tariff items, non-automatic acceptance of product based on proof of origin and ASEAN content, lack of dissemination of information on the PTA. The long exclusion list comprising the relevant products rendered the system ineffective.

At the Manila Summit, several amendments of the PTA were accepted. Each member country should reduce the items on its exclusion list such that, by the end of 1992, the item did not amount to more than 10% of the number of items traded by each nation and that the value should not exceed 50% of intra-ASEAN trade. The MOP for items already on the PTA should be increased by 1992 and new item should be the minimum of 25% MOP.

To ensure that intra-regional trade would benefit ASEAN countries, various rules of origin were implemented.

The product-by product approach to tariff reduction was a time consuming exercise. While the scheme was being implemented, some ASEAN members were undertaking bilateral negotiations for across-the-board tariff reduction. In early 1977, Singapore and the Philippines agreed on 10% reduction in tariff on commodities traded. By 1980, all ASEAN countries had joined in across-the-board tariff reductions. The speed at which these tariff reductions were embraced by the ASEAN countries is a reflection of the less tiresome negotiations involved compared with the product-by-product approach. The scheme allowed the exclusion of preferential tariff if it could inflict 'serious injury' to domestic industries or badly affect the balance of payments of the affected member states.

Empirical studies on the likely impact of the PTA scheme on intra-regional trade had shown that the effects of tariff cuts would be minimal for various reasons. The tariff cuts offered were relatively small; the number of products included under the PTA was relatively small in comparison with the total number of items traded by ASEAN countries; established price elasticities of the product groups concerned were rather low; the preference lists agreed upon by the ASEAN countries under the PTA were padded with many items which were either not traded at all or, if they were, comprised many items imported from outside the region because ASEAN countries did not have any comparative advantage in their manufacture.

As mentioned earlier, ASEAN economic cooperation had been patchy. Various reasons were often cited for this. The first was the weakness of its operational framework recommended by the Kansu Report. Programmes such as the AIPs,

the AICs and the AIJVs were set on an inward looking industrialisation strategy with heavy involvement of the bureaucracy in the selection of investment projects. The bureaucratic approach to industrialisation created regional monopolies thwarting the effectiveness and efficiency of market forces. Secondly, ASEAN institutional structures were rather loose. The requirement for an ASEAN consensus in all matters was another major factor resulting inevitably in a slack in decision making. The process was more time consuming and the outcome might not be market-driven since certain proposals could have been watered down to please all parties concerned. Above all the lack of commitment and political will of leaders and business community failed to promote the various schemes above.

The economic cooperation under AIPs has been negligible. Since 1980, five original projects, namely Urea projects for Indonesia and Malaysia, a copper fabrication project for the Philippines, a Hepatitis B vaccine project for Singapore and a rock soda ash project for Thailand have been designated. To date only the two urea projects in Indonesia and Malaysia are fully operational. Those in Singapore and Thailand have been replaced with new projects while the Filipino project has been scaled down.

As for the AIC mooted in 1976, the responsibility for its development was given to the private sector working group. This scheme also failed. There is an absence of shared goals by the interested parties in the private sector and the ASEAN government. Most ASEAN countries have set up their own domestic automotive industries in collaboration with multinational corporations which preempts other cooperation. There appears to be better result for the ASEAN AIJVs which permit non-ASEAN partners so long as two ASEAN partners have equity participation. The basic agreement on AIJVs was reached in 1983 and by 1986, there were nine joint ventures proposed.

Despite the lack of tangible results from past economic cooperation, interpersonal linkages and communication networking have produced sufficient trust, goodwill and solidarity among politicians, bureaucrats and the private sector to provide the right environment for more tangible economic cooperation later.

The Growth Triangle involving three ASEAN members is an interesting case of an emerging new mode of economic cooperation within ASEAN. The Triangle involves Johore in Malaysia, the Riau Islands, principally Batam Islands in Indonesia, and Singapore. While bilateral and regional economic cooperation among these three ASEAN countries have existed for many years, the Triangle has accelerated the pace of this cooperation. The Triangle is brought about by a blend of the right factors, domestic and external. For Singapore, the Growth Triangle enables it to position its role in the regional

economy as it pursues its globalisation ambitions. Collaboration with the region also offers more opportunities and scope for its local enterprises to reach a new level of development and growth. The Growth Triangle can be a pool for foreign capital, technology, expertise and market if the three countries work out the right package to attract Multinationals Corporations (MNCs). This new mode of ASEAN economic cooperation as exemplified by the Growth Triangle recognises the supremacy of the market over bureaucracy, the effectiveness of outward-oriented strategy over import substitution policy for development. Any joint project within ASEAN could be undertaken by any two parties, as and when they are ready to cooperate. It may also include economies outside ASEAN. Many MNCs electronics firms which have beach heads in Singapore are diversifying and expanding into Thailand and Malaysia.

As ASEAN entered the 1980's, it began to be caught up by the wave of worldwide deregulation and liberalisation. Also ASEAN had undergone the traumatic experience of the collapse of oil and commodity prices between 1982 and 1986. ASEAN then began to liberalise and adopt the export promoting, outward oriented development strategy, the promoting of direct foreign investment, particularly from Japan. Besides, the NIEs created new conditions for ASEAN economic cooperation and Asia Pacific economic interdependence. Against criticism from the radical school of development – 'dependency theorist' – and others, ASEAN's new industrialisation strategy – through the promotion of manufacturing export has again proved to be very successful lately. ASEAN is increasingly likely to become the next generation of high growth economies in the Asia-Pacific region after Japan and the NICs.

(B) Challenges and Issues in Future Economic Cooperation

At the heart of ASEAN economic cooperation are numerous constraints and restraints. The following issues are pertinent in analysing future outlook for the grouping. Given the relatively small size of intra-ASEAN trade, greater effort must be made to amplify and rectify this situation. Since ASEAN member states have different economic structures, levels of development and factor endowments, there is a need to look at various ways to diversify and enlarge the cooperation in order to foster a genuine economic relationship among the members. As it is now the economic roles of ASEAN member countries are not complementary at all. This makes a true, regional cooperation enigmatic. From the political view points, strong arguments for the need to protect national interests militate against cooperation. Basically the arguments are used to preserve fledging domestic industries and markets. At the same time between ASEAN member countries and non ASEAN countries there exist various bilateral trading arrangements which make inroads into the greatly sought after intra-ASEAN trade. More recent developments in ASEAN economic cooperation are AFTA and CEPT. The idea of forming AFTA was

agreed upon by the ASEAN Heads of Government at the Singapore Summit in January 1992. It is to be realised within 15 years (by the year 2008). To implement AFTA, it is also agreed that the CEPT be used as a mechanism to start integration within ASEAN. Among the many arguments in favour of AFTA are the ease of entry into an enlarged market of about 320 million consumers, the continued and long-term increase in the standards of living resulting from expected economic development, resource pooling, economies of scale and an increase of foreign capital inflows which will spur industrialisation in ASEAN to new heights. At the same time it will enhance ASEAN bargaining power in trade talks with other trading blocs such as NAFTA, EC as well as its effective role in international trade negotiations like the on-going Uruguay Round of GATT and the Cairns group.

III. CONCLUDING REMARKS

Trends in future ASEAN development strategy and cooperation will be conditioned by a number of factors. World trade for ASEAN is expected to continue to grow because all ASEAN economies are small and relatively open in nature. The surge of foreign investment inflows from Northeast Asia (Japan and the NICs), Europe and US into ASEAN, the dynamic effect of the liberalising and deregulatory measures undertaken domestically, had resulted in an ASEAN economic boom between 1987 - 1990. The average real GDP growth during this period was 9.5% for Singapore, 11.2% for Thailand, 8.1% for Malaysia, 6.3% for Indonesia and 4.8% for the Philippines.

The decisive step in 1967 to put economic cooperation at par, if not at a higher level than other form of cooperation, was a step in the right direction. Throughout the 1970's, the international environment underwent the traumatic crises of oil politics and stagflation as well as the breakdown of the international monetary system (Bretton Wood agreement collapsed in 1973). Yet the resilient ASEAN economies managed to grow and prosper independently, partly helped by the rising commodity prices.

The rapid pace of transformation of regional economic groupings is basically the political manifestation of the defensive attempts by the less competitive sector in these economies to shield themselves from intensive foreign competition which leads to fragmentation and truncation of the global trading system.

Progress in intra-ASEAN economic cooperation has been slow due to lack of genuine commitment and political will of the leaders. There must be greater urgency to address this to seek a breakthrough in the intra-ASEAN economic cooperation as a response to the adverse effects of the world recession on the

ASEAN economies. The stable and peaceful regional environment, which has been maintained to a large extent through ASEAN's political cooperation and diplomacy, has contributed to a conducive climate for ASEAN dynamics.

Indonesia, which has the largest market in ASEAN and was the most closed and thus the major stumbling block towards closer and freer trade in ASEAN has undergone liberalisation. Increasing protectionism in today's global trade and the tendency of forming trade groupings in the 1990's have prompted ASEAN to put their acts together so as not to be left in the lurch. ASEAN member states need to put greater emphasis on human resource development which is at the very heart of rapid development and modernisation. In fact negligence on human resource development has resulted in the slow reception and innovations in research and technology in ASEAN countries perhaps with the exception of Singapore. Also continuous effort should be made to harmonise common trade policies across ASEAN to lessen bureaucratic delays in project approvals. The recently implemented CEPT has begun operation since 1993. Thus by 2008 when AFTA is fully implemented, we will be able to enjoy greater cooperation and integration. However, it is too early to predict the outcome as other external factors could infringe on ASEAN as an economic group.

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